

University of Mississippi

eGrove

---

Guides, Handbooks and Manuals

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

3-1-1991

**AICPA financial statement preparation manual : nonauthoritative  
practice aids : as of March 1, 1991**

Michael Tursi

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_guides](https://egrove.olemiss.edu/aicpa_guides)



Part of the [Accounting Commons](#)

---

---

# AICPA FINANCIAL STATEMENT PREPARATION MANUAL

---

---

**Nonauthoritative Practice Aids**

---

---

**As of March 1, 1991**

---

**AICPA**  
American Institute of Certified Public Accountants

**AICPA FINANCIAL STATEMENT PREPARATION  
MANUAL**  
As of March 1, 1991

AICPA

---

# **AICPA FINANCIAL STATEMENT PREPARATION MANUAL**

---

---

**Nonauthoritative Practice Aids**

---

*Edited by:*  
**Michael A. Tursi, CPA**  
Technical Manager  
Technical Information Division

---

**As of March 1, 1991**

---

***AICPA*** \_\_\_\_\_  
American Institute of Certified Public Accountants

*Published for the*  
American Institute of  
Certified Public Accountants  
*by*  
COMMERCE CLEARING HOUSE, INC.  
4025 W. Peterson Ave.  
Chicago, Illinois 60646

---

Copyright © 1991, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, INC.  
1211 AVENUE OF THE AMERICAS, NEW YORK, NEW YORK 10036

---

All Rights Reserved  
Printed in the United States of America

# TABLE OF CONTENTS

Section	Page
...	1
FSP 1000	1001
FSP 2000	2001
2100	
2200	
2300	
2400	
2500	
2600	
2700	
FSP 3000	3001
3100	
3200	
3300	
3400	
3500	
3600	
3700	

Section		Page
FSP 3000	Disclosure Checklists and Illustrative Financial Statements for State and Local Governmental Units—continued	
	Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
	Report on the Internal Control Structure in Accordance With <i>Government Auditing Standards</i>	
	Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs	
	Single Audit Report on Compliance With the General Requirements Applicable to Major Federal Financial Assistance Programs	
	Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions	
	Report on Internal Controls (Accounting and Administrative)—Based on a Study and Evaluation Made as a Part of an Audit of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act	
FSP 4000	Disclosure Supplement and Illustrative Financial Statements for Oil and Gas Producers . . . . .	4001
	4100 Introduction	
	4200 Auditors' Reports Checklist	
	4300 Financial Statements and Notes Checklist	
	4400 Supplementary Disclosures Checklist for Oil and Gas Producing Companies	
	4500 Illustrative Financial Statements	
	Illustrative Consolidated Balance Sheet	
	Illustrative Consolidated Statement of Income	
	Illustrative Consolidated Statement of Stockholders' Equity	
	Illustrative Consolidated Statement of Cash Flows (Direct Method)	
	Illustrative Notes to Consolidated Financial Statements	
	Illustrative Standard Independent Auditor's Report	
FSP 5000	Disclosure Checklists and Illustrative Financial Statements for Savings and Loan Associations . . . . .	5001
	5100 Introduction	
	5200 Disclosure Checklists—General	
	5300 Financial Statements and Notes Checklist	
	5400 Auditors' Report Checklists	
	5500 Supplemental Disclosure Checklist for Savings and Loan Associations That Are SEC Registrants	
	5600 Illustrative Stock Savings and Loan Association Financial Statements	
	Illustrative Independent Auditors' Report	
	Illustrative Statements of Financial Condition	
	Illustrative Statements of Operations	
	Illustrative Statements of Stockholders' Equity	
	Illustrative Statements of Cash Flows	
	Illustrative Notes to Financial Statements	
FSP 6000	Disclosure Checklists and Illustrative Financial Statements for Banks .	6001
	6100 Introduction	

Section		Page
<b>FSP 6000</b>	<b>Disclosure Checklists and Illustrative Financial Statements for Banks— continued</b>	
	6200 Disclosure Checklists—General	
	6300 Financial Statements and Notes Checklist	
	6400 Auditors' Reports Checklist	
	6500 Supplemental Disclosure Checklist for Banks That Are SEC Registrants	
	6600 Illustrative Bank Financial Statements	
	Illustrative Independent Auditors' Report	
	Illustrative Balance Sheets	
	Illustrative Statements of Income	
	Illustrative Statements of Changes in Stockholders' Equity	
	Illustrative Statements of Cash Flows	
	Illustrative Notes to Financial Statements	
<b>FSP 7000</b>	<b>Disclosure Supplement and Illustrative Financial Statements for Real Estate Ventures . . . . .</b>	<b>7001</b>
	7100 Introduction	
	7200 Disclosure Supplement for Real Estate Ventures	
	7300 Illustrative Financial Statements	
	Illustrative Independent Auditors' Report	
	Illustrative Balance Sheets	
	Illustrative Income Statements	
	Illustrative Statements of Cash Flows	
	Illustrative Notes to Financial Statements	
<b>FSP 8000</b>	<b>Disclosure Supplement and Illustrative Financial Statements for Construction Contractors . . . . .</b>	<b>8001</b>
	8100 Introduction	
	8200 Disclosure Supplement for Construction Contractors	
	8300 Supplemental Disclosures for Construction Contractors	
	8400 Illustrative Financial Statements—Percentage Contractors, Inc.	
	Illustrative Independent Auditor's Report	
	Illustrative Consolidated Balance Sheets	
	Illustrative Consolidated Statements of Income and Retained Earnings	
	Illustrative Consolidated Statements of Cash Flows (Indirect Method)	
	Illustrative Notes to Consolidated Financial Statements	
	Illustrative Independent Accountants' Report on Additional Information	
	Schedule 1—Earnings from Contracts	
	Schedule 2—Contracts Completed	
	Schedule 3—Contracts in Progress	
	<b>Illustrative Financial Statements—Completed Contractors, Inc.</b>	
	Illustrative Independent Auditors' Report	
	Illustrative Balance Sheets	
	Illustrative Statements of Income and Retained Earnings	
	Illustrative Statement of Cash Flows (Indirect Method)	
	Illustrative Notes to Financial Statements	

Section		Page
FSP 9000		
FSP 9000	Disclosure Checklists and Illustrative Financial Statements for Nonprofit Organizations . . . . .	9001
	9100 Introduction	
	9200 Nonprofit Organizations Disclosure Checklists—General	
	9300 Nonprofit Organizations Auditors' Reports Checklist	
	9400 Accountants' Reports on Compiled or Reviewed Financial Statements of Nonprofit Organizations Checklist	
	9500 Nonprofit Organizations Financial Statements and Notes Checklist	
	9600 Illustrative Auditors' Reports and Financial Statements	
	Introduction	
	Illustrative Auditors' Report—Nonprofit Organization	
	Exhibit 1—Independent School	
	Exhibit 1A—Balance Sheet	
	Exhibit 1B—Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances	
	Exhibit 1C—Statement of Cash Flows	
	Exhibit 1D—Notes to Financial Statements	
	Exhibit 2—Union	
	Exhibit 2A—Balance Sheet	
	Exhibit 2B—Statement of Revenue, Expense, and Changes in Fund Balances	
	Exhibit 2C—Statement of Cash Flows	
	Exhibit 2D—Notes to Financial Statement	
	Exhibit 3—Voluntary Health and Welfare Service	
	Exhibit 3A—Illustrative Auditors' Report	
	Exhibit 3B—Balance Sheets	
	Exhibit 3C—Statement of Support, Revenue, and Expenses and Changes in Fund Balances	
	Exhibit 3D—Statement of Cash Flows	
	Exhibit 3E—Statement of Functional Expenses	
	Exhibit 3F—Notes to Financial Statements	
FSP 10,000	Disclosure Checklists and Illustrative Financial Statements for Credit Unions . . . . .	10,001
	10,100 Introduction	
	10,200 Disclosure Checklists—General	
	10,300 Financial Statement and Notes Checklist	
	10,400 Auditors' Reports Checklist	
	10,500 Illustrative Report of the Independent Auditor and Illustrative Credit Union Financial Statements	
	Independent Auditor's Report	
	Statements of Financial Condition	
	Statements of Income	
	Statements of Retained Earnings	
	Statements of Cash Flows	
	Notes to Financial Statements	
FSP 11,000	Other Comprehensive Bases of Accounting . . . . .	11,001
	11,100 General Comments on Illustrative Financial Statements—Other Comprehensive Bases of Accounting	
	11,200 Description and Explanation of Bases Illustrated	



Section		Page
FSP 11,000	<b>Other Comprehensive Bases of Accounting—continued</b>	
11,300	Recommended Measurement and Disclosure Guidelines—Cash Basis	
11,400	Illustrative Financial Statements—Cash Basis	
	General Comments	
	Statements of Assets and Liabilities—Cash Basis (A Corporation)	
	Statements of Revenues and Expenses, and Retained Earnings—Cash Basis (A Corporation)	
	Notes to Financial Statements—Cash Basis (A Corporation)	
	Statements of Assets and Liabilities—Cash Basis (A Partnership)	
	Statements of Revenues and Expenses—Cash Basis (A Partnership)	
	Statements of Changes in Partners' Capital—Cash Basis	
	Notes to Financial Statements—Cash Basis (A Partnership)	
	Statements of Assets and Liabilities—Cash Basis (A Professional Corporation)	
	Statements of Revenues and Expenses, and Retained Earnings—Cash Basis (A Professional Corporation)	
	Notes to Financial Statements—Cash Basis (A Professional Corporation)	
	Statements of Assets and Liabilities—Cash Basis (An S Corporation)	
	Statements of Revenues and Expenses, and Retained Earnings—Cash Basis (An S Corporation)	
	Notes to Financial Statements—Cash Basis (An S Corporation)	
	Statements of Cash Receipts and Disbursements (Not-for-Profit)	
	Notes to Statements of Cash Receipts and Disbursements (Not-for-Profit)	
11,500	Recommended Measurement and Disclosure Guidelines—Income Tax Basis	
11,600	Illustrative Financial Statements—Income Tax Basis	
	Statements of Assets and Liabilities—Income Tax Basis	
	Statements of Revenues and Expenses—Income Tax Basis	
	Statements of Retained Earnings—Income Tax Basis	
	Notes to Financial Statements—Income Tax Basis	
11,700	Types of Accountant's Reports	
	Audit Reports	
	Cash Basis Statements	
	Income Tax Basis Statements	
	Review Reports	
	Cash Basis Statements	
	Income Tax Basis Statements	
	Compilation Reports	
	Cash Basis Statements—Full Disclosure	
	Cash Basis Statements—Omission of Substantially All Disclosures	
	Income Tax Basis Statements—Full Disclosure	
	Income Tax Basis Statements—Omission of Substantially All Disclosures	
	Other Reports	
	Report for a Change From Generally Accepted Accounting Principles to an Other Comprehensive Basis of Accounting	
	Report on Statements of Cash Receipts and Disbursements	
	Report on Financial Presentations That Are Incomplete—Other Comprehensive Basis of Accounting	

Section	Page
<b>FSP 12,000</b>	<b>Disclosure Checklists and Illustrative Financial Statements for</b>
	<b>Agricultural Cooperatives . . . . . 12,001</b>
12,100	Introduction
12,200	Disclosure Checklists—General
12,300	Auditors' Reports Checklist
12,400	Financial Statements and Notes Checklists
12,500	Illustrative Financial Statements
	Central Supply Cooperative Balance Sheets
	Central Supply Cooperative Statements of Operations
	Central Supply Cooperative Statements of Patrons' Equities
	Central Supply Cooperative Statements of Cash Flow
	Central Supply Cooperative Notes to Financial Statements
	Midstate Marketing Cooperative Balance Sheets
	Midstate Marketing Cooperative Statements of Operations
	Midstate Marketing Cooperative Statements of Amounts Due to Patrons
	Midstate Marketing Cooperative Statements of Patrons' Equities
	Midstate Marketing Cooperative Statements of Cash Flows
	Midstate Marketing Cooperative Notes to Financial Statements
<b>FSP 13,000</b>	<b>Disclosure Supplement and Illustrative Financial Statements for</b>
	<b>Development Stage Enterprises . . . . . 13,001</b>
13,100	Introduction
13,200	Disclosure Supplement and Illustrative Financial Statements for Development Stage Enterprises
13,300	Illustrative Financial Statements
	Illustrative Independent Auditor's Report (Unqualified Opinion)
	Illustrative Balance Sheets
	Illustrative Statements of Operations
	Illustrative Statements of Shareholders' Equity
	Illustrative Statements of Cash Flows
	Illustrative Notes to Financial Statements
	Appendix A—Illustrative Independent Auditor's Report (Going Concern)
<b>FSP 14,000</b>	<b>Disclosure Checklist and Illustrative Financial Statements for</b>
	<b>Prospective Financial Statement Engagements . . . . . 14,001</b>
14,100	Introduction
14,200	Prospective Financial Statements' Checklist
14,300	Illustrative Reports
14,400	Illustrative Prospective Financial Statements
	Forecasted Statement of Income and Retained Earnings
	Forecasted Statement of Cash Flows [not illustrated]
	Forecasted Balance Sheet
	Summarized Financial Forecast
	Summary of Significant Forecast Assumptions and Accounting Policies
	Statement of Forecasted Taxable Income (Loss)
	Statement of Forecasted Sources and Uses of Cash
	Forecasted Statement of Allocation of Limited Partner Interest Per \$5,000 Unit and Presentation of Tax Effects Assuming a 50% Tax Bracket

Section		Page
FSP 14,000	Disclosure Checklist and Illustrative Financial Statements for Prospective Financial Statement Engagements—continued Summary of Significant Forecast Assumptions and Accounting Policies Effect on Limited Partners of Hypothetical Sale of Property Consolidated Statements of Income and Retained Earnings Consolidated Statements of Cash Flows [not illustrated] Summary of Significant Forecast Assumptions and Accounting Policies Statement of Projected Results of Operations and Cash Flows Assuming Construction of an Additional Plant Summary of Significant Assumptions Employed in Preparation of the Statement of Projected Results of Operations and Cash Flows Assuming Construction of an Additional Plant Statement of Forecasted Sales Forecasted Statement of Net Operating Income Before Debt Service and Depreciation Summary of Significant Forecast Assumptions and Accounting Policies	
FSP 15,000	Disclosure Checklists and Illustrative Financial Statements for Finance Companies . . . . .	15,001
	15,100 Introduction 15,200 Disclosure Checklists—General 15,300 Financial Statements and Notes Checklist 15,400 Auditors' Reports Checklist 15,500 Illustrative Finance Company Financial Statements Independent Auditor's Report Balance Sheets Statements of Income and Retained Earnings: Format 1 Statements of Income and Retained Earnings: Format 2 Statements of Cash Flows: Direct Method Statements of Cash Flows: Indirect Method Notes to Financial Statements	
FSP 16,000	Checklist Supplement and Illustrative Financial Statements for Investment Companies . . . . .	16,001
	16,100 Introduction 16,200 Checklist Questionnaire for Investment Companies 16,300 Illustrative Financial Statements Independent Auditor's Report Statement of Assets and Liabilities Schedule of Investments in Securities Statement of Operations Statement of Net Assets Statement of Changes in Net Assets Covered Call Options Written Notes to Financial Statements	
FSP 17,000	Disclosure Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans . . . . .	17,001
	17,100 Introduction 17,200 Disclosure Checklists—General	

Section		Page
FSP 17,000	Disclosure Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans—continued	
	17,300 Auditors' Reports Checklist	
	17,400 Financial Statements and Notes Checklist	
	17,500 Illustrative Financial Statements	
	Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date	
	Supplemental Schedules Relating to ERISA and DOL Regulations	
	Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date	
	Illustration of Auditor's Report on Financial Statements—Limited-Scope Audits Under DOL Regulations	
	Statement of Net Assets Available for Benefits	
	Statement of Changes in Net Assets Available for Benefits	
	Statement of Accumulated Plan Benefits	
	Statement of Changes in Accumulated Plan Benefits	
	Notes to Financial Statements	
FSP 18,000	Checklist Supplement and Illustrative Financial Statements for Agricultural Producers . . . . .	18,001
	18,100 Introduction	
	18,200 Checklist Supplement for Agricultural Producers	
	18,300 Illustrative Financial Statements	
	Illustrative Independent Auditor's Report	
	Illustrative Balance Sheets	
	Illustrative Statements of Income and Retained Earnings	
	Illustrative Statements of Cash Flows	
	Illustrative Notes to Financial Statements	
FSP 22,000	Checklist and Illustrative Financial Statements for Personal Financial Statement Engagements . . . . .	22,001
	22,100 Introduction	
	22,200 Checklists—General	
	22,300 Checklist for Personal Financial Statement Engagements	
	22,400 Illustrative Financial Statements	
	Illustrative Reports	
	Compilation Report	
	Compilation Report—Statement of Financial Condition Only	
	Compilation Report—Omission of Substantially All Disclosures	
	Compilation Report—GAAP Departure—Material Assets at Cost	
	Compilation Report—Income Tax Basis	
	Compilation Report—Financial Statements Included in a Prescribed Form	
	Review Report	
	Review Report—Statement of Financial Condition Only	
	Review Report—GAAP Departure—Failure to Include a Provision for Estimated Income Taxes on the Differences Between the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases	
	Review Report—Income Tax Basis	
	Auditor's Report	

Section		Page
FSP 22,000	Checklist and Illustrative Financial Statements for Personal Financial Statement Engagements—continued Auditor’s Report—Statement of Financial Condition Only Auditor’s Report—Departure from GAAP—Inappropriate Valuation Methods—Qualified Opinion Auditor’s Report—Departure from GAAP—Inappropriate Valuation Methods—Adverse Opinion Auditor’s Report—Scope Limitation—Inadequate Records Auditor’s Report—Inadequate Records Preclude Opinion Auditor’s Report—Income Tax Basis Statements Illustrative Financial Statements Statements of Financial Condition Statements of Changes in Net Worth Notes to Financial Statements Computing the Excess of the Estimated Current Values of Assets Over Their Tax Bases and the Estimated Income Taxes on the Excess	
FSP 23,000	Checklist of EITF Consensuses . . . . . 23,100 Introduction 23,200 Consensuses Checklist	23,001

---

# HOW TO USE THIS VOLUME

## Scope of the Volume . . .

This Volume brings together for continuing reference a set of nonauthoritative audit tools and illustrations prepared by the staff of the Technical Information Division of the American Institute of Certified Public Accountants.

## How This Volume Is Arranged . . .

The contents of this Volume are arranged as follows:

Introduction

Disclosure Checklists and Illustrative Financial Statements for Corporations

Disclosure Checklists and Illustrative Financial Statements for State and Local Governmental Units

Disclosure Checklists and Illustrative Financial Statements for Oil and Gas Producing Companies

Disclosure Checklists and Illustrative Financial Statements for Savings and Loan Associations

Disclosure Checklists and Illustrative Financial Statements for Banks

Disclosure Supplement and Illustrative Financial Statements for Real Estate Ventures

Disclosure Supplement and Illustrative Financial Statements for Construction Contractors

Disclosure Checklists and Illustrative Financial Statements for Nonprofit Organizations

Disclosure Checklists and Illustrative Financial Statements for Credit Unions

Other Comprehensive Bases of Accounting

Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives

Disclosure Supplement and Illustrative Financial Statements for Development Stage Enterprises

Disclosure Checklists and Illustrative Financial Statements for Prospective Financial Statement Engagements

Disclosure Checklists and Illustrative Financial Statements for Finance Companies

Checklist Supplement and Illustrative Financial Statements for Investment Companies

Disclosure Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

Checklist Supplement and Illustrative Financial Statements for Agricultural Producers

Checklist and Illustrative Financial Statements for Personal Financial Statement Engagements

Checklist of EITF Consensus

## How to Use This Volume . . .

The arrangement of material is indicated in the general table of contents at the front of the Volume.

The major divisions are subdivided into sections, each with its own section number. Each paragraph within a section is decimally numbered. For example, FSP section 7300.01 refers to the first paragraph of section 7300, *Illustrative Financial Statements for Real Estate Ventures*. Section and paragraph numbers located on each page are provided as corner references at the bottom of each page.

The *AICPA Professional Standards* is referenced by the use of the following abbreviations: AU (Auditing), AR (Accounting and Review Services).

The *FASB Accounting Standards Current Text* is referenced in a similar manner by the use of the abbreviation AC before the section and paragraph numbers. The *Current Text* contains an abridged version of the currently effective financial and reporting standards, as amended.

Quotations of accounting standards in this volume are derived from the original pronouncements and may have been editorially changed in the *Current Text*.

The Appendixes provide cross references from pronouncements of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board to sections in the text.

---

# FSP Section 1000

## INTRODUCTION

This manual 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.

.01 This manual has been prepared by the staff of the American Institute of Certified Public Accountants and issued as a nonauthoritative kit of practice aids. The materials included in it are designed to serve as working tools and illustrations for time-saving purposes. They are not intended as a substitute for the professional judgments which must be applied by practitioners in any engagement. The manual, where practicable, offers choices and alternatives rather than particular positions. The manual is not a substitute for authoritative technical literature and users are urged to refer directly to applicable authoritative pronouncements for the text of technical standards.

.02 Some sections of the manual include quotations from Statements on Auditing Standards and other authoritative pronouncements. Those quotations are intended only to illustrate certain matters, not to serve as a substitute for careful study of the relevant pronouncements. References are made throughout the manual to the original authoritative pronouncements and to their section numbers in *AICPA Professional Standards* and the *FASB Accounting Standards Current Text* to help users locate those authoritative pronouncements.

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

.04 The manual is updated once a year. Changes are expected to arise from three main sources:

- (1) Comments and suggestions from practitioners. Since this manual is a product of AICPA staff, not of a committee of practitioners, it is particularly important that practitioners advise the staff of any suggestions for material that could be improved or added.
- (2) Issuance of new official pronouncements.
- (3) Other additions to or deletions from the manual as a result of continued staff study.

Comments and suggestions should be addressed to:

Technical Information Division  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036

John F. Hudson, Vice President, Technical Standards and Services

Thomas P. Kelley, Group Vice President—Professional



**AICPA TECHNICAL HOTLINE**

The Technical Information Service answers inquiries about specific audit or accounting problems.

Call Toll Free

(800) 223-4158 (except New York)

(800) 522-5430 (New York only)

This service is free to AICPA members.

# FSP Section 2000

## DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

.01 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. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. 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 checklists were developed for use in respect of the financial statements of general “for-profit” companies and probably will require extensive modification if applied to the financial statements of “not-for-profit” organizations and companies in specialized industries. Pages 2601—2603 include a list of FASB Statements and Interpretations related to specialized industries which are not included in this checklist.

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

---

[The next page is 2101.]

# FSP Section 2100

## Introduction

### General Comments

.01 Illustrative financial statement formats are often helpful in developing a consistent style of presentation within a firm. However, the circumstances of engagements vary widely, and no set of illustrative financial statements can cover all situations likely to be encountered in practice, particularly when the client is engaged in a specialized industry. Accordingly, users should refer to the firm's own report files, illustrations in authoritative pronouncements, and other sources such as AICPA industry audit guides and *Accounting Trends and Techniques*, library collections of published financial reports and the AICPA National Automated Accounting Research System (NAARS).

### The Balance Sheet

.02 The companies surveyed in *Accounting Trends and Techniques*<sup>1</sup> generally use the title "balance sheet" for their statements of assets, liabilities, and stockholder's equity. Other titles used by those companies are "statement of financial position" and "statement of financial condition."

.03 There are two basic ways that balance sheets are arranged:

- a. Account Form—Assets are listed on the left-hand side and totaled to equal the sum of liabilities and stockholder's equity on the right-hand side.
- b. Report Form—Assets are listed at the top of the page followed by liabilities and stockholder's equity. Sometimes total liabilities are deducted from total assets to equal stockholder's equity.

### Statement of Income

.04 The companies surveyed for *Accounting Trends & Techniques* generally use the term "income" in the title of their presentations of the results of operations. Other terms used by those companies are "earnings" and "operations."

.05 The income statement is usually presented in one of the following formats:

- a. Single-Step Format—The single-step format groups the components of net income into two categories: (1) revenues and gains and (2) expenses and losses. The difference between the two subtotals is net income or loss for the period.
- b. Multiple-Step Format—The multiple-step format shows various intermediate components of net income. Generally, operating results are presented separately from nonoperating results, e.g., costs and expenses are deducted from sales followed by nonoperating revenues, gains, expenses, and losses, which are grouped by type or function. Intermediate components of net income that are frequently presented in multiple-step statements are gross profit, income from operations, and other income and expenses.

### Statements of Retained Earnings or Stockholder's Equity

.06 Although separate statements of retained earnings and statements of stockholder's equity are common presentations for public companies, their use by nonpublic companies is much less frequent. The required disclosure can often be made without presenting separate statements. This is a direct consequence of the generally much simpler capital structure of nonpublic entities and the fact that their securities are not frequently transferred.

<sup>1</sup> *Accounting Trends & Techniques* (New York, AICPA), 1987, p. 109.

.07 In most cases the only change in stockholder's equity of a nonpublic company is the change in retained earnings resulting from net income (or loss). This change can, generally, be adequately disclosed by expansion of the statement of income or in the balance sheet.

.08 When nonpublic companies do experience changes in other components of stockholder's equity, e.g., issuance of stock, purchase of treasury stock, and stock splits, disclosure is generally made in the notes or in a separate statement of changes in stockholder's equity.

### **Statement of Cash Flows**

.09 A statement of cash flows is required as a part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position as a result of the issuance of SFAS Statement 95. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.

.10 A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities. Entities can report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method). Entities that choose not to show operating cash receipts and payments are required to report the same amount of net cash flow from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). If the direct method is used, a reconciliation of net income and net cash flow from operating activities is required to be provided in a separate schedule.

### **Note to Financial Statements**

.11 Authoritative pronouncements mandate many types of disclosures but do not mandate the manner of presentation. Some disclosures are best presented in separate notes rather than in the basic financial statements. Descriptions of accounting policies and notes to financial statements are recognized in SAS No. 29 as components of the "basic financial statements" necessary for a fair presentation in accordance with generally accepted accounting principles. Thus, notes are an integral part of financial statements. They should be used to present material disclosures required by generally accepted accounting principles that are not otherwise presented in the statements, i.e., on the face of the statements.

---

[The next page is 2201.]

# FSP Section 2200

## *Disclosure Checklists—General*

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of 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 which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which vary.

.02 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.

.03 Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements” and “in note” (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

---

[The next page is 2301.]

# FSP Section 2300

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 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

.03 Checklist Questionnaire

	<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 26, par. 9, sec. 220 (AU 504.09)]	_____	_____	_____
a. For a public entity? [SAS 26, pars. 8—10 (AU 504.08—.10)]	_____	_____	_____
b. For a nonpublic entity? [SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
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)]	_____	_____	_____
b. Report on comparative statements of income, retained earnings and cash flows without presentation of the comparative balance sheets for the prior years ended? [SAS 58, par. 9, fn. 7 (AU 508.08)]	_____	_____	_____
c. Part of an audit was made by other independent auditors, and the principal auditor is indicating a division of responsibility for the audit in his 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)]	_____	_____	_____

	Yes	No	N/A
e. Report of a predecessor auditor for prior year has not been included with current comparative financial statements? [SAS 7 (AU 315); SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
f. Updating of a previously issued opinion? [SAS 58, par. 78 (AU 508.78)]	_____	_____	_____
g. Comparative financial statements with differing opinions? [SAS 58, pars. 74—76 (AU 508.74—.76)]	_____	_____	_____
h. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
i. 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. There is a substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 12 (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(s) on the prior period(s) (are) is different from the one(s) previously expressed? [SAS 58, pars. 77, 78 and 81—83 (AU 508.77—.78 and .81—.83)]	_____	_____	_____
e. Selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed? [SAS 36 (AU 722)]	_____	_____	_____
f. Supplementary information required by the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB) has been omitted, the presentation of such information departs materially from FASB or GASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubts about whether the supplementary information conforms to FASB or GASB guidelines? [SAS 52, par. 2]	_____	_____	_____
g. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8 (AU 550)]	_____	_____	_____
h. A matter regarding the financial statements needs to be emphasized? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
6. 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. 23 (AU 326.23)]	_____	_____	_____
7. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. Lack of conformity with generally accepted accounting principles (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)]	_____	_____	_____
b. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____

	Yes	No	N/A
8. If a qualified opinion, adverse opinion 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)]	_____	_____	_____
9. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long-term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Regulated companies? [SAS 1, sec. 544.02—.04 (AU 544.02—.04); SAS 62, pars. 2—10 (AU 623.02—.10)]	_____	_____	_____
c. Client representations about related party transactions? [SAS 45, par. 12 (AU 334.12)]	_____	_____	_____
d. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
e. Limitations on scope of lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
f. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
g. Financial statements materially affected by an irregularity? [SAS 53, par. 26 (AU 316.26)]	_____	_____	_____
h. Illegal acts by clients? [SAS 54 (AU 317)]	_____	_____	_____
i. [Reserved]			
j. Segment information? [SAS 21 (AU 435)]	_____	_____	_____
k. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
l. 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 which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, sec. 410 (AU 9410.13—.15)]	_____	_____	_____
10. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 14 (AU 623.14)]	_____	_____	_____
11. For special reports, have the provisions of SAS 62 and SAS 35 been complied with:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [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. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—26 (AU 623.19—.26)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditor's report?	_____	_____	_____



	Yes	No	N/A
[SAS 62, pars. 32—33 (AU 623.32—.33)]			
12. If information is to accompany the basic financial statements and auditor's report 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 or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
13. If an auditor-submitted document with accompanying information (long-form report) is co-existing with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
14. 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)]	_____	_____	_____
15. 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)]	_____	_____	_____
16. If a report on internal accounting control is to be issued <sup>1</sup> is the appropriate form used for:			
a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specific period of time? [SAS 30, pars. 37—46 (AU 642.37—.46)]	_____	_____	_____
b. Report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47—53 (AU 642.47—.53)]	_____	_____	_____
c. Report on all or part of an entity's system for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
d. Other special purpose reports on all or parts of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties?	_____	_____	_____

<sup>1</sup> Material weaknesses in internal accounting control that have not been corrected before they come to the auditor's attention must be communicated, preferably in writing, to senior management and the board of directors or its audit committee. [SAS 20, par. 4 (AU 323.04)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]			
17. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate:			
a. That he has audited and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The date of his report on the complete financial statements?	_____	_____	_____
c. The type of opinion expressed?	_____	_____	_____
d. Whether, in his opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 5 (AU 552.05)]	_____	_____	_____
18. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express an adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]	_____	_____	_____
19. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:			
a. That he has audited and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which he is reporting?	_____	_____	_____
d. Whether, in his opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
20. If the selected financial data for any of the years presented are derived from financial statements that were audited by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
21. If a U.S.-style report is modified to report on financial statements prepared in conformity with accounting principles generally accepted in another country that are intended for use only outside the United States, does the auditor's report:			
a. Identify the financial statements audited?	_____	_____	_____
b. Refer to the note to the financial statements that describes the basis of presentation of the financial statements on which the auditor is reporting, including identification of the nationality of the accounting principles?	_____	_____	_____
c. State that the audit was made in accordance with the auditing standards generally accepted in the United States (and, if appropriate, with the auditing standards of the other country)?	_____	_____	_____
d. Include a paragraph that expresses the auditor's opinion (or disclaims an opinion) on the following:			

	Yes	No	N/A
(1) Whether the financial statements are presented in conformity with the basis of accounting described? <sup>2</sup>	_____	_____	_____
(2) Whether the disclosed basis of accounting used has been applied in a consistent manner? [SAS 51, par. 9 (AU 534.09)]	_____	_____	_____
22. If an independent auditor uses the auditor's standard report of another country when reporting on financial statements prepared for use in that country:			
a. Would such a report be used by auditors in that country in similar circumstances?	_____	_____	_____
b. Does the auditor understand, and is he in a position to make, the attestations contained in such a report based on his knowledge of applicable legal responsibilities, in addition to the auditing standards and the accounting principles generally accepted in that country?	_____	_____	_____
c. Has the auditor considered consulting with persons having expertise in the audit reporting practices of that country to attain the understanding needed to issue that country's standard report? [SAS 51, pars. 11—12 (AU 534.11—12)]	_____	_____	_____
23. If a U.S. entity has prepared financial statements with U.S. generally accepted accounting principles (GAAP) and accounting principles generally accepted in another country, has the auditor included, in one or both reports, a statement that another report has been issued on the financial statements for the entity that has been prepared in accordance with accounting principles generally accepted in another country, with reference to a note describing significant differences between the accounting principles used and U.S. GAAP? [SAS 51, par. 13 (AU 534.13)]	_____	_____	_____
24. If reporting on the fair presentation of financial statements prepared in conformity with the accounting principles generally accepted in another country that will have more than limited distribution in the United States, has the auditor:			
a. Used the U.S. standard form of report [see SAS No. 58, par. 8] modified as appropriate [SAS 58, pars. 49—66] because of departures from accounting principles generally accepted in the United States? <sup>3</sup>	_____	_____	_____
b. Expressed an opinion, in a separate paragraph, on whether the financial statements are presented in conformity with accounting principles generally accepted in another country? [SAS 51, par. 14 (AU 534.14)]	_____	_____	_____
25. If reporting on the same set of financial statements prepared in conformity with accounting principles generally accepted in another country, that will have more than limited distribution in the United States, has the guidance in No. 21 above been followed for distribution outside the United States and No. 24 above for distribution in the United States? [SAS 51, par. 15 (AU 534.15)]	_____	_____	_____

[The next page is 2401.]

<sup>2</sup> If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described, all of the substantive reasons for that conclusion would be disclosed in an additional explanatory paragraph(s) of the report, and the opinion paragraph should include appropriate modifying language as well as a reference to the explanatory paragraph(s). [SAS 51, par. 9 (AU 534.09)]

<sup>3</sup> This does not apply to reports on financial statements of U.S. subsidiaries of foreign registrants presented in SEC filings of foreign parent companies where the subsidiaries' financial statements have been prepared on the basis of accounting principles used by the parent company. [SAS 51, par. 14, fn. 2 (AU 534.14, fn. 2)]

# FSP Section 2400

## Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist<sup>1</sup>

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 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

.03 Checklist Questionnaire

	Yes	No	N/A
1. Is the report appropriately worded?	_____	_____	_____
a. For compiled financial statements does the report state that:			
● A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants?	_____	_____	_____
● A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)? [See SSARS No. 3, par. 3 (AR 300.03) for different wording that may be used when the financial statements are included in a prescribed form and the form or related instructions call for departure from generally accepted accounting principles.]	_____	_____	_____
● 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)]	_____	_____	_____
b. For reviewed financial statements does the report state that:			
● A review was performed in accordance with standards established by the American Institute of Certified Public Accountants?	_____	_____	_____
● All information included in the financial statements is the representation of the management (owners) of the entity?	_____	_____	_____
● A review consists principally of inquiries of company personnel and analytical procedures applied to financial data?	_____	_____	_____
● 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?	_____	_____	_____
● 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 generally accepted accounting principles or, where applicable, with another comprehensive basis of accounting, other than those modifications, if any, indicated in his report? [SSARS No. 1, par. 32 (AR 100.32)]	_____	_____	_____

<sup>1</sup> A nonpublic entity is any entity other than (a) one whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) one that makes filing with a regulatory agency in preparation for the sale any class of its securities in a public market, or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b) [SSARS No. 1, "Financial Statements Included in SEC Filings" (AR section 9100.03—.05)].

	Yes	No	N/A
c. 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 .32)]	_____	_____	_____
2. For compiled financial statements that contain departures <sup>2</sup> from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting:			
a. If the departure is the omission in compiled financial statements of substantially all required disclosures does the accountant's report clearly indicate such omission? [SSARS No. 1, pars. 19 and 21 (AR 100.19 and .21)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles include disclosures about only a few matters in the form of notes to such financial statements, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles (or, where applicable, another comprehensive basis of accounting) Are Not Included" ? [SSARS No. 1, par. 19 (AR 100.19)]	_____	_____	_____
c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than generally accepted accounting principles, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS No. 1, par. 20 (AR 100.20)]	_____	_____	_____
d. If compiled financial statements contain another departure from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	_____	_____	_____
(1) If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____
(2) 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)]	_____	_____	_____
(3) If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____
3. For reviewed financial statements that contain departures from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting (including the omission of required disclosures), did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	_____	_____	_____
a. If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____
b. 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)]	_____	_____	_____
c. If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report?	_____	_____	_____

<sup>2</sup> Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS No. 3 [AR 300] compilation report on financial statements included in a prescribed form.

	Yes	No	N/A
[SSARS No. 1, par. 40 (AR 100.40)]			
4. If the accountant is not independent with respect to the entity for which he has compiled financial statements, did the accountant state in the last paragraph of his report, "I am (we are) not independent with respect to XYZ Company"? (The accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent.) [SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
5. Is the report dated?	_____	_____	_____
6. a. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountant's Compilation Report"? [SSARS No. 1, par. 16 (AR 100.16)]	_____	_____	_____
or			
b. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountant's Review Report"? [SSARS No. 1, par. 34 (AR 100.34)]	_____	_____	_____
7. When accompanying information is presented with the financial statements, did the accountant clearly indicate his degree of responsibility with respect to such information as follows:			
a. If the basic financial statements were reviewed, was the degree of responsibility disclosed in the report or in a separate report on the other data that states:			
● The review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, and either:	_____	_____	_____
● The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or	_____	_____	_____
● The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data? [SSARS No. 1, par. 43 (AR 100.43)]	_____	_____	_____
b. If the accountant has compiled both the basic financial statements and other data which is presented for supplementary analysis purposes, does the compilation report also include the other data? [SSARS No. 1, par. 43 (AR 100.43)]	_____	_____	_____
8. 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, c) any scope limitation that resulted in the changed engagement? [SSARS No. 1, par. 49 (AR 100.49)]	_____	_____	_____
9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS No. 2, par. 2 (AR 200.02)]	_____	_____	_____
10. Is the report appropriate for the current status of the entity? [SSARS No. 2, pars. 31—32 (AR 200.31—.32)]	_____	_____	_____
11. Does each page of the comparative financial statements compiled or reviewed include a reference such as "See Accountant's Report"? [SSARS No. 2, par. 6 (AR 200.06)]	_____	_____	_____

	Yes	No	N/A
12. If compiled financial statements which omit substantially all of the disclosures required by generally accepted accounting principles are included among the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph which indicates:			
● The nature of the previous service rendered (compilation, review or audit)?	_____	_____	_____
● Date of the previous report?	_____	_____	_____
● Appropriate language in accordance with SSARS No. 1, paragraphs 19—20 and SSARS No. 2, paragraph 30? [SSARS No. 1, pars. 19—21 (AR 100.19—.21); SSARS No. 2, pars. 5 and 29—30 (AR 200.05 and .29—.30)]	_____	_____	_____
13. If the level of service performed by the continuing accountant on the current-period financial statements is the same 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)]	_____	_____	_____
14. 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:			
a. Does the report on the current period include a separate paragraph which describes the responsibility assumed for the prior period?	_____	_____	_____
or			
b. 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 .11—.12)]	_____	_____	_____
15. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include:			
● The date of the previous report?	_____	_____	_____
● Description of the circumstances or events underlying the change?	_____	_____	_____
● Indication, if applicable, that the prior-period financial statements have changed? [SSARS No. 2, pars. 14—15 (AR 200.14—.15)]	_____	_____	_____
16. If the predecessor accountant does not reissue his compilation or review report on the prior-period financial statements, has the successor:			
a. Made appropriate reference in his report to the predecessor's report in accordance with SSARS No. 2?	_____	_____	_____
or			
b. 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)]	_____	_____	_____
17. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as presented? [SSARS No. 2, pars. 25—26 (AR 200.25—.26)]	_____	_____	_____
18. If the current-period financial statements were compiled or reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph which contains the following:			
● Statement that the prior-period financial statements were examined previously?	_____	_____	_____
● Date of the previous report?	_____	_____	_____
● Type of opinion expressed previously?	_____	_____	_____

**Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist 2405**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
● If the opinion was other than unqualified, the substantive reasons therefor?	_____	_____	_____
● 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).]

---

[The next page is 2501.]



# FSP Section 2500

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 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 <sup>1</sup>
(AC) =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
(AU) =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1) of SAS cited

.03 This checklist is organized into the following classifications:

- General
  - A. Titles and References
  - B. Disclosure of Accounting Policies
  - C. Accounting Changes
  - D. Comparative Financial Statements
  - E. Business Combinations
  - F. Consolidations
  - G. Related Party Transactions and Economic Dependency
  - H. Financial Instruments
  - I. Foreign Currency
  - J. Nonmonetary Transactions
  - K. Contingencies and Commitments
  - L. Subsequent Events
  - M. Pension Plans
  - N. Futures Contracts
  - O. Other Matters

---

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

- Balance Sheet
  - A. General
  - B. Cash
  - C. Marketable Securities
  - D. Receivables
  - E. Inventories
  - F. Investments
  - G. Property and Equipment
  - H. Lessors
  - I. Other Assets and Deferred Charges
  - J. Current Liabilities
  - K. Notes Payable and Other Debt
  - L. Lessees
  - M. Other Liabilities and Deferred Credits
  - N. Stockholders' Equity
  - O. Changes in Stockholders' Equity
- Income Statement
  - A. Revenue and Expenses
  - B. Income Taxes
  - C. Discontinued Operations
  - D. Extraordinary Items
  - E. Other
- Statement of Cash Flows
  - A. Format
  - B. Content
- Exhibit A—Statement of Changes in Financial Position
- Exhibit B—Accounting for Income Taxes

**.04 General**

**A. Titles and References**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [FASB Statement of Concepts No. 1, par. 18]	_____	_____	_____

	Yes	No	N/A
3. Are the notes referenced to and from the applicable statement classification or appropriately captioned? [FASB Statement of Concepts No. 1, par. 18]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity 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)]	_____	_____	_____
<b>C. Accounting Changes</b>			
1. For an accounting change does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change including a clear explanation why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on income? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06, Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, 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 financial statements included for prior periods, for comparative purposes, as previously reported?	_____	_____	_____
b. Is the effect of the new accounting principle on income before extraordinary items and on net income and the related earnings per share amount disclosed in the period of the change?	_____	_____	_____
c. Is income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements 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 income"? [APB 20, pars. 18—26 (AC A06.114—.122 and E09.104)]	_____	_____	_____
5. If prior periods are presented, are they restated for the following special changes in accounting principles:			
a. Change from LIFO method of inventory pricing to another method?	_____	_____	_____
b. Change in method of accounting for long-term construction-type contracts?	_____	_____	_____
c. Change to or from the full cost method of accounting in extractive industries? [APB 20, pars. 27—28 (AC A06.123—.124)]	_____	_____	_____
6. 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 income before extraordinary items, net income and related per share amounts? [APB 20, pars. 36—37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
<b>E. Business Combinations</b>			
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests [APB 16, pars. 45—48 (AC B50.104—.107)]:			
a. Has the required accounting method been applied? [APB 16, pars. 50—62 (AC B50.109—121)]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 63—65 (AC B50.122—124)]	_____	_____	_____
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66—94 (AC B50.125—.147 and .159—.163); SFAS 38 (AC B50.148—.150 and .166); TB 81-2, par. 4 (AC B50.650); FASBI 4 (AC B50.151—.152) concerns research and development activities of an acquired subsidiary]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 95—96 (AC B50.164—.165); SFAS 79, pars. 4—6 (AC B50.165)]	_____	_____	_____
3. If significant, has the amount of net operating loss or tax credit carryforwards for which any tax benefits will be applied to reduce goodwill and other noncurrent assets (of an acquired enterprise) been disclosed separately? [SFAS 96, par. 29 (AC I25.128)]	_____	_____	_____
4. If financial statements for prior years are restated, have all purchase business combinations that were consummated in those prior years been remeasured in accordance with the requirements of SFAS 96 (AC section I25)? [SFAS 96, par. 35]	_____	_____	_____
<b>F. Consolidations</b>			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109 and Re6.110)]	_____	_____	_____
c. In instances when the financial reporting periods of subsidiaries differ from those of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18—20 (AC I89.112—.114); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
2. Are current and noncurrent marketable equity securities portfolios of consolidated entities treated as single current and noncurrent consolidated portfolios?	_____	_____	_____

	Yes	No	N/A
[SFAS 12, pars. 9 and 15 (AC I89.103 and .109)]			
3. If the parent company includes realized gains or losses of marketable securities in net income and a consolidated subsidiary does not, has the subsidiary's accounting treatment for marketable securities been conformed with that of the parent? [SFAS 12, par. 18 (AC I89.112)]	_____	_____	_____
4. If the parent follows specialized accounting practices for marketable securities and the consolidated subsidiaries do not, are the subsidiaries' current and noncurrent portfolios consolidated as separate current and noncurrent portfolios exclusive of the parent and is the information required by SFAS 12, par. 12 disclosed? [SFAS 12, pars. 12 and 19 (AC I89.106 and .113)]	_____	_____	_____
5. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed? [SFAS 12, par. 20 (AC I89.114)]	_____	_____	_____
6. For undistributed earnings of a consolidated subsidiary and/or corporate joint venture, for which income taxes have not been accrued, do disclosures include:			
a. Declaration of either intention to reinvest such earnings to support the conclusion that their remittance has been indefinitely postponed, or that the undistributed earnings will be remitted in the form of a tax free liquidation?	_____	_____	_____
b. Cumulative amount of undistributed earnings on which the parent company has not recognized income taxes? [APB 23, pars. 14 and 18 (AC I42.109 and .112)]	_____	_____	_____
7. Do disclosures about formerly unconsolidated majority-owned subsidiaries from financial statements for fiscal years 1986 or 1987, include summarized information about the assets, liabilities, and results of operations (or separate statements) in the consolidated financial statements or notes? [SFAS 94, par. 14 (AC C51.120A)]	_____	_____	_____
<b>G. Related Party Transactions and Economic Dependency</b>			
1. For related party transactions do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements 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 income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
2. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9 (AC S20.103)]	_____	_____	_____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____

	Yes	No	N/A
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
<b>H. Financial Instruments</b>			
1. Does the entity have a financial instrument that is:			
a. Cash in banks or on hand, or	_____	_____	_____
b. Evidence of an ownership interest in an entity, or	_____	_____	_____
c. A contract that both:			
(1) Imposes on one entity a contractual obligation (liability)			
(i) To deliver cash or 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? [FASB 105, par. 6 (AC F25.106)]	_____	_____	_____
2. For financial instruments with off-balance risk (except for those excluded in the statement), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument: <sup>2</sup>			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____
3. For financial instruments with off-balance sheet risk (except as noted above in H.2.), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proven to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
4. Were disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), included in the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____

<sup>2</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

	Yes	No	N/A
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
<b>I. Foreign Currency</b>			
1. Is the aggregate exchange gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____
2. Is an analysis of changes during the period in the separate component of equity for cumulative translation adjustments included, and does it disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F60.144)]	_____	_____	_____
5. Are foreign operations adequately disclosed? [ARB 43, Ch. 12, pars. 8—9 (AC C51.105—.106)]	_____	_____	_____
<b>J. Nonmonetary Transactions</b>			
1. Are nonmonetary transactions accounted for in conformity with APB 29? [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)]	_____	_____	_____
3. If stock is issued to acquire the results of a research and development arrangement, for rights to use the results, or for ownership interests in the arrangement, or a successor to the arrangement, is the stock issued accounted for at its fair value or at the value of the consideration received, whichever is more clearly evident? [TB 84-1, par. 7 (AC R55.504)]	_____	_____	_____
<b>K. Contingencies and Commitments</b>			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[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, guarantee of indebtedness of others, obligations of banks under standby letters of credit, 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? [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, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
7. For long-term unconditional purchase obligations associated with suppliers' financing that are not recognized in the balance sheet, are the following disclosed:			
a. Nature of the obligation(s)?	_____	_____	_____
b. Amount of the fixed and determinable obligation in the aggregate and for each of the next five years?	_____	_____	_____
c. Description of any portion of the obligation that is variable?	_____	_____	_____
d. Purchases under the obligation(s) for each year for which an income statement is presented? [SFAS 47, par. 7 (AC C32.102)]	_____	_____	_____
8. For long-term unconditional purchase obligations associated with suppliers' financing that are recognized in the balance sheet, have the aggregate amount of payments for each of the five years following the latest balance sheet been presented? [SFAS 47, par. 10a (AC C59.105a)]	_____	_____	_____
<b>L. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, .09 and 561.01—.09 (AU 560.05—.07, .09 and 561.01—.09)]	_____	_____	_____
<b>M. Pension Plans</b>			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____



	Yes	No	N/A
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? <sup>3</sup>	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 [AC P16.129—.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amount and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization methods used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in paragraph 41 [AC P16.135]? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
f. If more than one defined benefit plan exists:			
(1) Have the disclosures required by 1 above been aggregated for all of the employee's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____

[The next page is 2509-3.]

<sup>3</sup> The net total of other components is the net effect during the period of certain delayed recognition provisions of this statement. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)
- b. Amortization of the net gain or loss from earlier periods
- c. Amortization of unrecognized prior service cost
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]

	Yes	No	N/A
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If the answer is yes, are accounting and disclosure requirements in accordance with the provisions of L1 above, applicable to a defined benefit plan? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 [AC C59] been applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>N. Futures Contracts</b>			
1. If a futures contract is designated a hedge:			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	_____	_____	_____
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	_____	_____	_____
2. If the futures contract hedges an anticipated transaction:			
a. Are the significant characteristics and expected terms of the anticipated transaction identified?	_____	_____	_____
b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)]	_____	_____	_____
3. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
<b>O. Other Matters</b>			
1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24 (AC S20.109—.110); SFAS 30 (AC S20.145); and TBs 79-4, 79-5 and 79-8 (AC S20.501—.507)]	_____	_____	_____
2. Postretirement Health Care and Life Insurance Benefits			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. If health care or life insurance benefits are provided to retirees, their dependents, or survivors, do disclosures <sup>4</sup> include:			
(1) A description of the benefits provided and the employee groups covered?	_____	_____	_____
(2) A description of the accounting and funding policies followed for those benefits?	_____	_____	_____
(3) The cost <sup>5,6</sup> of those benefits recognized for the period, unless the provisions of b below are applicable?	_____	_____	_____
(4) The effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____
b. If the cost of any postretirement health care or life insurance benefit cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, is the total cost of providing those benefits to both active employees and retirees as well as the number of active employees and the number of retirees <sup>7</sup> covered by the plan disclosed? [SFAS 81, par. 7 (AC P50.103)]	_____	_____	_____
<b>.05 Balance Sheet</b>			
<b>A. General</b>			
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)]	_____	_____	_____
2. Are assets not expected to be realized during the current operating cycle classified as noncurrent? [ARB 43, Ch. 3A, pars. 5—6 (AC B05.106—.107)]	_____	_____	_____
3. 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)]	_____	_____	_____
<b>B. Cash</b>			
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)]	_____	_____	_____

<sup>4</sup> SFAS 81 [AC P50] does not preclude additional disclosures. The Board is aware that a few employers currently disclose information other than that required by this Statement, such as the present value of estimated future health care and life insurance benefits for retirees, the amount of contributions to trusts established for the payment of those benefits, and the fair value of assets in such trusts. The Board encourages such disclosures but does not require that they be made. Paragraph 28 of SFAS 81 [AC P50.102, footnote 2] also identifies additional information that an employer is encouraged to disclose.

<sup>5</sup> The cost disclosed shall be based on the accounting policy described.

<sup>6</sup> Employers are encouraged to use reasonable methods to approximate the costs of postretirement health care and life insurance benefits. The disclosures may be made separately for each type of benefit provided or in the aggregate for all benefits.

<sup>7</sup> Active employees or retirees and members of their families shall be counted as one unit.

	Yes	No	N/A
<b>C. Marketable Securities</b>			
1. For entities in industries not having certain specialized practices for marketable securities:			
a. Are the carrying amounts of the marketable equity securities portfolios (current and noncurrent) each at the lower of aggregate cost or market? [SFAS 12, pars. 8 and 15 (AC I89.102 and .109)]	_____	_____	_____
b. 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)]	_____	_____	_____
c. Are changes in the valuation allowances appropriately accounted for? [SFAS 12, par. 11 (AC I89.105)]	_____	_____	_____
d. Are realized gains and losses included in net income of the period in which they occur? [SFAS 12, par. 11 (AC I89.105)]	_____	_____	_____
2. Are marketable equity securities portfolios of consolidated affiliates appropriately treated in consolidation? [SFAS 12, pars. 9, 15 and 18—20 (AC I89.103, .109 and .112—.114); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
3. If particular marketable securities for which changes in carrying amounts are included in stockholder's equity have declines in market value below cost, and the declines are "judged to be other than temporary," is the cost basis written down and the write-down accounted for as a loss? [SFAS 12, par. 21 (AC I89.115); FASBI 11 (AC I89.115—.116)]	_____	_____	_____
4. Are income tax effects for unrealized gains or losses on marketable securities recognized in conformity with SFAS 96? [SFAS 96 (AC I25)]	_____	_____	_____
5. For marketable equity securities do disclosures include:			
a. For each balance sheet presented, aggregate cost and market value (each segregated between current and noncurrent portfolios when applicable) with identification of which is the carrying amount? [SFAS 12, par. 12a (AC I89.106a)]	_____	_____	_____
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)]	_____	_____	_____
c. The following information for each period for which an income statement is presented:			
(1) Net realized gain or loss included in determination of net income?	_____	_____	_____
(2) Basis on which cost was determined in computing realized gain or loss (e.g., average cost, FIFO)?	_____	_____	_____
(3) The change in valuation allowance(s) included in the equity section of the balance sheet during the period and when a classified balance sheet is presented, the amount of such change included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
6. 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 in the notes? [SFAS 12, pars. 13 and 17 (AC I89.107 and .111); FASBI 11 (AC I89.115—.116); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
7. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Receivables</b>			
1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____
2. Are unbilled receivables (e.g., unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4]	_____	_____	_____
3. Are unearned finance charges and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.105)]	_____	_____	_____
4. If a note is non-interest 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 income statement? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
5. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that is being recognized as an adjustment of yield reported as part of the loan balance to which it relates? [SFAS 91, par. 21 (AC L20.120)]	_____	_____	_____
6. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
7. For troubled debt restructurings are the following disclosed by major category of receivables as of each balance sheet presented:			
a. Aggregate recorded investment?	_____	_____	_____
b. Gross interest income that would have been recorded if receivables had been current per their original terms?	_____	_____	_____
c. Amount of interest income included in net income?	_____	_____	_____
d. Amounts of any commitments to lend additional funds to debtors owing restructured troubled receivables? [SFAS 15, pars. 40—41 (AC D22.136—.137); TBs 79-6 and 79-7 (AC D22.501—.505)]	_____	_____	_____
8. 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 an income statement is presented?	_____	_____	_____
b. The balance of the receivables transferred that remain uncollected at the date of each balance sheet presented, if such information is available? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
<b>E. Inventories</b>			
1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [ARB 43, Ch. 3A, pars. 4 and 9 (AC B05.105); ARB 43, Ch. 4, par. 3 (AC I78.102—.103)]	_____	_____	_____
2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9]	_____	_____	_____
3. Is the basis for stating inventory amount disclosed (e.g., lower of cost or market) and, if necessary, the nature of a change in basis for stating inventory, and the effect on income of such a change? [ARB 43, Ch. 4, pars. 4—16 (AC I78.104—.117 and .119—.120); APB 22, par. 13 (AC A10.106)]	_____	_____	_____

	Yes	No	N/A
4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
<b>F. Investments</b>			
1. Is the equity method used to account for investments in common stock of:			
a. Corporate joint ventures? [APB 18, par. 16 (AC I82.103)]	_____	_____	_____
b. Investees in which the entity has "ability to exercise significant influence" (generally presumed to be 20% or more of the voting stock)? [APB 18, par. 17 (AC I82.104); FASBI 35, pars. 2—5 (AC I82.106—.108)]	_____	_____	_____
2. Is the equity method appropriately applied? [APB 18, par. 19 (AC I82.109); TB 79-19, par. 6 (AC I82.514)]	_____	_____	_____
3. Are the appropriate disclosures made for investments in common stock accounted for by the equity method? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
<b>G. Property and Equipment</b>			
1. For depreciable assets, do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period? [APB 12, par. 5a (AC D40.105a)]	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function? [APB 12, par. 5b (AC D40.105b)]	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
e. Investment credit, method followed and amounts involved when material? [APB 4, par. 11 (AC I32.103); FASBI 25 (AC B50.153—.154, I32.107, .114—.115, .117—.120 and I37.109)]	_____	_____	_____
2. Are net assets and liabilities of discontinued segments segregated from the assets and liabilities of continuing operations? [APB 30, par. 18d (AC I13.108d)]	_____	_____	_____
3. 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 (AC I67.105c, .106c—.106e and .117); SFAS 62, par. 5 (AC I67.106)]	_____	_____	_____
<b>H. Lessors</b>			
1. For sales-type and direct financing leases do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a (AC L10.119a)]	_____	_____	_____
d. For direct financing leases, the amount of initial direct costs as part of the investment? [SFAS 91, par. 25d (AC L10.119(a)(1))]	_____	_____	_____
2. For operating leases do disclosures include:			

	Yes	No	N/A
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 income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
3. Do disclosures include a general description of the lessor's leasing arrangements? [SFAS 13, par. 23c (AC L10.119c); For amendments of SFAS 13 see SFASs 22, 23, 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, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17, 79-18 and 88-1]	_____	_____	_____
4. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41-47 (AC L10.143—.149)]	_____	_____	_____
<b>I. Other Assets and Deferred Charges (See Exhibit B)</b>			
1. Are the costs of intangible assets acquired from other entities recorded as assets? [APB 17, pars. 24—26 (AC I60.105—.107)]	_____	_____	_____
2. Are the costs of developing, maintaining or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred? [APB 17, par. 24 (AC I60.105)]	_____	_____	_____
3. Are issue costs of debt reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
4. Do disclosures include the method and period of amortization? [APB 17, pars. 27—31 (AC I60.108—.112); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
5. Have deferred tax assets been recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years:			
a. To reduce a current deferred tax liability?	_____	_____	_____
b. To reduce taxes paid in the current or a prior year? [SFAS 96, par. 17e (AC I25.116e)]	_____	_____	_____
6. Have deferred tax assets been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)]	_____	_____	_____
7. Have deferred tax assets attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
8. Have the types of temporary differences that give rise to significant portions of a deferred tax asset been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
9. Have deferred tax assets been classified in two categories—the current amount and the noncurrent amount—in a classified statement of financial position? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
10. Is the current amount of a deferred tax asset the net deferred tax consequence of:			
a. Temporary differences that will result in net taxable or deductible amounts during the next year?	_____	_____	_____
b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?	_____	_____	_____

	Yes	No	N/A
c. Temporary differences for which there is no related identifiable asset or liability for financial reporting (SFAS 96, par. 12 [AC I25.111]) whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
<b>11. For computer software to be sold, leased, or otherwise marketed:</b>			
a. Are costs charged to research and development expense before technological feasibility has been established? [SFAS 86, par. 3 (AC Co2.102)]	_____	_____	_____
b. Are costs charged to an asset after technological feasibility has been established? [SFAS 86, pars. 4—6 (AC Co2.103—.105)]	_____	_____	_____
c. Is the amount of unamortized cost disclosed for each balance sheet presented? [SFAS 86, par. 11a (AC Co2.110a)]	_____	_____	_____
d. Is the amount charged to expense for amortization of these costs and for amounts written down to net realizable value disclosed for each income statement presented? [SFAS 86, par. 11b (AC Co2.110b)]	_____	_____	_____
12. Has an asset (prepaid pension cost) been recognized if net periodic pension cost is less than amounts the employer has contributed to the plan? [SFAS 87, pars. 35 and 38 (AC P16.129 and .132)]	_____	_____	_____
13. If an additional minimum liability has been recognized pursuant to SFAS 87, paragraph 36 [AC P16.130], has an equal amount been recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost? [SFAS 87, pars. 37—38 (AC P16.131—.132)]	_____	_____	_____
<b>J. Current Liabilities</b>			
1. Do current liabilities include:			
a. Obligations for items which have entered the operating cycle?	_____	_____	_____
b. Collections received in advance of the delivery of goods or performance of services?	_____	_____	_____
c. Debts which arise from operations directly related to the operating cycle?	_____	_____	_____
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 entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8—14 (AC B05.112—.116); FASBI 8 (AC B05.117 and .138—.139)]	_____	_____	_____
<b>K. Notes Payable and Other Debt</b>			
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, covenants to reduce debt, maintain working capital, and restrict dividends? [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)]	_____	_____	_____



	Yes	No	N/A
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?	_____	_____	_____
c. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
4. Are conversion features appropriately accounted for and disclosed? [APB 14, pars. 12 and 16—18 (AC D10.103 and .105—.107); APB 15, par. 19 (AC E09.110)]	_____	_____	_____
5. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7—8 (AC B05.108—.109)]	_____	_____	_____
6. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, 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)]	_____	_____	_____
7. For troubled debt restructuring occurring during the current period do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement, or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
8. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
9. Has debt, as required, been considered extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?	_____	_____	_____
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A); TB 85-2 (AC C30)]	_____	_____	_____
10. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20—21 (AC D14.103—.104); TB 80-1, pars. 3—4 (AC D14.503—.504); SFAS 84, par. 5 (AC D14.101)]	_____	_____	_____
b. Identified as a separate or extraordinary item?	_____	_____	_____

	Yes	No	N/A
[SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]			
11. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, do the disclosures include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 3c (AC D14.102Ac)]	_____	_____	_____
12. Are long-term obligations that are or will be callable by the creditor either because the debtor's violation of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, classified as current unless one of the following conditions is met:			
a. Has the creditor waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date?	_____	_____	_____
b. If the obligation contains a grace period within which the debtor may cure the violation, is it probable that the violation will be cured within that period, thus preventing the violation from becoming callable? [SFAS 78, par. 5 (AC B05.109A and .118)]	_____	_____	_____
<b>L. Lessees</b>			
1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)—(4))]	_____	_____	_____
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4)), amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____
e. Assets recorded under capital leases and the related accumulated amortization and obligations under the lease should be identified separately in the balance sheet or a footnote? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			

	Yes	No	N/A
a. Bases for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); For amendments of SFAS 13 see SFASs 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, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17, 79-18 and 88-1]	_____	_____	_____
<b>M. Other Liabilities and Deferred Credits (See Exhibit B)</b>			
1. Have deferred tax liabilities been recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par.17f—h (AC I25.116f—h)]	_____	_____	_____
2. Has a deferred tax liability been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)]	_____	_____	_____
3. Have deferred tax liabilities attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
4. Have the types of temporary differences that give rise to significant portions of a deferred tax liability been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
5. Have deferred tax liabilities been classified in two categories—the current amount and the noncurrent amount—in a classified statement of financial position? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
6. Is the current amount of a deferred tax liability the net deferred tax consequence of:			
a. Temporary differences that will result in net taxable or deductible amounts during the next year?	_____	_____	_____
b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?	_____	_____	_____
c. Temporary differences for which there is no related identifiable asset or liability for financial reporting (SFAS 96, par. 12 [AC I25.111]) whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
7. Has the following information been disclosed whenever a deferred tax liability is not recognized for any of the areas addressed by APB 23 [AC I25 and I42] or for deposits in statutory reserve funds by U.S. steamship enterprises:			
a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable?	_____	_____	_____
b. The cumulative amount of each type of temporary difference?	_____	_____	_____
c. The amount of the unrecognized deferred tax liability for any unremitted earnings if determination of that liability is practicable or a statement that determination is not practicable and the amount of withholding taxes that would be payable upon remittance of those earnings?	_____	_____	_____
d. The amount of the unrecognized deferred tax liability for temporary differences other than unremitted earnings (that is, the bad debt reserve of a stock or mutual savings and loan association or a mutual savings bank, the policy holder's surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise)? [SFAS 96, par. 25 (AC I25.124)]	_____	_____	_____

	Yes	No	N/A
8. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 [AC C59] and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and .124—.127)]	_____	_____	_____
9. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6—7 (AC C44.104 and .108)]	_____	_____	_____
10. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102)]	_____	_____	_____
11. Has a liability (unfunded accrued pension cost) been recognized if net periodic pension cost recognized, pursuant to SFAS 87 [AC P16], exceeds amounts the employer has contributed to the plan? [SFAS 87, pars. 35 and 38 (AC P16.129 and .132)]	_____	_____	_____
12. If the accumulated benefit obligation exceeds the fair value of the pension plan's assets, has the employer recognized, in the statement of financial position, a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation? [SFAS 87, pars. 36 and 38 (AC P16.130 and .132)]	_____	_____	_____
13. Has an additional minimum liability been recognized in accordance with the provisions of SFAS 87, paragraph 36? [SFAS 87, pars. 36 and 38 (AC P16.130 and .132)]	_____	_____	_____
<b>N. Stockholders' Equity</b>			
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 C16.102)]	_____	_____	_____
b. Aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 15, par. 50, fn. 16 (AC C16.102)]	_____	_____	_____
5. For stock option and stock purchase plans, do disclosures include:			
a. Number of shares under option?	_____	_____	_____
b. Option price?	_____	_____	_____
c. Number of shares as to which options are exercisable?	_____	_____	_____
d. For shares exercised, the number of shares 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 stockholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____

	Yes	No	N/A
7. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
8. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
9. 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?	_____	_____	_____
10. 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 presented? [SFAS 47, par. 10c (AC C32.105c)]	_____	_____	_____
<b>O. Changes in Stockholders' Equity</b>			
1. Are changes in the separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
3. Are prior period adjustments limited to:			
a. Correction of an error(s) in financial statements of prior periods?	_____	_____	_____
b. Adjustments resulting from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries? [SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
4. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
5. 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)]	_____	_____	_____
6. 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 (which 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 temporary differences for purposes of applying the provisions of SFAS 96? [SFAS 87, par. 37 (AC P16.131)]	_____	_____	_____
<b>.06 Income Statement</b>			
<b>A. Revenue and Expenses</b>			
1. Are the important components of income separately disclosed, such as sales or other sources of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes? [APB Statement 4, Ch. 7, par. 198]	_____	_____	_____
2. Is revenue recognized when a sale is effected (in contrast to the installment method) with appropriate provision for uncollectible accounts? [APB 10, par. 12 (AC R75.101 and .103)]	_____	_____	_____
3. For long-term construction-type contracts is the method of income recognition (percentage-of-completion or completed-contract) disclosed?	_____	_____	_____

	Yes	No	N/A
[ARB 45, par. 15 (AC Co4.110 and .112); APB 22, par. 13 (AC A10.106)]			
4. For marketable equity securities are the following disclosed for each period for which an income statement is presented:			
a. Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
b. For entities with certain specialized accounting practices, 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)]	_____	_____	_____
d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
5. For investments in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)]	_____	_____	_____
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]	_____	_____	_____
c. Are income taxes of the investor'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)]	_____	_____	_____
6. Are research and development costs charged to expense when incurred and appropriately disclosed? [SFAS 2, pars. 12—13 and 15—16 (AC R50.108—.109); FASBI 4 (AC B50.151—.152); FASBI 6 (AC R50.105 and .114—.119); TB 79-2 (AC R50.501—.502); SFAS 68, par. 14 (AC R55.112); TB 84-1 (AC R55.501—.504); SFAS 86, par. 3 (AC Co2.102)]	_____	_____	_____
7. Is the amount of interest cost incurred disclosed in the statements or notes thereto, and for an accounting period in which some interest cost is capitalized, the total amount thereof that has been capitalized? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
8. Is discount or premium on notes receivable and payable amortized to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period (the interest method) and reported as interest? [APB 12, pars. 16—17 (AC I69.108); APB 21, pars. 15—16 (AC I69.108—.109)]	_____	_____	_____
9. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 91, par. 22 (AC L20.122)]	_____	_____	_____
10. Is amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income? [SFAS 91, par. 22 (AC L20.122)]	_____	_____	_____
11. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____

	Yes	No	N/A
12. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20-34, 39-53 and 77? <sup>6</sup> (See Exhibit A) [SFAS 87, pars. 20-34, 39-53 and 77 (AC P16.114-.128, .133-.138 and .141-.149)]	_____	_____	_____
13. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3-5 and 9-11? [SFAS 88, pars. 3-5 and 9-11 (AC P16.172, .177-.179 and .181)]	_____	_____	_____
14. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12-14? [SFAS 88, pars. 6 and 12-14 (AC P16.173 and .182-.184)]	_____	_____	_____
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7-8? [SFAS 88, pars. 7-8 (AC P16.174-.175)]	_____	_____	_____
15. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
16. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9-10, 12-13 and 15 (AC P16.177, .179, .182-.183 and .185)]	_____	_____	_____
17. If there is a compensatory stock issuance plan:			
a. Is compensation expense accrued in the proper periods? [APB 25, pars. 12-15 (AC C47.112-.115); FASBI 38, pars. 2-6 (AC C47.135A-.135E)]	_____	_____	_____
b. Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16-18 (AC C47.116-.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
c. Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
18. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6-8 (AC C38.101-.102)]	_____	_____	_____
19. For sales transactions in which the buyer has a right to return the product, is revenue recognized at time of sale only if all of the conditions specified in SFAS 48 are met? [SFAS 48, pars. 6-8 (AC R75.107-.109)]	_____	_____	_____
20. For sales transactions such as those in which the seller agrees to repurchase the product, has consideration been given to whether the transaction is a product financing arrangement? [SFAS 49, pars. 3-5 (AC D18.101-.103)]	_____	_____	_____
21. For product financing arrangements that are in substance financing, is the transaction accounted for as a borrowing? [SFAS 49, pars. 8-9 (AC D18.106-.107)]	_____	_____	_____
22. For sales of real estate, other than retail land sales, is revenue recognized on the full accrual basis only if all the conditions in SFAS 66, paragraph 5, are met? [SFAS 66, par. 5 (AC Re1.105)]	_____	_____	_____
23. If the enterprise accounts for its obligation under a research and development arrangement as a contract to perform research and development for others under SFAS 68, is there disclosure of:			

<sup>6</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The new pension rules apply primarily to companies offering defined benefit pension plans.

	Yes	No	N/A
a. The terms of significant agreements under the research and development arrangement as of the date of each balance sheet presented?	_____	_____	_____
b. The amount of compensation earned or costs incurred under such contracts for each period for which an income statement is presented? [SFAS 68, par. 14 (AC R55.112)]	_____	_____	_____
<b>B. Income Taxes (See Exhibit B)</b>			
1. Has the fact that the entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
2. Has the amount of income tax expense or benefit been allocated to:			
a. Continuing operations?	_____	_____	_____
b. Discontinued operations?	_____	_____	_____
c. Extraordinary items?	_____	_____	_____
d. The cumulative effect of accounting changes?	_____	_____	_____
e. Prior period adjustments?	_____	_____	_____
f. Gains and losses included in comprehensive income but excluded from net income?	_____	_____	_____
g. Capital transactions? [SFAS 96, par. 26 (AC I25.125)]	_____	_____	_____
3. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit exclusive of (f) below?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC I25.126)]	_____	_____	_____
4. Has the nature of significant reconciling items been disclosed? [SFAS 96, par. 28 (AC I25.127)]	_____	_____	_____
5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [SFAS 96, par. 29 (AC I25.128)]	_____	_____	_____
6. If the enterprise is part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:			
a. The amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax related balances due to or from affiliates as of the date of each statement of financial position presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____



	Yes	No	N/A
7. For the earliest year restated or for the year SFAS 96 [AC I25] is first adopted if no prior year is restated, has the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, except for any effects of the type required by SFAS 96 to be excluded from net income? [SFAS 96, par. 33]	_____	_____	_____
8. When initially presented, have the financial statements for the year SFAS 96 [AC I25] is first adopted disclosed the following:			
a. The effect of adopting SFAS 96 [AC I25] on income from continuing operations, on income before extraordinary items, and on net income for the year of adoption if restated financial statements for the prior year are not presented?	_____	_____	_____
b. The effect of any restatement on income from continuing operations, on income before extraordinary items, and on net income for each year presented? [SFAS 96, par. 34]	_____	_____	_____
<b>C. Discontinued Operations</b>			
1. Is operation of a segment that has been discontinued or is the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 AC I13.105]	_____	_____	_____
2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)]	_____	_____	_____
4. For the period encompassing the measurement date, do notes to financial statement disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
5. For periods after the measurement date and including the disposal, do notes to financial statements disclose the information required for the period encompassing the measurement date and the actual date and results of disposal compared with the prior estimates? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
<b>D. Extraordinary Items</b>			

	Yes	No	N/A
1. 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)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. 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):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. 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)]	_____	_____	_____
6. 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?	_____	_____	_____
c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, pars. 8—10 (AC I17.104 and D14.105—.107)]	_____	_____	_____
7. For an adjustment of an extraordinary item reported in a prior period:			
a. Is the adjustment classified separately as an extraordinary item in the current period?	_____	_____	_____
b. Are the nature, origin and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____
<b>E. Other</b>			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____
2. Is earnings per share information, if required [SFAS 21 (AC E09.102)], presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation? [APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c, .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 28, par. 6 (AC E09.128); FASBI 31 (AC E09.128—.131 and .169—.176); FASBI 38, par. 7 (AC E09.130A); SFAS 85, par. 3 (AC E09.123A)]	_____	_____	_____
<b>.07 Statement of Cash Flows (See Exhibit A)</b>			
<b>A. Format</b>			
1. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented?	_____	_____	_____

	Yes	No	N/A
[SFAS 95, par. 3 (AC C25.101)]			
2. Does statement of cash flows explain effect of cash flows by showing change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
3. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
4. Are major classes of gross cash receipts and gross cash payments and their arithmetic sum—the net cash flow from operating activities (the direct method)—presented in the statement? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
5. If the direct method of reporting net cash flow from operating activities is used, has a reconciliation of net income to net cash flow from operating activities been provided in a separate schedule? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____
6. If the direct method of reporting net cash flow from operating activities is not used, has the same amount for net cash flow from operating activities been reported indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method)? [SFAS 95, par. 28 (AC C25.126)]	_____	_____	_____
7. If the indirect method of reporting net cash flow from operating activities is used, has the reconciliation of net income 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>B. Content</b>			
1. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Receipts from sales of property?	_____	_____	_____
c. Loans to members?	_____	_____	_____
d. Payments to acquire property? [SFAS 95, pars. 16—17 (AC C25.114—.115)]	_____	_____	_____
2. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
3. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	_____	_____	_____
b. Repayments of amounts borrowed? [SFAS 95, pars. 19—20 (AC C25.117—.118)]	_____	_____	_____
4. Are cash receipts and cash payments from financing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
5. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
a. Interest received on loans?	_____	_____	_____
b. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
c. Interest paid to creditors?	_____	_____	_____
d. Payments to suppliers and employees?	_____	_____	_____
e. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Payments to settle lawsuits?	_____	_____	_____
g. Contributions to charities? [SFAS 95, pars. 22—23 (AC C25.120—.121)]	_____	_____	_____
6. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
7. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
<b>.08 Exhibit A—Statement of Changes in Financial Position:</b>			
The provisions of SFAS 95 [AC C25] shall be effective for annual financial statements for fiscal years ending after July 15, 1988, with earlier application encouraged. Until such time, the following disclosure requirements remain in effect.			
<b>A. Format</b>			
1. Is a statement of changes in financial position presented as a basic financial statement for each period for which an income statement is presented? [APB 19, par. 7 (AC F40.101)]	_____	_____	_____
2. Does the format provide the most useful portrayal of the reporting entity's financing and investing activities and changes in financial position? [APB 19, par. 11 (AC F40.105)]	_____	_____	_____
<b>B. Content</b>			
1. Does the statement of changes in financial position disclose all important aspects of financing and investing activities regardless of whether cash or other elements of working capital are directly affected? [APB 19, par. 8 (AC F40.101—.102)]	_____	_____	_____
2. Does the statement of changes in financial position:			
a. Begin with income or loss before extraordinary items? [APB 19, par. 10 (AC F40.104)]	_____	_____	_____
b. Present additions or deductions of items recognized in determining income or loss that did not provide or use working capital or cash? [APB 19, par. 10 (AC F40.104)]	_____	_____	_____
c. Present working capital or cash provided from or used in operations exclusive of any extraordinary items? [APB 19, par. 10 (AC F40.104)]	_____	_____	_____
d. Present working capital or cash provided from or used by income or loss from extraordinary items? [APB 19, par. 10 (AC F40.104), as amended by APB 30 (AC E09, I13, I17 and I22)]	_____	_____	_____
e. Individually disclose the effects of other financing and investing activities including:			
(1) Outlays for purchase of long-term assets?	_____	_____	_____
(2) Proceeds from sale of long-term assets?	_____	_____	_____
(3) Conversion of long-term debt or preferred stock to common stock?	_____	_____	_____
(4) Issuance, assumption, redemption and repayment of long-term debt?	_____	_____	_____
(5) Issuance, redemption or purchase of capital stock for cash or assets other than cash?	_____	_____	_____
(6) Dividends in cash or in kind or other distributions to shareholders (except for stock dividends and stock split-ups as defined in ARB 43, Ch. 7B)? [APB 19, pars. 13—14 (AC F40.107—.108)]	_____	_____	_____
f. Are net changes in each element of working capital disclosed? [APB 19, par. 12 (AC F40.106)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>.09 Exhibit B—Accounting for Income Taxes:</b>			
The effective date of SFAS 96 [AC I25] shall be for fiscal years beginning after December 15, 1989 with earlier application encouraged. Until such time, the following disclosures remain in effect:			
<b>A. Marketable Securities</b>			
1. Are income tax effects for unrealized gains or losses on marketable securities:			
a. Recognized in conformity with APB 11 (AC I24)?	_____	_____	_____
b. For unrealized capital losses are tax benefits recognized only when there is "assurance beyond a reasonable doubt" that the benefit will be realized by an offset of loss against capital gains? [SFAS 12, par. 22 (AC I89.117)]	_____	_____	_____
<b>B. Other Assets and Deferred Charges</b>			
1. Are deferred charges related to income tax timing differences segregated into appropriate current and noncurrent classifications? [APB 11, par. 57, as amended by SFAS 37, par. 4 (AC I28.102)]	_____	_____	_____
<b>C. Other Liabilities and Deferred Credits</b>			
1. Are deferred credits related to income tax timing differences segregated into appropriate current and noncurrent classifications? [APB 11, par. 57, as amended by SFAS 37, par. 4 (AC I28.102)]	_____	_____	_____
2. If the entity recognized investment tax credits by the flow-through method, is the reduction in the tax basis of an asset caused by the investment tax credit reflected as a timing difference when computing deferred taxes? [TB 83-1, par. 4 (AC I32.517)]	_____	_____	_____
<b>D. Income Taxes</b>			
1. Are the components of income tax expense disclosed (tax expense estimated to be currently payable, tax effects of timing differences, and tax effects of operating losses, adjustments of prior periods, and direct entries to stockholders' equity accounts) and allocated to:			
a. Income before extraordinary items?	_____	_____	_____
b. Extraordinary items? [APB 11, pars. 60 and 62 (AC I28.106, .108 and .503)]	_____	_____	_____
2. Are tax benefits realized from operating loss carryforwards reported as an extraordinary item in the period realized? [APB 11, par. 61 (AC I17.116)]	_____	_____	_____
3. Do disclosures regarding income taxes include:			
a. Amounts of any unused operating loss carryforwards together with expiration dates (including separate identification of amounts that upon recognition would be credited to deferred taxes)?	_____	_____	_____
b. Significant amounts of any other unused deductions and/or credits together with expiration dates?	_____	_____	_____
c. Reasons for variations in customary relationship between income tax expense and pretax accounting income? [APB 11, par. 63 (AC I28.109); SFAS 31, par. 7 (AC I41.133); TB 82-1, par. 5 (AC I28.511)]	_____	_____	_____
4. Do disclosures regarding the investment tax credit include:			
a. The accounting method used and amounts involved?	_____	_____	_____
b. Amounts of any unused investment credits? [APB 4, par. 11 (AC I32.103); FASBI 25 (AC B50.153—.154, I32.107, .109, .114—.115, and .117—.120); TB 81-2, par. 4 (AC B50.650 and I32.502)]	_____	_____	_____
5. If the entity is a subchapter S corporation, partnership or unincorporated proprietorship, do disclosures explain why income tax expense is not provided?	_____	_____	_____

[The next page is 2601.]

# FSP Section 2600

## *Specialized Industries*

.01 The following FASB Statements and Interpretations relate in whole or in part to specialized industries. To the extent they relate to specialized industries, they are not included in these Disclosure Checklists. Users of the checklists should refer directly to applicable authoritative pronouncements when reporting on a specialized industry.

### .02 FASB Statements Related to Specialized Accounting and Reporting Principles and Practices

SFAS 12	"Accounting for Certain Marketable Securities"
SFAS 19	"Financial Accounting and Reporting by Oil and Gas Producing Companies"
SFAS 25	"Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies"
SFAS 35	"Accounting and Reporting by Defined Benefit Pension Plans"
SFAS 44	"Accounting for Intangible Assets of Motor Carriers"
SFAS 45	"Accounting for Franchise Fee Revenue"
SFAS 50	"Financial Reporting in the Record and Music Industry"
SFAS 51	"Financial Reporting by Cable Television Companies"
SFAS 53	"Financial Reporting by Producers and Distributors of Motion Picture Films"
SFAS 60	"Accounting and Reporting by Insurance Enterprises"
SFAS 61	"Accounting for Title Plant"
SFAS 63	"Financial Reporting by Broadcasters"
SFAS 65	"Accounting for Certain Mortgage Banking Activities"
SFAS 66	"Accounting for Sales of Real Estate"
SFAS 67	"Accounting for Costs and Initial Rental Operations of Real Estate Projects"
SFAS 69	"Disclosures about Oil and Gas Producing Activities"
SFAS 71	"Accounting for the Effects of Certain Types of Regulation"
SFAS 72	"Accounting for Certain Acquisitions of Banking or Thrift Institutions"
SFAS 73	"Reporting a Change in Accounting for Railroad Track Structures"

SFAS 75	"Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units"
SFAS 86	"Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed"
SFAS 87	"Employers' Accounting for Pensions"
SFAS 88	"Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS 90	"Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs"
SFAS 92	"Regulated Enterprises—Accounting for Phase-in Plans"
SFAS 93	"Recognition of Depreciation by Not-for-Profit Organizations"
SFAS 97	"Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments"
SFAS 98	"Accounting for Leases: <ul style="list-style-type: none"> <li>● Sale-Leaseback Transaction Involving Real Estate</li> <li>● Sales-Type Leases of Real Estate</li> <li>● Definition of the Lease Term</li> <li>● Initial Direct Cost of Direct Financing Leases"</li> </ul>
SFAS 99	"Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations"
SFAS 101	"Regulated Enterprise—Accounting for the Discontinuation of Application of FASB Statement No. 71"
SFAS 102	"Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale"

**.03 FASB Interpretations Related to Industries Having Specialized Accounting and Reporting Principles and Practices**

Interpretation 9	"Applying APB Opinion Nos. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method: An Interpretation of APB Opinion Nos. 16 and 17"
Interpretation 33	"Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method: An Interpretation of FASB Statement No. 34"
Interpretation 36	"Accounting for Exploratory Wells in Progress at the End of a Period: An Interpretation of FASB Statement No. 19"

# **FSP Section 2700**

## ***Illustrative Financial Statements***

**.01**

### **Illustrative Independent Auditor's Report**

We have audited the accompanying balance sheets of a Private Company and Subsidiaries as of December 31, 19X1 and 19X0, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of a Private Company and Subsidiaries as of December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]



**Illustrative Balance Sheet**  
**A Private Company and Subsidiaries**  
**Consolidated Balance Sheet**

December 19X1 and 19X0

<b>Assets</b>	<u>19X1</u>	<u>19X0</u>
<b>Current Assets:</b>		
Cash (including time deposits of \$XX,XXX in 19X1 and \$XXX,XXX in 19X0) .....	\$ XX,XXX	\$ XX,XXX
Restricted cash .....	XX,XXX	XX,XXX
Investments at cost, which approximates market .....	XX,XXX	XX,XXX
Accounts and notes receivable—		
Trade .....	XX,XXX	XX,XXX
Notes receivable .....	XX,XXX	XX,XXX
Notes receivable from officer .....	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less allowance for doubtful accounts .....	(XX,XXX)	(XX,XXX)
	<u>XX,XXX</u>	<u>XX,XXX</u>
Inventories at the lower of cost (first-in, first-out) or market—	<u>XX,XXX</u>	<u>XX,XXX</u>
Prepaid expenses and other current assets .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Total current assets .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Marketable securities, non-current at cost which approximates market ..	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Property and Equipment, at cost:</b>		
Land .....	XX,XXX	XX,XXX
Buildings .....	XX,XXX	XX,XXX
Furniture and equipment .....	XX,XXX	XX,XXX
Construction in progress .....	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less accumulated depreciation and amortization .....	(XX,XXX)	(XX,XXX)
Net property and equipment .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Notes receivable, less current portion included above .....	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Intangibles and Other Assets:</b>		
Excess of cost over carrying value of net assets acquired, less accumulated amortization of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 .....	XX,XXX	XX,XXX
Patents (net of amortization) .....	XX,XXX	XX,XXX
Other .....	XX,XXX	XX,XXX
Net intangibles and other assets .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Total Assets .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

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

Consolidated Balance Sheet—Continued

<b>Liabilities</b>	<u>19X1</u>	<u>19X0</u>
<b>Current Liabilities:</b>		
Accounts payable .....	\$ XX,XXX	\$ XX,XXX
Notes payable .....	XX,XXX	XX,XXX
Accrued expenses .....	XX,XXX	XX,XXX
Federal and state income taxes payable .....	XX,XXX	XX,XXX
Current portion of long-term debt .....	XX,XXX	XX,XXX
Total current liabilities .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Long-Term Debt, less current portion included above .....	XX,XXX	XX,XXX
Deferred income taxes .....	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
 <b>Stockholders' Equity:</b>		
Common stock, \$100 par value; X,XXX shares authorized		
Issued and outstanding—X,XXX shares in 19X1, X,XXX shares in 19X0 .....	XX,XXX	XX,XXX
Additional paid-in capital .....	XX,XXX	XX,XXX
Retained earnings .....	XX,XXX	XX,XXX
Valuation allowance for marketable equity securities .....	(XX,XXX)	(XX,XXX)
Cumulative foreign currency translation adjustment .....	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Total stockholders' equity .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Total Liabilities and Stockholders' Equity .....	<u><u>\$ XX,XXX</u></u>	<u><u>\$ XX,XXX</u></u>

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

.03

**Illustrative Income Statement**  
**A Private Company and Subsidiaries**  
**Consolidated Statement of Operations**

**For the Years Ended December 31, 19X1 and 19X0**

	19X1	19X0
Net sales .....	\$ XX,XXX	\$ XX,XXX
Cost of goods sold .....	XX,XXX	XX,XXX
Gross profit .....	XX,XXX	XX,XXX
Selling, general and administrative expenses .....	XX,XXX	XX,XXX
Research, development and engineering expenses .....	XX,XXX	XX,XXX
Income from operations .....	XX,XXX	XX,XXX
Other income (expense):		
Dividend income .....	XX,XXX	XX,XXX
Interest income .....	XX,XXX	XX,XXX
Interest expense .....	(XX,XXX)	(XX,XXX)
Net realized gains on sale of marketable equity securities .....	XX,XXX	XX,XXX
Foreign currency gain (loss) .....	(XX,XXX)	(XX,XXX)
Gain due to fire loss .....	XX,XXX	—
Other .....	XX,XXX	XX,XXX
Income before income taxes .....	XX,XXX	XX,XXX
Provision for income taxes:		
Current .....	XX,XXX	XX,XXX
Deferred .....	(XX,XXX)	XX,XXX
Net Income .....	\$ XX,XXX	\$ XX,XXX

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

.04

**Illustrative Statement of Stockholder's Equity  
A Private Company and Subsidiaries Consolidated  
Statement of Stockholder's Equity**

**For the Years Ended December 31, 19X1 and 19X0**

	<u>Common Stock</u>			<u>Valuation Allowance For Marketable Equity Securities</u>	<u>Cumulative Foreign Currency Translation Adjustment</u>	<u>Retained Earnings</u>
	<u>Number of Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>			
Balance December 31, 19X9 . . . . .	X,XXX	\$XX,XXX	\$XX,XXX	(\$XX,XXX)	(\$XX,XXX)	\$ XX,XXX
Net Income . . . . .						XX,XXX
Cash dividends, \$X per share . . . .						(XX,XXX)
Foreign currency translation adjustment . . . . .					(XX,XXX)	
Stock options exercised . . . . .	X,XXX	X,XXX	X,XXX			
Decrease in unrealized losses on marketable equity securities . . . .				X,XXX		
Balance December 31, 19X0 . . . . .	X,XXX	XX,XXX	XX,XXX	(XX,XXX)	(XX,XXX)	XX,XXX
Net Income . . . . .						XX,XXX
Cash dividend, \$X per share . . . .						(XX,XXX)
Foreign currency translation adjustment . . . . .					(X,XXX)	
Stock Options exercised . . . . .	X,XXX	X,XXX	X,XXX			
Increase in unrealized losses on marketable equity securities . . . .				(X,XXX)		
Two-for-one stock split . . . . .	X,XXX	X,XXX	(X,XXX)			
Balance, December 31, 19X1 . . . . .	<u>X,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$(XX,XXX)</u>	<u>\$(XX,XXX)</u>	<u>\$ XX,XXX</u>

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

.05

## Illustrative Statement of Cash Flows

(Direct Method)

A Private Company and Subsidiaries  
Consolidated Statement of Cash Flows

For the Years Ended December 31, 19X1 and 19X0

	<u>19X1</u>	<u>19X0</u>
Cash flows from operating activities:		
Cash received from customers .....	\$ XX,XXX	\$ XX,XXX
Proceeds from insurance due to fire loss .....	XX,XXX	—
Cash paid to suppliers .....	(XX,XXX)	(XX,XXX)
Interest paid .....	(XX,XXX)	(XX,XXX)
Taxes paid .....	(XX,XXX)	(XX,XXX)
Net cash provided by operating activities .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Cash flows from investing activities:		
Proceeds from sale of marketable equity securities .....	XX,XXX	XX,XXX
Purchase of equipment .....	(XX,XXX)	(XX,XXX)
Net cash used in investing activities .....	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Cash flows from financing activities:		
Sale of capital stock from options exercised .....	XX,XXX	XX,XXX
Borrowing on long-term notes .....	XX,XXX	XX,XXX
Dividends paid .....	(XX,XXX)	(XX,XXX)
Net cash provided by financing activities .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Net increase in cash .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Cash at beginning of year .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Cash at the end of the year .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income .....	\$ XX,XXX	\$ XX,XXX
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation .....	XX,XXX	XX,XXX
Net realized gains on sale of marketable equity securities .....	(XX,XXX)	(XX,XXX)
Gain due to fire loss .....	(XX,XXX)	—
Foreign currency loss .....	XX,XXX	XX,XXX
Increase in accounts receivable .....	(XX,XXX)	(XX,XXX)
Increase in inventory .....	(XX,XXX)	(XX,XXX)
Increase in prepaid expenses .....	(XX,XXX)	(XX,XXX)
Increase in notes payable .....	—	XX,XXX
Increase in accounts payable .....	XX,XXX	XX,XXX
Increase in accrued interest and taxes .....	XX,XXX	XX,XXX
Decrease in other accrued liabilities .....	(XX,XXX)	(XX,XXX)
Total Adjustments .....	<u>XX,XXX</u>	<u>(XX,XXX)</u>
Net cash provided by operating activities .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>
Supplemental schedule of noncash investing and financing activities:		
Two-for-one stock split .....	\$ X,XXX	—

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

.06

## Illustrative Statement of Cash Flows

(Indirect Method)

A Private Company and Subsidiaries  
Consolidated Statement of Cash Flows

For the Years Ended December 31, 19X1 and 19X0

	<u>19X1</u>	<u>19X0</u>
Cash flows from operating activities:		
Net income .....	\$ XX,XXX	\$ XX,XXX
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation .....	XX,XXX	XX,XXX
Net realized gains on sale of marketable equity securities .....	(XX,XXX)	(XX,XXX)
Gain due to fire loss .....	(XX,XXX)	—
Foreign currency loss .....	XX,XXX	XX,XXX
Increase in accounts receivable .....	(XX,XXX)	(XX,XXX)
Increase in inventory .....	(XX,XXX)	(XX,XXX)
Increase in prepaid expenses .....	XX,XXX	XX,XXX
Increase in notes payable .....	—	XX,XXX
Increase in accounts payable .....	XX,XXX	XX,XXX
Increase in accrued interest and taxes .....	XX,XXX	XX,XXX
Decrease in other accrued liabilities .....	(XX,XXX)	(XX,XXX)
Total Adjustments .....	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Net cash provided by operations .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Cash flows from investing activities:		
Proceeds from sale of marketable equity securities .....	XX,XXX	XX,XXX
Purchase of equipment .....	(XX,XXX)	(XX,XXX)
Net cash used in investing activities .....	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Cash flows from financing activities:		
Sale of capital stock from options exercised .....	XX,XXX	XX,XXX
Borrowing on long-term notes .....	XX,XXX	XX,XXX
Dividends paid .....	(XX,XXX)	(XX,XXX)
Net cash provided by financing activities .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Net increase in cash .....	XX,XXX	XX,XXX
Cash at beginning of year .....	XX,XXX	XX,XXX
Cash at end of year .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>
Supplemental schedule of noncash investing and financing activities:		
Two-for-one stock split .....	\$ X,XXX	—

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

.07

**Illustrative Notes to Financial Statements****Illustrative Note: Summary of Significant Accounting Policies**

## ● Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, after elimination of all significant intercompany balances and transactions.

## ● Translation of Foreign Financial Statements

Assets and liabilities of most foreign operations are translated at year-end rates of exchange, and the income statements are translated at the average rates of exchange for the year. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of stockholder's equity until the entity is sold or substantially liquidated.

Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are generally included in net income. For operations in countries that have high rates of inflation (Brazil and Mexico), gains and losses from translating assets and liabilities at year-end rates of exchange, except for inventories and facilities, which are translated at historical rates, are included in net income.

## ● Short-term Interest Bearing Investments

Short-term interest bearing investments consist of certificates of deposit and other income producing securities of less than one-year maturity. These investments are readily convertible to cash and are stated at cost which approximates market.

## ● Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market, and include material, labor and factory overhead.

## ● Property and Depreciation

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

## ● Income Taxes

Deferred income taxes in the accompanying financial statements reflect temporary differences in reporting results of operations for income tax and financial accounting purposes.

## ● Employee Benefits

The Company and its consolidated subsidiaries have several defined benefit pension plans covering substantially all employees. The benefits are based on years of service and the employee's final average monthly compensation. The Company's funding policy is to contribute annually not less than the minimum required nor more than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only benefits attributed to service to date but also for those expected to be earned in the future.

## ● Intangible Assets

The excess of cost over carrying value of net assets acquired is being amortized on a straight-line basis over a forty-year period. The cost of patents acquired in connection with business acquisitions is amortized on a

straight-line basis over the remaining economic life of the respective patents, but in no event longer than the remaining legal life.

**Illustrative Note: Restricted Cash**

At December 31, 19X1 and 19X0, cash in the amount of \$XX,XXX and \$XX,XXX, respectively, was restricted as to use. The amounts represent unexpended proceeds from industrial revenue obligations, which may be used only for the purchase of additional equipment.

**Illustrative Note: Marketable Securities**

Gross unrealized gains and losses on non-current marketable securities were as follows:

	<u>19X1</u>	<u>19X0</u>
Gross unrealized gains .....	\$XX,XXX	\$XX,XXX
Gross unrealized losses .....	\$XX,XXX	\$XX,XXX

Net realized gains of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 realized on the sale of marketable securities are included in the determination of net income. The cost of the securities sold was determined on the specific identification basis. Subsequent to December 31, 19X1, the Company had realized gains of \$XX,XXX before income taxes on the sale of marketable securities. The valuation allowance included in stockholder's equity increased \$XX,XXX during 19X1 and decreased \$XX,XXX during 19X0.

The current and non-current portfolios of marketable securities are each stated at the lower of aggregate cost or market value at the balance sheet date and consist of common and preferred stocks and notes. Dividend and interest income are accrued as earned.

**Illustrative Note: Imputation of Interest on Note Receivable**

The Company's note receivable is described below.

	<u>19X1</u>	<u>19X0</u>
X% note, \$XX,XXX due monthly through June 30, 19X8 .....	\$XX,XXX	\$XX,XXX
Less unamortized discount based on imputed interest of X% .....	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less current portion .....	XX,XXX	XX,XXX
Note receivable long-term .....	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

**Illustrative Note: Inventories**

Inventories at December 31, 19X1 and 19X0 consist of the following:

	<u>19X1</u>	<u>19X0</u>
Raw materials .....	\$XX,XXX	\$XX,XXX
Work in process .....	XX,XXX	XX,XXX
Finished goods .....	XX,XXX	XX,XXX
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>



**Illustrative Note: Prepayments and Other Current Assets**

The components or prepayments and other current assets are summarized below at December 31, 19X1 and 19X0:

	<u>19X1</u>	<u>19X0</u>
Prepaid Insurance .....	\$ X,XXX	\$ X,XXX
Supplies & Maintenance Contracts .....	XXX	XXX
Other .....	XXX	XXX
Total Prepayments and Other Assets .....	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

**Illustrative Note: Property, Plant and Equipment**

Major classifications of property, plant and equipment and their respective lives are summarized below:

	December 31		
	<u>19X1</u>	<u>19X0</u>	<u>Depreciable Lives</u>
Land .....	\$XX,XXX	\$XX,XXX	
Building .....	XX,XXX	XX,XXX	25 Years
Furniture & Equipment .....	XX,XXX	XX,XXX	5—10 Years
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	
Accumulated Depreciation .....	X,XXX	X,XXX	
Net Property, Plant and Equipment .....	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	

Property, plant and equipment includes capitalized lease obligations of \$XX,XXX and \$XX,XXX and related accumulated depreciation of \$XXX and \$XXX at December 31, 19X1 and 19X0, respectively.

**Illustrative Note: Cash Value Officer's Life Insurance**

The company maintains life insurance policies on certain of its officers and employees. The policies are of two types, split-dollar insurance and key-man insurance. Under the split-dollar insurance, the Company pays the premium and receives, upon termination of the policy or the death of the insured, the cash surrender value of the policy and the insured designates a beneficiary to receive the balance of benefits paid. Under the key-man insurance, the Company receives the cash surrender value, if the policy is terminated, or receives all benefits payable upon the death of the insured.

**Illustrative Note: Intangible Assets**

Intangibles relate to businesses acquired and consist principally of the acquisition costs allocated to patents and to the difference between purchase price and fair value at date of acquisition of net tangible assets acquired (goodwill). At December 31, 19X1 and 19X0, unamortized costs allocated to patents were \$X,XXX and \$X,XXX, respectively.

Patent amortization was \$XXX in 19X1 and \$XXX in 19X0. Amortization of goodwill was \$XX in 19X1 and \$XX in 19X0.

**Illustrative Note: Short-term Obligations Expected to Be Refinanced**

At December 31, 19X1, \$XX,XXX of short-term obligations have been classified as long-term debt since the Company as of January 31, 19X2 has converted these obligations into notes under a revolving credit agreement with the bank. The notes bear interest at XX% over prime rate. The amount which can be borrowed under the agreement is subject to reduction in the event of certain other borrowings.

**Illustrative Note: Profit Sharing and Compensation Agreements**

The Company has a qualified profit-sharing plan. Annual contributions to the plan are made at the discretion of the Board of Directors. Provisions in the amount of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 were accrued and charged against income. The Company has adopted a key-employee performance incentive plan. Under the plan, income accrues to each key employee based upon the appreciation of the market value of the Company's common stock. In 19X1 and 19X0, \$X,XXX and \$X,XXX, respectively, were paid and charged against income.

**Illustrative Note: Long-term Leases**

All noncancelable leases have been categorized as capital or operating leases. The Company has leases for manufacturing plants, warehouses, administrative offices and machinery and equipment with terms (including renewal operations) ranging from one to fifty years. Under most leasing arrangements, the Company pays the property taxes, insurance, maintenance and expenses related to the leased property. Total rental expense under operating leases was \$XX,XXX in 19X1 and \$XX,XXX in 19X0.

Minimum future obligations on leases in effect at December 31, 19X1 are:

	<u>Total</u>	<u>Land &amp; Buildings</u>	<u>Machinery &amp; Equipment</u>	<u>Operating Leases</u>
19X2 .....	\$X,XXX	\$ XXX	\$ XXX	\$ X,XXX
19X3 .....	XXX	XXX	XXX	X,XXX
19X4 .....	XXX	XXX	XXX	X,XXX
19X5 .....	XXX	XXX	XXX	X,XXX
19X6 .....	XXX	XXX	XXX	X,XXX
Thereafter .....	XXX	XXX	XXX	X,XXX
Total Minimum Obligations .....	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$XX,XXX</u>
Less amount representing interest .....	XXX	XXX	XXX	
Present value of net minimum obligations .....	X,XXX	X,XXX	X,XXX	
Less current portion .....	XXX	XXX	XXX	
Long-term obligations .....	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>	

The present values of minimum future obligations shown above are calculated based on interest rates ranging from X% to XX%, with a weighted average of approximately X% determined to be applicable at the inception of the lease.

Interest expense on the outstanding obligations under capital leases was \$XXX in 19X1 and \$XXX in 19X0.

**Illustrative Note: Long-term Debt**

Long-term debt at December 31, 19X1 and 19X0, consists of the following:

	<u>19X1</u>	<u>19X0</u>
9% mortgage note payable in monthly installments of \$X,XXX (including principal and interest) to April 1, 19X9, collateralized by land and building .....	\$XX,XXX	\$XX,XXX
13% unsecured loan under credit agreement due in annual installments of \$XX,XXX plus interest on the unpaid balance to October 31, 19X5 .....	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less current portion .....	XX,XXX	XX,XXX
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

The provisions of the unsecured credit agreement require the prior written consent of the creditor for additional borrowings, sale of property and acquisitions of the Company's stock, and limit the payment of cash dividends. At December 31, 19X1, retained earnings of approximately \$XX,XXX were available for the payment of dividends and other purposes under the agreement. Long-term debt maturing in the next five years consists of:

19X2 .....	\$XX,XXX
19X3 .....	XX,XXX
19X4 .....	XX,XXX
19X5 .....	XX,XXX
19X6 .....	XX,XXX
Total .....	<u>\$XX,XXX</u>

**Illustrative Note: Income Taxes**

The components of the provision (credit) for income taxes are as follows:

<u>Year ended December 31,</u>	<u>19X1</u>	<u>19X0</u>
Current payable .....	\$ XXX	\$ XXX
Deferred .....	(X,XXX)	X,XXX
Deferred—applicable to the change in accounting principle .....	—	(X,XXX)
Adoption of SFAS No. 96—current year .....	(XXX)	—
Total provision (credit) for income taxes .....	<u>\$(X,XXX)</u>	<u>\$ X,XXX</u>

Certain items of income and expense are recognized in different years for financial reporting and income tax purposes. Deferred income taxes are provided in recognition of these temporary differences and are included in Other Liabilities. The items comprising the deferred tax provision are as follows:

<i>Year ended December 31,</i>	<i>19X1</i>	<i>19X0</i>
Difference in accrual/cash .....	\$(X,XXX)	\$ X,XXX
Provision for loan and lease losses .....	(X,XXX)	(X,XXX)
Change in method of reporting loan income .....	—	(XXX)
Difference in reporting depreciation .....	XXX	XXX
Lease financing transactions .....	X,XXX	X,XXX
Gain on sale of assets .....	(XXX)	—
Investment tax credits .....	(X,XXX)	—
Other—net .....	(XX)	(XX)
	<u>\$(X,XXX)</u>	<u>\$ X,XXX</u>

A reconciliation of the statutory Federal tax rate to the effective tax rate on pretax income is as follows:

<i>Year ended December 31,</i>	<i>19X1</i>	<i>19X0</i>
Statutory Federal tax rate .....	XX.X%	XX.X%
Tax-exempt income .....	(XX.X)	(XX.X)
Dividends received deduction .....	(X.X)	(X.X)
Interest to carry tax-exempt securities .....	X.X	X.X
Investment tax credits .....	(XX.X)	(X.X)
Effect of accounting change .....	(X.X)	—
State income taxes .....	(X.X)	—
Other—net .....	(.X)	(.X)
Total effective tax rate .....	<u>(XX.X)%</u>	<u>(XX.X)%</u>

At December 31, 19X1, there are approximately \$X,XXX of unused investment tax credits expiring in 20X2 available for tax purposes. In 19X1, the Company adopted Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes." The effect of adopting this statement in 19X1 on income from continuing operations was \$XXX or \$.XX per share. The effect on net income was \$X,XXX or \$.XX per share.

**Illustrative Note: Pension Plan**

Effective as of January 1, 19XX, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pension." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the Company's 19XX net income by \$X,XXX (\$.XX per share).

A summary of the plan's funding status and the amounts recognized in the consolidated balance sheet follows:

	<u>December 31</u>	
	<u>19X1</u>	<u>19X0</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 .....	\$ (XX,XXX)	(XX,XXX)
Projected benefit obligation for service rendered to date .....	(XX,XXX)	(XX,XXX)
Plan assets at fair value, primarily listed stocks and U.S. government securities .....	XXX,XXX	XXX,XXX
Plan assets in excess of benefit obligation .....	XX,XXX	XX,XXX
Unrecorded net loss (gain) from past experience different from that assumed and effects of changes in assumptions .....	XXX	XXX
Unrecognized net assets at January 1, 19X0 being recognized over XX years .....	(XX,XXX)	(XX,XXX)
Prepaid pension cost included in other assets .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

A summary of the components of income follows:

	<u>19X1</u>	<u>19X0</u>
Service cost-benefits earned during the year .....	\$ X,XXX	\$ X,XXX
Interest cost on projected benefit obligation .....	X,XXX	X,XXX
Actual return on plan assets .....	(X,XXX)	(X,XXX)
Net asset gain (loss) deferred for later recognition .....	(X,XXX)	(X,XXX)
Amortization of unrecognized net asset .....	(X,XXX)	(X,XXX)
Net periodic pension income .....	<u>\$(X,XXX)</u>	<u>\$(X,XXX)</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were X% and X%, respectively. The expected long-term rate of return of assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump-sum payments for certain terminated participants. As a result, the Company recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

#### **Illustrative Note: Stock Options**

The Company's qualified and incentive stock option plans reserve X,XXX shares of common stock at December 31, 19X1 and X,XXX shares at December 31, 19X0 for issuance to officers and employees at fair market value at the date of grant. The options are exercisable over a 5-year period. Options to purchase XX,XXX shares and XX,XXX shares were available for grant at December 31, 19X1 and 19X0, respectively. Other options activity was as follows:

	December 31	
	19X1	19X0
Outstanding at beginning of year .....	XX,XXX	XX,XXX
Exercised .....	X,XXX	X,XXX
Cancelled .....	XXX	XXX
Outstanding at end of year .....	X,XXX	X,XXX
Exercisable at end of year .....	X,XXX	X,XXX
Price range of options outstanding .....	\$X.XX—X.XX	\$X.XX—X.XX
Price range of options exercised .....	\$X.XX—X.XX	\$X.XX—X.XX

**Illustrative Note: Common Stock Split**

In September 19X1, the Board of Directors authorized a two-for-one stock split of common shares effected in the form of a stock dividend in November 19X1. All earnings per common share amounts, dividend and market prices per common share included in this report have been adjusted for the stock split. An amount equal to the \$X par value of the additional common shares has been transferred from additional paid-in capital to common stock; and common stock options outstanding, exercised and expired have been increased two-for-one and the exercise price reduced by one-half. In connection with the stock split, XX common shares were cancelled as a result of the payment of cash in lieu of fractional shares.

**Illustrative Note: Interest Costs**

The Company capitalizes interest costs related to the construction of building and equipment for its own use.

A summary of costs is shown below:

	19X1	19X0
Total interest cost incurred .....	\$ XX,XXX	\$ XX,XXX
Interest capitalized .....	(XX,XXX)	(XX,XXX)
Interest charged to expense .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

**Illustrative Note: Related Party Transactions**

Mr. A, a director and officer of the Company, is a partner in the law firm of A & B. The statements of income for 19X1 and 19X0 include \$XX,XXX and \$XX,XXX, respectively, for legal services rendered by A & B. Accounts payable at December 31, 19X1 include \$XX,XXX payable to A & B, which will be paid in the normal course of business.

**Illustrative Note: Major Supplier**

A material amount of the Company's raw materials inventory is acquired from a few suppliers, the loss of any one of which may have an adverse effect on the Company. If the Company were forced to change suppliers, it would incur substantial transportation costs for raw materials which would be difficult to pass along to customers.

For the year ended December 31, 19X1, one supplier accounted for \$XX,XXX of raw materials purchased; for the year ended 19X0, one supplier accounted for \$XX,XXX of raw materials purchased. Although there are no formal long-term supply agreements with these suppliers, the Company has done business with them for a minimum of five years.

**Illustrative Note: Contingencies**

There are claims and actions pending against the Company. In the opinion of management, the amounts, if any, which may be awarded in connection with these claims and actions would not be material to the Company's financial position.

**Illustrative Note: Subsequent Events**

On January 20, 19X2 the Company executed a \$XX,XXX unsecured loan agreement with the Bank. The loan is due in 19X8. Interest is payable monthly at a rate of X% above the Bank's prime rate. The Company is required to maintain a minimum working capital of \$XX,XXX to be in compliance with the loan agreement.

**Illustrative Note: Discontinued Operations—Subsequent Event**

On December X, 19X1, the Board of Directors authorized the sale of the Company's XX subsidiary, which manufactures and sells X. On January X, 19X2, the Company sold this subsidiary for \$XX,XXX. The pre-tax gain on the sale of this business segment of approximately \$X,XXX will be recognized in the Company's first quarter 19X2 financial statements. Net revenues of XX were \$X,XXX and \$X,XXX for 19X1 and 19X0, respectively. Amounts in the consolidated income statement for the years 19X0 and 19X9 have been restated to conform to the 19X1 discontinued operations presentation.

At December 31, 19X1 the component of total net assets of discontinued operations, which are included in the consolidated balance sheet, are as follows:

**Working Capital**

Cash .....	\$ XXX
Accounts and notes receivable—net .....	X,XXX
Inventories .....	X,XXX
Other current assets .....	X,XXX
Accounts payable .....	(X,XXX)
Short-term debt .....	(X,XXX)
Other accrued liabilities .....	(X,XXX)
Total working capital .....	<u>X,XXX</u>

**Noncurrent**

Fixed assets—net .....	X,XXX
Other assets .....	XXX
Long-term debt .....	(X,XXX)
Deferred income taxes .....	(XXX)
Total noncurrent .....	<u>X,XXX</u>
Total net assets of discontinued operations .....	<u><u>\$ X,XXX</u></u>

**Illustrative Note: Unusual Item**

The Company's main warehouse was destroyed by fire on September 3, 19X1. The gain, recorded as a separate item in the income statement, represents the difference between the insurance proceeds received and the depreciated cost of the assets.

# FSP Section 3000

## DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR STATE AND LOCAL GOVERNMENTAL UNITS

.01 These checklists and illustrative financial statements are not designed to be applied to the financial statements of colleges, universities, hospitals or nonprofit organizations.

.02 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members, these checklists and illustrative financial statements are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through Codification of Governmental Accounting and Financial Reporting Standards, Second edition (GASB), GASB Statement of the Government Accounting Standards Board No. 13 (Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, has not been included in the checklist due to its requirements effective for financial statements beginning after June 15, 1994 with early application not permitted), Audits of State and Local Governmental Units (AICPA), SAS No. 63, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. 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 and generally accepted auditing standards. A thorough knowledge of the provisions of “Codification of Governmental Accounting and Financial Reporting Standards (June 1987) and subsequent GASB pronouncements,” the U.S. General Accounting Office’s “Government Auditing Standards” (GAO’s Standards for Audit, 1988 Revision), and the AICPA’s “Audits of State and Local Governmental Units” (1986) as amended by Statement of Position 89-6 “Auditor’s Reports in Audits of State and Local Governmental Units is required for proper implementation of these checklists.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements being reviewed.
- These checklists and illustrative financial statements are applicable for audits done in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAGAS). They may require some modification for audits done in accordance with GAAS only.

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

---

[The next page is 3101.]



# FSP Section 3100

## Introduction

.01 An increasing number of state and local governments are preparing financial statements in conformity with generally accepted accounting principles (GAAP), and more of those statements are being audited in accordance with generally accepted auditing standards (GAAS). The increased demand for improved financial reporting has resulted in a number of recent significant changes in government financial reporting.

### Accounting Standards

.02 Since its establishment in 1984, the Governmental Accounting Standards Board (GASB) has been the primary source of generally accepted accounting principles for governments. According to SAS No. 52, "Omnibus Statement on Auditing Standards—1987" (*AICPA Professional Standards*, AU Sec. 411), statements and interpretations issued by the GASB are now recognized within category (a) as a source of established accounting principles, "Accounting principles promulgated by a body designed by the AICPA Council to establish such principles, pursuant to rule 203 (ET section 203.01) of the AICPA Code of Professional Conduct." Technical Bulletins issued by the GASB are included within category (b), "Pronouncements of bodies composed of expert accountants that follow a due process procedure, including a broad distribution of proposed accounting principles for public comment, for the intended purpose of establishing accounting principles or describing existing practices that are generally accepted". The GASB's first pronouncement, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, issued in June of 1984, endorsed prior statements and interpretations of the National Council on Government Accounting. This position was codified by GASB on November 1, 1984, with the publication of its *Codification of Governmental Accounting and Financial Reporting Standards*. GASB pronouncements issued after that date may alter, amend, supplement, revoke, or supersede the guidance in the Codification. The second edition of the Codification was issued in June 1987.

### Auditing Standards

.03 In 1972, the Comptroller General of the United States issued *Standards for Audit of Governmental Organizations, Programs, Activities and Functions* (Standards for Audit issued by the GAO (U.S. General Accounting Office)). Those standards were revised and reissued in 1981 and 1988 and are now referred to as *Government Auditing Standards*. These government auditing standards adopt and incorporate all of the existing AICPA's Statements on Auditing Standards for field work and reporting for financial statement and financial-related audits. Additionally, all future Statements are automatically included unless the General Accounting Office specifically excludes them by formal announcement. The additional governmental standards, beyond the generally accepted standards of the AICPA, relate principally to requirements for (a) performing reviews and tests for compliance with federal laws and regulations and including in a compliance report positive assurance on items tested and certain other compliance reporting requirements; (b) submitting a detailed report on the study and evaluation of internal accounting controls, which is not required by the AICPA's generally accepted accounting standards; and (c) stating the audit was performed in accordance with generally accepted government auditing standards.

.04 In April 1989, the AICPA issued Statement on Auditing Standards 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, to be effective for fiscal periods beginning on or after January 1, 1990. This SAS provides the standards for reporting on compliance and an explanation of "compliance" as the term is used in conjunction with (1) generally accepted auditing standards (the AICPA); (2) generally accepted government auditing standards (the GAO); and (3) the Single Audit Act (the Act of 1984 and OMB's Circular A-128, which is the implementing regulation for the Act).

.05 In 1979, the federal Office of Management and Budget (OMB) established a single audit concept for federally assisted programs by the issuance of attachment P to Circular A-102, the administrative guidelines for federal grants and contracts awarded to state and local governments. This concept was incorporated into law by the passage, in October, of the Single Audit Act of 1984. Later, in April 1985, OMB issued Circular A-128, "Audits of State and Local Governments," which superseded attachment P. Circular A-128 was issued as the implementing regulation for the Single Audit Act. The Act, along with Circular A-128, established more detailed auditing and reporting requirements for those governmental units receiving \$100,000 or more of federal assistance in any fiscal year.

## The Accounting System

.06 The accounting system of governments, unlike the private sector, is on a fund accounting basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. There are four governmental funds—general, special revenue, capital projects, and debt service funds; two proprietary funds—enterprise and internal service funds; one fiduciary fund—trust and agency fund; and two account groups—general fixed assets and general long-term debt account groups. Only the minimum number of funds consistent with legal and operating requirements should be established. Fixed assets related to specific proprietary funds or trust funds should be accounted for through those funds. All other fixed assets of a governmental unit should be accounted for through the general fixed asset account group. Long-term liabilities of proprietary funds and trust funds should be accounted for through those funds. All other unmatured general long-term liabilities of the governmental unit, including special assessment debt for which the government is obligated in some manner, should be accounted for through the General Long-Term Debt Account Group.

## Basis of Accounting

.07 Governments use the accrual or modified accrual basis of accounting as appropriate. Governmental funds use the modified accrual basis of accounting to recognize revenues and expenditures. Revenues are recognized in the accounting period in which they become available and measurable. Available means then due, or past due and receivable within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due. Property fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable. Fiduciary funds recognize revenues and expenses or expenditures on the basis consistent with the fund's accounting measurement objective. Nonexpendable trust and pension trust funds are accounted for on the accrual basis; expendable trust funds are accounted for on the modified accrual basis. Agency fund assets and liabilities are accounted for on the modified accrual basis.

## Budgeting

.08 An annual budget should be adopted by every governmental unit. The accounting system should provide the basis for appropriate budgetary control. A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

---

[The next page is 3201.]

# FSP Section 3200

## *Disclosure Checklists—General*

**Note 1:** These checklists cover GAAP disclosures applicable to general purpose financial statements (GPFS) and do not address additional disclosures applicable only to a comprehensive annual financial report (CAFR).

**.01** Many auditors and accountants find it helpful to use checklists as practice aids to prepare financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to a GASB or FASB Statement or Interpretation, an APB Opinion, or an AICPA Accounting Research Bulletin. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

**.03** Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in note" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklists.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

**.05** Determine whether any pronouncements issued after November 1, 1989 have a bearing on the financial statements considered.

**.06** Verify that all the comments and suggestions made by prior reviewers have been checked for current applicability or whether follow-up for the current year was advised. (This applies to in-house or external reviewers, e.g., GAO, etc.)

---

[The next page is 3301.]

# FSP Section 3300

## *Financial Section—Auditor's Report*

.01 These checklists have been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 3001 is incorporated herein by reference.

### .02 Explanation of references:

- GAGAS =** Generally accepted government auditing standards—Those auditing standards set forth in the publication "Government Auditing Standards," ("Yellow Book") issued by GAO, 1988 Revision
- GAO =** General Accounting Office
- SAS =** Statements on Auditing Standards
- (AU) =** Reference to section number in *AICPA Professional Standards* (Vol. 1) of SAS cited
- GASB =** *Codification of Governmental Accounting and Financial Reporting Standards*, second edition, by the Governmental Accounting Standards Board (revised June 1987)
- SFAS =** Statements of Financial Accounting Standards
- FASB =** Reference to FASB number in *Accounting Standards, Original Pronouncements* or to *Accounting Standards, Current Text*
- ASLGU =** Audit and Accounting Guide, AICPA, 1986, *Audits of State and Local Governmental Units*

### .03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
2. Does the report of the independent auditor precede the basic financial statements? [GASB 1, Sec. 2200.102 (GASB Cod. Sec. 2200.102)]	_____	_____	_____
3. Does the auditor's report:			
a. Adequately identify the governmental reporting entity? [GASB 1, Sec. 2100.122 (GASB Cod. Sec. 2100.122)]	_____	_____	_____
b. Cover all funds and account groups of the reporting entity and include both (a) the general purpose financial statements (GPFS) by fund type and account group and (b) combining statements by fund type and individual fund statements? [GASB 1, Secs. 2100.102, 2200.100 and .101 (GASB Cod. Sec. 2100.102, 2200.100 and .101)]	_____	_____	_____
c. Indicate that all includable component units have been audited? [ASLGU, Ch. 18, par. 29]	_____	_____	_____
d. Make reference to other auditors?	_____	_____	_____
e. If the answer to 3d is yes, is disclosure made of the magnitude of the financial statements audited by the other auditors, as well as identification of the fund types and account groups in which the amounts are included? [SAS 1, par. 543 (AU 543.03); SAS 58, par. 12 (AU 508.12); ASLGU, Ch. 18, par. 38]	_____	_____	_____

	Yes	No	N/A
f. Indicate, in the scope section, the division of responsibility between that portion of the work they conducted and that conducted by others, and the magnitude of the audit work completed by others when the auditors decided to rely on the work of others, but do not take full responsibility for that work? [GAGAS, Ch. 3, p. 16]	_____	_____	_____
g. Does the report cover the general purpose or component unit financial statements? ASLGU, Ch. 18, pars. 30—31]	_____	_____	_____
4. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 1, Sec. 220 (AU 220)]	_____	_____	_____
5. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08); ASLGU, Ch. 18, par. 27]	_____	_____	_____
6. Does the report include appropriate language in respect of the following:			
a. Report of a predecessor auditor for prior year has not been included with current comparative financial statements? [SAS 7 (AU 315); SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
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)]	_____	_____	_____
c. Comparative financial statements with differing opinions on individual financial statements? [SAS 58, pars. 74—76 (AU 508.74-76)]	_____	_____	_____
d. Does the report on the general purpose or component unit financial statements cover all the required matters concerning the financial position and results of financial operations of the entire governmental unit and, if applicable, changes in financial position for all proprietary and similar trust funds? [ASLGU, Ch. 18, par. 21]	_____	_____	_____
e. Does the wording of the report contain a statement that the audit was made in accordance with generally accepted government auditing standards as well as in accordance with generally accepted auditing standards? [GAGAS, Ch. 5, p. 1]	_____	_____	_____
f. If the report is on one basic financial statement, does the report indicate that there are no scope limitations? [SAS 58, par. 47 (AU 508.47)]	_____	_____	_____
g. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 9 and 27 (AU 504.14—17)]	_____	_____	_____
h. Is abuse or illegal acts that auditors become aware of covered in either the overall report or a separate report if including them in the overall report would compromise investigation or legal proceedings or otherwise preclude the report from being released to the public? [GAGAS, Ch. 7, p. 9]	_____	_____	_____
7. Has explanatory language been added to the standard auditor's report if:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 58, pars. 12 and 13 (AU 508.12—.13)]	_____	_____	_____
b. The financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles? [SAS 58, pars. 14 and 15 (AU 508.14—.15)]	_____	_____	_____

	Yes	No	N/A
c. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____
d. There is a substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 12 (AU 341.12)]	_____	_____	_____
e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
f. In an updated report on comparative financial statements the opinion(s) on the prior period(s) is different from the one(s) previously expressed? [SAS 58, pars. 77, 78 and 81—83 (AU 508.77—.78 and .81—.83)]	_____	_____	_____
g. Supplementary information required by the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB) has been omitted, the presentation of such information departs materially from FASB or GASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubts about whether the supplementary information conforms to FASB or GASB guidelines? [SAS 52, par. 2 (AU 558)]	_____	_____	_____
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8 (AU 550)]	_____	_____	_____
i. A matter regarding the financial statements needs to be emphasized? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
8. Has a qualified opinion or disclaimer of opinion been considered if:			
a. Scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 31, par. 22 (AU 326.23), SAS 58, pars. 40—44 (AU 508.40—.44)]	_____	_____	_____
b. As a result of the criteria established by GASB Cod. Sec. 2100, many governmental units' financial reports have been expanded to include component units that were previously reported separately. Where the financial statements of those units are unaudited, has the auditor's opinion on the general purpose financial statements been qualified or disclaimed, depending on the materiality of the unaudited component unit to the governmental unit's financial statements? [ASLGU, Ch.18, par. 37]	_____	_____	_____
9. If the auditor is engaged to audit the combining and individual fund and account group financial statements in addition to a GPFS or CUFS, does the auditor's opinion address each presentation as a primary statement? If supporting schedules accompany those financial statements, does the auditor's opinion state whether the information in those schedules is presented fairly in conformity with GAAP in all material respects in relation to the financial statements of each of the individual funds and account groups taken as a whole or disclaim an opinion on such information? [ASLGU, Ch. 18, par. 31]	_____	_____	_____
10. If additional information, including statistical data, accompanies the general purpose or component unit financial statements, does the auditor indicate in his report the degree of responsibility, if any, he is taking? [SAS 29, par. 5 (AU 551.05)]	_____	_____	_____
11. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present?			
a. Lack of conformity with generally accepted accounting principles (including inadequate disclosure)?	_____	_____	_____

	Yes	No	N/A
[SAS 32, par. 3 (AU 431.03); SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18 (AU 317.18)]	_____	_____	_____
b. The reporting entity has included some, but not all, component units in the reporting entity financial statements? [ASLGU, Ch. 18, par. 33]	_____	_____	_____
c. If financial statements for funds, fund types or account groups that should be included in the GPFS or CUPS (such as the general fixed assets account group or an enterprise fund) are omitted, has the auditor expressed a qualified or an adverse opinion because of a GAAP departure? [ASLGU, Ch. 18, par. 34]	_____	_____	_____
(1) Does the qualified or adverse auditor's report include an explanatory paragraph that describes the omitted fund or account group?	_____	_____	_____
(2) Does the explanatory paragraph disclose the effects on the financial statements, if reasonably determinable? [ASLGU, Ch. 18, par. 34]	_____	_____	_____
12. If the auditor did not follow an applicable standard, was the scope section of their report modified to disclose that the applicable standard was not followed, the reasons therefor, and the known effect not following the standard had on the result of the audit? [GAGAS, Ch. 5, p. 1-2]	_____	_____	_____
13. Where the circumstances are such that an oversight unit issues its separate component unit financial statements that exclude all other component units considered a part of the reporting entity, are the limitations of the financial statements clearly disclosed so as to prevent the misinterpretation that these are the complete financial statements of the reporting entity? [ASLGU, Ch. 18, par. 32]	_____	_____	_____
14. If the auditor has been engaged to audit financial statements of only a specified fund or group of funds that are not intended to present fairly financial position, results of operations, or changes in financial position of either the reporting entity or component unit in conformity with GAAP, does the auditor's report include a middle paragraph calling attention to the fact that the financial statements are not intended to present financial position and results of operations of the reporting entity or component unit? [ASLGU, Ch. 18, par. 35]	_____	_____	_____
15. If the independent auditor was engaged to audit financial statements presented in conformity with neither GAAP nor any other comprehensive basis of accounting, has the standard form of report been used and modified because of the departure from GAAP? [ASLGU, Ch. 18, par. 40]	_____	_____	_____
16. Where local or state governmental regulations require that larger CPA firms employ minority or smaller firms or both to participate in the audit, is the report on the examination signed by the individual or firm that has complied with GAAS and is in a position to justify being the only signatory of the report? [ASLGU, Ch. 18, par. 41; SAS No. 1, sec. 543, par. 4 (AU 543.04)]	_____	_____	_____
17. 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 and 71 (AU 508.39 and .71)]	_____	_____	_____
b. Is the reporting language clear and appropriate for the—			
(1) Qualified opinion? [SAS 58, pars. 38—66 (AU 508.38—.66)]	_____	_____	_____
(2) Adverse opinion? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
(3) Disclaimer of opinion? [SAS 58, pars. 70—72 (AU 508.70—.72)]	_____	_____	_____

	Yes	No	N/A
<b>18. Does the report include modification, if applicable, for the following:</b>			
<b>a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long-term investments?</b> [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
<b>b. Inadequate disclosure?</b> [SAS 58, par. 55 (AU 508.55)]	_____	_____	_____
<b>c. Client representations about related party transactions?</b> [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
<b>d. Client's refusal to provide written representation?</b> [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
<b>e. Limitations on scope of lawyer's response?</b> [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
<b>f. Unresolved matters involving specialists?</b> [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
<b>g. Financial statements materially affected by an irregularity?</b> [SAS 53, par. 26 (AU 316.26)]	_____	_____	_____
<b>h. Illegal acts by clients?</b> [SAS 54 (AU 317)]	_____	_____	_____
<b>i. Material misstatement of the financial statements?</b> [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
<b>j. Financial statements issued before the effective date of a Statement of Governmental Accounting and Financial Reporting Standards (GAFRS) or Statement of Financial Accounting Standards (SFAS) when disclosure is not made of the effect of a restatement which will be required in the future as a result of the GASB or FASB Statement?</b> [Interpretation 3 of SAS 1, sec. 410 (AU 9410.13—.15)]	_____	_____	_____
<b>19. Has a piecemeal opinion been avoided?</b> [SAS 62, par. 14 (AU 623.14); SAS 58, par. 73 (AU 508.73)]	_____	_____	_____
<b>20. For Special Reports, have the provisions of SAS Nos. 35 and 62 been complied with regarding:</b>			
<b>a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?</b> [SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
<b>b. Specified elements, accounts or items of a financial statement?</b> [SAS 62, pars. 11—18 (AU 623.11—.18); SAS No. 35 (AU 622)]	_____	_____	_____
<b>c. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements?</b> [SAS 62, pars. 19—21 (AU 623.19—.21)]	_____	_____	_____
<b>d. Financial presentations to comply with contractual agreements or regulatory provisions?</b> [SAS 62, pars. 22—30 (AU 623.22—.30)]	_____	_____	_____
<b>e. Financial information that requires a prescribed form of auditor's report?</b> [SAS 62, pars. 32—33 (AU 623.32—.33)]	_____	_____	_____
<b>21. Was additional explanatory language added to the Special Report in the following situations?</b>			
<b>a. If there has been a lack of consistency in accounting principles was an explanatory paragraph added to the report, following the opinion paragraph, that describes the change and refers to the note to the financial presentation (or specified elements, accounts, or items thereof) that discusses the change and its effect thereon?</b>	_____	_____	_____



	Yes	No	N/A
b. If the financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report, did the auditor add an explanatory paragraph after the opinion paragraph if the uncertainties are considered relevant to the presentation?	_____	_____	_____
c. If the auditor has substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements did the auditor add an explanatory paragraph after the opinion paragraph of the report only if the auditor's substantial doubt is relevant to the presentation?	_____	_____	_____
d. When the auditor decides to make reference to the report of another auditor as a basis, in part, for his or her opinion did he or she disclose that fact in the introductory paragraph of the report and refer to the report of the other auditor in expressing his or her opinion?	_____	_____	_____
e. If the auditor expresses an opinion on prior-period financial statements (or specified elements, accounts, or items thereof) that is different from the opinion he or she previously expressed on that same information did he or she disclose all of the substantive reasons for the different opinion in a separate explanatory paragraph preceding the opinion paragraph of the report? [SAS 62, par. 31 (AU 623.31)]	_____	_____	_____
22. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used? [SAS 62, par. 9 (AU 623.09)]	_____	_____	_____
23. Do the notes include a summary of significant accounting policies that discusses the basis of presentation and describes how that basis differs from generally accepted accounting principles? [SAS 62, par. 9 (AU 623.09)]	_____	_____	_____
24. When the financial statements prepared on an other comprehensive basis of accounting contain items that are the same or similar to those in financial statements prepared in conformity with generally accepted accounting principles were similar disclosures made? [SAS 62, par. 10 (AU 623.10)]	_____	_____	_____
25. Were disclosures made related to matters that are not specifically identified on the face of the financial statements, such as (a) related party transactions, (b) restrictions on assets and owners' equity, (c) subsequent events, and (d) uncertainties? [SAS 62, par. 10 (AU 623.10)]	_____	_____	_____
26. Does the report on compliance with laws and regulations cover the auditor's tests of compliance with laws and regulations and include all significant instances of noncompliance and abuse? [GAGAS, Ch. 5, p. 2 and Ch. 7, p. 7]	_____	_____	_____
27. Does the compliance report contain:			
a. A statement of positive assurance for those items which were tested for compliance and negative assurance on those items not tested?	_____	_____	_____
b. All material instances of noncompliance, and all instances or indications of illegal acts which could result in criminal prosecution? [GAGAS, Ch. 5, p. 2 and Ch. 7, p. 7; SAS 63, par. 18 (AU 801.18)]	_____	_____	_____
28. Does the report on compliance with laws and regulations conform to the provisions of SAS 63, par. 21? [SAS 63, par. 21 (AU 801.21)]	_____	_____	_____

	Yes	No	N/A
29. When the financial audit did not require tests of compliance with laws and regulations, did the report contain a statement that the auditor did not test for compliance with laws and regulations? [GAGAS, Ch. 5, p. 3]	_____	_____	_____
30. If the auditing procedures disclosed material instances of noncompliance, have the statements of positive and negative assurance been modified? [SAS 63, par. 24 (AU 801.24)]	_____	_____	_____
31. Does the qualified report include:			
a. The definition of material instances of noncompliance?	_____	_____	_____
b. An identification of material instances of noncompliance noted?	_____	_____	_____
c. A statement that the noncompliance noted was considered in forming an opinion on whether the entity's financial statements are presented fairly, in all material respects, in conformity with general accepted accounting principles? [SAS 63, par. 24 (AU 801.24)]	_____	_____	_____
32. If the report contains material instances of noncompliance, is a statement included about whether the misstatements have been corrected or a statement describing the effect of such misstatements on his or her report on the basic financial statements? [SAS 63, par. 25 (AU 801.25)]	_____	_____	_____
33. If the report contains immaterial instances of noncompliance are they reported in a separate communication to the audited entity? [SAS 63, par. 27 (AU 801.25)]	_____	_____	_____
34. If a separate letter describing immaterial instances of noncompliance has been issued, is the report that was prepared in accordance with paragraphs 21, 23 or 24 of SAS 63 modified to include a statement such as the following, "We noted certain immaterial instances of noncompliance that we have reported to the management of [name of entity] in a separate letter dated August 15, 19X1" ? [SAS 63, par. 27 (AU 801.27)]	_____	_____	_____
35. Does the auditor's report on internal control cover his understanding of the entity's internal control structure and the assessment of control risk made as part of a financial statement audit, or a financial related audit? [GAGAS, Ch. 5, p. 5]	_____	_____	_____
36. Does the report on the internal control structure include, as a minimum:			
a. The scope of the auditor's work in obtaining an understanding of the internal control structure and in assessing the control risk?	_____	_____	_____
b. The entity's significant internal controls established to ensure compliance with laws and regulations that have a material impact on the financial statements and results of the financial related audit?	_____	_____	_____
c. The reportable conditions, including the identification of material weaknesses, identified as a result of the auditor's work in understanding and assessing the control risk? [GAGAS, Ch. 5, pp. 5—6 and Ch. 7, p. 6]	_____	_____	_____
37. Does the report on the internal control structure comply to the provisions of SAS 63, par. 37? [SAS 63, par. 37 (AU 801.37)]	_____	_____	_____
38. If no reportable conditions were noted during the audit was a report in accordance with SAS 63, par. 39 issued? [SAS 63, par. 39 (AU 801.39)]	_____	_____	_____
39. If an audit was required by the Single Audit Act, does the auditor's report(s) include references to the GAO's Government Auditing Standards (1988 Revision), where required, and contain the following:			
(a) The auditor's report on an examination of the entity as a whole, or the department, agency, or establishment covered by the audit?	_____	_____	_____

	Yes	No	N/A
[ASLGU, Ch. 17, par. 28 and Ch. 23, par. 1]			
(b) The auditor's report on a supplementary schedule of the entity's Federal financial assistance programs, showing, at a minimum, total expenditures for each federal assistance program? [ASLGU, Ch. 17, par. 29 and Ch. 23, par. 1]	_____	_____	_____
(c) The auditor's report on internal controls (accounting and administrative) identifying:			
(i) The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that Federal programs are being managed in compliance with laws and regulations? [ASLGU, Ch. 21, par. 9]	_____	_____	_____
(ii) The controls that were evaluated? (Note: Controls over major federal programs must be studied and evaluated, no exceptions permitted.)	_____	_____	_____
(iii) The controls that were not evaluated?	_____	_____	_____
(iv) The material weaknesses identified as a result of the evaluation?	_____	_____	_____
(v) If applicable, the reasons why no study of internal controls was made? [ASLGU, Appendix E, OMB Circular No. A-128, item 13a(2)]	_____	_____	_____
40. If an entity falls under the Single Audit Act, for major programs, does the report on compliance with specific requirements comply with the provisions of SAS 63, par. 73? [SAS 63, par. 73 (AU 801.73)]	_____	_____	_____
41. If restrictions on the scope of an audit on compliance require the auditor to qualify or disclaim his or her opinion, are the reasons for such qualification or disclaimer described in the auditor's report? [SAS 63, par. 75 (AU 801.75)]	_____	_____	_____
42. If the auditor is disclaiming his or her opinion due to a scope limitation:			
a. Were the reasons indicated, in a separate paragraph, why the audit did not comply with generally accepted auditing standards, <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, or OMB Circular A-128?	_____	_____	_____
b. Did the auditor state that the scope of his or her audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Did the auditor disclose any reservations he or she had regarding compliance with applicable laws and reservations? [SAS 63, par. 77 (AU 801.77)]	_____	_____	_____
43. If an auditor expresses a qualified or adverse opinion due to noncompliance with requirements governing a major federal financial assistance program did the auditor state the basis for such an opinion in the report? [SAS 63, par. 78 (AU 801.78)]	_____	_____	_____
44. If an entity falls under the Single Audit Act, for major programs, does the report on compliance with general requirements comply with the provisions of SAS 63, par. 83? [SAS 63, par. 83 (AU 801.63)]	_____	_____	_____
45. If an entity falls under the Single Audit Act, for nonmajor programs does the report on compliance comply with the provisions of SAS 63, par. 87 (AU 801.87)? [SAS 63, par. 87 (AU 801.87)]	_____	_____	_____
46. When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal acts, or indications of such acts? [ASLGU, Ch. 23, par. 1; (AGAS, Ch. 5, pp 4—6)]	_____	_____	_____
47. If required by contractual obligations, were findings presented in accordance with the guidance in the GAO's Standards for Audit (1988 Revision) regarding reporting on performance audits? [GAGAS, Ch. 2, pp. 3—5]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
48. If the auditor is not able to follow an applicable standard and is not able to withdraw from an engagement, did the auditor disclose in the scope section of his report, the fact that an applicable standard was not followed, the reasons therefor, and the known effect not following the standard had on the results of the audit? [GAGAS, Ch. 3, p. 10]	_____	_____	_____
49. Was the determination that certain standards do not apply to the audit documented in the working papers? [GAGAS, Ch. 3, p. 10]	_____	_____	_____
50. Does the auditor’s report disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that affect the current audit objective? [GAGAS, Ch. 3, p. 16]	_____	_____	_____
51. Does the auditor’s report disclose audit scope impairments in the scope section of his report and the known effect it had on the results of the audit? [GAGAS, Ch. 3, p. 17]	_____	_____	_____

[The next page is 3401.]

# FSP Section 3400

## *Financial Section—Financial Statements*

.01 These checklists have been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 3001 is incorporated herein by reference.

.02 Explanation of references:

TPA =	Technical Practice Aids
ARB =	Accounting Research Bulletin
APB =	Accounting Principles Board Opinion
SFAS =	Statement of Financial Accounting Standards
SAS =	Statement on Auditing Standards
FASBI =	Financial Accounting Standards Board Interpretation
TB =	Technical Bulletin issued by the staff of the FASB <sup>1</sup>
(AC) =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
(AU) =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1) of SAS cited
OMB =	Office of Management and Budget Circular No. A-110
GPFS =	General Purpose Financial Statements
CAFR =	Comprehensive Annual Financial Report
ASLGU =	<i>Audits of State and Local Governmental Units</i> , AICPA, 1986
GASB =	Governmental Accounting Standards Board Statement
GASBI =	Governmental Accounting Standards Board Interpretations

.03 This checklist is organized into the following classifications:

- General
  - A. Titles and Memoranda
  - B. Significant Accounting Policies
  - C. Accounting Changes
  - D. Comparative Financial Statements
  - E. Financial Instruments
  - F. Nonmonetary Transactions
  - G. Contingencies and Commitments
  - H. Subsequent Events

---

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

- I. Related Party Transactions
- J. Component Units
- Combined Balance Sheet
  - A. Titles, References and Content
  - B. Cash and Investments
  - C. Notes and Accounts Receivable
  - D. Inventories
  - E. Fixed Assets
  - F. Lessors
  - G. Other Assets and Deferred Charges
  - H. Liabilities
  - I. Lessees
  - J. Other Liabilities and Deferred Credits
  - K. General Long-Term Debt
  - L. Fund Balance
- Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types (and Similar Trust Funds)
  - A. General
  - B. Property Taxes
  - C. Sales Taxes
  - D. Income Taxes
  - E. Grants, Entitlements or Shared Revenues
  - F. Expenditures
  - G. Related Party Transactions
  - H. Depreciation
  - I. Transfers
  - J. Operating Leases With Scheduled Rent Increases
- Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types
  - A. General
- Combined Statement of Revenues, Expenses, and Changes in Retained Earnings—All Proprietary Fund Types (and Similar Trust Funds)
  - A. General
  - B. Extraordinary Items

- C. Grants, Entitlements or Shared Revenues
- D. Interest
- E. Residual Equity and Operating Transfers
- F. Related Parties Transactions
- G. Depreciation
- H. Nonmonetary Transactions
- I. Gains on Sales of Securities
- J. Futures Contracts
- K. Research and Development Costs
- L. Changes in Fund Balances/Retained Earnings
- M. Segment Information
- Combined Statement of Cash Flows—All Proprietary Fund Types (and Similar Trust Funds)
  - A. Title
  - B. Format and Policy
  - C. Classification of Cash Receipts and Cash Payments
  - D. Content and Form
  - E. Noncash Investing, Capital, and Financing Activities
- Other Disclosures
  - I. Pension Disclosures
    - A. Pension Plans—Separately Issued PERS Reports
    - B. Pension Disclosures in Employer Financial Reports
    - C. Single Employer PERS Included as a Pension Trust Fund in the Employer Reporting Entity
    - D. Multi-Employer PERS Included as a Pension Trust Fund in the Employer Reporting Entity
    - E. Employers Contributing to Cost Sharing Multi-Employer PERS
    - F. Component Units' Pension Information in the Reporting Entity's Financial Reports
    - G. Noncontributing Employers
    - H. Unfunded Pension Arrangements
    - I. Reporting by Nonemployer Contributors
    - J. Defined Contribution Pension Information
  - II. Deferred Compensation Plans
  - III. Special Assessments
  - IV. Investments Accounted for by the Equity Method and Joint Ventures
  - V. Risk Financing and Related Insurance Issues

- A. Public Entity Risk Pools
- B. Entities Other Than Pools—General Principles
- C. Risk Retention by Entities Other Than Pools
- D. Entities Participating in Public Entity Risk Pools With Transfer or Pooling of Risk
- E. Entities Participating in Public Entity Risk Pools Without Transfer or Pooling of Risk
- F. Entities Other Than Pools—Insurance-Related Transactions
- G. Entities Providing Claims Servicing or Insurance Coverage to Others
- H. Entities Other Than Pools—Disclosures

VI. Postemployment Benefits Other Than Pension Benefits Disclosures

.04 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Titles and Memoranda</b>			
1. Are all financial statements titled properly? [GASB 1, Sec. 2200.106 (GASB Cod. Sec. 2200.106); SAS 14, par. 7 (AU 621.07)]	_____	_____	_____
2. If totals by account are presented in the General Purpose or Component Unit (Combined) Financial Statements, are totals noted as memoranda only? [GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113); ASLGU, Chap. 18, par. 9]	_____	_____	_____
<b>B. Significant Accounting Policies</b>			
1. Is a summary of significant accounting policies shown separately as a stand-alone summary? [GASB 1, Sec. 2300.108 (GASB Cod. Sec. 2300.108); APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. If the summary of significant accounting policies is shown separately as a stand-alone summary, has each page of the GPFS been referenced to the summary? [GASB 1, Sec. 2300.108 (GASB Cod. Sec. 2300.108)]	_____	_____	_____
3. Does the summary of significant accounting policies address the following:			
a. Criteria used to determine the scope of the reporting entity? [GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 2600.115 (GASB Cod. Sec. 2600.115)]	_____	_____	_____
b. Revenue and expenditure recognition policies (i.e., measurement focus and basis of accounting)? [GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1600.108 (GASB Cod. Sec. 1600.108)]	_____	_____	_____
c. Method of encumbrance accounting and reporting? [GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1700.130 (GASB Cod. Sec. 1700.130)]	_____	_____	_____
d. Policy with regard to reporting infrastructure assets, including budgetary accounting? [GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1400.109 (GASB Cod. Sec. 1400.109)]	_____	_____	_____
e. Policy with regard to capitalization of interest costs on fixed assets? [GASB 1, Sec. 2300.104a (GASB Cod. Sec. 2300.104a); GASB 1, Sec. 1400.111 (GASB Cod. Sec. 1400.111)]	_____	_____	_____
f. Description of the specific reasons for excluding any agencies or component units that meet the criteria in NCGA Statement No. 3? [GASB 1, Sec. 2100.121 and .122 (GASB Cod. Secs. 2100.121 and 122)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. The extent to which fixed asset costs have been estimated and the methods of estimation? [GASB 1, Sec. 1400.112 (GASB Cod. Sec. 1400.112); GASB 1, Sec. 2300.105n (GASB Cod. Sec. 2300.105n)]	_____	_____	_____
h. The use of the modified accrual basis for governmental fund types? [GASB 1, Sec. 1600.105 (GASB Cod. Sec. 1600.105)]	_____	_____	_____
i. Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends? [GASB 1, Sec. 2300.105s (GASB Cod. Sec. 2300.105s); GASB 1, Sec. 2600.113 (GASB Cod. Sec. 2600.113)]	_____	_____	_____
j. Have changes in the fiscal year-ends of component units included in the reporting entity been disclosed? [GASB 1, Sec. 2600.114 (GASB Cod. Sec. 2600.114)]	_____	_____	_____
k. Basis of presentation-fund accounting, including fund categories/generic fund types, account groups, total columns used in combined financial statements and the effects of component units with differing fiscal year-ends? [GASB Cod. Sec. 2300.601].	_____	_____	_____
l. The policy with regard to expenditure recognition of inventories; purchases or consumption method? [GASB 1, Sec. 1600.122a (GASB Cod. Sec. 1600.122a)]	_____	_____	_____
m. Policy with regard to vacation and sick leave? [GASB 1, Sec. C60 (GASB Cod. Sec. C60)]	_____	_____	_____
n. Policy with regard to investments? [GASB 3, (GASB Cod. Sec. I50)]	_____	_____	_____
<b>C. Accounting Changes</b>			
1. For an accounting change does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable?	_____	_____	_____
c. Effect on excess of revenues over expenses/expenditures, as appropriate? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, par. 11 (AC A06.112); APB 20, par. 16 (AC A06.112)]	_____	_____	_____
3. If appropriate, is the cumulative effect of an accounting change shown separately between the captions "extraordinary items" and "excess of revenues over (under) expenditures" ? [APB 20, pars. 18—26 (AC A06.114—.122 and E09.104)]	_____	_____	_____
4. Are the effects of changes in accounting estimate disclosed if they are material? [APB 20, pars. 31—33 (AC A06.130—.132)]	_____	_____	_____
5. If a change in reporting entity has occurred, have the financial statements and disclosures been made in accordance with APB 20, pars. 34 and 35? [APB 20, pars. 34 and 35 (AC A35.112—.113)]	_____	_____	_____
6. Is the nature of an error in previously issued financial statements and the effect of its correction on the excess of revenues over (under) expenditures before extraordinary items, and net income disclosed in the period in which the error was discovered and corrected? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____
7. For prior period adjustments:			
a. Is the resulting effects on the net income of prior periods disclosed in the financial statement for the year in which the adjustments are made?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For single period statements does the disclosure indicate the effects of such restatement on the balance of fund balance/retained earnings at the beginning of the period and on the excess of revenues over (under) expenditures of the immediately preceding period?	_____	_____	_____
c. If financial statements for more than one period are presented does the disclosure include the effects for each of the periods included in the statements? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
8. If the prior period adjustments pertain to years presented in a comparative operating statement as, for example, historical summaries of financial data, have they been reflected therein with appropriate disclosure? [APB 9, par. 27 (AC A35.108)]	_____	_____	_____
9. For interim financial reports regarding an adjustment related to prior interim periods of the current fiscal year, was the following disclosed:			
a. The effect on excess (deficiency) from continuing operations and excess (deficiency) for each prior interim period of the current fiscal year, and	_____	_____	_____
b. Excess (deficiency) from continuing operations and excess (deficiency) for each prior interim period restated. [SFAS 16, par. 15 (AC A35.111)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
<b>E. Financial Instruments</b>			
1. Does the entity have a financial instrument that is:			
a. Cash in banks or on hand, or	_____	_____	_____
b. Evidence of an ownership interest in an entity, or	_____	_____	_____
c. A contract that both:			
(1) Imposes on one entity a contractual obligation (liability)			
(i) To deliver cash or 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? [FASB 105, par. 6 (AC F25.106)]	_____	_____	_____
2. For financial instruments with off-balance risk (except for the instruments specifically excluded by the Statement), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument: <sup>2</sup>			

<sup>2</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____
3. For financial instruments with off-balance sheet risk (except as noted above in E.2.), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proven to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
4. Were disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), included in the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
<b>F. Nonmonetary Transactions</b>			
1. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114—.119)]	_____	_____	_____
2. Are nonmonetary assets recorded in the fund to which they relate at estimated fair value? [GASB 1, Sec. 1400.113 (GASB Cod. Sec. 1400.113)]	_____	_____	_____
3. If nonmonetary assets are donated to a governmental unit for use in general government activities, have they been recorded in the General Fixed Assets Account Group? [GASB 1, Sec. 1400.113 (GASB Cod. Sec. 1400.113)]	_____	_____	_____
4. If the donation of nonmonetary assets reduces the government's current or future expenditure requirements, has the governmental unit elected to report the donation in the appropriate fund as an "other financing use" and an "other financing source" of resources?	_____	_____	_____

Yes      No      N/A

[ASLGU, Ch. 9, par. 21]

**G. Contingencies and Commitments**

- |   |              |              |              |
|---|--------------|--------------|--------------|
| <p>1. Is disclosure made in governmental funds on the face of the financial statements or in the notes of the nature and amount of accrued loss contingencies necessary to keep the financial statements from being misleading showing the total claims and judgments determined for the year under FASB 5 "Accounting for Contingencies" less (plus) the amount recorded as long-term obligations in the General Long-Term Debt Account Group?<br/>[SFAS 5, par. 9 (AC C59.108); FASBI 14, pars. 3—7 (AC C59.124—.127); GASB 1, Sec. 1500.110 (GASB Cod. Sec. 1500.110); GASB 1, Sec. C50.112 (GASB Cod. Sec. C50.112)]</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>2. Where a loss pertains to proprietary funds, have the criteria of FASB 5 been followed without modification in making disclosures?<br/>[GASB 1, Sec. C50.115 (GASB Cod. Sec. C50.115)]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>3. For loss contingencies not accrued, do disclosures indicate:</p> <p style="margin-left: 20px;">a. Nature of contingency?</p> <p style="margin-left: 20px;">b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?<br/>[SFAS 5, par. 10 (AC C59.109 and C59.111); GASB 1, Sec. 1500.110 (GASB Cod. Sec. 1500.110)]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>4. Are guarantees of the entity, even if the possibility of default is remote, disclosed in the financial statements?<br/>[ASLGU, Ch. 11, par. 28]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>5. If the entity is assuming a moral obligation, is this disclosed in the financial statements?<br/>[ASLGU, Ch. 11, par. 28]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>6. With respect to no-commitment debt, is its existence disclosed in the financial statements?<br/>[ASLGU, Ch. 11, par. 28]</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>7. For unconditional purchase obligations not recorded on the purchaser's balance sheet, is the following disclosed:</p> <p style="margin-left: 20px;">a. The nature and term of the obligation(s)?</p> <p style="margin-left: 20px;">b. The amount of the fixed and determinable portion of the obligation(s) as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the five succeeding fiscal years?</p> <p style="margin-left: 20px;">c. The nature of any variable components of the obligation?</p> <p style="margin-left: 20px;">d. The amounts purchased under the obligation(s) (for example, the take-or-pay or throughput contract) for each period for which a Statement of Revenue and Expenditures is presented?<br/>[SFAS 47, par. 7 (AC C32.102)]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>8. Is disclosure made of conditions that raise a question about an entity's ability to continue in existence and viable plans to overcome these difficulties?<br/>[SAS 59, par. 10 (AU 340.10); ASLGU, Ch. 18, par. 18]</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>9. Encumbrances:<br/>Where appropriations lapse at year-end, even if encumbered, and the governmental unit intends to honor them, do the notes to financial statements disclose the outstanding encumbrances at year-end or is disclosure effected by reserving a portion of the fund balance?<br/>[GASB 1, Sec. 1700.129d (GASB Cod. Sec. 1700.129d)]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>10. If a governmental unit is prohibited by law from budgeting or appropriating property taxes recognized as revenue pursuant to GASB 1, Sec. P70.104, was disclosure made by a reservation of fund balance, and was this explained in the notes to financial statements?<br/>[GASB 1, Sec. P70.104 (GASB Cod. Sec. P70.104)]</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Where payments have been made to an internal service self-insurance fund to pay claims and judgments of governmental funds, and the claims were based on actuarially determined liabilities, have these transfers been classified as operating transfers and not as an expenditure of the insured fund? [GASB 1, Sec. C50.117 (GASB Cod. Sec. C50.117)]	_____	_____	_____
12. Have any amounts that were transferred which were in excess of the amount of the actuarially determined amount been classified as residual equity transfers? [GASB 1, Sec. C50.117 (GASB Cod. Sec. C50.117)]	_____	_____	_____
13. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, obligations of banks under standby letters of credit)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2—3 (AC C59.114)]	_____	_____	_____
14. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
15. Has disclosure been made of unused letters of credit, assets pledged as security for loans, working capital commitments, and dividend restructuring? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
16. Are disclosures made of any material violations of legal and contractual provisions? [GASB 1, Sec. 2300.104h (GASB Cod. Sec. 2300.104h)]	_____	_____	_____
<b>H. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, Secs. 560.03—.04, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, Secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09); GASB 1, Secs. 1500.110 and GASB 6, par. 13 (GASB Cod. Sec. 1500.110); GASB 1, Sec. 2300.104d (GASB Cod. Sec. 2300.104d)]	_____	_____	_____
<b>I. Related Party Transactions</b>			
1. Do lease arrangements exist between state and local governments and public authorities? [GASB 1, Secs. L20.123 and 2300.150f and g (GASB Cod. Secs. L20.123 and 2300.105f and g)]	_____	_____	_____
2. Have the nature and extent of leasing transactions with related parties been disclosed? [GASB 1, Sec. L20.123 (GASB Cod. Sec. L20.123); SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
3. Are the following disclosures made of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business:			
a. The nature of the relationship(s) involved?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which a Statement of Revenue and Expenditures is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amount of transactions for each of the periods for which Statements of Revenue and Expenditures are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104); SAS 45, pars. 11 (AU 334.11—.12)]	_____	_____	_____
<b>J. Component Units</b>			
1. If a component unit has adopted accounting principles that are not in conformity with governmental accounting and reporting standards but those principles are considered to be generally accepted and where the inclusion of the component unit would distort a fund type of the reporting entity, is the component unit presented in a separate column on the financial statements of the reporting entity as a discrete presentation? [GASB 1, Sec. 2600.109 (GASB Cod. Sec. 2600.109)]	_____	_____	_____
2. If the answer to I.1 is yes, do the accompanying notes to the financial statements clearly disclose the accounting policies of the component unit and the relationship of the component unit to the oversight unit? [GASB 1, Sec. 2600.109 (GASB Cod. Sec. 2600.109)]	_____	_____	_____
3. Do the notes to the reporting entity's financial statements disclose the component units that have been combined to form the reporting entity and the key decision criteria that were considered? [GASB 1, Sec. 2600.116 (GASB Cod. Sec. 2600.116)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Has financial information concerning each component unit, as well as the oversight unit, been provided in the notes to insure that the general purpose financial statements communicate the information that is necessary for fair presentation and is not readily apparent from, or cannot be included in, the statements themselves? [GASB 1, Sec. 2600.116 (GASB Cod. Sec. 2600.116)]	_____	_____	_____
5. Where separate component unit financial statements are issued, was disclosure made to clearly indicate that the component unit is an integral part of the reporting entity? [GASB 1, Sec. 2600.119 (GASB Cod. Sec. 2600.119)]	_____	_____	_____

**Combined Balance Sheet**

**A. Titles, References and Content**

1. Is a combined balance sheet presented for all fund types and account groups? [GASB 1, Sec. 2200.108 (GASB Cod. Sec. 2200.108)]	_____	_____	_____
2. Does the combined balance sheet have separate columns for each fund type and account group? [GASB 1, Sec. 2200.108 (GASB Cod. Sec. 2200.108)]	_____	_____	_____
3. Are the separate columns for each fund and/or account group properly captioned? [GASB 1, Sec. 2200.108 (GASB Cod. Sec. 2200.108)]	_____	_____	_____
4. Have special assessment funds been eliminated? [GASB 6, par. 13 (GASB Cod. Sec. S40.113)]	_____	_____	_____
5. Are long-term debt and fixed assets only reported in account groups, fiduciary or proprietary fund types? [GASB 1, Sec. 1400.102—.106 (GASB Cod. Sec. 1400.102—.106); GASB 1, Sec. 1500.102—.103 (GASB Cod. Sec. 1500.102—.103)]	_____	_____	_____

**B. Cash and Investments**

1. Are cash and investments segregated into individual funds? [ASLGU, Ch. 7, par. 7]	_____	_____	_____
2. If cash and investments are restricted to comply with legal or contractual requirements, are these amounts segregated? [ARB 43, Ch. 3A, par. 6 (AC B05.107); ASLGU, Ch. 7, par. 7]	_____	_____	_____
3. Are restrictions on cash and investments appropriately disclosed? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
4. Pooled Accounts			
a. If cash and investments are maintained in pooled accounts and a particular fund overdraws its share, is the overdraft reported as an interfund payable or receivable? [ASLGU, Ch. 7, par. 8]	_____	_____	_____
b. Is disclosure made of the method used to allocate income from investment or pooled cash? [ASLGU, Ch. 7, par. 9]	_____	_____	_____
5. Was the need to record losses due to a permanent decline in value considered? [ASLGU, Ch. 7, par. 9]	_____	_____	_____
6. Are material dollar amounts of held checks (checks on the bank reconciliation but not released until after the balance sheet date) reclassified as accounts payable? [TPA, Vol. 1, Sec. 2110.02]	_____	_____	_____
7. Cost and Market Value			
a. As of the date of each balance sheet presented, with respect to marketable securities owned, was disclosure made of the aggregate cost and market value (each segregated between current and noncurrent portfolios when a classified balance sheet is presented) with identification as to which is the carrying amount?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SFAS 12, par. 12 (I89.106)]			
b. Were the following disclosed as of the date of the latest balance sheet presented, segregated between current and noncurrent portfolios when a classified balance sheet is presented:			
(1) Gross unrealized gains representing the excess of market value over cost for all marketable equity securities in the portfolio having such an excess?	_____	_____	_____
(2) Gross unrealized losses representing the excess of cost over market value for all marketable equity securities in the portfolio having such an excess? [SFAS 12, par. 12 (AC I89.106b)]	_____	_____	_____
c. For each period for which an operating statement is presented, were the following disclosures made:			
(1) Net realized gain or loss included in the determination of income?	_____	_____	_____
(2) The basis on which cost was determined in computing realized gain or loss (that is, average cost or other method used)?	_____	_____	_____
(3) The change in the valuation allowance(s) that has been included in the equity section of the balance sheet during the period and, when a classified balance sheet is presented, the amount of such change included in the determination of income? [SFAS 12, par. 12 (AC I89.106c)]	_____	_____	_____
d. Where marketable securities are included in noncurrent assets in a classified balance sheet, is the valuation allowance shown separately? [SFAS 12, par. 11 (AC I89.105)]	_____	_____	_____
e. Where marketable securities are included in an unclassified balance sheet for proprietary fund types, is the valuation allowance shown separately? [SFAS 12, par. 11 (AC I89.105)]	_____	_____	_____
8. For Investments Including Repurchase Agreements			
a. Has disclosure been made in the notes to financial statements of the types of investments authorized by legal or contractual provisions? [GASB 3, par. 65 (GASB Cod. Sec. I50.161)]	_____	_____	_____
b. Is disclosure made of significant violations during the period of legal and/or contractual provisions for deposits and investments? [GASB 3, par. 66 (GASB Cod. Sec. I50.162)]	_____	_____	_____
c. If bank balances of deposits as of the balance sheet date are entirely insured or collateralized with securities held by the entity or by its agent in the entity's name, has this been disclosed? [GASB 3, par. 67 (GASB Cod. Sec. I50.163)]	_____	_____	_____
d. If the disclosure called for by paragraph 7c above was not made, has the following information been disclosed?			
(1) Carrying amounts of total deposits, if not separately displayed on the balance sheet?	_____	_____	_____
(2) The total bank balance classified in these three categories of credit risk:			
(a) Insured or collateralized with securities held by the entity or by its agent in the entity's name.	_____	_____	_____
(b) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.	_____	_____	_____
(c) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name) [GASB 3, par. 67 (GASB Cod. Sec. I50.163)]	_____	_____	_____
e. Are the carrying amount and market value of investments (including repurchase agreements) as of the balance sheet date disclosed in total and for each type of investment?	_____	_____	_____
f. Is the disclosure of the carrying amounts of investments broken down into the following three categories of credit risk:			



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) Insured or registered or securities held by the entity or its agent in the entity's name	_____	_____	_____
(2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name	_____	_____	_____
(3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name [GASB 3, par. 68 (GASB Cod. Sec. I50.164)]	_____	_____	_____
g. If unrealized investment losses in one or more component units or funds may not be apparent because of unrealized investment gains in the remaining funds, are the carrying amounts and market value of that unit's or fund's total investments disclosed? [GASB 3, par. 71 (GASB Cod. Sec. I50.167)]	_____	_____	_____
h. If there are outstanding commitments as of the balance sheet date to resell securities under yield maintenance repurchase agreements, have the market value and carrying amount as of the balance sheet date as well as a description of the terms of the agreement been disclosed? [GASB 3, par. 72 (GASB Cod. Sec. I50.168)]	_____	_____	_____
i. If uncollateralized deposits or uninsured, unregistered securities held by the counterparty, or by the trust department or agent not in the entity's name, significantly exceed the amounts in those categories as of the balance sheet date, is that fact disclosed? [GASB 3, par. 73 (GASB Cod. Sec. I50.169)]	_____	_____	_____
j. Does the entity disclose the types of investments made during the period but not owned as of the balance sheet date? [GASB 3, par. 74 (GASB Cod. Sec. I50.170)]	_____	_____	_____
k. Does the entity disclose losses recognized during the period resulting from default by counterparties to deposit or investment transactions and amounts recovered from prior-period losses if these are not shown separately on the operating statements? [GASB 3, par. 75 (GASB Cod. Sec. I50.171)]	_____	_____	_____
l. In connection with reverse repurchase agreements indicate if the following is disclosed:			
(1) For reverse repurchase agreements, other than yield maintenance agreements, which are outstanding as of the balance sheet date, has the credit risk related to the agreements been disclosed? [GASB 3, par. 78 (GASB Cod. Sec. R10.110)]	_____	_____	_____
(2) Was disclosure made for commitments as of the balance sheet date to repurchase securities under yield maintenance agreements including the market value as of the balance sheet date of the securities to be repurchased and a description of the terms of the agreements? [GASB 3, par. 79 (GASB Cod. Sec. R10.111)]	_____	_____	_____
(3) Is disclosure made for losses recognized during the period due to default by counterparties to reverse repurchase agreements and amounts recovered from prior period losses if not shown separately on the operating statement? [GASB 3, par. 80 (GASB Cod. Sec. R10.112)]	_____	_____	_____
<b>C. Notes and Accounts Receivable</b>			
1. Are notes or accounts receivable due from affiliated enterprises disclosed separately? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____
2. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Does the disclosure include the effective interest rate and face amount of the note? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
c. Is amortization of discount or premium reported as interest expense in the operating statement? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
3. Have related receivables and payables between what were previously separately reported governmental units, which are now included as component units of a reporting entity, been reclassified as amounts due to and due from other funds? [GASB 1, Sec. 2600.112 (GASB Cod. Sec. 2600.112)]	_____	_____	_____
4. If transactions between component units having different fiscal years result in inconsistencies in amounts reported as due to/due from, transfer to/transfer from etc., are the natures and amounts of such transactions disclosed in the notes to the financial statements? [GASB 1, Sec. 2600.114 (GASB Cod. Sec. 2600.114)]	_____	_____	_____
5. Are the amounts due to one fund from other funds, as well as the amounts owed to other funds, reflected in the fund accounts and in fund financial statements? Or are amounts being offset? [GASB 1, Sec. 1300.110 (GASB Cod. Sec. 1300.110)]	_____	_____	_____
6. Do the financial statements disclose the amount of interfund receivables and payables by fund? [ASLGU, Ch. 8, par. 21]	_____	_____	_____
7. Are property tax assessments recognized in the period levied provided the "available" criteria are met (then due, past due and receivable within the current period and collected within the current period or within 60 days thereafter)? [GASB 1, Sec. P70.103 (GASB Cod. Sec. P70.103)]	_____	_____	_____
8. Are property taxes receivable expected to be collected within 60 days following the current period? [GASB 1, Sec. P70.103 (GASB Cod. Sec. P70.103); ASLGU, Ch. 8, par. 11]	_____	_____	_____
9. Where the facts justify a period exceeding 60 days, has the governmental unit disclosed the period used and the justification for the recording practice used? [GASB 1, Sec. P70.103 (GASB Cod. Sec. P70.103); ASLGU, Ch. 8, par. 11]	_____	_____	_____
10. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
<b>D. Inventories</b>			
1. Have significant amounts of inventory been reported on the balance sheet? [GASB 1, Sec. 1600.122 (GASB Cod. Sec. 1600.122)]	_____	_____	_____
2. Has the basis for stating inventories been disclosed, including the method of determining cost? [ARB 43, Ch. 3A, par. 9 and Ch. 4, par. 15 (AC 178.120)]	_____	_____	_____
3. If substantial and unusual losses result from write-down to market values, have these been disclosed separately from other expenditures/expenses, e.g., cost of goods sold in the operating statement? [ARB 43, Ch. 4, par. 14 (AC I78.117)]	_____	_____	_____
<b>E. Fixed Assets</b>			
1. Are general fixed assets, other than those accounted for in the proprietary funds, trust or agency funds, accounted for in the General Fixed Asset Account Group rather than in the governmental funds? [GASB 1, Sec. 1400.106 (GASB Cod. Sec. 1400.106)]	_____	_____	_____
2. In connection with assets capitalized in the General Fixed Asset Account Group, were the following disclosures generally incorporated in the financial statements or the notes:			
a. Details of general fixed assets, such as land, buildings, and equipment?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The basis for carrying assets in the General Fixed Asset Account Group, for example, cost or estimated cost?	_____	_____	_____
c. Whether infrastructure assets are included or excluded from the General Fixed Assets Account Group?	_____	_____	_____
d. Whether depreciation is recorded in the General Fixed Assets Account Group and, if so, the depreciable lives and methods of computation?	_____	_____	_____
e. A reconciliation of changes in the General Fixed Assets Account Group during the year?	_____	_____	_____
f. Capitalization of interest during construction? (FASB Statement Nos. 34 and 62)	_____	_____	_____
g. Commitments under long-term construction projects?	_____	_____	_____
h. The status of capital grants?	_____	_____	_____
i. Pertinent data regarding capital and operating leases? [ASL GU, Ch. 9, par. 22]	_____	_____	_____
3. Regarding fixed assets, other than those pertaining to the proprietary funds or trust funds, have the following disclosures been made:			
a. A breakdown of fixed assets by major classes? [APB 12, par. 5 (AC D40.105b)]	_____	_____	_____
b. Changes in fixed assets by the various classes? [GASB 1, Sec. 2200.106b(4)(a) (GASB Cod. Sec. 2200.106b(4)(a))]	_____	_____	_____
c. The basis of donated fixed assets, which should be estimated fair market value at date of acquisition? [GASB 1, Sec. 1400.113 (GASB Cod. Sec. 1400.113)]	_____	_____	_____
d. If recording accumulated depreciation in the General Fixed Assets Account Group was elected, was the accumulated depreciation account(s) increased and investment in general fixed assets account(s) decreased? [GASB 1, Sec. 1400.118 (GASB Cod. Sec. 1400.118)]	_____	_____	_____
e. A general description of the method or methods used in computing depreciation in the GFAAG with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105d)]	_____	_____	_____
4. Regarding proprietary funds, has depreciation expense been disclosed for the period? [APB 12, par. 5a (AC D40.105); GASB 1, Sec. 1400.115 (GASB Cod. Sec. 1400.115)]	_____	_____	_____
5. If interest has been incurred during the construction period of certain assets:			
a. Has the accounting policy for capitalization of interest cost been disclosed?	_____	_____	_____
b. Has this policy been consistently applied? [GASB 1, Sec. 1400.111 (GASB Cod. Sec. 1400.111)]	_____	_____	_____
6. Reporting public domain or infrastructure "fixed assets—roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the governmental unit—is optional." Has the accounting policy regarding those assets been consistently applied? [GASB 1, Sec. 1400.109 (GASB Cod. Sec. 1400.109)]	_____	_____	_____
7. Has the accounting policy for infrastructure fixed assets been disclosed in the notes to financial statements? [GASB 1, Secs. 1400.109 and 2300(a)(4) (GASB Cod. Secs. 1400.109 and 2300.104(a)(4))]	_____	_____	_____
<b>F. Lessors</b>			
1. For sales-type and direct financing leases do disclosures include:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in operations for each period for which a Statement of Revenues and Expenditures is presented? [SFAS 13, par. 23a (AC L10.119a)]	_____	_____	_____
d. For direct financing leases, the amount of initial direct costs as part of the investment? [SFAS 91, par. 25d (AC L10.119a.1)]	_____	_____	_____
<b>2. For operating leases do disclosures include:</b>			
a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented?	_____	_____	_____
b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
c. Total contingent rentals included in operations for each period for which a Statement of Revenues and Expenditures is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
<b>3. Do disclosures include a general description of the lessor's leasing arrangements?</b> [SFAS 13, par. 23c (AC L10.119c); for amendments of SFAS 13, see SFASs 22, 23, 27, 28, 29 and 98; for interpretations, see FASBIs 19, 21, 23, 24, 26 and 27; for Technical Bulletins, see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17 and 79-18]	_____	_____	_____
<b>4. Are leveraged leases appropriately accounted for and reported?</b> [SFAS 13, pars 41—47 (AC L10.143—.149)]	_____	_____	_____
<b>G. Other Assets and Deferred Charges</b>			
<b>1. Are the costs of intangible assets acquired from other entities recorded as assets?</b> [APB 17, pars. 24—26 (AC I60.105—.107)]	_____	_____	_____
<b>2. Are the costs of developing, maintaining or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred?</b> [APB 17, par. 24 (AC I60.105)]	_____	_____	_____
<b>3. Regarding proprietary funds, are issue costs of debt reported as deferred charges?</b> [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
<b>4. Regarding funds other than proprietary funds, are issue costs of debt charged to operations immediately?</b> [GASB 1, Sec. 1600.117 (GASB Cod. Sec. 1600.117)]	_____	_____	_____
<b>5. For proprietary funds, is the method and period of amortization for intangible assets disclosed?</b> [APB 17, pars. 30 and 33 (AC I60.111) and APB 22, par. 13 (AC A10.106)]	_____	_____	_____
<b>6. Are the reasons for not amortizing pre-November 1, 1970 intangibles and the amounts thereof disclosed?</b> [APB 17, par. 34 (AC I60.102b)]	_____	_____	_____
<b>7. Has the cash surrender value of life insurance been disclosed?</b> [ARB 43, Ch. 3a, par. 6 (AC B05.107); TB 85-4]	_____	_____	_____
<b>H. Liabilities</b>			
<b>1. Do financial statements disclose the nature of any restrictions on assets related to debt?</b> [ASLGU, Ch. 11, par. 27]	_____	_____	_____
<b>2. Were the following disclosures made related to debt:</b>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
● The nature of outstanding debt, including significant bond covenants?	_____	_____	_____
● Debt service requirements to maturity?	_____	_____	_____
● Details of capital leases?	_____	_____	_____
● Amounts of authorized but unissued debt?	_____	_____	_____
● Violations of significant bond covenants?	_____	_____	_____
● Nature and amount of guarantees, contingent and moral obligations, and no-commitment debt?	_____	_____	_____
● Changes in the amount of long-term obligations?	_____	_____	_____
● The amount of unpaid debt that has been defeased?	_____	_____	_____
● Debt incurred subsequent to the balance sheet date but before the financial statements are issued?	_____	_____	_____
● An existing or anticipated inability to pay debt when due? [ASLGU, Ch. 11, par. 27]	_____	_____	_____
3. Do governmental fund balance sheets reflect only the current portion of the liabilities left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources? [GASB 1, Sec. C50.113 (GASB Cod. Sec. C50.113)]	_____	_____	_____
4. Are only current liabilities, commonly referred to as fund or short-term liabilities, reported on the governmental fund balance sheets? [ASLGU, Ch. 10, par. 17]	_____	_____	_____
5. Do the financial statements disclose the following:			
a. Basis of accounting for expenditures and liabilities, for example, modified accrual accounting?	_____	_____	_____
b. Method of accounting for outstanding encumbrances at year-end?	_____	_____	_____
c. Disclosure of contingent liabilities? [ASLGU, Ch. 10, par. 18 and Ch. 17, par. 13, and GASB 1, Sec. 2300.104 (GASB Cod. Sec. 2300.104)]	_____	_____	_____
6. Have significant categories been classified and segregated, e.g., accounts payable; accrued costs; notes; customer deposits; interest payable; amounts due to other funds or governments; officers or employees; special termination benefits? [GASB 1, Sec. 1800.114—.120 (GASB Cod. Sec. 1800.114—.120)]	_____	_____	_____
7. Have amounts payable from restricted assets been separately disclosed and properly classified, e.g.: Construction contracts? Revenue Bonds? Fiscal Agent? Deposits? Accrued interest? [GASB Cod. Sec. 2200.603]	_____	_____	_____
8. For convertible debt, if applicable, are conversion features appropriately accounted for and disclosed? [APB 14, pars. 12 and 16—18 (AC D10.103 and D10.105—.107)]	_____	_____	_____
9. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8—14 (AC B05.112—.116); FASBI 8 (AC B05.117 and B05.138—.139)]	_____	_____	_____
10. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501—.503)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. For governmental funds, if all legal steps have been taken to refinance bond anticipation notes and the intent is supported by an ability to consummate refinancing of the short-term note on a long-term basis in accordance with FASB 6, are they shown as part of the GLTDAG? [GASB 1, Sec. B50.101 (GASB Cod. Sec. B50.101)]	_____	_____	_____
12. Are demand bonds reported as general long-term debt or excluded from current liabilities of proprietary funds if the following conditions are met:			
a. Before the financial statements are issued, the issuer has entered into an arm's-length financing (take out) agreement to convert bonds "put" but not resold into some other form of long-term obligation?	_____	_____	_____
b. The take out agreement does not expire within one year from the date of the issuer's balance sheet?	_____	_____	_____
c. The take out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take out agreement are not callable by the lender during that year?	_____	_____	_____
d. The lender or the prospective lender or investor is expected to be financially capable of honoring the take out agreement? [GASBI 1, par. 10 (GASB Cod. Sec. D30.108)]	_____	_____	_____
13. If the conditions in 12 above are not met, are they reported as fund liabilities or, for proprietary funds, as current liabilities?	_____	_____	_____
14. In addition to debt disclosures required by GASB Cod. Sec. 2300, are the following disclosures made for demand bonds outstanding:			
a. A general description of the demand bond program?	_____	_____	_____
b. Terms of any letters of credit or other standby liquidity agreements outstanding, commitment fees to obtain the letters of credit, and any amounts drawn on them outstanding as of the balance sheet date?	_____	_____	_____
c. A description of the take out agreement including its expiration date, commitment fees to obtain the agreement, and the terms of any new obligations under the take out agreement?	_____	_____	_____
d. The debt service requirements that would result if the take out agreement were to be exercised? [GASBI 1, par. 11 (GASB Cod. Sec. D30.109)]	_____	_____	_____
15. If a take out agreement has been exercised converting the bonds to an installment loan, is the installment loan reported as general long-term debt and the payment schedule under the installment loan included as part of the schedule of debt service requirements to maturity, as required by Section 2300, paragraph 104i? [GASBI 1, par. 12 (GASB Cod. Sec. D30.110)]	_____	_____	_____
16. If the conditions of paragraph .12 are not met at the time a demand bond is issued (or prior to issuance of the financial statements for that year), is the liability for demand bonds reported as a liability of the fund used to account for the proceeds of the bond issue? [GASBI 1, par. 13 (GASB Cod. Sec. D30.111)]	_____	_____	_____
17. If, because a take out agreement expires, it is necessary to report a fund liability for demand bonds previously reported as general long-term debt, is the liability recorded as a liability of the fund in which the proceeds of the issue were initially recorded with a corresponding debit to "other financing uses." [GASBI 1, par. 13 (GASB Cod. Sec. D30.111)]	_____	_____	_____
18. If the answer to numbers 16 or 17 above is yes, are debt redemptions reported as expenditures of the fund from which debt service is normally paid and the liability (represented by the demand bonds) reduced simultaneously by a credit to "other financing sources." [GASBI 1, par. 13 (D30.111)]	_____	_____	_____
19. For periods after a troubled debt restructuring, do disclosures include:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
20. Where the reporting entity is a creditor, have the disclosures regarding troubled debt restructurings been made in accordance with paragraph No. 27 of FASB 15? [SFAS 15, par. 27 (AC D22.123)]	_____	_____	_____
21. Has debt, as required, been considered extinguished for financial reporting purposes because			
a. The debtor pays the creditor and is relieved of all its obligations with respect to the debt. This includes the debtor's reacquisition of its outstanding debt securities in the public securities market, regardless of whether the securities are cancelled or held as so-called treasury bonds.	_____	_____	_____
b. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?	_____	_____	_____
c. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A); GASB 7, par. 3 (GASB Cod. Sec. D20.103)]	_____	_____	_____
22. If debt is considered to be extinguished [in an in-substance defeasance] under the provision of .102A(c) of SFAS 76, paragraph 6, has a general description of the transaction and the amount of debt that is considered extinguished at the end of the period been disclosed so long as that debt remains outstanding? [SFAS 76, par. 6 (AC D14.108); GASB 7, pars 1, 3 and 7 (GASB Cod. Sec. D20.101 and .102)]	_____	_____	_____
23. For proprietary and similar fund types, if there is an extinguishment of debt, is the difference between reacquisition price and carrying amount recognized currently in income and identified as a separate item? [GASB 1, Sec. D20.107 (GASB Cod. Sec. D20.107); APB 26, pars. 20—21; FASB 4, par. 1 (AC D14.103—.104)]	_____	_____	_____
24. If the difference is material is it disclosed as an extraordinary item? [SFAS 4, par. 8 (AC D14.107); GASB 1, Sec. D20.105—.107 (GASB Cod. Sec. D20.105—.107)]	_____	_____	_____
25. In an advance refunding resulting in a defeasance of debt, for governmental fund types, are the proceeds of the new debt reported as an "other financing source—proceeds of refunding bonds" in the fund receiving the proceeds? Are payments to the escrow agent from resources provided by the new debt reported as an "other financing use payment to refunded bond escrow agent"? [GASB 7, par. 8 (GASB Cod. Sec. D20.108)]	_____	_____	_____
26. Regardless of where the debt is reported, for a defeasance of debt through an advance refunding, was a general description provided of the transaction in the notes to the financial statements in the year of the refunding? [GASB 7, par. 11 (GASB Cod. Sec. D20.111)]	_____	_____	_____
27. At a minimum did the disclosures include:			
a. The difference between the cash flows required to service the new debt and complete the refunding, and	_____	_____	_____
b. The economic gain or loss resulting from the transaction? [GASB 7, par. 11 (GASB Cod. Sec. D20.111)]	_____	_____	_____
28. Were disclosures made by fund type and account group? [GASB 7, par. 13 (GASB Cod. Sec. D20.113)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
29. In all periods following an advance refunding for which debt defeased in substance remains outstanding, is the amount outstanding at period-end disclosed? [GASB 7, par. 14 (GASB Cod. Sec. D20.114)]	_____	_____	_____
30. Are long-term obligations that are or will be callable by the creditor because the debtor's violation of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, classified as current unless one of the following conditions is met:			
a. The creditor waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date?	_____	_____	_____
b. The obligation contains a grace period within which the debtor may cure the violation, is it probable that the violation will be cured within that period, thus preventing the violation from becoming callable? [SFAS 78, par. 5 (AC B05.109A and B05.118)]	_____	_____	_____
31. Has disclosure been made of defaults in provisions of security, indenture or credit agreements? [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
32. If a waiver has been obtained for a stated period of time, has disclosure been made of the period? [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
33. Are guarantees and other commitments included in liabilities? [ASLGU, Ch. 11, pars. 9—12]	_____	_____	_____
34. Does a note describe the accounting policies for recording such liabilities? [ASLGU, Ch. 11, par. 28]	_____	_____	_____
35. Have bonds, notes and other long-term liabilities (for example, for capital leases, pensions, judgments, compensated absences, special termination benefits, and similar commitments) directly related to and expected to be paid from proprietary funds, special assessment funds, and [certain] trust funds been included in the accounts of such funds? [GASB 1, Sec. 1500.102, as amended by GASB 6, par. 13 (GASB Cod. Sec. 1500.102)]	_____	_____	_____
36. Has one amount been disclosed on the balance sheet as the total liabilities for each fund type? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
<b>I. Lessees</b>			
1. For capital leases do disclosures include:			
a. Gross amounts of assets and the accumulated amortization recorded by major classes as of the date of each balance sheet presented?	_____	_____	_____
b. The lease obligations classified as current and long term? [SFAS 13, par. 16a (AC L10.112a(1)—(4)); GASB 1, Sec. L20.124 (GASB Cod. Sec. L20.124); ASLGU, Ch. 9, par. 22]	_____	_____	_____
c. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and L10.112a (1)—(4))]	_____	_____	_____
d. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a (1)—(4))]	_____	_____	_____
e. Total contingent rentals actually incurred for each period for which a Statement of Revenue and Expenditures is presented? [SFAS 13, par. 16a (AC L10.112a (1)—(4)), as amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?	_____	_____	_____
c. Have the nature and extent of leasing transactions with related parties been disclosed? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases do disclosures include: rental expense for each period for which an operating statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13, see SFASs 17, 22, 23, 27, 28, 29, 91 and 98; for interpretations, see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins, see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17, and 79-18]	_____	_____	_____
<b>J. Other Liabilities and Deferred Credits</b>			
1. Are estimated losses from loss contingencies accrued if both "probable" and the amount can be reasonably estimated as explained in SFAS 5? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and C59.124—.127); ASLGU, Ch. 4, par. 16, Ch. 10, par. 10, Ch. 17, par. 13; GASB 1, Sec. C50.110 (GASB Cod. Sec. C50.110)]	_____	_____	_____
2. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6—7 (AC C44.104 and C44.108); GASB 1, Sec. C50.112 (GASB Cod. Sec. C50.112)]	_____	_____	_____
a. Has the amount of the liability for compensated absences which will be liquidated with expendable available financial resources been recorded as current liabilities? [GASB 1, Sec. C50.113 (GASB Cod. Sec. C50.113)]	_____	_____	_____
b. Has the remainder of the liability in 2 above been recorded in GLTDAG? [GASB 1, Sec. C50.113 (GASB Cod. Sec. C50.113)]	_____	_____	_____
c. If the governmental unit has not accrued compensated absences because the amount cannot be reasonably estimated, has this been disclosed in the notes? [SFAS 43, pars. 6—7 (AC C44.104)]	_____	_____	_____
3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102); GASB 1, Sec. C60.103 (GASB Cod. Sec. C60.103); GASB 1, Sec. T25.102 (GASB Cod. Sec. T25.102)]	_____	_____	_____
4. Are the public employee retirement systems (PERS) considered to be part of the reporting entity? [GASB 1, Sec. Pe5.120 (GASB Cod. Sec. Pe5.120)]	_____	_____	_____
5. If the PERS is considered to be part of the reporting entity, have the PERS financial statements been incorporated into the annual financial statements of the state or local governmental entity? [GASB 1, Sec. Pe5.120 (GASB Cod. Sec. Pe5.120)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Is the employer reporting for the PERS in conformity with the specific requirements for multi-employer plans? [GASB 4, par. 8 (GASB Cod. Sec. P20.103)]	_____	_____	_____
7. If the PERS is not a multi-employer plan, is the disclosure in conformity with NCGA Statement 1, 6 or FASB Statement No. 35? [GASB 4, pars. 8 and 9 (GASB Cod. Sec. P20.103 and P20.104); GASB 5, par. 49 and GASB 1 (GASB Cod. Sec. Pe5.120 and Pe5.121)]	_____	_____	_____
8. Has disclosure been made to indicate whether state and/or local governmental employees, including proprietary and similar trust funds, have not changed their accounting and reporting of pension activities as a result of FASB Statement No. 87? [GASB 4, par. 10 and GASB 5, par. 4 (GASB Cod. Sec. P20.106)]	_____	_____	_____
9. If a change in method occurred, is the new actuarial method in conformity with APB Opinion No. 8, NCGA Statement 1 or NCGA Statement 6, and is it considered preferable for purposes of making an accounting change in accordance with APB Opinion No. 20, Accounting Changes? [GASB 4, par. 10, fn. 1 (GASB Cod. Sec. P20.106)]	_____	_____	_____
10. Indicate whether the employer has changed from one actuarial cost method to another during the period or fiscal period involved? [GASB 4, par. 10, fn. 1 (GASB Cod. Sec. P20.106)]	_____	_____	_____
<b>K. General Long-Term Debt</b>			
1. Are long-term liabilities of proprietary funds and trust funds accounted for through those funds? [GASB 1, Sec. 1500.101 (GASB Cod. Sec. 1500.101); GASB 1, Sec. 1500.102 as amended by GASB 6, par. 13 (GASB Cod. Sec. 1500.102)]	_____	_____	_____
2. Are other unmatured general long-term liabilities of the governmental unit accounted for through the General Long-Term Debt Account Group (GLTDAG)? [GASB 1, Sec. 1500.101 (GASB Cod. Sec. 1500.101); GASB 1, Sec. 1500.103; GASB 6, par. 17 and GASBI 1, par. 10 (GASB Cod. Sec. 1500.103)]	_____	_____	_____
3. Have the individual components of long-term debt been classified appropriately as term bonds, serial bonds, and other general long-term liabilities? [GASB 1, Sec. 1500.105 (GASB Cod. Sec. 1500.105)]	_____	_____	_____
4. For advance refundings resulting in defeasance of debt, was the GLTDAG adjusted for the increase or decrease in the amount of long-term debt? [GASB 7, par. 9 (GASB Cod. Sec. D20.109)]	_____	_____	_____
<b>L. Fund Balance</b>			
1. Is there a disclosure made of any deficit fund balance or deficit retained earnings of individual funds? [GASB 1, Sec. 2300.104o (GASB Cod. Sec. 2300.104o)]	_____	_____	_____
2. Has the designation "fund balance" only been used in appropriate fund types, i.e., General, Special Revenue, Debt Service, Capital Projects, and Trust Fund types? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
3. Have the fund balances (equity) of governmental funds been classified as either reserved or unreserved? [ASLGU, Ch. 12, par. 1]	_____	_____	_____
4. Have all changes in fund balances (equity) been disclosed? [APB 12, par. 10 (AC C08.102); ASLGU, Ch. 12, par. 11]	_____	_____	_____
5. Have any differences between opening fund balances and those previously reported been disclosed? [APB 9, par. 26 (AC A35.107); GASB 1, Sec. 2200.117 (GASB Cod. Sec. 2200.117)]	_____	_____	_____
6. Is the retained earnings reserve only shown in proprietary funds, such as Enterprise and Internal Service Funds?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[GASB 1, Sec. 2200.116 (GASB Cod. Sec. 2200.116)]			
7. Are contributed equity and retained earnings separately disclosed in proprietary fund types? [GASB 1, Sec. 2200.603 (GASB Cod. Sec. 2200.603)]	_____	_____	_____
8. Where certain proprietary assets net of related proprietary liabilities are restricted in the balance sheet, is there disclosure of a corresponding reserve in retained earnings? [GASB 1, Sec. 2200.603 (GASB Cod. Sec. 2200.603)]	_____	_____	_____

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types (and Similar Trust Funds)**

**A. General**

1. Is a combined statement titled "Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types" being presented? [GASB 1, Sec. 1900.112—.114 (GASB Cod. Sec. 1900.112—.114); GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
2. Is the primary classification of governmental fund revenues disclosed by fund and source? [GASB 1, Sec. 1800.114 (GASB Cod. Sec. 1800.114)]	_____	_____	_____
3. Does the summary of significant accounting policies indicate that the modified accrual basis is used for recording all material revenues for governmental and similar expendable trust and agency funds? [GASB 1, Sec. 1600.108 (GASB Cod. Sec. 1600.108)]	_____	_____	_____
4. Indicate whether the basis of accounting used for recording revenues is determined by the fund type in which the grant, entitlement or shared revenue transactions are recorded? [GASB 1, Sec. G60.103 (GASB Cod. Sec. G60.103)]	_____	_____	_____
5. Are the major sources of revenues separately disclosed, such as grants, entitlements and shared revenues, taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeits and miscellaneous? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
6. Has a separate column been used for each governmental fund type and similar trust fund used which shows the combined data for all such funds? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
7. If the combined statement contains a total column that aggregates the columnar statements by fund types and account groups, is it captioned "Memorandum Only" because the total column is not comparable to a consolidation? [ASLGU, Ch. 18, par. 9]	_____	_____	_____
8. Are interfund transfers and proceeds of long-term debt, including capital leases, classified separately from fund revenues and expenditures? [GASB 1, Sec. 1800.101 (GASB Cod. Sec. 1800.101); GASB 1, Sec. 1800.106—.110, as amended by GASB 6 (GASB Cod. Sec. 1800.106—.110)]	_____	_____	_____
9. Are any grants, entitlements and shared revenues, which may be used in more than one fund at the discretion of the recipient, accounted for in an agency fund pending final determination? [GASB 1, Sec. G60.107 (GASB Cod. Sec. G60.107)]	_____	_____	_____
10. Have those assets being held in agency funds pending a determination of the fund(s) to be financed been disclosed in the notes to financial statements? [GASB 1, Sec. G60.107 (GASB Cod. Sec. G60.107)]	_____	_____	_____

**B. Property Taxes**

1. Do the financial statements or the notes disclose that property taxes have been recorded on the modified accrual basis? [GASB 1, Secs. P70.102—.103 (GASB Cod. Sec. P70.102—.103)]	_____	_____	_____
--	-------	-------	-------

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If the governmental entity desires to exclude some property tax revenues from appropriation to protect cash liquidity, has this restricted revenue been disclosed by a designation of fund balance and an appropriate footnote? [GASB 1, Sec. P70.105 (GASB Cod. Sec. P70.105)]	_____	_____	_____
3. Have the following details of the governmental unit's property tax calendar been disclosed:			
a. Lien dates?	_____	_____	_____
b. Levy dates?	_____	_____	_____
c. Due dates?	_____	_____	_____
d. Collection dates? [GASB 1, Sec. P70.109 (GASB Cod. Sec. P70.109)]	_____	_____	_____
4. If a governmental unit is prohibited by law from budgeting or appropriating property taxes recognized as revenue pursuant to Section P70, GASB Cod., has such prohibition been disclosed by a reservation of fund balance and explained in the notes to financial statements? [GASB 1, Sec. P70.104 (GASB Cod. Sec. P70.104)]	_____	_____	_____
<b>C. Sales Taxes</b>			
1. For the entity being audited are sales tax revenues both measurable and available, i.e., collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period? [GASB 1, Sec. S10.101 (GASB Cod. Sec. S10.101)]	_____	_____	_____
2. If taxpayer liability has been established and collectibility is assured or losses can reasonably be estimated, have sales tax revenues been recorded on the modified accrual basis? [GASB 1, Sec. 1600.107 and fn. 1 (GASB Cod. Sec. 1600.107 and fn. 1)]	_____	_____	_____
3. If taxpayer liability and collectibility for sales taxes have clearly been established, as when tax returns have been filed, but collection, while assured, is delayed beyond the normal time of receipt, have these revenues been recognized as cash is received rather than recorded on the modified accrual basis? [GASB 1, Sec. S10.102 (GASB Cod. Sec. S10.102)]	_____	_____	_____
4. Have sales taxes collected by merchants which are not yet required to be remitted to the taxing authority at the end of the fiscal year not been accrued? [GASB 1, Sec. S10.103 (GASB Cod. Sec. S10.103)]	_____	_____	_____
5. Where sales taxes have been collected and held by one government agency for another at year-end, have these taxes been accrued if they are remitted in time to be used as a resource for payment of obligations incurred during the preceding fiscal year? [GASB 1, Sec. S10.103 (GASB Cod. Sec. S10.103)]	_____	_____	_____
6. <i>Early or Delayed Receipts.</i> Have material sales tax revenues, otherwise not recorded until they are received, been accrued if receipt is delayed beyond the normal time of receipt? [GASB 1, Sec. S10.104 (GASB Cod. Sec. S10.104)]	_____	_____	_____
7. Have material sales tax revenues received prior to normal time of receipt been recorded as deferred revenue? [GASB 1, Sec. S10.104 (GASB Cod. Sec. S10.104)]	_____	_____	_____
<b>D. Income Taxes</b>			
1. Have taxpayer assessed income and gross receipts taxes been recognized as cash is received even though the tax returns have been filed but collection, while assured, is delayed beyond the normal time of receipt? [GASB 1, Sec. 1600.110 (GASB Cod. Sec. 1600.110)]	_____	_____	_____
2. Have known refunds of income and gross receipts taxes been recorded as a liability and a reduction of revenue as of the time the refund claims are filed with the taxing authority? [GASB 1, Sec. 1600.110 (GASB Cod. Sec. 1600.110)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>E. Grants, Entitlements or Shared Revenues</b>			
1. <i>Basis of Accounting.</i> For governmental funds have grants, entitlements, or shared revenues been recognized as revenue in the accounting period when they become susceptible to accrual, i.e., both measurable and available (modified accrual basis)? [GASB 1, Sec. 2300.105L (GASB Cod. Sec. 2300.105L); GASB 1, Sec. G60.103 (GASB Cod. Sec. G60.103)]	_____	_____	_____
2. Has the basis of recording grants, entitlements or shared revenues been disclosed in the notes to financial statements? [GASB 1, Sec. 2300.105L (GASB Cod. Sec. 2300.105L)]	_____	_____	_____
3. Where such resources are restricted (more in form than in substance) as for example entitlements or shared revenues, has there been any failure on the part of the recipient to comply with prescribed regulations which would cause a forfeiture of the resources and has this been disclosed in the notes to financial statements? [GASB 1, Sec. G60.109 (GASB Cod. Sec. G60.109); GASB 1, Sec. 2300.105L (GASB Cod. Sec. 2300.105L)]	_____	_____	_____
4. Have entitlements or shared revenues been recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met? [GASB 1, Sec. G60.109 (GASB Cod. Sec. G60.109)]	_____	_____	_____
5. Has grant revenue been recognized when the respective expenditures were made? [GASB 1, Sec. G60.109 (GASB Cod. Sec. G60.109)]	_____	_____	_____
6. Have grant and entitlement receipts and outlays been classified as revenues and expenditures respectively? [GASB 1, Sec. G60.115 (GASB Cod. Sec. G60.115)]	_____	_____	_____
7. Has the method selected for recognizing profits under contracts been disclosed? [ARB 45, par. 15 (AC Co4.112); APB 22, par. 13 (AC A10.106); SOP 81-1, par. 21]	_____	_____	_____
8. If the percentage of completion method of accounting is being used by the entity, has disclosure been made of the method(s) of measuring extent of progress toward completion? [SOP 81-1, pars. 21, 25 and 45]	_____	_____	_____
9. Have claims in excess of the agreed contract price been disclosed? [SOP 81-1, pars. 65—67]	_____	_____	_____
<b>F. Expenditures</b>			
1. Are expenditures classified by function or program? [GASB 1, Sec. 1800.115 (GASB Cod. Sec. 1800.115)]	_____	_____	_____
2. Are these expenditures further classified by character, e.g., current capital outlays, and debt service? [GASB 1, Sec. 1800.118 (GASB Cod. Sec. 1800.118)]	_____	_____	_____
3. Has disclosure been made for the method utilized for the following:			
a. Have inventory items (materials and supplies) been considered expenditures either when purchased (purchase method) or when used (consumption method)? (Significant amounts of inventory should be reported in the balance sheet.) [GASB 1, Sec. 1600.122a (GASB Cod. Sec. 1600.122a)]	_____	_____	_____
b. Expenditures for insurance and similar services which extend over more than one accounting period need not be allocated between or among accounting periods, but may be accounted for as expenditures of the period of acquisition. Has the method followed been disclosed? [GASB 1, Sec. 1600.122b (GASB Cod. Sec. 1600.122b)]	_____	_____	_____
c. If interest expenditures on special assessment indebtedness approximately offsets interest earned on special assessment levies, have both been recorded when due rather than when earned. [GASB 1, Sec. S40.115 (GASB Cod. Sec. S40.115)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. If debt service fund resources have been provided during the current year for payment of principal and interest due early in the following year, have the expenditure and related liability been recognized in the debt service fund and has the debt principal amount been removed from the General Long-Term Debt Account Group or has disclosure of subsequent year debt service requirements been made and has the expenditure been accounted for in the year of payment? [GASB 1, Sec. 1600.121 (GASB Cod. Sec. 1600.121)]	_____	_____	_____
<b>G. Related Party Transactions</b> If applicable, have related party transactions been disclosed separately both as to revenue and related operating costs and expenditures? [SAS 45 (AU 1020.02); GASB 1, Sec. 2300.105f (GASB Cod. Sec. 2300.105f)]	_____	_____	_____
<b>H. Depreciation</b> Depreciation expense should not be recorded in governmental funds. Has this policy been followed in all governmental funds? [GASB 1, Sec. 1400.116 (GASB Cod. Sec. 1400.116)]	_____	_____	_____
<b>I. Transfers</b>			
1. Are residual equity transfers reported as additions to or deductions from the beginning fund balance? [GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]	_____	_____	_____
2. Are operating transfers reported in the "Other Financing Sources (Uses)" section in the statement? [GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]	_____	_____	_____
<b>J. Operating Leases with Scheduled Rent Increases</b>			
1. Are transactions which arise from operating leases with scheduled rent increases measured based on the terms of the lease contract when the pattern of the payment requirements, including the increases, is systematic and rational? [GASB 13, par. 5]	_____	_____	_____
2. If an operating lease with scheduled rent increases contains payment requirements in a particular year that are artificially low when viewed in the context of earlier or later payment requirements, are the operating lease transactions measured using either of the following methods:			
a. A straight-line basis over the lease term? or	_____	_____	_____
b. Based on the estimated fair value of the rental? [GASB 13, par. 6]	_____	_____	_____
3. If the method in No. "2.b." above is followed, is the implicit financing by the lessor of the lessee's cash flow accounted for using the interest method? (Interest should be calculated for each period so that it results in a constant rate of interest over the lease term on the period's outstanding accrued lease receivable or payable) [GASB 13, par. 6]	_____	_____	_____
4. Does the entity recognize rental revenue or expenditure/expense each period as it accrues over the lease term using the measurement criteria provided in Nos. "1.-3." above? [GASB 13, par. 7]	_____	_____	_____
5. If the fair-value measurement of No. "2.b." above is used, is the interest portion recognized as revenue (expenditure/expense) each period using the interest method? [GASB 13, par. 7]	_____	_____	_____

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types**

**A. General**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Has the combined statement been titled as shown above for the general fund and all special revenue funds and other governmental fund types for which annual budgets have been legally adopted? [GASB 1, Sec. 2400.102 (GASB Cod. Sec. 2400.102)]	_____	_____	_____
2. Has a column for each separate governmental fund type used been presented showing combined results for all funds of that type? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
3. If a total column is shown, is it captioned "Memorandum Only" because the total column on a combined financial statement is not comparable to a consolidation? [GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]	_____	_____	_____
4. Is there a note to the financial statements which discloses the nature of the column and explains that it does not present consolidated financial information? [GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]	_____	_____	_____
5. Is the budget prepared on a consistent basis in conformity with generally accepted accounting principles (GAAP)? [GASB 1, Sec. 2400.104 (GASB Cod. Sec. 2400.104)]	_____	_____	_____
6. However, if the legally prescribed budgetary basis differs materially from GAAP, has the budgetary data been compared with actual data on the budgetary basis (e.g., which may include encumbrances)? [GASB 1, Sec. 2400.104 (GASB Cod. Sec. 2400.104)]	_____	_____	_____
7. Have differences between the budgetary basis and GAAP (as well as other differences) been explained in the notes to financial statements? [GASB 1, Secs. 2400.104 and 2400.113—.123 (GASB Cod. Secs. 2400.104 and 2400.113—.123)]	_____	_____	_____
8. Do the notes to financial statements disclose the degree to which the reporting entity's financial operations are subject to a comprehensive "appropriated budget," "nonappropriated budget," or are nonbudgeted financial activities? [GASB 1, Sec. 2400.111 (GASB Cod. Sec. 2400.111)]	_____	_____	_____
9. When a separate budgetary report is prepared, do the notes to the general purpose financial statements make reference to that report? [GASB 1, Sec. 2400.112 (GASB Cod. Sec. 2400.112)]	_____	_____	_____

**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings—All Proprietary Fund Types (and Similar Trust Funds)**

**A. General**

1. Is a statement titled "Combined Statement of Revenues, Expenses, and Changes in Retained Earnings—All Proprietary Fund Types" presented? [GASB 1, Sec. 2200.109—.110 (GASB Cod. Secs. 2200.109—.110)]	_____	_____	_____
2. If material, are the variations between periods in the format of the statement of changes and in the terms used to express changes in financial position adequately disclosed in the financial statements and retroactively applied to all prior periods presented? [SAS 1 (AU 420.15)]	_____	_____	_____
3. If the disclosure and/or retroactive application in No. 2 above has not made, was this considered in the auditor's opinion regarding consistency? [SAS 1 (AU 420.15)]	_____	_____	_____
4. Does the statement include all proprietary fund types and similar trust funds? [GASB 1, Sec. 2200.129 (GASB Cod. Sec. 2200.129)]	_____	_____	_____
5. Is a separate column used for each proprietary fund type being used and does each column present combined data for such funds? [GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
6. If a total column is shown, is it captioned "Memorandum Only" and is there a note explaining that it does not present consolidated financial information? [GASB 1, Sec. 2200.113 (GASB Cod. Sec. 2200.113)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Are the major sources of operating and nonoperating revenues and expenses shown separately on the statement? [GASB 1, Sec. 1800.121 (GASB Cod. Sec. 1800.121)]	_____	_____	_____
8. Has disclosure been made regarding the entity's policy for recognizing proprietary and nonexpendable pension and trust funds revenues and expenses? [GASB 1, Sec. 1600.125 (GASB Cod. Sec. 1600.125)]	_____	_____	_____
9. If sales or revenues are made on the installment or other deferred basis has the method of recognizing income been disclosed? [GASB 1, Secs. 1600.116 and .125 (GASB Cod. Secs. 1600.116 and .125)]	_____	_____	_____
<b>B. Extraordinary Items</b>			
1. Has gain or loss resulting from an involuntary conversion of a nonmonetary asset to a monetary asset been classified as either an extraordinary item or an unusual or infrequent item, whichever is applicable? [FASBI No. 30, par. 4 (AC N35.118)]	_____	_____	_____
2. Was the following disclosure made for gains or losses from extinguishment of debt that are classified as extraordinary items:			
a. A description of the extinguishment transactions, including the sources of any funds used to extinguish debt if it is practicable to identify the sources? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
3. Regardless of where the debt is reported for an advance refunding, has a general description of the transaction been provided including, as a minimum:			
a. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding?	_____	_____	_____
b. The economic gain or loss resulting from the transaction? [GASB 7, par. 11 (GASB Cod. Sec. D20.111)]	_____	_____	_____
4. Have the following criteria for extraordinary items been considered:			
a. Have material events on transactions that are unusual in nature or occur infrequently but not both, and therefore do not meet both criteria for classification as an extraordinary item, been reported as a separate component of income from continuing operations? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
b. Have the nature and financial effect of each transaction or event been disclosed? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
c. In the absence of discontinued operations and changes in accounting principles, have the following main captions been disclosed where extraordinary items are reported:			
(1) Income before extraordinary items?	_____	_____	_____
(2) Extraordinary items? (Note X)	_____	_____	_____
(3) Net Income? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into the determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
6. Have all extraordinary items been segregated from results of ordinary operations? [APB 30, par. 10]	_____	_____	_____
7. For an adjustment of an extraordinary item reported in a prior period:			
a. Is the adjustment classified separately as an extraordinary item in the current period?	_____	_____	_____
b. Are the nature, origin and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Grants, Entitlements or Shared Revenues</b>			
1. Have grants, entitlements, or shared revenues received for proprietary fund operating purposes, or which may be utilized for either operations or capital expenditures at the discretion of the recipient government, been recognized as "nonoperating" revenues in the accounting period in which they are earned and become measurable (accrual basis)? [GASB 1, Sec. G60.110 (GASB Cod. Sec. G60.110)]	_____	_____	_____
2. When such resources in proprietary funds have been restricted for the acquisition or construction of capital assets, have the resources been recorded as contributed equity? [GASB 1, Sec. G60.110 (GASB Cod. Sec. G60.110)]	_____	_____	_____
3. Have grants, entitlements or shared revenues recorded in trust funds been recognized as revenues on a basis consistent with the fund's measurement objective (governmental or proprietary)? [GASB 1, Sec. G60.111 (GASB Cod. Sec. G60.111)]	_____	_____	_____
4. If the option was elected to show depreciation on grant and entitlement fixed assets as a reduction of the contributed capital account, was a corresponding amount shown after net income and labeled similar to "Add depreciation on fixed assets acquired by grants, entitlements, and shared revenues externally restricted for capital acquisitions and construction that reduces contributed capital"? [GASB 1, Sec. G60.116 (GASB Cod. Sec. G60.116)]	_____	_____	_____
<b>D. Interest</b>			
Has the following information with respect to interest cost been disclosed in the financial statements or related notes:			
1. For an accounting period in which no interest cost is capitalized, the amount of interest cost incurred and charged to expense during the period?	_____	_____	_____
2. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
<b>E. Residual Equity and Operating Transfers</b>			
1. Are residual fund transfers reported as additions to contributed capital or as reductions of retained earnings or contributed capital as appropriate in the circumstances? [GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]	_____	_____	_____
2. Are operating transfers reported in the "Operating Transfers Section" of the statement? [GASB 1, Sec. 1800.107 (GASB Cod. Sec. 1800.107)]	_____	_____	_____
<b>F. Related Party Transactions</b>			
Was disclosure made separately of material revenues and related costs and expenses in connection with transactions with related parties? [GASB 1, Sec. 2300.105f (GASB Cod. Sec. 2300.105f); SFAS 57, par. 2 (AC R36.102)]	_____	_____	_____
<b>G. Depreciation</b>			
Have the following disclosures been made in the financial statements or in notes thereto (depreciation is provided on property and equipment recorded in proprietary funds):			
1. Depreciation expense for the period?	_____	_____	_____
2. Balance of major classes of depreciable assets, by nature or function at the balance sheet date?	_____	_____	_____
3. Accumulated depreciation, either by major classes of depreciable assets or in total at the balance sheet date?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets? [GASB 1, Sec. 1400.114—.115 (GASB Cod. Sec. 1400.114—.115); APB 12, par. 5 (AC D40.105)]	_____	_____	_____
<b>H. Nonmonetary Transactions</b> If one or more nonmonetary transactions occurred during the period, was disclosure made in the financial statements of the nature of the transactions, the basis of accounting for the assets transferred, and gains or losses recognized on transfers? [APB 29, par. 28 (AC N35.120)]	_____	_____	_____
<b>I. Gains on Sales of Securities</b> For each period for which an income statement is presented has the following been disclosed:			
1. Net realized gain or loss included in the determination of net income?	_____	_____	_____
2. The basis on which cost was determined in computing realized gain or loss (that is, average cost or other method used)? [ASLGU, Ch. 7, par. 10; SFAS 12, par. 12 (AC I89.106)]	_____	_____	_____
<b>J. Futures Contracts</b> If the enterprise has entered into futures contracts that have been accounted for as hedges was the following disclosed:			
1. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
2. Method of accounting for the futures contracts? The disclosure of the method shall include a description of the events or transactions that result in recognition in income of changes in value of the futures contracts. [SFAS 80, par. 2 (AC F80.112)]	_____	_____	_____
<b>K. Research and Development Costs</b> Has disclosure been made in the financial statements of the total research and development costs charged to expense in each period for which an income statement is presented? [SFAS 2, par. 13 (AC R50.109)]	_____	_____	_____
<b>L. Changes in Fund Balances/Retained Earnings</b>			
1. Has disclosure been made of changes in all fund balances/retained earnings? [APB 12, par. 10 (AC Co8.102); GASB 1, Sec. 2200.110 (GASB Cod. Sec. 2200.110)]	_____	_____	_____
2. Where a difference exists between the opening fund balances/retained earnings and the ending balances/retained earnings previously reported, have these been disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
<b>M. Segment Information</b>			
1. Have segment disclosures been made for all "major nonhomogeneous" enterprise funds? [GASB 1, Sec. 2500.104 (GASB Cod. Sec. 2500.104)]	_____	_____	_____
2. If segment disclosures are necessary to make the general purpose financial statements (GPFS) not misleading have they been presented? [GASB 1, Sec. 2500.104 (GASB Cod. Sec. 2500.104)]	_____	_____	_____
3. Have the following segment disclosures necessary to make the financial statements not misleading been disclosed:			
a. Material intergovernmental operating subsidies to an enterprise fund?	_____	_____	_____
b. Material intragovernmental operating subsidies to or from an enterprise fund?	_____	_____	_____
c. Material enterprise tax revenues?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A material enterprise fund operating income or loss?	_____	_____	_____
e. A material enterprise fund net income or loss? [GASB 1, Sec. 2500.105 (GASB Cod. Sec. 2500.105)]	_____	_____	_____
4. Have the following disclosures been made for each "major nonhomogeneous" enterprise fund and in the aggregate for all other enterprise funds:			
a. Types of goods or services provided?	_____	_____	_____
b. Operating revenues (total revenues from sales of goods or services)? (Sales to other funds of the governmental unit, if material, should be separately disclosed.)	_____	_____	_____
c. Depreciation, depletion and amortization expenses?	_____	_____	_____
d. Operating income or loss (operating revenues less operating expenses)?	_____	_____	_____
e. Operating grants, entitlements, and shared revenues?	_____	_____	_____
f. Operating interfund transfers in and out?	_____	_____	_____
g. Tax revenues?	_____	_____	_____
h. Net income or loss (total revenues less total expenses)?	_____	_____	_____
i. Current capital contributions and transfers?	_____	_____	_____
j. Property, plant, and equipment additions and deletions?	_____	_____	_____
k. Net working capital (current assets less current liabilities)?	_____	_____	_____
l. Total assets?	_____	_____	_____
m. Bonds and other material long-term liabilities outstanding (amounts payable solely from operating revenues should be disclosed separately from amounts also potentially payable from other sources)?	_____	_____	_____
n. Total equity?	_____	_____	_____
o. Has disclosure been made of any other material facts necessary to make the GPFS not misleading? [GASB 1, Sec. 2500.107 (GASB Cod. Sec. 2500.107)]	_____	_____	_____

**Combined Statement of Cash Flows—All Proprietary Fund Types (and Similar Trust Funds)**

**A. Title**

1. Is the statement titled "Combined Statement of Cash Flows"? [GASB 9, par. 6]	_____	_____	_____
--	-------	-------	-------

**B. Format and Policy**

1. Is a statement of cash flows presented for each period for which results of operations are presented? [GASB 5, par. 6]	_____	_____	_____
2. Does the statement of cash flows report the cash effects during the reported period of the entity's operations, its noncapital financing transactions, its capital and related financing transactions, and its investing transactions? [GASB 9, pars. 7 and 15]	_____	_____	_____
3. Is related information reported on investing, capital, and financing transactions that affect the entity's financial position but do not directly affect cash flows during the period? [GASB 9, par. 7]	_____	_____	_____
4. Was a reconciliation of operating income (or net income if operating income is not separately identified on the operating statement) to net cash flow from operating activities provided about the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods? [GASB 9, par. 7]	_____	_____	_____
5. Does the statement of cash flows explain the changes in cash and cash equivalents regardless of whether there are restrictions on their use?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[GASB 9, par. 8]			
6. Does the statement use a descriptive term such as cash or cash and cash equivalents rather than the term funds? [GASB 9, par. 8]	_____	_____	_____
7. Did the entity disclose its policy concerning which short-term highly liquid investments it will treat as cash equivalents? [GASB 9, par. 11]	_____	_____	_____
8. If there was a change in policy was it considered a change in accounting principle reported by restating financial statements for earlier years presented for comparative purposes? [GASB 9, par. 11]	_____	_____	_____
<b>C. Classification of Cash Receipts and Cash Payments</b>			
1. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
a. Cash inflows from sales of goods or services?	_____	_____	_____
b. Cash receipts from quasi-external operating transactions with other funds?	_____	_____	_____
c. Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government?	_____	_____	_____
d. Cash receipts from other funds for reimbursement of operating transactions?	_____	_____	_____
e. Cash payments to acquire materials for providing services and manufacturing goods for resale?	_____	_____	_____
f. Cash payments to other suppliers for other goods or services?	_____	_____	_____
g. Cash payments to employees for services?	_____	_____	_____
h. Cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government?	_____	_____	_____
i. Cash payments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
j. Cash payments for quasi-external operating transactions with other funds, including payments in lieu of taxes.	_____	_____	_____
k. All other cash receipts and payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities? [GASB 9, pars. 17—18]	_____	_____	_____
2. Are transactions of loan programs undertaken to fulfill a governmental responsibility classified as transactions from operating activities? [GASB 9, par. 19]	_____	_____	_____
3. Are cash receipts and payments for the following transactions classified as cash flows from noncapital financing activities:			
a. Proceeds from issuing bonds, notes, and other short- or long-term borrowing not clearly attributable to acquisition, construction, or improvement of capital assets?	_____	_____	_____
b. Cash receipts from grants or subsidies except those specifically restricted for capital purposes and those for specific activities that are considered to be operating activities of the grantor government?	_____	_____	_____
c. Cash received from other funds except those amounts that are clearly attributable to acquisition, construction, or improvement of capital assets, quasi-external operating transactions, and reimbursement for operating transactions?	_____	_____	_____
d. Cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes?	_____	_____	_____
e. Repayments of amounts borrowed for purposes other than acquiring, constructing, or improving capital assets?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets?	_____	_____	_____
g. Cash paid as grants or subsidies to other governments or organizations, except those for specific activities that are considered to be operating activities of the grantor government?	_____	_____	_____
h. Cash paid to other funds, except for quasi-external operating transactions? [GASB 9, pars. 21—22]	_____	_____	_____
4. Are cash receipts and cash payments for the following transactions classified as cash flows from capital and related financing activities:			
a. Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets?	_____	_____	_____
b. Receipts from capital grants awarded to the governmental enterprise?	_____	_____	_____
c. Receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets?	_____	_____	_____
d. Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed?	_____	_____	_____
e. Receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets?	_____	_____	_____
f. Payments to acquire, construct, or improve capital assets?	_____	_____	_____
g. Repayments or refundings of amounts borrowed specifically to acquire, construct, or improve capital assets?	_____	_____	_____
h. Other principal payments to vendors who have extended credit to the governmental enterprise directly for purposes of acquiring, constructing, or improving capital assets?	_____	_____	_____
i. Cash payments to lenders and other creditors for interest directly related to acquiring, constructing, or improving capital assets? [GASB 9, pars. 24—25]	_____	_____	_____
5. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities?			
a. Receipts from collections of loans (except program loans) made by the governmental enterprise and sales of other entities' debt instruments (other than cash equivalents) that were purchased by the governmental enterprise?	_____	_____	_____
b. Receipts from sales of equity instruments and from returns of investment in those instruments?	_____	_____	_____
c. Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management of investment pools?	_____	_____	_____
d. Withdrawals from investment pools that the governmental enterprise is not using as demand accounts?	_____	_____	_____
e. Disbursements for loans (except program loans) made by the governmental enterprise and payments to acquire debt instruments of other entities (other than cash equivalents)?	_____	_____	_____
f. Payments to acquire equity instruments?	_____	_____	_____
g. Deposits into investment pools that the governmental enterprise is not using as demand accounts? [GASB 9, pars. 27—28]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Content and Form</b>			
1. Does the statement of cash flows report net cash provided or used in each of the four categories, as well as the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [GASB 9, par. 30]	_____	_____	_____
2. In reporting cash flows from operating activities were major classes of gross cash receipts and gross cash payments and their arithmetic sum, the net cash flow from operating activities (the direct method), reported? [GASB 9, par. 31]	_____	_____	_____
3. If yes were the following classes of operating cash receipts and payments separately reported?			
a. Cash receipts from customers?	_____	_____	_____
b. Cash receipts from quasi-external operating transactions with other funds?	_____	_____	_____
c. Other operating cash receipts, if any?	_____	_____	_____
d. Cash payments to other suppliers of goods or services?	_____	_____	_____
e. Cash payments to employees for services?	_____	_____	_____
f. Cash payments for quasi-external operating transactions with other funds, including payments in lieu of taxes?	_____	_____	_____
g. Other operating cash payments, if any? [GASB 9, par. 31]	_____	_____	_____
4. Were net cash flows from operating activities reported indirectly by adjusting operating income (or net income if operating is not separately identified on the operating statement) to reconcile it to net cash flow from operating activities? [GASB 9, par. 32]	_____	_____	_____
a. If yes was the following done:			
(1) Was operating income adjusted to remove the effects of depreciation, amortization, and other deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred revenue, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables? [GASB 9, par. 32]	_____	_____	_____
(2) If the reconciliation was to net income rather than operating income, was the effects of all items whose cash effects were capital and related financing, noncapital financing, or investing cash flows removed? [GASB 9, par. 32]	_____	_____	_____
5. Was a reconciliation of operating income (or net income if operating income is not separately identified on the operating statement) to net cash flow from operating activities provided regardless of whether the direct or indirect method of reporting net cash flow from operating activities was used? [GASB 9, par. 33]	_____	_____	_____
6. Did the reconciliation separately report all major classes of reconciling items, at a minimum, changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities? [GASB 9, par. 33]	_____	_____	_____
7. If the direct method was used was the reconciliation of operating income (or net income if operating income is not separately identified on the operating statement) to net cash flow from operating activities provided in a separate schedule? [GASB 9, par. 34]	_____	_____	_____
8. If the indirect method was used was the reconciliation reported within the operating activities section of the statement of cash flows or provided in a separate schedule?	_____	_____	_____

[GASB 9, par. 33]

9. If the reconciliation was presented within the operating activities section of the statement of cash flows, were all the adjustments to operating income (or net income if operating income is not separately identified on the operating statement) to determine cash flow from operating activities clearly identified as reconciling items?

[GASB 9, par. 34]

Yes      No      N/A

\_\_\_\_\_

**E. Noncash Investing, Capital, and Financing Activities**

1. Was information about all investing, capital, and financing activities of a governmental enterprise during a period that affected recognized assets or liabilities but did not result in cash receipts or cash payments for the period reported?

[GASB 9, par. 37]

\_\_\_\_\_

2. Was the information presented in a separate schedule (narrative or tabular)?

[GASB 9, par. 37]

\_\_\_\_\_

3. Did is clearly describe the cash and noncash aspects of transactions involving similar items?

[GASB 9, par. 37]

\_\_\_\_\_

\_\_\_\_\_

[The next page is 3501.]

# FSP Section 3500

## Other Disclosures

### .01 Pension Disclosures

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>A. Pension Plans—Separately Issued PERS Reports—Defined Benefit Pension Information</b>			
For pension disclosures in separately issued PERS financial reports, do the notes to the financial statements disclose the following:			
<b>1. Plan description</b>			
a. Identification of the PERS as the administrator of a single-employer agent multiple-employer, or cost sharing multi-employer plan, and the reporting entity, if any, of which it is a component unit; also number and types of contributing employers and non-employer contributors?	_____	_____	_____
b. Types of employees covered and current membership, with separate identification of the number of (a) retirees and beneficiaries currently receiving benefits, and terminated employees entitled to benefits but not yet receiving them and (b) fully vested, partially vested, and non-vested active employees covered by the plan?	_____	_____	_____
c. A brief statement about benefit provisions, employee eligibility requirements including eligibility for vesting and the authority under which benefit provisions are established?	_____	_____	_____
d. Employer and employee obligations to contribute and the authority under which those obligations are established? [GASB 5, par. 30a (GASB Cod. Sec. Pe6.130a)]	_____	_____	_____
<b>2. Summary of Significant Accounting Policies and Plan Asset Matters</b>			
a. Significant accounting policies including basis of accounting, method used to value assets for balance sheet purposes, and, if assets are valued at cost, the method used to account for exchanges or "SWAPS" of securities? (Also, disclose the effects on the amount of net assets available for benefits of any changes in accounting policies during the year.)	_____	_____	_____
b. Investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represents 5 percent or more of net assets available for benefits?	_____	_____	_____
c. Investments in, loans to, or leases with any PERS official, governmental employer official, party related to a PERS official or governmental employer official nonemployer contributor or organization included in the reporting entity of any participating employer? (Loans to employees from their own contributions, permitted by the terms of the plan, should not be listed.) [GASB 5 par. 30b (GASB Cod. Sec. Pe6.130b)]	_____	_____	_____
<b>3. Funding Status and Progress</b>			
a. Explanation that the pension benefit obligation, which is the actuarial present value of credited projected benefits is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date?	_____	_____	_____
b. Date of the actuarial valuation performed to determine the pension benefit obligation?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Significant actuarial assumptions used to compute the pension benefit obligation, including rate of return on investment of present and future assets (discount rate) projected salary increases due to (1) inflation and (2) merit or seniority, and postretirement benefit increases? [The rate of return on investments should be a rate based on an estimated long-term yield considering (i) the nature and mix of current and expected investment and (ii) the basis used to value those assets. That rate and other assumptions should be determined by taking into account all relevant factors and expectations and should be calculated in accordance with recognized actuarial principles.]	_____	_____	_____
d. Pension benefit obligation in total and segregated as follows:			
(1) Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them?	_____	_____	_____
(2) Current employees—			
(a) Accumulated employee contributions including allocated investment income, if any?	_____	_____	_____
(b) Employer-financed vested?	_____	_____	_____
(c) Employer-financed nonvested?	_____	_____	_____
e. Net assets available for benefits, as of the same date as the pension benefit obligation, determined in accordance with the method used to value assets for PERS balance sheet purposes? If assets are valued at other than market, has market value also been disclosed?	_____	_____	_____
f. Difference between the total amounts in d. and e. labeled "Unfunded [assets in excess of] pension benefit obligation"?	_____	_____	_____
g. Explanation including separate dollar effects on the pension benefit obligation, of any current-year changes in (1) actuarial assumptions or (2) benefit provisions? [GASB 5 par. 30c (GASB Cod. Sec. Pe6.130c)]	_____	_____	_____
4. Contributions Required and Contributions Made			
a. Funding Policy, including the role of actuarially determined contribution requirements in carrying out that policy?	_____	_____	_____
b. If contribution requirements are actuarially determined, have these disclosures been made:			
(1) Actuarial funding method and the period and method for amortizing any unfunded actuarial accrued liability?	_____	_____	_____
(2) Has a statement been included that significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation, or explanation of the differences?	_____	_____	_____
(3) Actuarially determined contribution requirements and the amounts intended to (i) cover normal cost and (ii) amortize any unfunded actuarial accrued liability, and contributions actually made by employer(s) and employees. Single-employer PERS and cost-sharing multiple-employer PERS should also disclose both employer and employee contributions actually made as percentages of the current year covered payroll?	_____	_____	_____
(4) Explanation, including separate dollar effects on contribution requirements, of any current-year changes in (i) actuarial assumptions, (ii) benefit provisions, (iii) actuarial funding methods, or (iv) other significant factors?	_____	_____	_____
c. If contribution requirements are not actuarially determined, were the following disclosed:			
(1) The fact that the contribution requirement was not actuarially determined?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) How the requirement was established? (For example, a rate established by law)	_____	_____	_____
(3) Whether an actuary was used to determine the actuarial implications of the requirement (for example, period of amortization of the unfunded actuarial accrued liability), and what those implications are?	_____	_____	_____
(4) The amount of the contribution requirement and the contribution actually made by employer(s) and employees. Single-employer PERS and cost sharing multi-employer PERS should also disclose both employer and employee contributions actually made as percentages of current year covered payroll?	_____	_____	_____
(5) Explanation, including separate dollar effects on contribution requirements, of any current-year changes in the method used to calculate or establish contribution requirements, for example, a change in the law? [GASB 5, par. 30d (GASB Cod. Sec. Pe6.130d)]	_____	_____	_____
5. Location of the 10-year historical trend information required to be disclosed by paragraph 32 of Statement No. 5 of the Governmental Accounting Standards Board (see below), and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due? [GASB 5, par. 30e (GASB Cod. Sec. Pe6.130e)]	_____	_____	_____
6. Does the PERS reporting also include disclosure of 10-year historical trend information as required supplementary information? [GASB 5, par. 31 (GASB Cod. Sec. Pe6.131)]	_____	_____	_____
7. Does the 10-year historical trend information disclose the following:			
a. Net assets available for benefits (as of the same date as the pension benefit obligation and as valued for PERS balance sheet purposes), the pension benefit obligation, and the former expressed as a percentage of the latter, also unfunded [assets in excess of] pension benefit obligation, annual covered payroll, and the former expressed as a percentage of the latter?	_____	_____	_____
b. Revenues by source (employer contributions, employee contributions, investment income, and other income) and expenses by type (benefit payments, administrative expenses, refunds of employee contributions, and other expenses)? Except for agent multiple-employer PERS, employer contributions should be expressed both as dollar amounts and as percentages of annual covered payroll? (The disclosure should state whether contributions were made in accordance with actuarial requirements.)	_____	_____	_____
c. If contributions actually made for particular years differed from actuarial or legal requirements, both the contribution made and the contribution required should be presented for those years?	_____	_____	_____
d. Has the timing, nature and total dollar effect of any changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, or other factors that significantly affect the information presented in a, b and c above been disclosed for the year in which the changes are made? [GASB 5, par. 32 (GASB Cod. Sec. Pe6.132)]	_____	_____	_____
<b>B. Pension Disclosures in Employer Financial Reports—Defined Benefit Pension Information—Single-Employer and Agent Multiple-Employer Plans</b>			
1. Do employers disclose in their notes to financial statements the information that follows for each single-employer PERS and each agent multi-employer PERS to which they contribute:			
a. Plan Description			
(1) Identification of the PERS to which contributions are made as single employer or agent multi-employer?	_____	_____	_____
(2) Amount of the employer's current year covered payroll and the employer's total current-year payroll for all employees?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) A brief statement about types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established?	_____	_____	_____
(4) Employer and employee obligations to contribute and the authority under which those obligations are established? [GASB 5, par. 35a (GASB Cod. Sec. P20.123a)]	_____	_____	_____
b. The amounts and types of securities, if any, of the employer and related parties included in PERS assets, including loans to the employer? (Whether in the form of notes, bonds, or other instruments) [GASB 5, par. 35b (GASB Cod. Sec. P20.123b)]	_____	_____	_____
c. Funding Status and Progress			
(1) Explanation that the pension benefit obligation which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date?	_____	_____	_____
(2) Date of the actuarial valuation performed to determine the pension benefit obligation? (Actuarial valuations must be performed at least biennially, with an actuarial up-date to the date 12 months after that biennial valuation.) (Balance sheet date valuations are encouraged but not required.)	_____	_____	_____
(3) Significant actuarial assumptions used to compute the pension benefit obligation, including rate of return on investment of present and future assets (discount rate), projected salary increases due to (a) inflation and (b) merit or seniority, and postretirement benefit increases? The rate of return on investments should be a rate based on an estimated long-term yield considering (i) the nature and mix of current and expected investments and (ii) the basis used to value those assets.	_____	_____	_____
(4) Pension benefit obligation applicable to the entity's employees, in total and segregated as follows:			
(a) Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them?	_____	_____	_____
(b) Current employees—			
(i) Accumulated employee contributions including allocated investment income, if any?	_____	_____	_____
(ii) Employer-financed vested?	_____	_____	_____
(iii) Employer-financed nonvested?	_____	_____	_____
(5) Net assets available for benefits, as of the same date as the pension benefit obligation, determined in accordance with the method used to value assets for PERS balance sheet purposes? Also, the method used to value assets for PERS balance sheet purposes? If assets are valued at other than market, is market value also disclosed?	_____	_____	_____
(6) Difference between the total amounts in 4 and 5 labeled "Unfunded [assets in excess of] pension benefit obligation"?	_____	_____	_____
(7) Explanation, including separate dollar effects on the pension benefit obligation, of any current-year changes in			
(1) actual assumptions? or	_____	_____	_____
(2) benefit provisions? [GASB 5, par. 35c (GASB Cod. Sec. P20.123c)]	_____	_____	_____
d. Contribution Required and Contribution Made			
(1) Funding policy, including the role of actuarially determined contribution requirements in carrying out that policy?	_____	_____	_____
(2) If contribution requirements are actuarially determined, have these disclosures been made?			
(a) Actuarial funding method and the period and method for amortizing any unfunded actuarial accrued liability?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(b) Statement that significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefits obligation, or an explanation of the differences?	_____	_____	_____
(c) Actuarially determined contribution requirement and the amounts intended to (a) cover normal cost and (b) amortize any unfunded actuarial accrued liability, and contributions actually made by the employer and employees, expressed both in dollar amounts and as percentages of current-year covered payroll?	_____	_____	_____
(d) Explanation including separate dollar effects on contribution requirements, of any current-year changes in (a) actuarial assumptions, (b) benefits provisions, (c) actuarial funding method, or (d) other significant factors?	_____	_____	_____
(3) If contribution requirements are not actuarially determined, have the following disclosures been made:			
(a) The fact that the contribution requirement was not actuarially determined?	_____	_____	_____
(b) How the requirement was established (for example, a rate established by law)?	_____	_____	_____
(c) Whether an actuary was used to determine the actual implications of the requirement (for example, period of amortization of the unfunded actuarial accrued liability), and what those implications are?	_____	_____	_____
(d) The amount of the contribution requirement and the contribution actually made by employer and employees. Also disclose both the employer and employee contribution actually made as percentages of current year covered payroll?	_____	_____	_____
(e) Explanation including separate dollar effects on contributions required of any current-year changes in the method used to calculate or establish contribution requirements, for example, a change in the law? [GASB 5, par. 35d (GASB Cod. Sec. P20.123d)]	_____	_____	_____
e. Three-Year Historical Trend Information (Until three years' data are available; as many years as are available should be presented.)			
(1) Net assets available for benefits expressed as percentages of the pension benefit obligation applicable to the entity's employees?	_____	_____	_____
(2) Unfunded [assets in excess of] pension benefit obligation, expressed as percentages of annual covered payroll?	_____	_____	_____
(3) Employer contributions expressed as percentages of annual covered payroll. This disclosure should state whether contributions were made in accordance with actuarially determined requirements? [GASB 5, par. 35e (GASB Cod. Sec. P20.123e)]	_____	_____	_____
f. Reference to 10-year historical trend information in separately issued PERS reports (or in employer reports: see Section IB2) and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due? [GASB 5, par. 35f (GASB Cod. Sec. P20.123f)]	_____	_____	_____
2. Has the following required 10-year trend information been disclosed:			
a. Net assets available for benefits? (As of the same date as the pension benefit obligation as valued for PERS balance sheet purposes.)	_____	_____	_____
b. Pension benefits obligation, and the net assets available for benefits expressed as a percentage of the pension benefit obligation?	_____	_____	_____
c. Unfunded [assets in excess of] pension benefit obligation, annual covered payroll, and the percentage of unfunded [assets in excess of] pension benefits obligation as a percentage of annual covered payroll?	_____	_____	_____

Yes      No      N/A

d. The timing, nature and total dollar effect of any changes in actuarial assumptions, benefits provisions, actuarial funding methods, accounting policies or other factors that significantly affect the information presented for the year in which the changes are made?

[GASB 5, par. 36 (GASB Cod. Sec. P20.124)]

\_\_\_\_\_

**C. Single Employer PERS Included as a Pension Trust Fund in the Employer Reporting Entity—Defined Benefit Pension Information**

Does the employer reporting on its participation in a single-employer PERS that is included as a pension trust fund in the employer reporting entity make the following disclosures:

1. A single set of disclosures representing a combination of the disclosures required by Sections IA and IB of this disclosure checklist adapted to cover both the PERS and the employer?

\_\_\_\_\_

2. In order to satisfy the requirements of Section IB1f of this disclosure checklist (reference to 10-year historical trend information in separately issued PERS reports or in employer reports and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due), has the employer made reference to the required 10-year historical trend information included in an employer CAFR or in a separately issued PERS report, if that report is publicly available?

[GASB 5, par. 37 (GASB Cod. Sec. P20.125)]

\_\_\_\_\_

**D. Multi-Employer PERS Included as a Pension Trust Fund in the Employer Reporting Entity—Defined Benefit Pension Information**

Does the employer reporting entity combine the disclosure requirements of:

1. Section IA "Pension Plan Disclosures in Separately Issued PERS Reports—Defined Benefit Information?"

\_\_\_\_\_

2. Section IB1—"Pension Disclosures in Employer Financial Reports—Defined Benefit Pension Information?"

\_\_\_\_\_

3. Section IB2—certain 10-year historical information?

\_\_\_\_\_

4. Section IE—"Employers Contributing to Cost-Sharing Multi-Employer PERS—Defined Benefit Pension Information?"

\_\_\_\_\_

[GASB 5, par. 38 (GASB Cod. Sec. P20.126)]

**E. Employers Contributing to Cost-Sharing Multi-Employer PERS—Defined Benefit Pension Information**

Do the employers disclose in their notes to financial statements the following information for each cost-sharing multi-employer PERS to which they contribute:

1. Identification of the PERS as a cost-sharing multiple-employer PERS?

\_\_\_\_\_

2. Amount of the employer's current-year covered payroll and the employer's total current-year payroll for all employees?

\_\_\_\_\_

3. A brief statement about types of employees covered, benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established?

\_\_\_\_\_

4. Employer and employee obligations to contribute and the authority under which those obligations are established?

\_\_\_\_\_

5. The entity's actuarially determined contribution requirement and the employee and employer contributions actually made, expressed both in dollar amounts and as percentages of the employer's current-year covered payroll; also, disclose any current-year changes in actuarial assumptions, benefit provisions, actuarial funding method, or other significant factors and the aggregate effect on the employer's contribution rate, expressed as a percentage of the employer's current-year covered payroll?

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Explanation that the pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the PERS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and among employers?	_____	_____	_____
7. The total PERS pension benefit obligation and the total PERS net assets available for benefits (as of the same date as the pension benefit obligation)?*	_____	_____	_____
8. The employer's actuarially determined contribution requirement expressed as a percentage of total current-year actuarially determined contribution requirements for all employers?	_____	_____	_____
9. Reference to 10-year historical trend information in separately issued PERS reports and an explanation that this provides information about progress made in accumulating sufficient assets to pay benefits when due?	_____	_____	_____
10. The amounts and types of securities, if any, of the employer and related parties included in PERS assets, including loans to the employer (whether in the form of notes, bonds, or other instruments)? [GASB 5, par. 39 (GASB Cod. Sec. P20.127)]	_____	_____	_____
<b>F. Component Units' Pension Information in the Reporting Entity's Financial Reports—Defined Benefit Pension Information</b>			
1. When separate financial reports of component units are publicly available (containing the pension disclosures required by GASB Statement No. 5), have the reporting entity's disclosures been minimized by referring to those reports and providing condensed data? [GASB 5, par. 40 (GASB Cod. Sec. P20.128)]	_____	_____	_____
2. Have disclosure requirements in Section IB been limited to the following:			
a. Pension benefit obligation?	_____	_____	_____
b. Net assets available for benefits?	_____	_____	_____
c. A statement indicating whether actuarially determined employer contribution requirements were met? [GASB 5, par. 40 (GASB Cod. Sec. P20.128)]	_____	_____	_____
3. Have Section IE disclosures (employers contributing to cost-sharing multi-employer PERS) been limited to a statement that actuarially determined contribution requirements were met and that the contributions were made to the same cost-sharing multi-employer PERS in which the oversight entity participates, if that is the case? [GASB 5, par. 40 (GASB Cod. Sec. P20.128)]	_____	_____	_____
<b>G. Noncontributing Employers—Defined Benefit Pension Information</b>			
1. If the employer is not legally responsible for making contributions to a PERS but its employees are covered by a PERS because of contributions made by another entity, as described in GASB 5, par. 11, did the employer disclose in its notes to financial statements the following information for each of those situations:			
a. Name of the entity making contributions on behalf of the employer's employees and the amount of the contribution?	_____	_____	_____
b. Types of employees covered and employee eligibility requirements, including eligibility for vesting?	_____	_____	_____

\* An entity whose contribution to a cost-sharing multiple-employer PERS exceeds 50 percent of the actuarially determined contribution requirements for all participating entities may disclose its allocated share of the PERS pension benefit obligation and net assets available for benefits instead of the disclosure required by GASB No. 5, paragraph 39g. That allocation should be based on the percentage required to be disclosed in paragraph 39h, and the method of allocation should be disclosed.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The employer's total current-year payroll for all employees, and its current-year covered payroll for that plan?	_____	_____	_____
d. Employee and nonemployer contributor obligations to contribute and the authority under which those obligations are established? [GASB 5, par. 41 (GASB Cod. Sec. P20.129)]	_____	_____	_____
2. If the legal responsibility for making contributions remains with the participating employer but another entity pays the annual employer contribution directly to the PERS as a matter of convenience, did the entity comply with the disclosure requirements of Section IB—E of this checklist which apply to the participating employer? [GASB 5, par. 41 (GASB Cod. Sec. P20.129)]	_____	_____	_____
<b>H. Unfunded Pension Arrangements—Defined Benefit Pension Information</b>			
If the defined benefit pension arrangement is not being funded and no contributions are made from any source before benefits are actually paid to retirees and other beneficiaries, has the employer disclosed its pension obligations? Were the disclosure requirements in Section IB—E of this checklist followed? [GASB 5, par. 42 (GASB Cod. Sec. P20.130)]			
_____	_____	_____	_____
<b>I. Reporting by Nonemployer Contributors—Defined Benefit Pension Information</b>			
Have the following disclosures been considered for each nonemployer contributor:			
1. If the entity is legally responsible for making contributions to PERS that cover individuals other than their own employees?	_____	_____	_____
2. If the nonemployer contributor is legally responsible for contributions to a single-employer or agent multi-employer PERS, has disclosure been made about its participation in the PERS in accordance with Section IB—D, as appropriate?	_____	_____	_____
3. If the nonemployer contributor is responsible for making contributions to a cost-sharing multi-employer PERS, do the disclosures conform to the requirements of Section IE?	_____	_____	_____
4. Have disclosures made in accordance with Section I.B.1.a(2) and I.E.2. been limited to the number of employees and amount of payroll covered by the PERS to which the contributions are made? [GASB 5, par. 43 (GASB Cod. Sec. P20.131)]	_____	_____	_____
<b>J. Defined Contribution Pension Information</b>			
Have the following disclosures been considered for each defined contribution pension plan:			
1. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan, have the appropriate disclosures been made? [GASB 5, par. 45 (GASB Cod. Sec. P20.133)]	_____	_____	_____
2. If the substance of the plan is to provide a defined benefit in some form, have disclosures been made in accordance with Section IA—II? [GASB 5, par. 45 (GASB Cod. Sec. P20.133)]	_____	_____	_____
3. Do notes to separately issued financial statements for defined contribution pension plans include the following information:			
a. Plan Description			
(1) Identification of the PERS as the administrator of a single-employer or multi-employer defined contribution plan, and the reporting entity, if any, of which it is a component unit; also, number and types of contributing employers and nonemployer contributors?	_____	_____	_____
(2) Types of employees covered and current membership?	_____	_____	_____
(3) A brief statement about plan provisions, including the authority under which those provisions are determined, and employee eligibility requirements, including eligibility for vesting?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) Employer and employee obligations to contribute and the authority under which those obligations are established?	_____	_____	_____
<b>b. Summary of Significant Accounting Policies and Plan Asset Matters.</b>			
(1) Significant accounting policies including basis of accounting, method used to value assets for balance sheet purposes, and, if assets are valued at cost, the method used to account for exchanges or "swap" of securities? If assets are valued for balance sheet purposes at other than market, disclosure of market value? (Also, disclosure of the effects on the amount of net assets available for benefits of any changes in accounting policies during the year?)	_____	_____	_____
(2) Investments (other than U.S. government and U.S. government-guaranteed obligations) in any one organization that represent 5 percent or more of net assets available for benefits?	_____	_____	_____
(3) Investments in, loans to, or leases with any PERS official, governmental employer official, party related to a PERS official or governmental employer official, nonemployer contributor, or organization included in the reporting entity of any participating employer? (Loans to employees from their own contributions, permitted by the terms of the plan, should not be listed.) [GASB 5, par. 46 (GASB Cod. Sec. Pe6.137)]	_____	_____	_____
<b>4. Do employers disclose in the notes to financial statements the following information for each defined contribution plan to which they contribute, whether administered by a PERS, insurance company, or other organization:</b>			
(a) Identification of the plan to which contributions are made as a defined contribution plan?	_____	_____	_____
(b) Amount of the employer's current-year covered payroll and its total current-year payroll for all employees?	_____	_____	_____
(c) Employer and employee obligations to contribute and the authority under which those obligations are established; also, a brief statement about plan provisions and employee eligibility requirements, including types of employees covered and eligibility for vesting?	_____	_____	_____
(d) Contribution requirement and the contributions actually made by the employer and employees, expressed both in dollar amounts and as percentages of the employer's current-year covered payroll; also the effects of any current-year changes in plan provisions?	_____	_____	_____
(e) The amounts and types of securities, if any, of the employer and related parties included in plan assets, including loans to the employer (whether in the form of notes, bonds, or other instruments)? [GASB 5, par. 47 (GASB Cod. Sec. P20.134)]	_____	_____	_____
<b>.02 Deferred Compensation Plans</b>			
Deferred Compensation Plans Under Internal Revenue Code Section 457			
Are IRC Section 457 deferred compensation balances displayed in an agency fund? [GASB 2, par. 9 (GASB Cod. Sec. D25.109)]	_____	_____	_____
Is the following information disclosed for deferred compensation plans under Internal Revenue Code Section 457:			
1. The plan assets remain the property of the employer until paid or made available to participants, subject only to claims of the employer's general creditors? [GASB 2, par. 13 (GASB Cod. Sec. D25.113)]	_____	_____	_____

\* These disclosures are also required to be made by nonemployer contributors, as discussed in GASB 5, par. 12 (GASB Cod. Sec. P20.121). Employers that are not legally responsible for making contributions to a defined contribution plan but whose employees are covered by a plan because of contributions made by another entity, as described in GASB 5, par. 11 (GASB Cod. Sec. P20.120), should make the disclosures required by GASB 5, par. 41 (GASB Cod. Sec. P20.129).

[GASB 5, footnote 18 (GASB Cod. Sec. P20.134, ft. 18)]



- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 2. The governmental unit's fiduciary responsibility, including uses of plan assets for purposes other than paying benefits?<br>[GASB 2, par. 13 (GASB Cod. Sec. D25.113)]  | _____      | _____     | _____      |
| 3. If the plan is a multiple-jurisdiction plan, the portion of the assets in the fund to which the administering governmental entity has legal access, as distinguished from the assets held for other participating governmental employees?<br>[GASB 2, par. 13 (GASB Cod. Sec. D25.113)] | _____      | _____     | _____      |

**.03 Special Assessments**

Effective for financial statements for periods beginning after June 15, 1987, have the following recommended disclosures been made:

- |  |       |       |       |
|--|-------|-------|-------|
| 1. If the government is obligated in some manner for special assessment debt, do the notes to financial statements disclose the information required in GASB 1, Sec. 2300 "Notes to Financial Statements," as it applies to long term debt?<br>[GASB 6, par. 20 (GASB Cod. Sec. S40.120)]  | _____ | _____ | _____ |
| 2. Do the notes identify and describe any guarantee, reserve or sinking fund established to cover defaults by property owners?<br>[GASB 6, par. 20 (GASB Cod. Sec. S40.120)]   | _____ | _____ | _____ |
| 3. Do the notes disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements?<br>[GASB 6, par. 20 (GASB Cod. Sec. S40.120)]   | _____ | _____ | _____ |
| 4. If the government is not obligated in any manner for special assessment debt, do the notes disclose the amount of the debt and the fact that the government is in no way liable for repayment but is only acting as agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate?<br>[GASB 6, par. 21 (GASB Cod. Sec. S40.121)] | _____ | _____ | _____ |
| 5. If earlier application was elected for GASB No. 6, were the accounting changes adopted to conform to the provisions of this statement applied retroactively, if practicable, and were the financial statements for all prior periods presented restated?<br>[GASB 6, par. 27 (GASB Cod. Sec. Appendix C)]   | _____ | _____ | _____ |
| 6. For the year in which Statement No. 6 is first applied, have the following disclosures been made:   |       |       |       |
| a. The nature of the restatement and its effect?   | _____ | _____ | _____ |
| b. The reason for not restating any prior periods presented?<br>[GASB 6, par. 27 (GASB Cod. Sec. Appendix C)]  | _____ | _____ | _____ |

**.04 Investments**

**A. Investments Accounted for by the Equity Method and Joint Ventures**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Have the following disclosures applicable to the equity method of accounting for investments in common stock been made:   |       |       |       |
| a. The name of each investee and percentage of ownership or other manifestation of significant influence?  | _____ | _____ | _____ |
| b. Accounting policies of the client relative to equity method investments?  | _____ | _____ | _____ |
| c. Difference, if any, between the amount at which the investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference? | _____ | _____ | _____ |
| d. The aggregate market value of each identified investment for which a market value is available?   | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. When investments in unconsolidated subsidiaries or joint ventures are in the aggregate material in relation to financial position or results of operations, has summarized information as to assets, liabilities, and results of operations been presented in the notes or have separate statements been presented for such subsidiaries or joint ventures, either individually or in groups, as appropriate? [APB 18, par. 20 (AC 182.110)]	_____	_____	_____
f. Are equity method investments shown in the balance sheet as a single amount, and the client's share of operating results of the investee shown in the operating statement as a single amount, except for extraordinary items, prior-period adjustments, etc.? [APB 18, par. 19c and d (AC 182.109c and d)]	_____	_____	_____
2. If an investment in a joint venture does not meet the criteria for inclusion within the reporting entity (refer to GASB Cod. Sec. 2100.108—.112), was the equity method used? [GASB 1, Sec. J50.102 (GASB Cod. Sec. J50.102)] Were the following disclosures made in addition to disclosures required in Section IVA shown above?			
a. A general description of each joint venture, including:			
(1) Identifying the participants and their percentage shares?	_____	_____	_____
(2) Describing the arrangements for selecting the governing body or management?	_____	_____	_____
(3) Disclosing the degree of control the participants have over budgeting and financing?	_____	_____	_____
b. Condensed or summary financial information on each joint venture including:			
(1) Balance sheet date?	_____	_____	_____
(2) Total assets, liabilities, and equity?	_____	_____	_____
(3) Total revenues expenditures/expenses, other financing sources (uses), and net increase (decrease) in fund balance/retained earnings?	_____	_____	_____
(4) Reporting entity's share of assets, liabilities, equity, and changes therein during the year, if known?	_____	_____	_____
c. Joint venture debt, both current and long-term, and the security for the debt. [GASB 1, Sec. J50.103 (GASB Cod. Sec. J50.103)]	_____	_____	_____

**.05 Risk Financing and Related Insurance Issues**

**A. Accounting by Public Entity Risk Pools**

1. Do all public entity risk pools account for their activities in an enterprise fund regardless of whether there is a transfer or pooling (sharing) of risk? [GASB 10, par. 18]	_____	_____	_____
2. Are premiums or required contributions ordinarily recognized over the contract period in proportion to the amount of risk protection provided? [GASB 10, par. 19]	_____	_____	_____
3. If the period of risk differs significantly from the contract period, are premiums recognized as revenue over the period of risk in proportion to the amount of risk protection provided? [GASB 10, par. 19]	_____	_____	_____
4. If premiums are subject to adjustment, is premium revenue recognized as follows:			
a. If the ultimate premium is reasonably estimable, is the estimated ultimate premium recognized as revenue over the contract period?	_____	_____	_____
(1) Is the estimated ultimate premium revised to reflect current experience?	_____	_____	_____
b. If the ultimate premium cannot be reasonably estimated, is the cost recovery or the deposit method used until the ultimate premium becomes reasonably estimable? [GASB 10, par. 20]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. If a portion of the premium is specifically identified as being collected for future catastrophe losses, is that amount recognized as revenue over the contract period? [GASB 10, par. 21]	_____	_____	_____
6. In No. "5" above, is that amount separately identified as a reservation of pool equity if it is contractually restricted for that specific future use or if it is legally restricted for that specific use by an organization or individual outside the entity? [GASB 10, par. 21]	_____	_____	_____
7. Is a liability for unpaid claims costs (including estimates of costs relating to incurred but not reported claims) accrued when insured events occur or, for claims-made policies, in the period in which the event that triggers coverage under the policy or participation contract occurs? [GASB 10, par. 22]	_____	_____	_____
8. In No. "7" above, is the liability based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience? [GASB 10, par. 22]	_____	_____	_____
9. Are claim accruals for incurred but not reported claims made if it is probable that a loss has been incurred and the amount can be reasonably estimated? [GASB 10, par. 22]	_____	_____	_____
10. Are changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims recognized in results of operations of the period in which the estimates are changed or payments are made? [GASB 10, par. 22]	_____	_____	_____
11. Are estimated recoveries on unsettled claims, such as salvage or subrogation, evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims? [GASB 10, par. 22]	_____	_____	_____
12. Are estimated recoveries on settled claims deducted from the liability for unpaid claims? [GASB 10, par. 22]	_____	_____	_____
13. Are liabilities for claim adjustment expenses accrued when the related liability for unpaid claims is accrued? [GASB 10, par. 23]	_____	_____	_____
14. Are claims liabilities associated with structured settlements discounted if they represent contractual obligations to pay specific amounts on fixed or determinable dates? [GASB 10, par. 24]	_____	_____	_____
15. If claims liabilities are discounted, does the pool use a rate that is determined by giving consideration to the pool's settlement rate for those liabilities and its investment yield rate? [GASB 10, par. 25]	_____	_____	_____
16. If a pool purchases an annuity contract in the claimant's name to satisfy a claim liability and the likelihood that the pool will be required to make future payments on the claim is remote has the annuity contract not been reported in, and the related liability removed from, the pool's balance sheet? [GASB 10, par. 26]	_____	_____	_____
17. Have the aggregate outstanding amount of liabilities removed from the pool's financial statements been disclosed as long as those contingent liabilities are outstanding? [GASB 10, par. 26]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
18. If it is later determined that the primary liability will revert back to the pool, has the liability been reinstated on the pool's balance sheet? (Annuity contracts used to settle claims for which the claimant has signed an agreement releasing the entity from further obligation and for which the likelihood that the pool will be required to make future payments on those claims is remote should not be included in this disclosure). [GASB 10, par. 26]	_____	_____	_____
19. If no accrual is made for an insured event, is disclosure made if there is at least a reasonable possibility that a loss or an additional loss may have been incurred? [GASB 10, par. 27]	_____	_____	_____
20. In No. "19" above, does the disclosure indicate the nature of the contingency and give an estimate of the possible loss or range of loss or state that such an estimate cannot be made? [GASB 10, par. 27]	_____	_____	_____
21. If it is considered probable that an unreported claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable, has the appropriate disclosure been made? [GASB 10, par. 27]	_____	_____	_____
22. Are commissions and other costs that are primarily related to contracts issued or renewed during the period in which the costs are incurred considered acquisition costs? [GASB 10, par. 28]	_____	_____	_____
23. Are acquisition costs:			
a. Capitalized and charged to expense in proportion to premium revenue recognized?	_____	_____	_____
b. Allocated by groupings of types of contracts consistent with the pool's manner of acquiring, servicing, and measuring the revenue and expense elements of its contracts?	_____	_____	_____
c. Classified as an asset if there remains an unamortized portion? [GASB 10, par. 29]	_____	_____	_____
d. If they are determined based on a percentage relationship of costs incurred to premiums from contracts issued or renewed for a specified period, are the percentage relationship and the period used, once determined, applied to applicable unearned premiums throughout the contract period? [GASB 10, par. 30]	_____	_____	_____
24. Are costs that are incurred during the period, other than those relating to claims (for example, investment management, general administration, and policy maintenance) that do not vary with and are not primarily related to the acquisition of new and renewal contracts, charged to expense as incurred? [GASB 10, par. 31]	_____	_____	_____
25. For policyholder dividends:			
a. Are they based on the experience of the pool or of a class of policies, rather than on the experience of an individual policyholder or pool participant?	_____	_____	_____
b. Are they accrued as dividends expense using an estimate of the amount to be paid?	_____	_____	_____
c. If used by policyholders to reduce premiums, are they reported as premium income?	_____	_____	_____
d. Do they include amounts returned to pool participants from excess premiums for catastrophe losses? [GASB 10, par. 32]	_____	_____	_____
26. If experience refund arrangements exist under experience-rated contracts, is a separate liability accrued for these amounts, based on experience and the provisions of the contract? [GASB 10, par. 33]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
27. Are revenues reduced by amounts that are expected to be paid in the form of experience refunds? [GASB 10, par. 33]	_____	_____	_____
28. Are contracts grouped consistent with the pool's manner of acquiring, servicing, and measuring the revenue and expense elements of its contracts to determine if a premium deficiency exists? [GASB 10, par. 34]	_____	_____	_____
29. Has a premium deficiency been recognized if the sum of expected claim costs and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, unamortized acquisition costs, and incurred policy maintenance costs exceeds related unearned premiums? [GASB 10, par. 35]	_____	_____	_____
30. If a premium deficiency exists, have unamortized acquisition costs been expensed to the extent of the deficiency? [GASB 10, par. 36]	_____	_____	_____
31. Are deficiencies resulting from risk-sharing pool participation contracts reported as revenue and assessment receivable at the time the pool determines that a deficiency is reasonably estimable? (provided the pool has an enforceable legal claim to the amounts and the collectibility is probable and reasonably estimable) [GASB 10, par. 36]	_____	_____	_____
32. For reinsurance:			
a. Are amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses classified as assets and as reductions of expenses?	_____	_____	_____
b. Are estimated amounts recoverable from reinsurers that relate to the liabilities for unpaid claims and claim adjustment expenses deducted from those liabilities rather than reported as assets?	_____	_____	_____
c. Are unearned premiums on contracts ceded to a reinsurer by a pool netted with related premiums paid to but not yet earned by the reinsurer?	_____	_____	_____
d. Are receivables and payables from the same insurer, including amounts withheld, netted?	_____	_____	_____
e. Are premiums paid and recoveries on claims netted against related earned premiums and incurred claims costs, respectively, in the operating statement? [GASB 10, par. 37]	_____	_____	_____
f. Do proceeds that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized?	_____	_____	_____
g. If the pool has agreed to service all of the related ceded insurance contracts without reasonable compensation, has a liability been accrued for excess future servicing costs? [GASB 10, par. 38]	_____	_____	_____
h. To the extent it does not provide for indemnification of the pool by the reinsurer against loss or liability, is the premium paid less the premium to be retained by the reinsurer accounted for as a deposit by the pool?	_____	_____	_____
i. Is a net credit resulting from the contract reported as a liability by the pool? [GASB 10, par. 39]	_____	_____	_____
33. Are bonds reported at amortized cost if the pool has both the ability and the intent to hold the bonds until maturity and there is no decline in the market value of the bonds other than a temporary decline? [GASB 10, par. 40]	_____	_____	_____
34. If the pool is a trader in bonds and does not intend to hold the bonds until maturity, are the bonds reported at market, and are temporary changes in the market value of the bonds recognized as unrealized gains or losses? [GASB 10, par. 40]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
35. Are common and nonredeemable preferred stocks reported at market, and temporary changes in the market value of those securities recognized as unrealized gains or losses? [GASB 10, par. 41]	_____	_____	_____
36. Are preferred stocks that by their provisions must be redeemed by the issuer reported at amortized cost if the pool has both the ability and intent to hold the stocks until redemption and there is no decline in the market value of the stocks other than a temporary decline? [GASB 10, par. 41]	_____	_____	_____
37. If the pool does not have the ability or intent to hold preferred stocks to maturity, are they reported like investments in common and nonredeemable preferred stocks? (See No. "35" above) [GASB 10, par. 41]	_____	_____	_____
38. Are mortgage loans reported at outstanding principal balances if acquired at par value, or at amortized cost if purchased at a discount or premium, with an allowance for estimated uncollectable amounts? [GASB 10, par. 42]	_____	_____	_____
39. For No. "38" above, is amortization and other related charges or credits charged or credited to investment income? [GASB 10, par. 42]	_____	_____	_____
40. Are changes in the allowance for estimated uncollectable amounts relating to mortgage loans included in realized gains and losses? [GASB 10, par. 42]	_____	_____	_____
41. Are real estate investments reported at cost less accumulated depreciation and any allowance for impairment in value? [GASB 10, par. 43]	_____	_____	_____
42. For No. "41" above, is depreciation and other related charges or credits charged or credited to investment income? [GASB 10, par. 43]	_____	_____	_____
43. Are changes in the allowance for any impairment in value relating to real estate investments included in realized gains and losses? [GASB 10, par. 43]	_____	_____	_____
44. Are all other investments reported at cost plus or minus any unamortized premium or discount? [GASB 10, par. 44]	_____	_____	_____
45. If the market value of such investments declines below its carrying amount and it is probable a loss will be realized in the future, is an estimated loss reported as a realized loss in the pool's operating statement and as a reduction of the carrying amount of the investment? [GASB 10, par. 44]	_____	_____	_____
46. Are loan origination and commitment fees and direct loan origination costs accounted as prescribed in FASB 91? [GASB 10, par. 45]	_____	_____	_____
47. Are the following requirements of FASB Statement 91 met:			
a. Are loan origination fees recognized over the life of the related loan as an adjustment of yield?	_____	_____	_____
b. Are certain direct loan origination costs recognized over the life of the related loan as a reduction of the loan's yield?	_____	_____	_____
c. Are all loan commitment fees deferred except for certain retrospectively determined fees?	_____	_____	_____
d. Are commitment fees meeting specified criteria recognized over the loan commitment period and all other commitment fees recognized as an adjustment of yield over the related loan's life or, if the commitment expires unexercised, recognized in income on expiration of the commitment?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Are loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans recognized as an adjustment of yield generally by the interest method based on the contractual terms of the loan? (prepayments may be anticipated in certain specified circumstances) [GASB 10, par. 45]	_____	_____	_____
48. For realized gains and losses on all investments (except those that are accounted for as foreign currency or futures contracts hedges):			
a. Are they recognized in the operating statement as a component of other income?	_____	_____	_____
b. Is the amount of gains and losses separately disclosed either by presenting it as a separate item in the operating statement or disclosing it in the notes to financial statements?	_____	_____	_____
c. Are they not deferred, either directly or indirectly?	_____	_____	_____
d. Are unrealized investment gains and losses reported as a separate component of equity?	_____	_____	_____
e. Are unrealized gains or losses on common stocks, preferred stocks, or publicly traded bonds not recognized in income until the sale, maturity, or other disposition of the investment? [GASB 10, par. 46]	_____	_____	_____
49. If a decline in the value of common, preferred stock, publicly traded bond, or other investment below its cost or amortized cost is considered to be other than temporary, is the investment reduced to its net realizable value, which becomes the new cost basis? [GASB 10, par. 47]	_____	_____	_____
50. In No. "49" above, is the amount of the reduction reported as a realized loss? [GASB 10, par. 47]	_____	_____	_____
51. In No. "49" above, is a recovery from the new cost basis recognized as a realized gain only at the sale, maturity, or other disposition of the investment? [GASB 10, par. 47]	_____	_____	_____
52. For real estate used in the pool's operations, is it classified either as an investment or as real estate used in the pool's operations, depending on its predominant use? [GASB 10, par. 48]	_____	_____	_____
53. Are depreciation and other real estate operating costs classified as investment expenses or operating expenses consistent with the balance sheet classification of the related asset? [GASB 10, par. 48]	_____	_____	_____
54. Is imputed investment income and rental expense not recognized for real estate used in the pool's operations? [GASB 10, par. 48]	_____	_____	_____
55. Do public entity risk pools make the following disclosures:			
a. A description of the risk transfer or pooling agreement, including the rights and responsibilities of the pool participants?	_____	_____	_____
b. Provide a brief description of the number and types of entities participating in the pool?	_____	_____	_____
c. The basis for estimating the liabilities for unpaid claims and claim adjustment expenses?	_____	_____	_____
d. State that the liabilities are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors?	_____	_____	_____
e. The nature of acquisition costs capitalized, the method of amortizing those costs, and the amount of those costs amortized for the period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. The face amount and carrying amount of liabilities for unpaid claims and claim adjustment expenses that are presented at present value in the financial statements and the range of annual interest rates used to discount those liabilities?	_____	_____	_____
g. Whether the pool considers anticipated investment income in determining if a premium deficiency exists?	_____	_____	_____
h. The nature and significance of excess insurance or reinsurance transactions to the pool's operations, including reinsurance premiums ceded, and estimated amounts that are recoverable from reinsurers and that reduce the liabilities as of the balance sheet date for unpaid claims and claim adjustment expenses?	_____	_____	_____
i. A reconciliation of total claims liabilities, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the current fiscal year and the prior fiscal year in the following tabular format:			
(1) Amount of liabilities for unpaid claims and claim adjustment expenses at the beginning of each fiscal year?	_____	_____	_____
(2) or incurred claims and claim adjustment expenses:			
(a) A provision for insured events of the current fiscal year?	_____	_____	_____
(b) Increase (decrease) in the provision for insured events of prior fiscal years?	_____	_____	_____
(3) For payments:			
(a) Claims and claim adjustment expenses attributable to insured events of the current fiscal year?	_____	_____	_____
(b) Claims and claim adjustment expenses attributable to insured events of prior fiscal years?	_____	_____	_____
(c) Other items and provide all explanation of each material item?	_____	_____	_____
(d) Amount of liabilities for unpaid claims and claim adjustment expenses at the end of each fiscal year?	_____	_____	_____
j. The aggregate outstanding amount of liabilities for which annuity contracts have been purchased from third parties in the claimants' names and the related liabilities that have been removed from the balance sheet? (Annuity contracts used to settle claims for which the claimant has signed an agreement releasing the entity from further obligation and for which the likelihood that the pool will be required to make future payments on those claims is remote should not be included in this disclosure) [GASB 10, par. 50]	_____	_____	_____
56. Is the following revenue and claims development information included as required supplementary information immediately after the notes to financial statements in pool separate financial reports: (Pools that are included as part of a combined general government reporting entity and that do not issue separate financial reports should present the information as statistical information in the combined entity's comprehensive annual financial report.)			
a. A table that presents the following information:			
(1) Amounts of reported premium or required contribution revenue (net of excess reinsurance) and reported investment revenue for each of the past ten fiscal years including the latest fiscal year?	_____	_____	_____
(2) Amounts of reported unallocated claim adjustment expenses and reported other costs for each of the past ten fiscal years including the latest fiscal year?	_____	_____	_____
(3) Total amount of incurred claims and allocated claim adjustment expenses (both paid and accrued and net of loss assumed by excess or reinsurers) as originally reported at the end of each of the past ten policy years including the latest policy year? (Amounts should be limited to provisions for claims resulting from events that triggered coverage under the policy or participation contract in that year? (policy-year basis)	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) The cumulative amount paid as of the end of the policy year and each succeeding year for each of the incurred claims and allocated expense amounts presented in (3) above?	_____	_____	_____
(5) The reestimated amounts for incurred claims and claim adjustment expenses as of the end of each succeeding year for each of the policy years presented in (3) above?	_____	_____	_____
(6) The change in incurred claims and claim adjustment expenses from the original estimate, based on the difference between the latest reestimated amount presented in (5) above for each of the policy years and the originally established incurred claims and claim adjustment amounts reported in (3)?	_____	_____	_____
b. In addition to the reconciliation of total claims liabilities (No. "55i" above), a reconciliation of claims liabilities by type of contract, including an analysis of changes in liabilities for claims and claim adjustment expenses for the current fiscal year and the prior year, in the same tabular format required by No. "55i" above? [GASB 10, par. 50]	_____	_____	_____
57. During the transition period when ten years of information about claims liabilities and claim adjustment expenses may not be available, all information in No. "56a" above, should be presented only for as many years as that information is available? [GASB 10, par. 50]	_____	_____	_____
58. If changes in a pool's loss, expense, reinsurance, excess insurance, or other transactions materially affect pool revenues, expenses, or liabilities in a manner not fairly disclosed or presented in the tables above, does the pool expand these disclosures to show additional detail (such as gross, ceded, and net revenues and liabilities or separate information for each type of contract) to keep the schedules from being misleading or to keep trends from becoming obscured? [GASB 10, par. 50]	_____	_____	_____
59. For pools not involving transfer or pooling of risk:			
a. Does the operating statement report claims-servicing revenue and administrative costs?	_____	_____	_____
b. Are amounts collected or due from pool participants and paid or to be paid to settle claims reported as a net asset or liability on an accrual basis, as appropriate? [GASB 10, par. 51]	_____	_____	_____
<b>B. Entities Other Than Pools—General Principles</b>			
1. If an internal service fund is used, if risk of loss or a portion of risk of loss has not been transferred to an unrelated third party, is an estimated loss from a claim reported as an expenditure/expense and as a liability if both of the following conditions are met:			
a. Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur confirming the fact of the loss.			
b. The amount of loss can be reasonably estimated? [GASB 10, par. 53]	_____	_____	_____
2. If the conditions in No. "B.1.a" above are met, and the reasonable estimate of the loss is a range (No. "B.1.b" is met), is an amount accrued for the loss? [GASB 10, par. 54]	_____	_____	_____
3. If an amount in the range appears to be a better estimate than any other amount within the range, is that amount accrued? [GASB 10, par. 54]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If no amount within the range is a better estimate than any other amount is the minimum amount in the range accrued? [GASB 10, par. 54]	_____	_____	_____
5. If an incurred but not reported loss can be reasonably estimated and it is probable that a claim will be asserted, is the expenditure/expense recognized? [GASB 10, par. 56]	_____	_____	_____
6. Are claims liabilities based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends and any other factors that would modify past experience? [GASB 10, par. 57]	_____	_____	_____
7. Are estimates of incurred but not reported claims based on historical experience? [GASB 10, par. 57]	_____	_____	_____
8. When historical experience is used, are the outstanding claims stratified by amount and type of claim, and the strata sufficiently refined to assure that the estimation is reasonable? [GASB 10, par. 57]	_____	_____	_____
9. Is disclosure of a loss contingency made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred? [GASB 10, par. 58]	_____	_____	_____
10. For No. "B.9" above, does the disclosure indicate the nature of the contingency and give an estimate of the possible loss or range of loss or state that such an estimate cannot be made? [GASB 10, par. 58]	_____	_____	_____
11. Are claims and liabilities associated with structured settlements discounted if they represent contractual obligations to pay money on fixed determinable dates. [GASB 10, par. 59]	_____	_____	_____
12. If claims and liabilities are discounted, is a rate used that is determined by giving consideration to such factors as the entity's settlement rate for those liabilities and its investment yield rate? [GASB 10, par. 60]	_____	_____	_____
13. Has the annuity contract and the related liability been removed from the entity's balance sheet if the entity purchases an annuity contract in the claimant's name to satisfy a claim liability and the likelihood that the entity will be required to make future payments on the claim is remote? [GASB 10, par. 61]	_____	_____	_____
14. In No. "B.13" above, has the aggregate outstanding amount of liabilities removed from the entity's financial statements been disclosed as long as those contingent liabilities are outstanding? [GASB 10, par. 61]	_____	_____	_____
15. In No. "B.13" above, if it is determined that the primary liability will revert back to the entity, has the liability been reinstated on the entity's balance sheet? [GASB 10, par. 61]	_____	_____	_____
16. Are investments associated with an entity's risk financing activities that are maintained separately from other investments of the entity valued in the same manner as all other investments reported in that fund type? [GASB 10, par. 62]	_____	_____	_____
17. If a single fund is used to account for an entity's risk financing activities, is that fund either a general fund or an internal service fund? [GASB 10, par. 63]	_____	_____	_____
<b>C. Risk Retention by Entities Other Than Pools</b>			
1. If the entity uses the general fund to account for its risk financing activities:			
a. Are claims liabilities and expenditures/expenses recognized in accordance with Nos. "B.1—B.8" above?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Are claims liabilities reduced by amounts expected to be recovered through excess insurance?	_____	_____	_____
c. Are claim amounts that are probable but not reasonably estimable disclosed in accordance with Nos. "B.9 and B.10" above?	_____	_____	_____
d. Are disclosures made about losses that are reasonably possible?	_____	_____	_____
e. If the total amount charged to other funds exceeds total expenditures and liabilities determined in accordance with Nos. "B.1—B.8" above, are the excess amounts reported as operating transfers? [GASB 10, par. 64]	_____	_____	_____
2. If an entity uses an internal service fund to account for its risk financing activities, does the fund recognize claims expenses and liabilities in accordance with Nos. "B.1—B.8" above? [GASB 10, par. 65]	_____	_____	_____
3. In No. "C.2" above, are claims expenses and liabilities reduced by amounts expected to be recovered through excess insurance? [GASB 10, par. 65]	_____	_____	_____
4. In No. "C.2" above, are claim amounts that are probable but not reasonably estimable disclosed in accordance with Nos. "B.9 and B.10" above? [GASB 10, par. 65]	_____	_____	_____
5. Were the following conditions met when considering the basis appropriate to charge other funds of the entity:			
a. The total charge by the internal service fund to the other funds for the period is calculated in accordance with Nos. "B.1—B.8" above?	_____	_____	_____
b. The total charge by the internal service fund to the other funds is based on an actuarial method or historical cost information and adjusted over a reasonable period of time so that internal service fund revenues and expenses are approximately equal?	_____	_____	_____
c. In addition to item b above, the total charge by the internal service fund to the other funds may also include a reasonable provision for expected future catastrophe losses? [GASB 10, par. 66]	_____	_____	_____
6. Were charges made in accordance with the foregoing provisions recognized as revenue by the internal service fund and as expenditures/expenses by the other funds of the entity? [GASB 10, par. 67]	_____	_____	_____
7. Is a deficit fund balance of the internal service fund disclosed in the notes to financial statements? [GASB 10, par. 67]	_____	_____	_____
8. Are retained earnings in the internal service fund resulting from the application of No. "C.5.c" above, reported as equity designated for future catastrophe losses in the notes to the financial statements? [GASB 10, par. 67]	_____	_____	_____
9. If the charge by the internal service fund to the other funds is greater than the amount resulting from the application of No. "C.5" above, is the excess reported in both the internal service fund and the other funds as an operating transfer? [GASB 10, par. 68]	_____	_____	_____
10. If the charge by the internal service fund to the other funds fails to recover the full cost of claims over a reasonable period of time, is any deficit fund balance in the internal service fund charged back to the other funds and reported as an expenditure/expense of those funds? [GASB 10, par. 68]	_____	_____	_____
<b>D. Entities Participating in Public Entity Risk Pools With Transfer or Pooling of Risk</b>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. In a pool in which there is a transfer or pooling (sharing) of risks among the participants of that pool, does the entity report its premium or required contribution as insurance expenditure/expense? [GASB 10, par. 69]	_____	_____	_____
2. If in No. "D.1" above, the pooling agreement permits the pool to make additional assessments to its members, does the entity consider the likelihood of additional assessments and report an additional expenditure/expense and a liability if an assessment is probable and can be reasonably estimated? [GASB 10, par. 69]	_____	_____	_____
3. For No. "D.1" above, are assessment amounts that are probable but not reasonably estimable disclosed in accordance with Nos. "B.9 and B.10" above. [GASB 10, par. 69]	_____	_____	_____
4. If it appears that the pool will not be able to meet its obligations and it is probable that the entity will be required to pay its own obligations if the pool fails, is the amount of those obligations reported as an expenditure/expense and as a liability if they can be reasonably estimated? [GASB 10, par. 70]	_____	_____	_____
<b>E. Entities Participating in Public Entity Risk Pools Without Transfer or Pooling of Risk</b>			
1. If the entity contracts with other entities to service its uninsured claims and it participates in a pool in which there is not transfer of risk to the pool or pooling of risk with other pool participants, does it recognize and measure its claims liabilities and related expenditures/expenses in accordance with Nos. "B.1—B.10" above? [GASB 10, par. 71]	_____	_____	_____
2. In No. "E.1" above, are payments to the pool reported either as deposits or as reductions of the claim liability, as appropriate? [GASB 10, par. 71]	_____	_____	_____
<b>F. Entities Other Than Pools—Insurance-Related Transactions</b>			
1. Under a claims-made policy did the entity account for the estimated cost of those claims and incidents not reported to the insurer in accordance with Nos. "B.1—B.10"? [GASB 10, par. 72]	_____	_____	_____
2. Is the entity with a retrospectively rated policy or contract whose ultimate premium or required contribution is based primarily on the entity's loss experience accounting for the minimum premium as expenditure/expense over the period of coverage under the policy and does it accrue estimated losses from reported and unreported claims in excess of the minimum premium as indicated in Nos. "B.1—B.8" above? [GASB 10, par. 73]	_____	_____	_____
3. In No. "F.2" above, if the entity cannot estimate losses from reported and unreported claims, does the entity disclose the existing contingency in the notes to the financial statements? [GASB 10, par. 73]	_____	_____	_____
4. Does the entity if it is insured under a retrospectively rated policy or contract with premiums or required contributions based primarily on the experience of a group of entities amortize the initial premium to expenditure/expense pro rata over the contract term? [GASB 10, par. 74]	_____	_____	_____
5. In No. "F.4" above, does the entity also accrue additional premiums or refunds on the basis of the group's experience to date, which should include provisions for the ultimate cost of reported and unreported claims before the financial statement date, whether reported or unreported? [GASB 10, par. 74]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Does the entity disclose (a) that it is insured under a retrospectively rated policy and (b) that premiums are accrued based on the ultimate cost of the experience to date of a group of entities? [GASB 10, par. 74]	_____	_____	_____
7. In No. "F.5" above, if the entity cannot estimate losses from reported or unreported claims as indicated in Nos. "B.1—B.8" above, does it disclose the existing contingency in the notes to the financial statements in accordance with Nos. "B.9 and B.10" above? [GASB 10, par. 74]	_____	_____	_____
8. If an entity receives or is entitled to receive a policyholder dividend or return of contribution related to its insurance or pool participation contract, is that dividend recognized as a reduction of expenditures/expenses at the time the dividend is declared? [GASB 10, par. 75]	_____	_____	_____
<b>G. Entities Providing Claims Servicing or Insurance Coverage to Others</b>			
1. If an entity provides insurance or risk management coverage separate from its own risk management activities to individuals or organizations outside the government reporting entity and there is material transfer or pooling of risk among the participants, is that activity accounted for as a public entity risk pool? [GASB 10, par. 76]	_____	_____	_____
2. If the entity provides risk transfer or pooling coverage combined with its own risk management activities to individuals or organizations outside its reporting entity, are those activities reported in the general fund or an internal service fund only as long as the entity is the predominant participant in that fund? [GASB 10, par. 76]	_____	_____	_____
3. If the entity is not the predominant participant in the fund, are the combined activities reported as a public entity risk pool, using an enterprise fund and the accounting and reporting requirements in Nos. "A.2—A.58" above? [GASB 10, par. 76]	_____	_____	_____
4. If an entity performs claims-servicing functions, not insurance functions, for individuals or organizations that are not part of the governmental reporting entity, are amounts collected or due from those individuals and organizations and paid or to be paid to settle claims reported as a net asset or liability on an accrual basis, as appropriate? [GASB 10, par. 76]	_____	_____	_____
5. In No. "G.4" above, does the operating statement report claims-servicing revenue and administrative costs as discussed in No. "A.59" above? [GASB 10, par. 59]	_____	_____	_____
<b>H. Entities Other Than Pools—Disclosures</b>			
1. Is the following information disclosed in the notes to the financial statements, if applicable for entities other than pools:			
a. A description of the risks of loss to which the entity is exposed and the way(s) in which those risks of loss are handled (for example, purchase of commercial insurance, participation in a public entity risk pool, risk retention)?	_____	_____	_____
b. A description of significant reductions in insurance coverage from coverage in the prior year by major categories of risk? Also indicate whether the amount of settlements exceeded insurance coverage for each of the past three fiscal years.	_____	_____	_____
c. If the entity participates in a risk pool, a description of the nature of the participation, including the rights and the responsibilities of both the entity and the pool?	_____	_____	_____
d. If an entity retains the risk of loss:			
(1) The basis for estimating the liabilities for unpaid claims?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) The carrying amount of liabilities for unpaid claims that are presented at present value in the financial statements and the range of discount rates used to discount those liabilities?	_____	_____	_____
(3) The aggregate outstanding amount of claims liabilities for which annuity contracts have been purchased in the claimants' names and for which the related liabilities have been removed from the balance sheet? (Annuity contracts used to settle claims for which the claimant has signed an agreement releasing the entity from further obligation and for which the likelihood that the pool will be required to make future payments on those claims is remote should not be included in this disclosure.)	_____	_____	_____
(4) A reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior fiscal year, in the following tabular format:			
(a) Amount of claims liabilities at the beginning of each fiscal year?	_____	_____	_____
(b) Incurred claims, representing the total of a provision for events of the current fiscal year and any change (increase or decrease) in the provision for events of prior fiscal years?	_____	_____	_____
(c) Payments on claims attributable to events of both the current fiscal year and prior fiscal years?	_____	_____	_____
(d) Other? (Provide an explanation of each material item.)	_____	_____	_____
(e) Amount of claims liabilities at the end of each fiscal year? [GASB 10, par. 77]	_____	_____	_____
2. If the disclosures required by GASB 10 are misleading in the aggregate is an additional or separate presentation made by fund or fund type? [GASB 10, par. 78]	_____	_____	_____
3. If a pool included in the oversight entity's combined financial report issues its own separate report, does the combined report emphasize oversight entity disclosures about its participation in a pool and provide reference to the separate report of the pool? [GASB 10, par. 78]	_____	_____	_____
4. Do component units that participate in their oversight entity's risk management internal service fund make the disclosures required by No. "H. 1. a. and b." above in their separately issued component unit financial statements? [GASB 10, par. 79]	_____	_____	_____
5. Does the component unit also disclose the fact that the unit participates in the fund, include a description of the nature of that participation, and state the rights and responsibilities of both the unit and the oversight entity? [GASB 10, par. 79]	_____	_____	_____
6. If disclosure is deemed necessary due to a contingency from a subsequent event, does the financial statement indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss or possible loss or state that such estimate cannot be made? [GASB 10, par. 80]	_____	_____	_____

**.06 Postemployment Benefits Other Than Pension Benefits Disclosures**

A. Does an employer that provides other postemployment benefits [OPEB] disclose, as a minimum, the following information either separately for one or more types of benefits or in the aggregate for all OPEB provided:			
1. A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner (for example, the approximate percentage of the total obligation to contribute that is borne by the employer and the participants, respectively, or the dollar or percentage contribution rates)?	_____	_____	_____
2. A description of the statutory, contractual, or other authority under which OPEB provisions and obligations to contribute are established?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. A description of the accounting and financing or funding policies followed, for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis?	_____	_____	_____
4. If OPEB are advance-funded on an actuarially determined basis did the employer also disclose:			
a. The actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements?	_____	_____	_____
b. The method used to value plan assets?	_____	_____	_____
5. The following expenditures/expenses information, depending on how OPEB are financed:			
a. If OPEB are financed on a pay-as-you-go basis:			
(1) The amount of OPEB expenditures/expenses recognized during the period by the employer (net of participant contributions)?	_____	_____	_____
(2) The number of participants currently eligible to receive benefits?	_____	_____	_____
(3) If expenditures/expenses for OPEB cannot readily be separated from expenditures/expenses for similar types of benefit provided to active employees and their dependents, have reasonable methods to approximate OPEB expenditures/expenses been used?	_____	_____	_____
(4) If a reasonable approximation cannot be made, has the employer stated OPEB expenditures/expenses cannot be reasonably estimated?	_____	_____	_____
b. If OPEB are advance-funded on an actuarially determined basis:			
(1) The number of active plan participants?	_____	_____	_____
(2) The employer's actuarially required and actual contributions for the period (net of participant contributions)?	_____	_____	_____
(3) The amount of net assets available for OPEB?	_____	_____	_____
(4) The actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use?	_____	_____	_____
6. A description (and the dollar effect, if measurable) of any significant matters that affect the comparability of the disclosures required by this paragraph with those for the previous period (for example a change in benefit provisions)?	_____	_____	_____
7. Any additional information that the employer believes will help users assess the nature and magnitude of the cost of the employer's commitment to provide OPEB? [GASB 12, par. 10]	_____	_____	_____
B. Do employers who advance-fund postemployment health care benefits on an actuarially determined basis through a defined benefit PERS or plan that provides retirement income and who elect to apply the disclosure requirements of GASB Cod. Sec. P20, "Pension Activities—Employer Reporting," to postemployment health care benefits, (instead of disclosing the information required by "A." above,) comply with the following requirements:			
1. Disclose the health inflation assumption in addition to other significant actuarial assumptions required by GASB Cod. Sec. P20?	_____	_____	_____
2. Calculate information disclosed about the funded status and funding progress of postemployment health care benefits in a manner consistent with the requirements of GASB Cod. Sec. P20 for the calculation of the funded status and the funding progress of pension benefits? [GASB 12, par. 11]	_____	_____	_____
C. Are the disclosures required by "A and B" above made for the reporting entity as a whole? [GASB 12, par. 12]	_____	_____	_____

**Other Disclosures**

**3525**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. If the employer believes aggregate disclosures would be misleading, are additional or separate disclosures made for one or more fund types or component units? [GASB 12, par. 12]	_____	_____	_____

[The next page is 3601.]



# FSP Section 3600

## Appendix

### Pension Plans

.01 In September 1986 GASB 4, par. 10 (GASB Cod. Sec. P20.106) indicated that state and local governmental employers should not change their accounting and financial reporting of pension activities as a result of FASB Statement No. 87, Employers Accounting for Pensions.

.02 According to GASB 4, paragraph 4, the following pronouncements are considered by the Board as sources of acceptable accounting and reporting principles for PERS and state and local government employers (the order shown does not indicate preference):

1. NCGA Statement 1, Governmental Accounting and Financial Reporting Principles.\*
2. NCGA Statement 6.
3. FASB Statement 35.

.03 The above three sources were to provide interim guidance pending issuance by the Board of a statement on pension accounting and financial reporting.

**.04 PENSION PLANS—DEFINED BENEFIT**  
**PERS reporting in accordance with FASB 36**

(The related pension assets and obligations of the Plan may be reported in fiduciary fund types as "pension trust funds." See the section on public employee retirement system (PERS) disclosures on page 3507 for disclosures if plan statements are included in the GPFS.)

1. In addition to the disclosure requirements of GASB 5, see Section I—"Other Disclosures", if the PERS are reporting in accordance with FASB 36 (AC P15), are each of the following items included in the information disclosed about the governmental unit's pension plans: [Note: Disclosures required by GASB 5, see Section I, should not be repeated to satisfy SFAS 36 requirements.]
  - a. A statement that such plans exist, identifying or describing the employee groups covered?
  - b. The governmental unit's accounting and funding policies?
  - c. The provision for pension cost for each period presented?
  - d. The nature and effect of significant matters affecting comparability for all periods presented?  
 [SFAS 36, par. 7 (AC P15.130)]

	Yes	No	N/A
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____
	_____	_____	_____

\* Amendment to NCGA Statement 1 [GASB Stat. No. 4, par. 11]

Footnote 8 of NCGA Statement 1 (Cod. Sec. Pe5.134, footnote 3) is superseded and replaced with the following:

Proprietary fund employers that account for pension activities in accordance with NCGA Statement 1 should recognize pension plan expenses and liabilities and make appropriate disclosures in conformity with APB Opinion No. 8, "Accounting for the Cost of Pension Plans," as amended by FASB Statement No. 36, "Disclosure of Pension Information" (if the required information is available), and by FASB Statement No. 74, "Accounting for Special Termination Benefits Paid to Employees." Footnote 4 to paragraph 8 of FASB Statement 36 provides that if the information required to be disclosed by that Statement is not available, the employer should disclose the reasons why that information is not available and should continue to comply with the disclosure requirements of APB Opinion 8.

**EFFECTIVE DATE AND TRANSITION**

The provisions of this Statement are effective on issuance.  
 [GASB 4, par. 12 (GASB Cod. Sec. Appendix C)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are the following disclosed for each complete set of financial statements as of the most recent benefit information date:			
a. Actuarial present value of vested accumulated plan benefits?	_____	_____	_____
b. Actuarial present value of nonvested accumulated plan benefits?	_____	_____	_____
c. Plan's net assets available for benefits?	_____	_____	_____
d. Assumed rates of return used in determining actuarial present value of vested and nonvested accumulated plan benefits?	_____	_____	_____
e. Date as of which the benefit information was determined? [SFAS 36, par. 8 (AC P15.131)]	_____	_____	_____
3. If 2(a) through (e) were not available, is the amount, if any, of excess of the actuarially computed value of vested benefits over the total of the pension fund and any balance sheet pension accruals, less any pension prepayments or deferred charges, disclosed, and the reasons why (a) through (e) were not provided? [SFAS 36, par. 8 (AC P15.131)]	_____	_____	_____
4. Are accrued or prepaid pension costs reflecting the difference between amounts charged against operations and amounts paid, if any, shown in the balance sheet? [APB 8, par. 18 (AC P15.111)]	_____	_____	_____

**.05 PENSION PLANS—DEFINED CONTRIBUTION**

PERS reporting in accordance with FASB 36

1. In addition to the disclosure requirements of GASB 5, see Section IJ, if the PERS is reporting in accordance with SFAS 36 (AC P15), are each of the following items included in the information disclosed about the governmental unit's defined contribution plan:			
a. A statement that a plan exists, identifying or describing the employee groups covered?	_____	_____	_____
b. The governmental unit's accounting and funding policies?	_____	_____	_____
c. The provision for pension cost for each period presented?	_____	_____	_____
d. The nature and effect of significant matters affecting comparability for all periods presented? [SFAS 36, par. 7 (AC P15.130)]	_____	_____	_____
[Note: Disclosures required by GASB 5, see Section I, should not be repeated to satisfy SFAS 36 requirements.]			

# **FSP Section 3700**

## ***Illustrative Combined Financial Statements***

**.01** According to GASB Cod. Sec. 2200.129 the following “basic” financial statements are necessary for separately issued GPFS to be presented fairly in conformity with generally accepted accounting principles:

- **Combined Balance Sheet—All Fund Types and Account Groups**
- **Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types**
- **Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted)**
- **Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types**
- **Combined Statement of Cash Flows—All Proprietary Fund Types (and Similar Trust Funds)**
- **Notes to the financial statements**
- **Required supplementary information.**

**.02** GASB Code Section 2200.113 states that combined financial statements of fund types and account groups may have a total column that aggregates the columnar statements by fund type and account group. If a total column is shown, it should be captioned “Memorandum Only” because the total column on a combined financial statement is not comparable to a consolidation. A note to the financial statements should disclose the nature of the column and should explain that it does not present consolidated financial information.

**.03 Illustrative Combined Balance Sheet—All Fund Types and Account Groups  
December 31, 19X2**

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type		Account Groups		Totals	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-term Debt	(Memorandum Only)		
										19X2	19X1	
<b>Assets</b>												
Cash .....	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$ —	\$ —	\$1,000,000	\$1,000,000	\$1,000,000
Investments, at cost or amortized cost .....	XX,000	XX,000	—	—	—	XX,000,000	—	—	—	XX,000,000	XX,000,000	XX,000,000
Receivables (net, where applicable, of allowances for uncollectibles):												
Taxes, including interest, penalties, and liens .....	XX,000	X,000	X,000	—	—	—	—	—	—	—	—	—
Accounts .....	X,000	X,000	—	—	XX,000	—	—	—	—	—	—	—
Notes .....	—	—	—	—	X,000	—	—	—	—	—	—	—
Loans .....	—	—	—	—	—	XX,000	—	—	—	—	—	—
Accrued interest .....	XX	XX	—	—	—	X,000	—	—	—	—	—	—
Due from other funds .....	XX,000	—	—	—	X,000	XX,000	—	—	—	—	—	—
Due from other governments .....	XX,000	XX,000	—	—	—	—	—	—	—	—	—	—
Advance to Internal Service Fund .....	XX,000	—	—	—	—	—	—	—	—	—	—	—
Inventory, at cost .....	X,000	X,000	—	—	XX,000	XX,000	—	—	—	—	—	—
Prepaid expenses .....	—	—	—	—	X,000	—	—	—	—	—	—	—
<b>Restricted assets:</b>												
Cash and investments, at cost or amortized cost .....	—	—	—	—	XX,000	—	—	—	—	—	—	—
Fixed assets (net of accumulated depreciation) .....	—	—	—	—	—	—	—	—	—	—	—	—
Amount available in Debt Service Funds .....	—	—	—	—	—	—	—	—	—	—	—	—
Amount to be provided for retirement of general long-term debt .....	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total assets .....</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Type		Account Groups			Totals	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-term Debt	19X2		19X1		
										(Memorandum Only)		(Memorandum Only)		
<b>Liabilities</b>														
Vouchers and accounts payable	\$XX,XXX	\$XX,XXX	\$—	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ X,XXX	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ XX,XXX
Contracts payable	XX,XXX	XX,XXX	—	XX,XXX	XX,XXX	—	—	—	—	—	—	—	—	XX,XXX
Judgments payable	—	X,XXX	—	XX,XXX	—	—	—	—	—	—	—	—	—	XX,XXX
Accrued general obligation interest	—	—	—	—	XX,XXX	—	—	—	—	—	—	—	—	XX,XXX
Other accrued expenses	—	—	—	—	X,XXX	—	X,XXX	—	—	—	—	—	—	X,XXX
Payable from restricted assets:														
Construction contracts	—	—	—	—	—	—	—	—	—	—	—	—	—	XX,XXX
Fiscal agent	—	—	—	—	XXX	—	—	—	—	—	—	—	—	XXX
Matured revenue bonds	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Matured revenue bond interest	—	—	—	—	—	—	—	—	—	—	—	—	—	X,XXX
Accrued interest	—	—	—	—	XX,XXX	—	—	—	—	—	—	—	—	X,XXX
Revenue bonds	—	—	—	—	XX,XXX	—	—	—	—	—	—	—	—	XX,XXX
Deposits	—	—	—	—	XX,XXX	—	—	—	—	—	—	—	—	XX,XXX
Due to:														
Other taxing units	—	—	—	—	—	—	XX,XXX	—	—	—	—	—	—	XX,XXX
Other funds	XX,XXX	X,XXX	—	X,XXX	—	XXX,XXX	—	—	—	—	—	—	—	XX,XXX
Deferred revenues	XX,XXX	X,XXX	X,XXX	—	—	—	—	—	—	—	—	—	—	XX,XXX
Advance from General Fund	—	—	—	—	—	XX,XXX	—	—	—	—	—	—	—	XX,XXX
General obligation bonds payable	—	—	—	—	XXX,XXX	—	—	—	—	—	—	—	—	X,XXX,XXX
Revenue bonds payable	—	—	—	—	X,XXX,XXX	—	—	—	—	—	—	—	—	X,XXX,XXX
Total liabilities	XXX,XXX	XX,XXX	X,XXX	XXX,XXX	X,XXX,XXX	XX,XXX	XXX,XXX	—	—	—	—	—	—	X,XXX,XXX

Illustrative Combined Balance Sheet—All Fund Types and Account Groups—Continued

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type		Account Groups		Totals		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	(Memorandum Only)		
										19X2	19X1	
<b>Fund Equity</b>												
Contributed capital .....	—	—	—	—	\$X,XXX,XXX	\$ XX,XXX	—	—	—	—	\$ X,XXX,XXX	\$ XXX,XXX
Investment in general fixed assets .....	—	—	—	—	—	—	—	X,XXX,XXX	—	—	X,XXX,XXX	X,XXX,XXX
Retained earnings:												
Reserved for revenue bond retirement .....	—	—	—	—	XXX,XXX	—	—	—	—	—	XXX,XXX	XX,XXX
Unreserved .....	—	—	—	—	X,XXX,XXX	X,XXX	—	—	—	—	X,XXX,XXX	X,XXX,XXX
<b>Fund balance:</b>												
Reserved for encumbrances .....	XX,XXX	XX,XXX	—	—	—	—	—	—	—	—	X,XXX,XXX	XX,XXX
Reserved for inventory ..	X,XXX	X,XXX	—	—	—	—	—	—	—	—	XX,XXX	XX,XXX
Reserved for advance to Internal Service Fund ..	XX,XXX	—	—	—	—	—	—	—	—	—	XX,XXX	XX,XXX
Reserved for loans .....	—	—	—	—	—	—	XX,XXX	—	—	—	XX,XXX	XX,XXX
Reserved for endowments .....	—	—	—	—	—	—	—	—	—	—	—	—
Reserved for employees' retirement system .....	—	—	—	—	—	—	—	—	—	—	—	—
Reserved for debt service Unreserved:	—	—	XX,XXX	—	—	—	—	—	—	—	—	—
Designated for subsequent years' expenditures .....	XX,XXX	—	—	—	—	—	—	—	—	—	—	XX,XXX
Undesignated .....	XX,XXX	XX,XXX	—	—	—	—	(XX,XXX)	—	—	—	—	(XX,XXX)
Total retained earnings/fund balance .....	XX,XXX	XX,XXX	XX,XXX	XX,XXX	X,XXX,XXX	X,XXX	X,XXX,XXX	—	—	—	X,XXX,XXX	X,XXX,XXX
Total fund equity .....	XX,XXX	XX,XXX	XX,XXX	XX,XXX	X,XXX,XXX	XXX,XXX	X,XXX,XXX	X,XXX,XXX	—	—	XX,XXX,XXX	X,XXX,XXX
Commitments and contingent liabilities												
<b>Total liabilities and fund equity .....</b>	<b>\$XXX,XXX</b>	<b>\$XXX,XXX</b>	<b>\$XX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$XXX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$XX,XXX,XXX</b>	<b>\$XX,XXX,XXX</b>

See accompanying notes to financial statements.

**NAME OF GOVERNMENT**  
**.04 Illustrative Combined Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances—All Governmental Fund Types and Expendable Trust Funds**  
**Year Ended December 31, 19X2**

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		19X2	19X1
<b>Revenue:</b>							
Taxes and special assessments	\$ XXX,XXX	\$ XXX,XXX	\$XX,XXX	\$ —	\$ —	\$X,XXX,XXX	\$X,XXX,XXX
Licenses and permits	XXX,XXX	—	—	—	—	XX,XXX	XX,XXX
Intergovernmental	XXX,XXX	XXX,XXX	XX,XXX	X,XXX,XXX	—	X,XXX,XXX	X,XXX,XXX
Charges for services	XX,XXX	XX,XXX	—	—	—	XX,XXX	XX,XXX
Fines and forfeits	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Miscellaneous	XX,XXX	XX,XXX	X,XXX	X,XXX	XXX	XX,XXX	XX,XXX
Total revenues	X,XXX,XXX	X,XXX,XXX	XX,XXX	X,XXX,XXX	XXX	X,XXX,XXX	X,XXX,XXX
<b>Expenditures:</b>							
General government	XXX,XXX	—	—	—	—	XXX,XXX	XXX,XXX
Public safety	XXX,XXX	XXX,XXX	—	—	—	XXX,XXX	XXX,XXX
Highways and streets	XX,XXX	XXX,XXX	—	—	—	XXX,XXX	XXX,XXX
Sanitation	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Health	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Welfare	XX,XXX	—	—	—	—	XX,XXX	XX,XXX
Culture and recreation	XX,XXX	XXX,XXX	—	—	—	XXX,XXX	XXX,XXX
Education	XXX,XXX	—	—	—	X,XXX	XXX,XXX	XXX,XXX
Capital projects	—	—	—	X,XXX,XXX	—	X,XXX,XXX	X,XXX,XXX
Debt service:							
Principal retirement	—	—	XX,XXX	—	—	XX,XXX	XX,XXX
Interest and fiscal charges	—	—	XX,XXX	—	—	XX,XXX	XX,XXX
Total expenditures	X,XXX,XXX	X,XXX,XXX	XX,XXX	X,XXX,XXX	X,XXX	X,XXX,XXX	X,XXX,XXX
Excess (deficiency) of revenues over expenditures	XXX,XXX	XX,XXX	X,XXX	(XXX,XXX)	(X,XXX)	(XXX,XXX)	(XXX,XXX)

**Illustrative Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds—Continued**

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		19X2	19X1
<b>Other financing sources (uses):</b>							
Proceeds of general obligation bonds . . . . .	—	—	—	\$ XXX,XXX	—	\$ XXX,XXX	\$ XXX,XXX
Operating transfers in . . . . .	—	—	—	XX,XXX	X,XXX	XX,XXX	XX,XXX
Operating transfers out . . . . .	(XX,XXX)	—	—	—	—	(XX,XXX)	(XX,XXX)
<b>Total other financing sources (uses) . . . . .</b>	<b>(XX,XXX)</b>	<b>—</b>	<b>—</b>	<b>XXX,XXX</b>	<b>X,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other uses . . . . .</b>	<b>XX,XXX</b>	<b>XX,XXX</b>	<b>X,XXX</b>	<b>XXX,XXX</b>	<b>XXX</b>	<b>XXX,XXX</b>	<b>(XXX,XXX)</b>
Fund balance at beginning of year . . . . .	XXX,XXX	XXX,XXX	X,XXX	XXX,XXX	XX,XXX	XXX,XXX	X,XXX,XXX
Increase in reserve for inventory . . . . .	X,XXX	—	—	—	—	X,XXX	—
<b>Fund balance at end of year . . . . .</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>	<b>\$XX,XXX</b>	<b>\$ XXX,XXX</b>	<b>\$XX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$ XXX,XXX</b>

See accompanying notes to financial statements.



NAME OF GOVERNMENT

.05 Illustrative Combined Statement of Revenues, Expenditures, and Changes In Fund Balances—Budget (GAAP Basis) and Actual—General, Special Revenue, and Capital Projects Fund Types

Year Ended December 31, 19X2

	General Fund			Special Revenue Fund Types			Capital Projects Fund Types		
	Budget	Actual	Variance—favorable (unfavorable)	Budget	Actual	Variance—favorable (unfavorable)	Budget	Actual	Variance—favorable (unfavorable)
<b>Revenues:</b>									
Taxes	\$ XXX,XXX	\$ XXX,XXX	\$ (X,XXX)	\$ XXX,XXX	\$ XXX,XXX	\$ (XXX)	\$ —	\$ —	\$ —
Licenses and permits	XXX,XXX	XXX,XXX	(XX,XXX)	—	—	—	—	—	—
Intergovernmental	XXX,XXX	XXX,XXX	(XX,XXX)	XXX,XXX	XXX,XXX	(X,XXX)	X,XXX,XXX	X,XXX,XXX	—
Charges for services	XX,XXX	XX,XXX	X,XXX	XX,XXX	XX,XXX	—	—	—	—
Fines and forfeits	XX,XXX	XX,XXX	XXX	—	—	—	—	—	—
Miscellaneous	XX,XXX	XX,XXX	(X,XXX)	XX,XXX	XX,XXX	(XX,XXX)	—	X,XXX	X,XXX
Total revenues	X,XXX,XXX	X,XXX,XXX	(XX,XXX)	X,XXX,XXX	X,XXX,XXX	(XX,XXX)	X,XXX,XXX	X,XXX,XXX	X,XXX
<b>Expenditures:</b>									
General government	XXX,XXX	XXX,XXX	X,XXX	—	—	—	—	—	—
Public safety	XXX,XXX	XXX,XXX	XX,XXX	XXX,XXX	XXX,XXX	XX,XXX	—	—	—
Highways and streets	XX,XXX	XX,XXX	(XX,XXX)	XX,XXX	XX,XXX	XX,XXX	—	—	—
Sanitation	XX,XXX	XX,XXX	(X,XXX)	—	—	—	—	—	—
Health	XX,XXX	XX,XXX	X,XXX	—	—	—	—	—	—
Welfare	XX,XXX	XX,XXX	X,XXX	—	—	—	—	—	—
Culture and recreation	XX,XXX	XX,XXX	X,XXX	—	—	—	—	—	—
Education	XX,XXX	XX,XXX	XX,XXX	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	X,XXX,XXX	X,XXX,XXX	(XX,XXX)
Total expenditures	X,XXX,XXX	X,XXX,XXX	XX,XXX	X,XXX,XXX	X,XXX,XXX	XX,XXX	X,XXX,XXX	X,XXX,XXX	(XX,XXX)
Excess (deficiency) of revenues over expenditures	XXX,XXX	XXX,XXX	(X,XXX)	(XX,XXX)	XX,XXX	XX,XXX	(XXX,XXX)	(XXX,XXX)	(XX,XXX)
<b>Other financing sources (uses):</b>									
Proceeds of general obligation bond issues	—	—	—	—	—	—	XXX,XXX	XXX,XXX	—
Operating transfers in	(XX,XXX)	(XX,XXX)	—	—	—	—	XX,XXX	XX,XXX	(XXX)
Operating transfers out	—	—	—	—	—	—	—	—	—
Total other financing sources (uses)	(XX,XXX)	(XX,XXX)	—	—	—	—	XXX,XXX	XXX,XXX	(XXX)
Excess (deficiency) of revenues and other sources over expenditures and other uses	XX,XXX	XX,XXX	(X,XXX)	(XX,XXX)	XX,XXX	XX,XXX	—	—	—
Fund balance at beginning of year	XXX,XXX	XXX,XXX	—	XXX,XXX	XXX,XXX	—	XXX,XXX	XXX,XXX	(XX,XXX)
Increase in reserve for inventory	—	X,XXX	X,XXX	—	—	—	—	—	—
Fund balance at end of year	\$ XXX,XXX	\$ XXX,XXX	\$ (X,XXX)	\$ XXX,XXX	\$ XX,XXX	\$ XX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ (XX,XXX)

See accompanying notes to financial statements.

## NAME OF GOVERNMENT

**.06 Illustrative Combined Statement of Revenues, Expenses and Changes in Retained Earnings/  
Fund Balances—All Proprietary Fund Types and Similar Trust Funds**

Year Ended December 31, 19X2

	<i>Proprietary Fund Types</i>		<i>Fiduciary Fund Types</i>		<i>Totals (Memorandum Only)</i>	
	<i>Enterprise (note 7)</i>	<i>Internal Service</i>	<i>Pension Trust</i>	<i>Nonexpend- able Trust</i>	<i>19X2</i>	<i>19X1</i>
<b>Operating revenues:</b>						
Charges for services . . . . .	\$ XXX,XXX	\$XX,XXX	\$ —	\$ —	\$ XXX,XXX	\$ XXX,XXX
Interest . . . . .	—	—	XX,XXX	X,XXX	XX,XXX	XX,XXX
Contributions . . . . .	—	—	XXX,XXX	—	XXX,XXX	XXX,XXX
Gifts . . . . .	—	—	—	XX,XXX	XX,XXX	—
<b>Total operating revenues .</b>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Operating expenses:</b>						
Personal services . . . . .	XXX,XXX	XX,XXX	—	—	XXX,XXX	XXX,XXX
Contractual services . . . . .	XX,XXX	XXX	—	—	XX,XXX	XX,XXX
Supplies . . . . .	XX,XXX	X,XXX	—	—	XX,XXX	XX,XXX
Materials . . . . .	XX,XXX	XX,XXX	—	—	XX,XXX	XX,XXX
Heat, light, and power . . . . .	XX,XXX	X,XXX	—	—	XX,XXX	XX,XXX
Depreciation . . . . .	XXX,XXX	X,XXX	—	—	XXX,XXX	XXX,XXX
Benefit payments . . . . .	—	—	XX,XXX	—	XX,XXX	XX,XXX
Refunds . . . . .	—	—	XX,XXX	—	XX,XXX	XX,XXX
<b>Total operating expenses .</b>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>—</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Operating income . . . . .</b>	<u>XXX,XXX</u>	<u>X,XXX</u>	<u>XXX,XXX</u>	<u>XX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>

	<i>Proprietary Fund Types</i>		<i>Fiduciary Fund Types</i>		<i>Totals (Memorandum Only)</i>	
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Pension Trust</i>	<i>Nonexpendable Trust</i>	<i>19X2</i>	<i>19X1</i>
<b>Nonoperating revenues (expenses):</b>						
Operating grants .....	\$ XX,XXX	—	—	—	\$ XX,XXX	\$ XX,XXX
Tap fees .....	XX,XXX	—	—	—	XX,XXX	XX,XXX
Interest .....	X,XXX	—	—	—	X,XXX	X,XXX
Rent .....	X,XXX	—	—	—	X,XXX	X,XXX
Interest and fiscal charges ..	(XX,XXX)	—	—	—	(XX,XXX)	(XX,XXX)
<b>Total nonoperating revenues (expenses) .....</b>	<b>X,XXX</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>X,XXX</b>	<b>(XX,XXX)</b>
<b>Income before operating transfers .....</b>	<b>XXX,XXX</b>	<b>X,XXX</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>
<b>Operating transfers in (out) ...</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>	<b>(X,XXX)</b>
<b>Net income .....</b>	<b>XXX,XXX</b>	<b>X,XXX</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>
<b>Retained earnings/fund balances at beginning of year .....</b>	<b>X,XXX,XXX</b>	<b>X,XXX</b>	<b>X,XXX,XXX</b>	<b>XXX,XXX</b>	<b>X,XXX,XXX</b>	<b>X,XXX,XXX</b>
<b>Retained earnings/fund balances at end of year .....</b>	<b>\$X,XXX,XXX</b>	<b>\$ X,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$XXX,XXX</b>	<b>\$X,XXX,XXX</b>	<b>\$X,XXX,XXX</b>

See accompanying notes to financial statements.

## NAME OF GOVERNMENT

**.07 Illustrative Combined Statement of Cash Flows—All Proprietary Fund Types (and Similar Trust Funds)**

Year Ended December 31, 19X2

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	Pension Trust	Nonexpendable Trust	19X2
<b>Cash flows from operating activities:</b>					
Cash received from customers .....	\$ XXX,XXX	\$ XX,XXX	\$ —	\$ —	\$ XXX,XXX
Cash payments to suppliers for goods and services .....	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
Cash payments to employees for services .....	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
Payments in lieu of taxes .....	(XX,XXX)	—	—	(XXX,XXX)	(XXX,XXX)
Other operating revenues .....	XX,XXX	—	XXX,XXX	XX,XXX	XXX,XXX
Net cash provided by operating activities .....	XX,XXX	XX,XXX	XXX,XXX	(XXX,XXX)	\$ XXX,XXX
<b>Cash flows from noncapital financing activities:</b>					
Net borrowings (repayments) under revolving loan agreement .....	(XX,XXX)	—	—	—	(XX,XXX)
Interest paid on revolving loan .....	(X,XXX)	—	—	—	(X,XXX)
Operating grants received .....	XX,XXX	—	—	—	XX,XXX
Operating transfers-out to other funds .....	(XX,XXX)	—	—	(X,XXX)	(XX,XXX)
Net cash provided by noncapital financing activities .....	X,XXX	—	—	(X,XXX)	X,XXX
<b>Cash flows from capital and related financing activities:</b>					
Proceeds from sale of revenue bonds .....	XXX,XXX	—	—	—	XXX,XXX
Acquisition and construction of capital assets .....	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
Principal paid on revenue bond maturities and equipment contracts .....	(XX,XXX)	—	—	—	(XX,XXX)
Interest paid on revenue bonds and equipment contracts .....	(XX,XXX)	—	—	—	(XX,XXX)
Proceeds from sale of equipment .....	XX,XXX	—	—	—	XX,XXX
Capital contributed by subdividers .....	XX,XXX	—	—	—	XX,XXX
Net cash used for capital and related financing activities .....	(XXX,XXX)	(XX,XXX)	—	—	(XXX,XXX)
<b>Cash flows from investing activities:</b>					
Purchase of investment securities .....	(XXX,XXX)	—	(XXX,XXX)	(XX,XXX)	(XXX,XXX)
Proceeds from sale and maturities of investment securities .....	XX,XXX	—	XX,XXX	—	XX,XXX
Interest and dividends on investments .....	X,XXX	—	X,XXX	X,XXX	X,XXX
Net cash used in investing activities .....	(XX,XXX)	—	(X,XXX)	(XX,XXX)	(XX,XXX)
Net increase (decrease) in cash and cash equivalents .....	(XX,XXX)	(XX,XXX)	XXX,XXX	(XXX,XXX)	(XX,XXX)
Cash and cash equivalents at beginning of year .....	XXX,XXX	XX,XXX	XX,XXX	(XX,XXX)	(XXX,XXX)
Cash and cash equivalents at end of year .....	\$ XXX,XXX	\$ XX,XXX	\$ XXX,XXX	\$ (XXX,XXX)	\$ XXX,XXX

See accompanying notes to financial statements.

Reconciliation of operating income to net cash provided by operating activities:

	<i>Proprietary Fund Types</i>		<i>Fiduciary Fund Types</i>		<i>Total (Memorandum Only) 19X2</i>
	<i>Enterprise</i>	<i>Internal Service</i>	<i>Pension Trust</i>	<i>Nonexpendable Trust</i>	
	Operating income .....	\$ XXX,XXX	\$ X,XXX	\$ XXX,XXX	
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation .....	XXX,XXX	X,XXX			XXX,XXX
Change in assets and liabilities:					
Investments .....	—	—	(X,XXX)	XX,XXX	(XX,XXX)
Receivables .....	(XX,XXX)			XXX	(XX,XXX)
Due from other funds .....	(X,XXX)	(X,XXX)	X,XXX		XX,XXX
Inventory .....	XX,XXX	XX,XXX			XX,XXX
Prepaid expenses .....	XXX				XXX
Vouchers payable .....	(XX,XXX)	X,XXX	X,XXX		(XX,XXX)
Contracts payable .....	XXX,XXX				XXX,XXX
Accrued general obligation bond interest .....	XXX				XXX
Other accrued expenses .....	X,XXX			(XXX)	X,XXX
Total adjustments .....	XXX,XXX	X,XXX	XXX,XXX	XX,XXX	XXX,XXX
Net cash provided by operating activities: .....	\$ XXX,XXX	\$ X,XXX	\$ XXX,XXX	\$ XX,XXX	\$XXX,XXX

## NAME OF GOVERNMENT

.06

## Illustrative Notes to Financial Statements

December 31, 19X2

## (1) Summary of Significant Accounting Policies

The Name of Government accounts for its financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units. Accordingly, the City uses several funds and account groups which are described below.

## A. Fund Types and Account Groups

A fund or account group is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The City maintains the following fund types and account groups:

*Governmental fund types*, that include the General Fund, special revenue funds and the Capital Projects Fund, are used to record the general operations of the City;

*Proprietary fund types*, that are used to account for activities conducted on a fee for service basis in a manner similar to commercial enterprises, provide services to the City (internal service funds) and the public (enterprise funds);

*Fiduciary fund types* (trust and agency funds), that are used to account for assets held by the City as an agent for private individuals or organizations or in trust;

*General fixed assets and general long-term obligation account groups*, that are used to account for property and equipment and long-term obligations of governmental funds. General long-term bonded debt was repaid through the General Fund, because it was the City's policy to allocate property tax collections first to debt service requirements, then to other purposes.

The combined financial statements include total columns that aggregate the financial statements of the various fund types and account groups. The columns are designated "memorandum only" because the totals are not comparable to a consolidation in that interfund transactions are not eliminated. Comparative information presented for 19X1 contains certain reclassifications to conform to the 19X2 presentation.

## B. Reporting Entity

All significant activities and organizations on which the City exercises oversight responsibility have been included in the general purpose financial statements, for the year ended December 31, 19X2. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

- Financial interdependency—The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.
- Election of the governing authority—The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes.
- Designation of management—The City Council appoints the City Manager and the Water Commissioner. The City Manager hires other members of City management and the Water Commissioner appoints a Water Commission manager who hires other members of the Water Commission management. The activities under the purview of management are within the scope of the

reporting entity and management is accountable to the City Council for the activities being managed.

- **Ability to significantly influence operations**—The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.
- **Accountability of fiscal matters**—The responsibility and accountability over all funds is vested in the City management.

### **C. Basis of Accounting**

Governmental fund types, agency funds and the expendable trust fund use a modified accrual basis of accounting. Revenues are recognized when available and measurable. Revenues that are accrued include federal and state grants and subventions, property taxes, transient occupancy taxes, sales taxes collected by the State on behalf of the City prior to year end, interest and certain charges for current services. Revenues that are not considered susceptible to accrual include certain licenses, permits, fines, forfeitures, penalties and other taxes. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary fund types and the nonexpendable trust fund are accounted for on the accrual basis. The Water and Wastewater Enterprise Funds bill for services on a staggered, bimonthly basis. This billing method does not capture all amounts receivable by the City at the end of each fiscal year. The unbilled amounts and the variance between such amounts at December 31, 19X2 and 19X1 are not material and have not been recorded.

### **D. Fixed Assets and Long-Term Liabilities**

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," because they do not

represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of long-term loans receivable are offset by fund balance reserve accounts.

Special reporting treatments also are applied to governmental fund inventories to indicate that they do not represent "available spendable resources," even though they are a component of net current assets. Such amounts generally are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Because they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They instead are reported as liabilities in the General Long-Term Debt Account Group.

All proprietary funds and Nonexpendable Trust and Pension Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings        25-50 years

Improvements   10-20 years

Equipment       3-10 years

#### **E. Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted at locations throughout the City to obtain taxpayer comments.

3. Prior to November 1, the budget is legally enacted through passage of an ordinance.

4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and Capital Projects Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

6. Budgets for the General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).



Budgeted amounts are as originally adopted, or as amended by the City Council on June 27, 19X2. Individual amendments were not material in relation to the original appropriations which were amended.

**F. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances outstanding at year end are reported as reservations of fund balances because they do not constitute expenditures or liabilities.

**G. Investments**

Investments are stated at cost or amortized cost, which approximates market.

**H. Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General and Special Revenue Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**I. Advance to Other Funds**

Noncurrent portions of long-term interfund loans receivable (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" because they are not a component of net current assets. Current portions of long-term interfund loans receivable (reported in "Due from" asset accounts) are considered "available spendable resources."

**J. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts**

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting). Such amounts are *not* accrued in governmental funds (using the modified accrual basis of accounting). At December 31, 19X2, unrecorded General and Special Revenue Fund liabilities included approximately \$XX,XXX vacation pay, \$XX,XXX sick pay, and \$XX,XXX employee health benefits. These amounts do *not* exceed normal year's accumulations.

**K. Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements because their inclusion would make the statements unduly complex and difficult to read.

**L. Statement of Cash Flows**

In 19X2, the City adopted GASB Statement 9 "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". For purposes of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

**(2) Cash and Investments**

Cash and investments which are stated at cost consisted of the following:

Cash .....	\$	XXX,XXX
Certificates of deposit .....		XX,XXX,XXX
Pooled investments .....		XX,XXX,XXX
Cash and investments in deferred compensation plan .....		X,XXX,XXX

The City maintains a cash and investment pool for all funds except those of the Civic Center Lease Trust Fund and certain restricted assets of the Parking Authority Enterprise Fund, which are held separately at the Bank of America as trustee for the City, and the Deferred Compensation Fund that are held by ICMA Retirement Corporation (ICMA). Investment income generally is allocated to the various funds based upon the funds' average cash and investment balances.

All cash and time deposits are entirely insured or collateralized. The [Name of State] Government Code requires [Name of State] banks and savings and loan associations to secure a City's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a City's deposits. [Name of State] law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits.

The City may waive collateral requirements for deposits, which are fully insured up to \$XXX,XXX by the Federal Deposit Insurance Corporation (FDIC) or Savings Association Insurance Fund (SAIF).

The surplus funds of the City may be invested in any of the following list of eligible securities. This list is drawn from the approved investments contained in the [Name of State] Government Code Sections 53600 et seq., limited further by the investment policy adopted by City Council.

<i>Type</i>	<i>Dollar limits</i>	<i>Maximum term</i>	<i>Liquid</i>
<b>General instruments</b>			
Local Agency Investment Fund (LAIF) ...	\$10 million	Available on demand	Yes
U.S. Treasury Bonds, Notes and Bills ....	None	5 years	Yes
U.S. Government Agencies .....	None	5 years	Yes
<b>Collateralized investments</b>			
Reverse Repurchase Agreements .....	\$15 million	6 months	By agreement
<b>Time Deposits—Banks and Savings</b>			
Associations .....	\$15 million	1 year	No
Financial options .....	\$15 million	60 days	Yes
<b>Uncollateralized instruments</b>			
Negotiable Certificates of Deposit .....	30% of total portfolio	5 years	Yes
Certain Corporate Medium-Term Notes ..	15% of total portfolio	5 years	Yes
Commercial Paper .....	30% of total portfolio	90 days	Yes
Bankers Acceptances .....	30% of total portfolio	180 days	Yes

At year end, the carrying amount of the City's investments was \$XXX,XXX,XXX, with a market value of \$XXX,XXX,XXX.

The City's investments are shown by type, carrying amount, market value and level of risk assumed in the holding of the various securities.

The levels of risk assumed in the various investments are categorized as follows:

- Category 1: includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.
- Category 2: includes uninsured and unregistered investments for which the securities are held by the bank's or dealer's trust department or agent in the City's name.

**Category 3:** includes uninsured and unregistered investments for which the securities are held by the bank or dealer, or by its trust department or agent but not in the City's name.

	Category			Total Cost	Total Cost
	1	2	3		
U.S. Government Securities . . . . . \$	—	\$XX,XXX,XXX	\$X,XXX,XXX	\$ XX,XXX,XXX	\$ XX,XXX,XXX
Bankers' Acceptances . . . . .	—	X,XXX,XXX	—	X,XXX,XXX	X,XXX,XXX
Certificates of Deposit . . . . .	X,XXX,XXX	XX,XXX,XXX	X,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Corporate Term Medium Notes . . . . .	—	X,XXX,XXX	—	X,XXX,XXX	X,XXX,XXX
Commercial Paper . . . . .	—	XX,XXX,XXX	—	XX,XXX,XXX	XX,XXX,XXX
	\$X,XXX,XXX	\$XX,XXX,XXX	\$X,XXX,XXX	XX,XXX,XXX	XXX,XXX,XXX
Investment in State Treasurer's Investment Pool	X,XXX,XXX	X,XXX,XXX		\$XXX,XXX,XXX	\$XXX,XXX,XXX

**Reverse Repurchase Agreement**

On December 1, 19X2, the City entered into a reverse repurchase agreement with First Interstate Bank. In this agreement the City put up a \$X,XXX,XXX U.S. Treasury note with a coupon rate of interest of 6.375% as collateral for a loan of \$X,XXX,XXX at 6.5% for thirty days. The loan proceeds were used to purchase a \$X,XXX,XXX Imperial Savings Certificate with an interest rate of 7.1% which matures on January 1, 19X3.

**(3) Property Tax**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on March 1 and payable in two installments on June 1 and September 1. The City bills and collects its own property taxes and also taxes for the County School District. Collections of the county taxes and remittance of them to the District are accounted for in the School District Tax Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The City is permitted by the Municipal Finance Law of the state to levy taxes up to \$5.00 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services other than the payment of principal and interest on long-term debt for the year ended December 31, 19X2, was \$3.74 per \$100, which means that the City has a tax margin of \$1.26 per \$100 and could raise up to \$XXX,XXX additional a year from the present assessed valuation of \$XX,XXX,XXX before the limit is reached.

**(4) Due from Other Governments**

Amounts due from other governments include \$XXX,XXX due from the County in connection with the construction of the Civic Center, which is expected to cost \$X,XXX,XXX, with \$X,XXX,XXX to be financed through a grant from the County (\$XXX,XXX of this amount was paid during 19X8). The \$XXX,XXX still due from the County is expected to be received when the project is 50 percent complete. Construction is expected to be 50 percent complete by April 1, 19X3, and fully complete by November 1, 19X3.

**(5) Changes in General Fixed Assets**

A summary of changes in general fixed assets follows:

	<i>Balance Jan. 1, 19X2</i>	<i>Additions</i>	<i>Deletions</i>	<i>Balance Dec. 31, 19X2</i>
Land .....	\$X,XXX,XXX	\$ XX,XXX	\$ -	\$X,XXX,XXX
Buildings .....	X,XXX,XXX	XXX,XXX	XXX,XXX	X,XXX,XXX
Improvements other than buildings .....	XXX,XXX	XXX,XXX	XX,XXX	X,XXX,XXX
Equipment .....	XXX,XXX	XX,XXX	XX,XXX	XXX,XXX
Construction in progress .....	XXX,XXX	X,XXX,XXX	XXX,XXX	X,XXX,XXX
<b>Total .....</b>	<b><u>\$X,XXX,XXX</u></b>	<b><u>\$X,XXX,XXX</u></b>	<b><u>\$X,XXX,XXX</u></b>	<b><u>\$X,XXX,XXX</u></b>

Construction in progress is composed of the following:

	<i>Project authorization</i>	<i>Expended to Dec. 31, 19X2</i>	<i>Committed</i>	<i>Required future financing</i>
Civic Center .....	\$X,XXX,XXX	\$X,XXX,XXX	\$ XXX,XXX	None
Mill Street Bridge .....	XXX,XXX	XXX,XXX	XX,XXX	None
Improvement District No. 80 .....	XXX,XXX	XXX,XXX	XX,XXX	None
<b>Total .....</b>	<b><u>\$X,XXX,XXX</u></b>	<b><u>\$X,XXX,XXX</u></b>	<b><u>\$X,XXX,XXX</u></b>	

A summary of proprietary fund type property, plant, and equipment at December 31, 19X2 follows:

	<i>Enterprise</i>	<i>Internal Service</i>
Land .....	\$ XXX,XXX	\$ XX,XXX
Buildings .....	XXX,XXX	XX,XXX
Improvements other than buildings .....	X,XXX,XXX	XX,XXX
Equipment .....	X,XXX,XXX	XX,XXX
Construction in progress .....	XX,XXX	—
<b>Total .....</b>	<b><u>X,XXX,XXX</u></b>	<b><u>XXX,XXX</u></b>
Less accumulated depreciation .....	XXX,XXX	XX,XXX
<b>Net .....</b>	<b><u>\$X,XXX,XXX</u></b>	<b><u>\$XXX,XXX</u></b>

**(6) Changes in Long-Term Debt**

The following is a summary of bond transactions of the City for the year ended December 31, 19X2 (in thousands of dollars):

	<i>General obligation</i>	<i>Revenue</i>	<i>Total</i>
Bonds payable at January 1, 19X2 .....	\$X,XXX	\$X,XXX	\$X,XXX
New bonds issued:			
19X2 Civic Center .....	XXX	—	XXX
19X2 Richard Craddock Memorial Recreation Center .....	XXX	—	XXX
Bonds retired .....	(XXX)	(XX)	(XXX)
<b>Bonds payable at December 31, 19X2 .....</b>	<b><u>\$X,XXX</u></b>	<b><u>\$X,XXX</u></b>	<b><u>\$X,XXX</u></b>

Bonds payable at December 31, 19X2 are comprised of the following individual issues (in thousands of dollars):

**General obligation bonds:**

\$X,XXX,XXX 19W2 Waterworks serial bonds due in annual installments of \$XX,XXX through January 1, 19Y6; interest at 4 percent (this issue is being serviced—principal and interest—by the Water and Sewer Enterprise Fund) .....	\$ XXX
\$X,XXX,XXX 19W2 Street, Bridge, and Drainage Improvements serial bonds due in annual installments of \$XX,XXX to \$XX,XXX through December 1, 19Y2; interest at 3 percent .....	XXX

\$XXX,XXX 19X2 Civic Center serial bonds due in annual installments of \$XX,XXX through December 1, 19Z2; interest at 4 percent .....	XXX
\$XXX,XXX 19X2 Richard Craddock Memorial Recreation Center serial bonds due in annual installments of \$XX,XXX through December 1, 19Z2; interest at 5 percent .....	XXX
	<u>XXX</u>
	<u>\$X,XXX</u>

Revenue bonds:

\$X,XXX,XXX Water and Sewer serial bonds due in annual installments of \$XX,XXX to \$XX,XXX through January 1, 19Z2; interest at 3 <sup>1</sup> / <sub>2</sub> percent .....	\$X,XXX
\$XXX,XXX 19W8 Water and Sewer serial bonds due in annual installments of \$XX,XXX to \$XX,XXX through January 1, 19Z2; interest at 3 <sup>1</sup> / <sub>2</sub> percent .....	XXX
	<u>XXX</u>
	<u>\$X,XXX</u>

The annual requirements to amortize all debt outstanding as of December 31, 19X2, including interest payments of \$X,XXX,XXX, are as follows:

**Annual Requirements to Amortize Long-Term Debt  
December 31, 19X2**  
(in thousands of dollars)

<i>Year ending December 31</i>	<i>General obligation</i>	<i>Revenue</i>	<i>Total</i>
19X3 .....	\$ XXX	\$ XXX	\$ XXX
19X4 .....	XXX	XXX	XXX
19X5 .....	XXX	XXX	XXX
19X6 .....	XXX	XXX	XXX
19X7 .....	XXX	XXX	XXX
19X8-Y2 .....	X,XXX	XXX	X,XXX
19Y3-Y7 .....	XXX	XXX	X,XXX
19Y8-Z2 .....	XXX	XXX	XXX
	<u>\$X,XXX</u>	<u>\$X,XXX</u>	<u>\$X,XXX</u>

\$XX,XXX is available in the Debt Service Funds to serve the general obligation bonds.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

**(7) Other Required Individual Fund Disclosures**

Generally accepted accounting principles require disclosure, as part of the Combined Statements—Overview, of certain information concerning individual funds including:

- A. Segment information for certain individual Enterprise Funds. This requirement is effectively met in this report by The Combined Balance Sheet—All Fund Types and Account Groups, The Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances—All Proprietary Fund Types and Similar Trust Funds and the Combined Statement of Changes in Financial Position—All Proprietary Fund Types and Similar Trust Funds because the City maintains only one Enterprise Fund.
- B. Summary disclosures of debt service requirements to maturity for all types of outstanding debt. This requirement is met by Note 6.
- C. Summary disclosures of changes in general fixed assets by major asset class. This requirement is met by Note 5.
- D. Summary disclosures of changes in general long-term debt. This requirement is met by Note 6.

E. Excess of expenditures over appropriations in individual funds. Civic Center Capital Projects Fund expenditures of \$X,XXX,XXX exceeded appropriations of \$X,XXX,XXX. Mill Street Bridge Capital Projects Fund expenditures of \$XX,XXX exceeded appropriations of \$XX,XXX.

F. Individual fund interfund receivable and payable balances. Such balances at December 31, 19X2 were:

Fund	<i>Interfund Receivables</i>	<i>Interfund Payables</i>
General Fund . . . . .	\$XX,XXX	\$XX,XXX
Special Revenue Fund:		
Parks Fund . . . . .		X,XXX
Capital Projects Fund:		
Mill Street Bridge Fund . . . . .		X,XXX
Enterprise Fund:		
Water and Sewer Fund . . . . .	X,XXX	
Internal Service Fund:		
Central Garage Fund . . . . .	XX,XXX	XX,XXX
Pension Trust Fund:		
Employees' Retirement System . . . . .	XX,XXX	
Expendable Trust Fund:		
Endowment Revenues fund . . . . .	X,XXX	
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

**(8) Pension Plans**

The City has historically presented the financial statements of its pension plan in accordance with the official pronouncements of the National Council on Governmental Accounting (NCGA) and the Financial Accounting Standards Board (FASB).

In preparing the financial statements of the Municipal Pension Fund for 19X2, the City has considered the Governmental Accounting Standards Board (GASB) Statements 1 and 4. These statements list several pronouncements that provide alternate methods of acceptable accounting and reporting principles for public employee retirement systems and state and local government employers. Where practicable, the City has adopted the disclosure requirements of GASB Statement 5.

**A. Municipal Pension Plan**

(1) **PLAN DESCRIPTION**—The City is required by the Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS), as a single employer plan, covering all officers and employees of the City, and the officers and employees of certain other governmental and quasi-governmental organizations. Court decisions have interpreted this requirement to mean that the City must make contributions to the Municipal Pension Fund sufficient to fund:

- (a) Accrued normal costs, which are actuarially computed amounts necessary to be contributed to the pension fund to provide, in the future, the pension and survivor benefits earned by the work force during the year.
- (b) Amortization in level installments (which include interest) over periods of 20 and 40 years, of certain unfunded prior service costs as ordered by the Court of Common Pleas of Philadelphia County in two class action suits brought by pension fund beneficiaries.

(c) Interest on the remaining unfunded accrued liability of the pension plans.

In 19X2 the city contributed the amounts prescribed in (a) and (b) above plus a scheduled amount sufficient to amortize (inclusive of interest) the remaining unfunded accrued liability over a 36 year period.

The schedule has been determined on the basis of a formula which produces amounts expected to be a level percentage of each year's aggregate payroll. The level percentage of payroll funding method is deemed actuarially sound and is in common use by public jurisdictions in the United States. Under this method, the unfunded accrued liability of \$X.X billion at December 31, 19X2 will increase to \$X.X billion by the year 2005 as unpaid interest on that liability compounds. Scheduled payments through the year 2019 will reduce the liability to zero. At January 1, 19X1 City Pension Plan membership consisted of:

(1) Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them .....	24,758
(2) Current employees .....	31,970
(3) Total membership .....	56,728

The Pension Plan provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service. Employees who retire are entitled to an annual retirement benefit, payable monthly for life.

- (a) Uniformed Personnel (Police and Fire) who retire at or after age 45 are eligible to receive a service pension equal to 2 1/2% of the employee's average final compensation multiplied by his years of credited service, subject to a maximum of 100% of average final compensation.
- (b) Municipal employees who retire at or after age 55 are eligible to receive a service pension equal to the sum of: 2 1/2% of the employee's average final compensation multiplied by his years of credited service to a maximum of 20 years; plus 2% of the employee's average final compensation multiplied by his years of credited service in excess of 20; limited to 80% of the employee's average final compensation.

Average final compensation is defined as follows:

- (a) Uniformed Personnel—the highest of the total compensation received during the 12-month period that produces the highest figure; or the annual base rate of pay, excluding longevity payments, calculated from the final pay period; or the arithmetic average of the total compensation received during the five calendar years of employment that produces the highest average.
- (b) Municipal Employees represented by the American Federation of State, County and Municipal Employee Union (AFSCME) and certain court employees—the arithmetic average of the total compensation received during the three calendar or anniversary years that produce the highest average.
- (c) Elected and appointed officials and other positions not represented by a union—the arithmetic average of the total compensation received during the three calendar or anniversary years that produce the highest average.

Covered employees who participate in the Social Security System contribute 3 3/4% of his or her total compensation up to the taxable wage base and 6% of total compensation above the taxable wage base to the Retirement System. Each employee who does not participate in the Social Security System contributes 6% of his or her total compensation to the Retirement System.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

- (a) **Basis of Accounting**—Pension Plan financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.
- (b) **Method Used to Value Investments**—Pension Plan securities are reported at cost; investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date. The market value of Pension Fund investments held at December 31, 19X2 totalled \$X,XXX.X million.
- (3) **FUNDING STATUS AND PROGRESS**—The amount shown below as “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Pension Plan’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and is independent of the actuarial funding method used to determine contributions to the PERS.

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 19X1. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 9% per year compounded annually; (b) projected salary increases of 6% per year compounded annually, and (c) age 65 assumed retirement age.

At January 1, 19X1 the unfunded pension benefit obligation was \$X,XXX.X million, as follows:

*(Amounts in Thousands)*

**Pension Benefit Obligation:**

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits .....	\$X,XXX,XXX
<b>Current employees—</b>	
Accumulated employee contributions including allocated investment income .....	XXX,XXX
Employer-financed vested .....	XXX,XXX
Employer-financed nonvested .....	XXX,XXX
Total pension benefit obligation .....	X,XXX,XXX
Net assets available for benefits, at cost value .....	X,XXX,XXX
Unfunded pension benefit obligation .....	\$X,XXX,XXX

- (4) **CONTRIBUTION REQUIRED AND CONTRIBUTIONS MADE**—The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are based on the unfunded accrued pension liability as determined by using the Entry Age actuarial cost method. This method differs from the Projected Unit Credit method that was used to determine the unfunded liability at December 31, 19X1. The effect of this change is to increase the unfunded accrued liability and Fiscal 1987 contributions by \$XXX.X million and \$X.X million, respectively.

Contributions totalling \$XXX.X million were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at January 1, 19X0. These contributions consisted of (a) \$XX.X million normal cost and (b) \$XX.X million amortization of the unfunded actuarial accrued liability less \$XX.X million credit for advance payments.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation in (3) above.



- (5) **TEN-YEAR HISTORICAL TREND INFORMATION**—Ten-year historical trend information designed to provide information about the Pension Plan's progress made in accumulating sufficient assets to pay benefits when due is presented following the notes to the financial statements.

**B. School District Pension Plan**

School districts in the Commonwealth participate in a State administered pension program established under legislative authority, which is a cost-sharing multiple-employer PERS. Under this program, contributions are made by each of three parties—the District, the Commonwealth and the employee. All the District's full-time employees, part-time employees salaried over eighty days and hourly employees working more than five hundred hours per year participate in the program. Currently, each party to the program contributes a fixed percentage of employees' gross earnings.

The pension program is wholly administered by the statewide, autonomous Public School Employees Retirement System (PSERS). The School District has no responsibility or authority for the operation and administration of the pension program nor has it any related liability except for the current contribution requirements.

There are approximately 200,000 contributing participants in the pension program and approximately 90,400 members including beneficiaries receiving benefits.

A brief statement of the terms of the pension plan follows:

- (1) **PENSION BENEFITS**—A participant may retire with a normal retirement allowance at the age of sixty-two with one full year of service, age sixty with thirty or more years of service or with thirty-five years of service regardless of age. The normal retirement allowance paid monthly for life and then to beneficiaries if certain options are exercised, equals 2% of the average of the highest three earning years multiplied by the number of years of credited service.

Early retirement is permitted at age fifty-five or older with twenty-five years or more of credited service with a reduction of 3% per year of normal retirement benefits.

- (2) **DEFERRED ALLOWANCE**—A participant leaving employment before attaining retirement age but completing ten years of service may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date.
- (3) **DEATH BENEFITS**—When a participant dies in active service after attaining normal retirement age and service, the beneficiary is entitled to a death benefit of the present value of the normal retirement allowance computed in (1) above. If a participant dies before attaining normal retirement age but after ten years of credited service, the beneficiary is entitled to a death benefit as indicated above but reduced by an early retirement factor provided by PERS.
- (4) **DISABILITY BENEFITS**—After five years of credited service a participant who becomes disabled and meets the PSERS medical standards is eligible for an annuity which equals 2% of the highest three years earnings multiplied by the number of years of credited service. The disability determination is subject to periodic review.

Both the School District's current-year payroll and its total current-year payroll for all employees amount to \$XXX.X million.

The School District's and the Commonwealth's percentages are equal and were 9.95% in Fiscal 19X2, and were decreased to 9.77% on January 1, 19X3. The employees rate was 5.25% but on July 22, 19X3, a State law was passed which increased the rate to 6.25% for employees hired after that date.

Total contributions made during Fiscal 19X2 amounted to \$XX.X million, of which \$XX.X million was contributed by the School District and \$XX.X million by School District employees. These contributions represented 10.02% and 6.15%, respectively, of covered payroll.

The amount of the total pension benefit obligation is based on standardized measurement established by GASB Statement 5 that, with some exceptions, must be used by a PERS. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date, and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable readers of PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among PERS and among employers.

Total unfunded pension benefit obligation of the State PERS as of December 31, 19X2 was as follows:

	<i>(Amounts in Billions)</i>
Total Pension Benefit Obligations .....	\$XX.X
Net Assets Available for Pension Benefits, At Market .....	X.X
Unfunded Pension Benefit Obligation .....	\$ X.X

The measurement of the total pension benefit obligation is based on an actuarial valuation as of December 31, 19X1. Net assets available to pay pension benefits were valued as of the same date.

The School District's 19X2 required contribution to the State PERS represents 9.95% of the total current-year actuarially determined contribution requirements for all employers covered by the pension plan.

Ten-year historical trend information is presented in the 19X2 State PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

During 19X2 and as of December 31, 19X2, the State PERS held no securities issued by the School District or other related parties.

**(9) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salaries until future years. The City does not make any contributions to the plan. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

In management's opinion, the City has no liability for losses under the plan. However, the City does have the duty of due care that would be required of an ordinary prudent investor. The City believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

All assets of the Plan are held by an independent administrator. It is appropriate to include this entity in the City's 19X2 financial statements since the City has title to these assets. The Deferred Compensation Fund is reported as an Agency Fund and its assets are presented at market value on September 30, 19X2.

**(10) Intergovernmental Revenues—Debt Service Funds**

Under the provisions of state law, the state reimburses the City for a portion of the financing costs of various approved projects. Payments totaling \$XXX,XXX have been made through December 31, 19X2 including \$XX,XXX in 19X2 for projects financed by the proceeds of the 19V5 Street, Bridge and Drainage Improvement bonds. These amounts must be used to abate a portion of the tax levied for principal and interest payments due on the approved project bonds. These reimbursements represent approximately 45 percent of the debt service on the 19V5 Street, Bridge and Drainage Improvement bonds and are expected to average approximately \$XX,XXX annually until the bonds mature.

**(11) Litigation**

The City Council and the City are defendants in litigation seeking damages of \$XXX,XXX for violation of civil rights in a zoning decision. The suit alleges that the defendants conspired to down-zone property and refused to accept an application for a building permit by the plaintiff resulting in a violation of his civil rights. Outside counsel for the City is of the opinion that the defendants will prevail.

There are several other pending lawsuits in which the City is involved. The City Attorney estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

**(12) Commitments**

Commitments under lease agreements for facilities and equipment provide for minimum annual rental payments as follows:

	<i>Facilities</i>	<i>Equipment</i>	<i>Total</i>
19X3 .....	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX
19X4 .....	XX,XXX	XX,XXX	XX,XXX
19X5 .....	XX,XXX	XX,XXX	XX,XXX
19X6 .....	XX,XXX	XX,XXX	XX,XXX
19X7 .....	XX,XXX	XX,XXX	XX,XXX
Thereafter .....	XXX,XXX	-	XXX,XXX
<b>Total</b> .....	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>

19X2 rent expense was \$XX,XXX. Commitments under construction contracts are described in Note 4.

**(13) Contingent Liabilities**

The City participates in a number of federally assisted grant programs, principal of which are the General Revenue Sharing, Community Development Block Grant, Comprehensive Employment Training Act, and Local Public Works programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended December 31, 19X2 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**(14) Subsequent Event**

On February 13, 19X3, the City Council was officially notified that its application for a construction grant from the Environmental Protection Agency (EPA) was approved. Under the grant, the City is to construct a wastewater treatment plant at a total cost of approximately \$X,XXX,XXX. EPA will finance 75 percent of the total cost, approximately \$X,XXX,XXX, with the City financing the balance of \$XXX,XXX by issuing water and sewer revenue bonds. Construction is expected to commence in late 19X3 with completion currently scheduled for mid-19X5.

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

**Independent Auditor's Report**

We have audited the accompanying general purpose\*\* financial statements of City of Example, Any State, as of December 31, 19X2, and for the year then ended, as listed in the table of contents. These general purpose\*\* financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose\*\* financial statements based on our audit.

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

In our opinion, the general purpose\*\* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of December 31, 19X2, and the results of its operations and cash flows of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

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

[Signature ]

[Date ]

---

\* If a schedule of federal financial assistance is reported on as supplementary data, *Government Auditing Standards*, issued by the Comptroller General of the United States, should be referenced in the second paragraph.

\*\* If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used.

## **.10 Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With *Government Auditing Standards***

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State, management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed test of the City's compliance with certain provisions of laws, regulations, contracts, and grants.<sup>\*</sup> However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, City of Example, Any State, complied, in all material respects with the provisions referred to in the preceding paragraph.<sup>\*\*</sup> With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

<sup>\*</sup> Based on assessments of materiality and audit risk, auditors may decide not to perform tests of compliance with certain provisions of laws, regulations, contracts, and grants. For example, an auditor may conclude that transactions and balances directly affected by laws and regulations are not material to the financial statements taken as a whole. In such circumstances, *Government Auditing Standards*, in paragraph 6 on page 5-2, states that "... the report should contain a statement that the auditor did not test for compliance with laws and regulations." The auditor's report should not include a statement of positive assurance; however, the assessments of materiality and audit risk provide a basis for the auditor to conclude that the likelihood of material instances of noncompliance is low. Thus, the auditor has a basis for expressing negative assurance about compliance under *Government Auditing Standards*. The following is an illustration of the auditor's report on compliance when, based on assessments of materiality and audit risk, the auditor concluded that it was not necessary to perform tests of compliance with laws and regulations:

*[First two paragraphs are the same as in the above report.]*

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State, management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of the City's compliance with such provisions of laws, regulations, contracts, and grants.

However, in connection with our audit, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with the laws, regulations, contracts, and grants referred to in the preceding paragraph.

*[Fifth paragraph, signature, and date are the same as in the report illustrated above.]*

<sup>\*\*</sup> *Material instances of noncompliance* are failures to follow requirements or violations of prohibitions, contained in laws, regulations, contracts, or grants, that cause the auditor to conclude that the aggregation of the misstatements (that is, the auditor's best estimate of the total misstatement) resulting from those failures or violations is material to the financial statements. When the auditor's procedures disclose material instances of noncompliance, the auditor should modify the statements of positive and negative assurance included in the report. The following is an illustration of the auditor's report on compliance when material instances of noncompliance are identified:

*[First three paragraphs are the same as in the report illustrated above.]*

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in laws, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the 19X2 general purpose financial statements of City of Example, Any State.

*[Include paragraphs describing the material instances of noncompliance noted.]*

We considered these material instances of noncompliance in forming our opinion on whether the 19XX general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated March 15, 19X3 on those general purpose financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, City of Example, Any State, complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

*[Last paragraph, signature, and date are the same as in the above report.]*

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature*]

[*Date*]

## .11 Report on the Internal Control Structure in Accordance With *Government Auditing Standards*

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3.

We have conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of City of Example, Any State, for the year ended December 31, 19X2, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of City of Example, Any State, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories [*identify internal control structure categories*].

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.\*

---

\* Paragraph 17 of SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in a Financial Statement Audit*, prohibits the auditor from issuing a written report representing that no reportable conditions were noted during an audit. When the auditor notes no reportable conditions during an audit, he or she may issue a report, such as the following, to satisfy the requirements of *Government Auditing Standards*:

[First through sixth paragraphs of the report are the same as those illustrated in example 25.]

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State, in a separate communication dated March 15, 19X3.

[Last paragraph of the report is the same as that illustrated in the above example.]

*[Include paragraphs to describe the reportable conditions noted. ]*

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State, in a separate letter dated March 15, 19X3.

This report is intended for the information of the audit committee, management, and *[specify legislative or regulatory body]*. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*[Signature ]*

*[Date ]*



**.12 Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs**

We have audited City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended December 31, 19X2. The management of City of Example, Any State, is responsible for City of Example, Any State, compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State, compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, City of Example, Any State, complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended December 31, 19X2.

*[Signature]*

*[Date]*

**.13 Single Audit Report on Compliance With the General Requirements Applicable to Major Federal Financial Assistance Programs**

We have applied procedures to test City of Example, Any State, compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended December 31, 19X2. [*List the general requirements applicable to the entity's major federal financial assistance programs (such as political activity, Davis-Bacon Act, civil rights, cash management, relocation assistance and real property management, or federal financial reports).* ]

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments* [*or describe alternative procedures performed*]. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Example, Any State, compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature* ]

[*Date* ]

**.14 Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions**

In connection with our audit of the 19XX general purpose financial statements of City of Example, Any State, and with our study and evaluation of City of Example, Any State, internal control systems used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended December 31, 19X2.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing the types of services allowed or unallowed; eligibility; and [*describe any special tests and provisions*] that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Example, Any State, compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature*]

[*Date*]

**.15 Report on Internal Controls (Accounting and Administrative)—Based on a Study and Evaluation Made as a Part of an Audit of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act**

[The concepts of SAS Nos. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, and 63, Compliance Auditing Applicable to Governmental Entities and Other Specified Recipients of Governmental Financial Assistance, have a considerable effect on considerations auditors should make in reporting on internal control over federal financial assistance, as required by the Single Audit Act. The Government Accounting and Auditing Committee is developing guidance to amend the following example and paragraphs 21.6 through 21.16 of Audits of State and Local Governmental Units, which will, among other things, relate the concepts of this example and those paragraphs with those of SAS Nos. 55 and 63.]

We have audited the general purpose financial statements of City of Example, Any State, for the year ended December 31, 19X2, and have issued our report thereon dated March 15, 19X3. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act of 1984, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories: *[identify control categories]*\*

\* Following are examples of different ways in which accounting controls might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which he or she is reporting.

**Cycles of the Entities' Activity**

- Treasury or financing
- Revenue/receipts
- Purchases/disbursements
- External financial reporting

**Financial Statement Captions**

- Cash and cash equivalents
- Receivables
- Inventory
- Property and equipment
- Payables and accrued liabilities
- Debt
- Fund balance

**Accounting Applications**

- Billings
- Receivables
- Cash receipts
- Purchasing and receiving
- Accounts payable
- Cash disbursements
- Payroll
- Inventory control
- Property and equipment
- General ledger

**Controls Used in Administering Federal Programs**

Following are general and specific administrative control categories identified by representatives of the federal government (refer to chapter 22 of *Audits of State and Local Governmental Units*.)

**General Requirements**

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition

The management of City of Example, Any State, is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended December 31, 19X2, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of City of Example, Any State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of City of Example, Any State, did not extend beyond this preliminary review phase.\*\*

(Footnote Continued)

- Federal financial reports
- Specific Requirements
  - Types of services
  - Eligibility
  - Matching, level of effort
  - Reporting
  - Cost allocation
  - Special requirements, if any
  - Monitoring subrecipients

\*\* If total assistance expended under major federal financial assistance programs is greater than zero but constitutes less than 50 percent of total federal assistance expended by the government during the year under audit, the auditor should apply the guidance in chapter 21 of *Audits of State and Local Governmental Units* in order to satisfy the objectives of the Single Audit Act. When such guidance is applied, the fourth through seventh paragraphs of the report on internal controls used to administer federal financial assistance programs should be modified as follows:

Our study included all of the applicable control categories listed above. During the year ended December 31, 19X2, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs and the following nonmajor federal financial assistance programs: *[list appropriate nonmajor federal assistance programs]*. With respect to internal control systems used in administering these major and nonmajor federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the other nonmajor federal financial assistance programs of City of Example, Any State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering these nonmajor federal financial assistance programs of City of Example, Any State, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Accord-

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of City of Example, Any State.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our audit disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.<sup>\*\*\*</sup> (A description of the conditions that have come to the auditor's attention would follow; if the study and evaluation and the audit disclose no material weaknesses in relation to a federal financial assistance program, this sentence should state, "However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness in relation to a

(Footnote Continued)

ingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of City of Example, Any State.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems for which our study and evaluation was limited to a preliminary review of the systems as discussed in the fifth paragraph of this report.

If the government had no major federal financial assistance programs during the year under examination, the auditor should apply the guidance in chapter 21 of *Audits of State and Local Governmental Units* in order to satisfy the objectives of the Single Audit Act. When such guidance is applied, the fourth through seventh paragraphs of the auditor's report on internal controls used to administer federal financial assistance programs should be modified as follows:

Our study included all of the applicable control categories listed above. During the year ended December 31, 19X2, City of Example, Any State, had no major federal financial assistance programs and expended X percent of its total federal financial assistance under the following nonmajor federal financial assistance programs: [list appropriate nonmajor federal financial assistance programs]. With respect to internal control systems used in administering these nonmajor federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the other nonmajor federal financial assistance programs of City of Example, Any State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering these nonmajor federal financial assistance programs of City of Example, Any State, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems, for which our study and evaluation was limited to a preliminary review of the systems, as discussed in the fifth paragraph of this report.

<sup>\*\*\*</sup> All material weaknesses that have come to the auditor's attention during the audit should be described. Though only material weaknesses in internal controls need be reported, the auditor may wish to report nonmaterial weaknesses to management. This may be accomplished in the auditor's letter to management or through some similar method of communication. If a letter to management is prepared, the auditor should refer to that communication in this report.

*Government Auditing Standards*, issued by the Comptroller General of the United States, states that well-developed findings concerning material weaknesses in internal controls generally consist of a statement of condition, the criteria, the effect, and the cause (see chapter 23 of *Audits of State and Local Governmental Units* for further explanation).

It is recognized that the auditor may not be able to fully develop all of these points for each material weakness found, given the scope and purpose of the control study. The auditor should attempt to identify the condition, criteria, effect, and cause to provide sufficient information to federal, state, and local officials to permit timely and proper corrective action. These findings may also serve as a basis for a federal agency's conducting or contracting for additional audit work.

Weaknesses identified relating to controls over nonmajor programs should be reported here or alternatively in a letter to management based on whether they are considered to be material or nonmaterial.

federal financial assistance program of City of Example, Any State," and the following paragraph should be omitted.)

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 19XX general purpose financial statements and (2) our audit and review of City of Example, Any State, compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs. This report does not affect our reports on the general purpose financial statements and on City of Example, Any State, compliance with laws and regulations dated March 15, 19X3.

This report is intended solely for the use of management and [*specify legislative or regulatory body*] and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by City of Example, Any State, is a matter of public record.

[*Signature*]

[*Date*]

---

# FSP Section 4000

## DISCLOSURE SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR OIL AND GAS PRODUCERS

.01 Disclosure checklists and illustrative financial statements 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:

- This checklist addresses accounting disclosures and auditing issues specific to oil and gas producing companies and includes references to relevant Securities and Exchange Commission (SEC) Regulations, Statements of Financial Accounting Standards, Statements on Auditing Standards, and the Audit and Accounting Guide entitled, *Audits of Entities with Oil and Gas Producing Activities*.
- The reader should use this checklist in conjunction with "Disclosure Checklists and Illustrative Financial Statements for Corporations" for general coverage of all disclosures and reporting issues.
- 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 should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

.02 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.

John Graves  
Director  
Technical Services

---

[The next page is 4101.]



# FSP Section 4100

## *Introduction*

.01 This checklist applies only to entities with oil and gas producing activities. These activities generally encompass the search for and acquisition of mineral interests in properties for the purpose of the exploration, development and production of crude oil including natural gas and natural gas liquids.

.02 All oil and gas companies, both public and non-public, are required pursuant to Financial Accounting Standards Board Statement (SFAS) No. 69, "Disclosures About Oil and Gas Producing Activities" to disclose in their financial statements the method of accounting for costs incurred in oil and gas producing activities and the manner of amortizing those costs that are capitalized.

.03 The two accounting methods recognized by the Securities and Exchange Commission (Refer to Regulation S-X Rule 4-10) are (1) the successful efforts method (SFAS No. 19) and (2) the full cost method of accounting. For non-public companies, the use of a method of accounting other than recommended practice may have to be justified. The principal difference between full cost accounting and successful efforts accounting concerns the accounting treatment of those costs that cannot be directly related to the discovery of specific oil and gas reserves.

## **Primary Accounting Methods**

### .04 Successful Efforts Method

"Successful efforts" accounting essentially provides for capitalizing only those costs directly related to proved properties and subsequently amortizing those costs over the life of the properties.

### .05 Full Cost Method

"Full cost" accounting generally requires capitalizing all costs incurred in exploring for, acquiring and developing oil and gas reserves, regardless of whether or not the specific properties are successful.

## **Supplementary Information**

.06 Oil and gas companies that are registered with the SEC and have significant oil and gas producing activities as defined in paragraph 8 of Financial Accounting Standards Board Statement (SFAS) No. 69, are required to present certain disclosures as *supplementary* information when presenting a complete set of *annual* financial statements. Supplementary information required by the FASB is subject to certain limited procedures pursuant to Statement on Auditing Standards No. 52 (AU § 558) and Auditing Interpretation of AU section 558 (AU § 9558).

.07 The supplementary disclosures are not required for reporting on interim periods (SFAS No. 69, ¶ 9).

.08 In addition, SEC registrants should be aware of the non-financial statement disclosures specified in Regulation S-K, Industry Guide 2: Disclosure of Oil and Gas Operations.

## **Financial Accounting References**

.09 SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies."

.10 SFAS No. 25, "Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies."

.11 SFAS No. 69, "Disclosures about Oil and Gas Producing Activities."

Note: SFAS No. 25 suspended the *mandatory* application of the successful efforts method of accounting as promulgated by SFAS No. 19 and the full cost method of accounting was adopted by the SEC as an acceptable alternative for SEC registrants.

**Securities and Exchange Commission**

.12 Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975 [Regulation S-X, Rule 4-10(a)-(j)]

.13 Financial Reporting Release No. 9 (adoption of SFAS No. 69)

.14 Securities Act and Exchange Act Industry Guide No. 2 (Regulation S-K)

**AICPA**

.15 Audit and Accounting Guide—*Audits of Entities with Oil and Gas Producing Activities (1986)*

---

[The next page is 4201.]

# FSP Section 4200

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with the *Disclosure Checklists and Illustrative Financial Statements for Corporations*.

.02 Explanation of technical reference abbreviations:

SAS = Statement on Auditing Standards

(AU) = Reference to section number in volume 1 of *AICPA Professional Standards*

.03 Checklist Questionnaire

Note: This checklist is to be used in conjunction with *Auditors' Reports Checklist*, Section 2300, "Disclosure Checklists for Corporations," of this manual.

Yes      No      N/A

### A. Auditors' Reports Checklist for Oil and Gas Producing Companies

Note: SFAS No. 69, "Disclosures about Oil and Gas Producing Activities," and SEC Regulation S-K requires supplementary disclosures for publicly traded entities that have significant oil and gas producing activities. These disclosures may be presented outside the financial statements as supplementary information (Refer to AU section 558.05 and interpretation AU section 9558).

1. Has the auditor's report on a publicly traded enterprise been expanded to include an explanatory paragraph regarding the supplementary information in any of the following circumstances:
  - a. Omission of supplementary information?  
[SAS 52, (AU 558.08)]
  - b. Supplementary information departs materially from guidelines established by SFAS No. 69, "Disclosures about Oil and Gas Producing Activities"??  
[SAS 52, (AU 558.08)]
  - c. The auditor is unable to complete the procedures prescribed by section AU 558 because of the lack of necessary information?  
[SAS 52, (AU 558.08)]
  - d. The auditor has unresolved doubts regarding whether material modifications should be made to the information for it to conform with guidelines established by SFAS No. 69, "Disclosures About Oil and Gas Producing Activities"??  
[SAS 52, (AU 558.08)]
2. If the auditor is unable to make additional inquiries because of the nature of the estimates of oil and gas reserve information, have these limitations been included in the auditor's report?  
[SAS 52 Interpretation, (AU 9558.06)]
3. If an entity includes with the supplementary information an indication that the auditor performed procedures regarding the information, without also indicating that the auditor does not express an opinion on the information presented, has the auditor's report been expanded to include a disclaimer of opinion on the supplementary information?  
[SAS 52, (AU 558.09)]

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If management chooses not to place the required supplementary information outside the basic financial statements, is the information clearly marked as unaudited and if not marked as unaudited does the auditor's report include a disclaimer on the supplementary information? [SAS 52 (AU 558.10)]	_____	_____	_____

---

[The next page is 4301.]

# FSP Section 4300

## Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with Section 2500, *Financial Statements and Notes Checklist for Corporations*, of this manual.

**.02 Explanation of technical reference abbreviations:**

SFAS =	Statement of Financial Accounting Standards
(AC) =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
APB =	Accounting Principles Board Opinion
FIN =	Statement of Financial Accounting Standards Interpretation
S-K =	Securities and Exchange Commission Regulation S-K
S-X =	Securities and Exchange Commission Regulation S-X
SAB =	Securities and Exchange Commission Staff Accounting Bulletin
AAG =	AICPA Audit and Accounting Guide, <i>Audits of Entities With Oil and Gas Producing Activities</i> (1986)

**.03 Checklist Questionnaire**

Note: For general disclosures refer to Section 2500, "Financial Statements and Notes Checklist for Corporations," of this manual.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>A. Disclosure of Significant Accounting Policies and Accounting Changes</b>			
1. For all oil and gas producing companies has the method of accounting for the following items been disclosed:			
a. Costs incurred in oil and gas producing activities?	_____	_____	_____
b. The manner of disposing of capitalized costs from oil and gas producing activities? [SFAS 69, par. 6 (AC Oi5.156)]	_____	_____	_____
2. If accounting changes are made to adopt the "full cost accounting method" promulgated by the SEC:			
a. Is the nature of the change, justification for the change, and the effect on income disclosed in accordance with APB 20? [SFAS 25, par. 4 and 5; APB 20, par. 17 (AC A06.113)]	_____	_____	_____
b. Does the accounting change provide for the retroactive restatement of the financial statements of prior periods? [SFAS 25, par. 5 (AC Oi5.102)]	_____	_____	_____
3. For consolidating entities, is the same method of accounting applied to all operations of the reporting entity and the operations of its subsidiaries? [S-X Rule 4-10(i); SAB 40, Topic 12C.2.]	_____	_____	_____
4. For royalty trusts and master limited partnerships, has the method used in determining distributable income been disclosed in the notes to financial statements being filed with the SEC? [SAB 40, Topic 12E]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>B. Reporting Standards Applicable to All Oil and Gas Companies</b>			
1. Regarding certain transactions, sometimes referred to as mineral property conveyances, are funds advanced for exploration that are repayable by offset against purchases of oil and gas discovered or in cash if insufficient oil or gas is produced by a specified date, reported as a receivable by the lender and as a payable by the operator? [SFAS 19, pars. 42 and 43 (AC Oi5.133 and .134)]	_____	_____	_____
2. Regarding certain transactions, commonly referred to as production payments, are funds advanced to an operator, that are repayable in cash out of the proceeds from a specified share of future production of a producing property, reported as a borrowing? [SFAS 19, par. 43 (AC Oi5.134)]	_____	_____	_____
3. Is comprehensive recognition of deferred taxes followed in regard to intangible drilling and development costs and other costs incurred that enter into the determination of taxable income and pretax accounting income in different periods? [SFAS 19, par. 61; SFAS 96, par. 205n (AC Oi5.140)]	_____	_____	_____
4. In applying comprehensive interperiod income tax allocation, is the possibility that statutory depletion in future periods will reduce or eliminate the amount of income taxes otherwise payable taken into account:			
a. Only to the extent of statutory depletion that would result from generating revenues exactly equal to the amount of the related assets (subject to statutory depletion) as reported in the financial statements?	_____	_____	_____
and			
b. Subject to any limitations prescribed by the tax law? [SFAS 19, par. 62; SFAS 96, par. 205n (AC Oi5.141)]	_____	_____	_____
5. Is the tax benefit of any additional excess of statutory depletion over cost depletion recognized in the period in which the excess is deducted for income tax purposes? [SFAS 19, par. 62; SFAS 96, par. 205n (AC Oi5.141)]	_____	_____	_____
6. For an oil and gas producing entity not reporting under the provisions of SFAS No. 19 and SFAS No. 69, in order to provide adequate disclosure consistent with APB Opinion No. 12, par. 5, is the entity disclosing:			
a. the aggregate amount of capitalized costs similar to one or more of the asset categories (a) to (d) in paragraph 11 of SFAS No. 19 (paragraph C.1. of this checklist) and also,	_____	_____	_____
b. the aggregate amount of the related accumulated depreciation, depletion, amortization and valuation allowances as of the end of each period for which financial statements are presented? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
<b>C. Reporting Under the Successful Efforts Method of Accounting (SFAS No. 19)</b>			
1. If the "successful efforts method" of accounting for oil and gas producing activities is employed, are the following costs capitalized and reported in accordance with SFAS No. 19:			
a. Costs incurred to purchase, lease or otherwise acquire a property (whether proved or unproved) including the costs of lease bonuses, and options to purchase or lease properties, the portion of costs applicable to minerals, brokers' fees and legal costs shall be capitalized when incurred? [SFAS 19, par. 15 (AC Oi5.106)]	_____	_____	_____
b. Costs of drilling exploratory wells and the costs of drilling exploratory-type stratigraphic test wells shall be capitalized as part of the enterprise's uncompleted wells, equipment, and facilities (if the well has found proved reserves)? [SFAS 19, pars. 19, 33 and 34 (AC Oi5.110, .124 and .125)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Costs incurred to drill and equip development wells, development-type stratigraphic test wells, and service wells are development costs and shall be capitalized, whether the well is successful or unsuccessful? [SFAS 19, par. 22 (AC Oi5.113)]	_____	_____	_____
d. Costs of acquiring or constructing support equipment and facilities used in oil and gas producing activities shall be capitalized? [SFAS 19, par. 26 (AC Oi5.117)]	_____	_____	_____
2. Are the capitalized costs of unproved properties which are significant, assessed periodically in accordance with SFAS 19, par. 28 and a loss recognized by providing a valuation allowance if those properties are impaired? [SFAS 19, pars. 12 and 28 (AC Oi5.119)]	_____	_____	_____
3. Is the method of assessing and valuing unproved properties (e.g., in the aggregate or on an individual basis) disclosed in the financial statements? [SFAS 19, par. 28 (AC Oi5.119)]	_____	_____	_____
4. For a property whose impairment has been assessed individually in accordance with paragraph 28 of SFAS 19, has the net carrying amount (acquisition cost minus valuation allowance) been reclassified to proved properties? [SFAS 19, par. 29 (AC Oi5.120)]	_____	_____	_____
5. For properties amortized by providing a valuation allowance on a group basis, has the gross acquisition cost been reclassified? [SFAS 19, par. 29 (AC Oi5.120)]	_____	_____	_____
6. Is the method of amortization, depreciation or depletion which is to be applied to capitalized acquisition costs and exploration costs of proved properties, and capitalized development costs disclosed in the financial statements? (i.e., unit-of-production method) [SFAS 19, par. 30 and 35 (AC Oi5.121 and .126)]	_____	_____	_____
7. Are the revisions of unit-of-production amortization rates disclosed and accounted for prospectively, as changes in accounting estimates? [SFAS 19, pars. 30 and 35 (AC Oi5.121 and .126)]	_____	_____	_____
8. Has information available after the end of the period covered by the financial statements but before the financial statements are issued been taken into account regarding: (a) assessment of unproved properties and (b) the determination of whether an exploratory well or exploratory-type stratigraphic test well had found proved reserves? [SFAS 19, par. 39 (AC Oi5.130)]	_____	_____	_____
9. If an exploratory well or exploratory-type stratigraphic test well is in progress at the end of a period and the well is determined not to have found proved reserves (before the issuance of the financial statements), have the costs incurred, net of any salvage value, been charged to expense for that period? (Restatement of prior financial statements is not required) [FIN 36, par. 2 (AC Oi5.130)]	_____	_____	_____
10. Are mineral property conveyances and other related transactions accounted for in accordance with SFAS No. 19, paragraphs 42 through 47, that is, a gain or loss shall not be recognized at the time of conveyance for:			
a. a transfer of assets used in oil and gas producing activities (including both proved and unproved properties) in exchange for other assets also used in oil and gas producing activities;	_____	_____	_____
and			
b. a pooling of assets in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties;	_____	_____	_____
and			
c. a gain shall not be recognized at the time of conveyance if part of an interest owned is sold and substantial uncertainty exists about recovery of the costs applicable to the retained interest;	_____	_____	_____
or			

Yes      No      N/A

d. a part of an interest owned is sold and the seller has a substantial obligation for future performance, such as an obligation to drill a well or to operate the property without proportional reimbursement for that portion of the drilling or operating costs applicable to the interest sold?  
[SFAS 19, par. 45 (AC Oi5.135—.136)]

\_\_\_\_\_

11. If a conveyance is not one of the types described in number (10) above, is a gain or loss recognized unless there are other aspects of the transaction that would prohibit such recognition under GAAP?  
[SFAS 19, par. 46 (AC Oi5.137)]

\_\_\_\_\_

Note: Paragraph 47 of SFAS 19 describes several types of conveyance transactions and the accounting that would be applicable in accordance with the provisions set forth in questions (10) and (11) above.

12. Is the accounting treatment for oil and gas leases held for resale and the accounting treatment of leases transferred to affiliated oil and gas partnerships adequately disclosed?  
[SFAS 57, par. 1 (AC R36.101—.104) AAG pg. 62]

\_\_\_\_\_

13. Is the amount of interest capitalized on expenditures of significant exploration and development projects while activities are in progress to bring the assets to their intended use disclosed?  
[SFAS 34, par. 21 (AC I67.118)]

\_\_\_\_\_

**D. Successful Efforts Method of Accounting (S-X Rule 4-10(b))**

The requirements set forth in SEC Regulation S-X Rule 4-10 (b)-(h) are identical to the description of and disclosures associated with the successful efforts method of accounting, as set forth in SFAS No. 19 and outlined in paragraph C. of this checklist.

**E. Full Cost Method of Accounting(S-X Rule 4-10(i))**

1. If the "full cost method" of accounting is employed for a publicly traded entity, have country-by-country cost centers been established and are the appropriate costs being capitalized in accordance with S-X Rule 4-10(i)(2)?  
[S-X Rule 4-10(i)(2)]

\_\_\_\_\_

2. For each annual income statement, has the total amount of amortization expense for each cost center been disclosed?  
[S-X Rule 4-10(i)(7)]

\_\_\_\_\_

3. Have reporting entities that follow the full cost method of accounting disclosed all the supplementary information required by SFAS No. 69, with each cost center considered as a separate geographic area (reasonable groupings may be made of cost centers that are not significant in the aggregate)?  
[S-X Rule 4-10(i)(7)]

\_\_\_\_\_

4. Are the following disclosures being made of those costs excluded from the amortization computation:

a. Are capitalized costs of unproved properties and major development projects, that are excluded from capitalized costs being amortized in accordance with paragraph (i)(3) of S-X Rule 4-10, disclosed separately on the face of the balance sheet?  
[S-X Rule 4-10(i)(7)(ii)]

\_\_\_\_\_

b. Is a description of the current status of the properties or projects involved, including the anticipated timing of the inclusion of the costs in the amortization computation, disclosed?  
[S-X Rule 4-10(i)(7)(ii)]

\_\_\_\_\_

c. Are amortization computations made on a consolidated basis including investees?  
[S-X Rule 4-10(i)(3)(ii)(C)(v)]

\_\_\_\_\_

d. Is a table presented in the notes to the financial statements that shows, by category of cost:



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) The total costs excluded from amortization as of the end of the most recent fiscal year?	_____	_____	_____
and			
(2) The amounts of such excluded costs incurred in each of the three most recent fiscal years and in the aggregate for any earlier fiscal years in which the costs were incurred?	_____	_____	_____
<p>Note: Categories of costs to be disclosed include acquisition costs, exploration costs, development costs and capitalized interest. [S-X Rule 4-10(i)(7)(ii)]</p>			
5. For investments in unproved properties and major development projects that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress, are the interest costs capitalized separately disclosed? [FIN 33 (ACI67.108); SFAS No. 34, par. 21]	_____	_____	_____
6. For publicly traded entities, if unamortized costs capitalized within a cost center, less related deferred income taxes, exceed the cost center "ceiling" at year end, has the excess been charged to expense and separately disclosed during the period in which the excess occurs? [S-X Rule 4-10(i)(4)(ii)]	_____	_____	_____
<p>Note: The accounting for "mineral property conveyances" and related transactions as set forth under the successful efforts method of accounting (paragraph C.10-11 of this checklist), applies to those entities utilizing the full cost method of accounting with certain exceptions outlined in S-X Rule 4-10(i)(6).</p>			
<b>F. Interim Financial Statements of Publicly Traded Entities</b>			
Although the supplementary reporting requirements included in this checklist are not required for interim financial statements, do interim financial reports include information about a major discovery or other favorable or adverse events that cause a significant change from the information presented in the most recent annual financial report concerning oil and gas reserve quantities? [SFAS 69, par. 9 (AC Oi5.159)]	_____	_____	_____
<b>G. Annual Reports of Publicly Traded Entities</b>			
For registrants with significant oil and gas operations, are the additional disclosures required by SEC Industry Guide 2 presented in the annual report on Form 10-K? [SEC (Regulation S-K) Industry Guide 2, Disclosure of Oil and Gas Operations]	_____	_____	_____

[The next page is 4401.]

# FSP Section 4400

## Supplementary Disclosures Checklist for Oil and Gas Producing Companies

[Publicly traded enterprises (SFAS No. 69) (S-K Item 302(b))]

.01 Publicly traded enterprises that have significant oil and gas producing activities, as defined by SFAS No. 69, par. 8, are required to include the information set forth in paragraphs 9-34 of SFAS No. 69 as supplementary information.

.02 Per S-K Item 302(b), SFAS No. 69 disclosures (a) required as of the end of annual periods shall be presented as of the date of each balance sheet required, (b) required as of the beginning of each annual period shall be presented as of the beginning of each annual period an income statement is required, and (c) disclosures which relate to annual periods shall be presented for each period for which an income statement is required. The checklist has included these requirements.

### .03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>A. Reporting Requirements for Supplementary Information—General</b>			
1. Have the following supplementary schedules been included with the complete set of annual financial statements, of an entity, with significant oil and gas producing activities:			
a. Disclosures of proved oil and gas reserve quantities? (Refer to sub-heading B.)	_____	_____	_____
b. Capitalized costs related to oil and gas producing activities? (Refer to sub-heading C.)	_____	_____	_____
c. Costs incurred for property acquisition, exploration, and development activities? (Refer to sub-heading D.)	_____	_____	_____
d. Results of operations for oil and gas producing activities? (Refer to sub-heading E.)	_____	_____	_____
e. The standardized measure of discounted future net cash flows and the change relating to the proved oil and gas reserve quantities? (Refer to sub-heading F.) [SFAS 69, par. 7 (AC Oi5.157)]	_____	_____	_____
<b>B. Disclosure of Proved Oil and Gas Reserve Quantities</b>			
1. For each year a complete set of financial statements is presented:			
a. Have net quantities of proved reserves and proved developed reserves of crude oil (including condensate and natural gas liquids) and natural gas been disclosed as of the beginning and the end of each fiscal year for which an income statement is required?	_____	_____	_____
b. Were the reserves related to owned royalty interests included in those net quantities?	_____	_____	_____
c. If the information relating to royalty interests is unavailable, has that fact and the enterprise's share of oil and gas produced for those royalty interests been disclosed for the year? [SFAS 69, par. 10 (AC Oi5.160)]	_____	_____	_____
2. Have changes in the net quantity of proved reserves been disclosed for each fiscal year an income statement is presented? [SFAS 69, par. 11 (AC Oi5.161)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Have changes resulting from the following been disclosed separately, with an appropriate explanation of significant changes:			
a. Revisions of previous estimates?	_____	_____	_____
b. Improved recovery?	_____	_____	_____
c. Purchases of minerals in place?	_____	_____	_____
d. Extensions, discoveries, and other additions?	_____	_____	_____
e. Production?	_____	_____	_____
f. Sales of minerals in place? [SFAS 69, par. 11 (AC Oi5.161)]	_____	_____	_____
4. If all proved oil and gas reserves are located entirely within the entity's home country, has that fact been disclosed? [SFAS 69, par. 12 (AC Oi5.162)]	_____	_____	_____
5. If some or all of an entity's reserves are located in foreign countries, have disclosures of net quantities of oil and gas reserves and the related changes in them been disclosed separately for:			
a. The entity's home country (if significant reserves are located there)?	_____	_____	_____
b. Each foreign geographic area in which significant reserves are located? [SFAS 69, par. 12 (AC Oi5.162)]	_____	_____	_____
6. If the entity participates in the operation of properties or otherwise serves as the "producer" of oil and gas reserves subject to purchase under long-term supply, purchase, or similar contracts, has the net quantity of oil or gas received under such agreements during the year been disclosed separately from the net quantities disclosed in question 5 above? [SFAS 69, par. 13 (AC Oi5.163)]	_____	_____	_____
7. If applicable, have the following been included in the reserve quantities disclosed:			
a. For entities issuing consolidated financial statements, have 100 percent of the net reserve quantities attributable to the parent and 100 percent of the net reserve quantities attributable to the consolidated subsidiaries been included? [SFAS 69, par. 14(a) (AC Oi5.164(a))]	_____	_____	_____
b. If applicable, have significant minority interests existing at the end of the year and the approximate portion of reserve quantities applicable to such minority interests been disclosed? [SFAS 69, par. 14(a) (AC Oi5.164(a))]	_____	_____	_____
c. For entities with proportionately consolidated investments, has a proportionate share of the investee's net oil and gas reserves been included in reserve quantities? [SFAS 69, par. 14 (b) (AC Oi5.164(b))]	_____	_____	_____
d. For entities with investments accounted for by the equity method, has the reporting entity's share of the investee's net proved oil and gas reserves been disclosed separately from the disclosures of the enterprise's reserve quantities as of the end of the year? [SFAS 69, par. 14(c) (AC Oi5.164(c))]	_____	_____	_____
8. If significant, has the reserve quantity information for natural gas liquids been disclosed separately? [SFAS 69, par. 10 (AC Oi5.160)]	_____	_____	_____
9. Have oil reserve quantities (including condensate and natural gas liquids) been reported in barrels? [SFAS 69, par. 15 (AC Oi5.165)]	_____	_____	_____
10. Have gas reserve quantities been reported in cubic feet? [SFAS 69, par. 15 (AC Oi5.165)]	_____	_____	_____
11. Have explanations of economic factors or significant uncertainties affecting components of proved reserves been disclosed? [SFAS 69, par. 16 (AC Oi5.166)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. If any government restricts the disclosure of estimated reserves for properties under its governmental authority, amounts under long-term supply, purchase, or similar agreements, or requires the disclosure of reserves other than proved, have the following disclosures been made:			
a. The applicable country?	_____	_____	_____
b. An indication that the disclosed reserve estimates or amounts do not include figures for the named country or that reserve estimates include reserves other than proved? [SFAS 69, par. 17 (AC Oi5.167)]	_____	_____	_____
<b>C. Disclosure of Capitalized Costs Relating to Oil and Gas Producing Activities</b>			
1. Have the aggregate amount of capitalized costs relating to oil and gas producing activities and the aggregate amount of the related accumulated depreciation, depletion, amortization, and valuation allowances been reported as of the end of each period for which a balance sheet is required? [SFAS 69, par. 18 (AC Oi5.168)]	_____	_____	_____
2. If significant, has separate disclosure of capitalized costs been presented for each of the following asset categories:			
a. Mineral interests in unproved properties and proved properties?	_____	_____	_____
b. Wells and related equipment and facilities including certain costs?	_____	_____	_____
c. Support equipment and facilities?	_____	_____	_____
d. Uncompleted wells, equipment, and facilities? [SFAS 69, par. 18 (AC Oi5.168); SFAS 19, par. 11 (AC Oi5.103)]	_____	_____	_____
3. If significant, have capitalized costs of unproved properties been separately disclosed? [SFAS 69, pars. 18-19 (AC Oi5.168—.169)]	_____	_____	_____
4. Have capitalized costs of support equipment and facilities been disclosed either separately or included, as appropriate, with capitalized costs of proved and unproved properties? [SFAS 69, pars. 18-19 (AC Oi5.168—.169)]	_____	_____	_____
5. If the entity's financial statements include investments that are accounted for by the equity method, is the entity's share of the investees' net capitalized costs relating to oil and gas producing activities as of the end of the year disclosed separately? [SFAS 69, par. 20 (AC Oi5.170)]	_____	_____	_____
<b>D. Disclosure of Costs Incurred in Property Acquisition, Exploration, and Development Activities</b>			
1. Have the amounts of each of the following costs, whether capitalized or expensed, been disclosed for each year that an income statement was required:			
a. Property acquisition costs?	_____	_____	_____
b. Exploration costs?	_____	_____	_____
c. Development costs? [SFAS 69, par. 21 (AC Oi5.171)]	_____	_____	_____
2. If significant, have costs incurred to acquire mineral interests that have proved reserves been disclosed separately from the costs of acquiring unproved properties? [SFAS 69, par. 22 (AC Oi5.172)]	_____	_____	_____
3. If some or all of the costs listed in question (1) above are incurred in foreign countries, have the amounts been disclosed separately for each geographic area for which reserve quantities are shown? [SFAS 69, par. 22 (AC Oi5.172)]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 4. If an enterprise's financial statements include investments accounted for by the equity method, has the enterprise's share of the investees' property acquisition, exploration, and development costs in oil and gas producing activities: |            |           |            |
| a. Been separately disclosed for the year, in the aggregate and   | _____      | _____     | _____      |
| b. For each geographic area for which reserve quantities are disclosed?<br>[SFAS 69, par. 23 (AC Oi5.173)]  | _____      | _____     | _____      |

**E. Disclosure of the Results of Operations**

Note: If oil and gas producing activities represent substantially all of the business activities of the reporting enterprise and those oil and gas activities are located substantially in one geographic area, the information required by the questions in this section (E) need not be disclosed if that information is provided elsewhere in the financial statements.

If oil and gas producing activities constitute a business segment, as defined by SFAS 14, par. 19 (a) [AC S20.406], and the business segment activities are located substantially in one geographic area, the information required by the questions in this section may be included with the segment information disclosed elsewhere in the financial report.  
[SFAS 69, par. 24, fn 7]

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Have the results of operations for oil and gas producing activities been disclosed (net of corporate overhead and interest costs) for the year:                        |       |       |       |
| a. In the aggregate?  | _____ | _____ | _____ |
| b. For each geographic area for which reserve quantities are disclosed?<br>[SFAS 69, par. 24 (AC Oi5.174)]  | _____ | _____ | _____ |
| 2. Have the following been presented, in relation to the results of operations of oil and gas producing activities:   |       |       |       |
| a. Revenues?  | _____ | _____ | _____ |
| b. Production (lifting) costs?  | _____ | _____ | _____ |
| c. Exploration expenses (for entities utilizing the successful efforts method of accounting)?   | _____ | _____ | _____ |
| d. Depreciation, depletion, amortization, and valuation provisions?   | _____ | _____ | _____ |
| e. Income tax expenses?<br>[SFAS 69, par. 24 (AC Oi5.174)]  | _____ | _____ | _____ |
| 3. Have sales to unaffiliated entities and sales or transfers to the enterprise's other operations been disclosed separately?<br>[SFAS 69, par. 25 (AC Oi5.175)]          | _____ | _____ | _____ |
| 4. Shall total revenues disclosed include sales to unaffiliated enterprises attributable to:  |       |       |       |
| a. Net working interests?   | _____ | _____ | _____ |
| b. Royalty interests?   | _____ | _____ | _____ |
| c. Oil payment interests?   | _____ | _____ | _____ |
| d. Net profits interests of the reporting enterprise?<br>[SFAS 69, par. 25 (AC Oi5.175)]  | _____ | _____ | _____ |
| 5. Have sales and transfers to affiliated entities and to other operations of the company (refineries, chemical plants, etc.) been disclosed and accounted for at either: |       |       |       |
| a. Market prices, determined at the point of delivery?  | _____ | _____ | _____ |
| or  |       |       |       |
| b. Amounts estimated to represent prices equivalent to those that could be obtained in an arm's-length transaction?<br>[SFAS 69, par. 25 (AC Oi5.175)]                    | _____ | _____ | _____ |
| 6. Have production and severance taxes been included as part of production costs?<br>[SFAS 69, par. 25 (AC Oi5.175)]  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Are income tax expenses computed using the statutory tax rate for the period reflecting deductions, tax credits and allowances relating to oil and gas producing activities? [SFAS 69, par. 26; SFAS 96, par. 205s (AC Oi5.176)]	_____	_____	_____
8. Are general corporate overhead and interest costs excluded from the computation of the results of operations?  (Note: Certain operating overhead, as distinct from general corporate overhead, should not be excluded from the results of operations calculation.) [SFAS 69, par. 27 (AC Oi5.177)]	_____	_____	_____
9. Do the results of operations include amounts related to an enterprise's interests in oil and gas reserves subject to purchase under long-term supply, purchase, or similar agreements in which the enterprise participates in the operation of the properties? [SFAS 69, par. 28 (AC Oi5.178)]	_____	_____	_____
10. If the enterprise's financial statements include investments accounted for by the equity method, are the investees' results of operations from oil and gas producing activities:			
a. Excluded from the enterprise's results of operations from oil and gas producing activities?	_____	_____	_____
b. Separately disclosed for the investor's share of such results, in the aggregate and by each geographic area for which reserve quantities are disclosed? [SFAS 69, par. 29 (AC Oi5.179)] (See also B. 7(d)—Disclosure of Oil and Gas Quantities)	_____	_____	_____
<b>F. Disclosure of Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Related to Proved Oil and Gas Reserve Quantities</b>			
1. Has a standardized measure of discounted future net cash flows relating to an enterprise's interests in the following been disclosed as of year end for each balance sheet required:			
a. Proved oil and gas reserves?	_____	_____	_____
b. Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the enterprise participates in the operation of the properties on which the oil and gas is located or otherwise serves as the producer of those reserves? [SFAS 69, par. 30 (AC Oi5.180)]	_____	_____	_____
2. Has the following information been disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with SFAS 69, par. 12 (Refer to sub-heading B.5):			
a. Future cash inflows?	_____	_____	_____
b. Future development and production costs?	_____	_____	_____
c. Future income tax expenses?	_____	_____	_____
d. Future net cash flows?	_____	_____	_____
e. Discount?	_____	_____	_____
f. Standardized measure of discounted net cash flows? [SFAS 69, par. 30 (AC Oi5.180)]	_____	_____	_____
3. If a significant portion of the economic interest in the consolidated standardized measure of discounted future net cash flows is attributable to a consolidated subsidiary (or subsidiaries) in which there is significant minority interest, has that fact and the approximate portion been disclosed? [SFAS 69, par. 31 (AC Oi5.181)]	_____	_____	_____
4. Has the enterprise's share of an (equity method) investee's standardized measure of discounted future net cash flows been separately disclosed for the year:			
a. In the aggregate?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. By each geographic area for which quantities are disclosed? [SFAS 69, par. 32 (AC Oi5.182)]	_____	_____	_____
5. Has the aggregate change in the standardized measure of discounted future net cash flows been disclosed for the year? [SFAS 69, par. 33 (AC Oi5.183)]	_____	_____	_____
6. If any of the following sources of change in the standardized measure of discounted future net cash flows is individually significant, they shall be presented separately:			
a. Net change in sales and transfer prices?	_____	_____	_____
b. Net change in production (lifting) costs related to future production?	_____	_____	_____
c. Changes in estimated future development costs?	_____	_____	_____
d. Sales and transfers of oil and gas produced during the period?	_____	_____	_____
e. Net change due to:			
(1) Extensions?	_____	_____	_____
(2) Discoveries?	_____	_____	_____
(3) Improved recovery?	_____	_____	_____
(4) Purchases and sales of minerals in place?	_____	_____	_____
(5) Revisions in quantity estimates?	_____	_____	_____
f. Previously estimated development costs incurred during the period?	_____	_____	_____
g. Accretion of discount?	_____	_____	_____
h. Net change in income taxes including the change in future income tax expenses? [SFAS 69, par. 33 (AC Oi5.183)]	_____	_____	_____
7. Have all changes in the standardized measure of discounted future net cash flows been reported pretax? [SFAS 69, par. 33 (AC Oi5.183)]	_____	_____	_____
8. Any additional information necessary to prevent the disclosure of the standardized measure of discounted future net cash flows, and the related changes therein, from being misleading shall be disclosed? [SFAS 69, par. 34 (AC Oi5.184)]	_____	_____	_____
<b>G. Disclosure of Current Cost Information (Voluntary)</b>			
Note: The following disclosures of current cost information were required by SFAS 69, pars. 35—38. SFAS 89 supersedes SFAS 69, pars. 35—38 and makes the supplementary disclosure of the effect of changing prices voluntary for financial reports issued after December 2, 1986. [SFAS 89]			
1. If the entity has significant holdings of inventory, and property, plant, and equipment, apart from oil and gas producing activities and other specialized assets, has supplementary information been presented on the current cost basis? [SFAS 69, par. 35]	_____	_____	_____
2. When information is presented on a current cost basis, has the enterprise disclosed the measurement of:			
a. Oil and gas mineral resource assets and related expenses at either historical cost/constant dollar amounts or current cost or lower recoverable amounts?	_____	_____	_____
b. Mining mineral resource assets and related expenses at their current cost or lower recoverable amounts? [SFAS 69, par. 36]	_____	_____	_____
c. Property, plant and equipment at the current cost or lower recoverable amount of the assets' remaining service potential at the measurement date? [SFAS 69, par. 37]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Depreciation, depletion and amortization expense of property, plant and equipment shall be measured on the basis of the average current cost or lower recoverable amount of the assets' service potential during the period of use? [SFAS 69, par. 38]	_____	_____	_____

---



# **FSP Section 4500**

## ***Illustrative Financial Statements***

### **General Comments**

.01 The following consolidated financial statements and notes thereto illustrate oil and gas disclosures and highlight financial reporting differences between (1) the “**successful efforts**” method of accounting and (2) the “**full cost**” method of accounting for a one-year period. More or less detail should appear in the financial statements or in the notes as appropriate under GAAP and SEC requirements. Comparative financial statements are recommended under GAAP and are required for SEC reporting.

[Illustrative financial statements are on following pages.]

## XYZ OIL COMPANY

.02

## Consolidated Balance Sheet

December 31, 19X8

	<u>(1)</u> <u>Successful</u> <u>Efforts</u>	<u>(2)</u> <u>Full</u> <u>Cost</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$ 1,200	\$ 1,200
Receivables		
Trade .....	3,000	3,000
Affiliated partnerships .....	1,500	1,500
Materials and supplies <sup>(a)</sup> .....	500	500
Oil and gas leases held for resale <sup>(b)</sup> .....	800	
Total current assets .....	<u>7,000</u>	<u>6,200</u>
<b>Oil and gas properties, using successful efforts/full cost accounting</b>		
Proved properties .....	9,500	
Unproved properties .....	6,000	
Wells and related equipment and facilities .....	4,000	
Support equipment and facilities .....	1,000	
Drilling in progress .....	4,000	
Materials and supplies <sup>(a)</sup> .....	500	
Properties being amortized .....		40,800
Properties not subject to amortization .....		9,500
	<u>25,000</u>	<u>50,300</u>
Less accumulated depreciation, depletion, amortization, and impairment .....	4,800	10,700
Net oil and gas properties .....	<u>20,200</u>	<u>39,600</u>
<b>Other assets</b>		
Other property and equipment, less accumulated depreciation of \$300 .....	700	700
Oil and gas leases held for resale <sup>(b)</sup> .....	1,500	
Other .....	600	600
Total other assets .....	<u>2,800</u>	<u>1,300</u>
<b>Total Assets</b> .....	<u>\$30,000</u>	<u>\$47,100</u>

<sup>(a)</sup> Tubular goods inventories, as well as inventories of other oil field materials and supplies, may be classified as current assets or as oil and gas properties, depending on the intended use of the material.

<sup>(b)</sup> Oil and gas leases held for resale may be classified as current assets or as noncurrent assets.

Note: Extracted from the AICPA Audit and Accounting Guide—Audits of Entities with Oil and Gas Producing Activities.

XYZ OIL COMPANY

.02 Consolidated Balance Sheet—Continued

	<i>(1)</i> <i>Successful</i> <i>Efforts</i>	<i>(2)</i> <i>Full</i> <i>Cost</i>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Current portion of long-term debt . . . . .	\$ 700	\$ 700
Accounts payable		
Trade . . . . .	3,850	3,850
Revenue distribution . . . . .	800	800
Drilling advances . . . . .	900	900
Accrued expenses . . . . .	600	600
Income taxes payable . . . . .	250	250
<b>Total current liabilities</b> . . . . .	<u>7,100</u>	<u>7,100</u>
Long-term debt . . . . .	<u>7,700</u>	<u>7,700</u>
Deferred income taxes . . . . .	<u>2,500</u>	<u>6,500</u>
<b>Shareholders' equity</b>		
Common stock, par value \$1 per share; 10,000 shares authorized; 1,000 shares outstanding . . . . .	1,000	1,000
Additional paid-in capital . . . . .	2,000	2,000
Retained earnings . . . . .	9,700	22,800
<b>Total shareholders' equity</b> . . . . .	<u>12,700</u>	<u>25,800</u>
<b>Total liabilities and shareholders' equity</b> . . . . .	<u>\$30,000</u>	<u>\$47,100</u>

The accompanying footnotes are an integral part of the consolidated financial statements.

## XYZ OIL COMPANY

.03

**Consolidated Statement of Income**  
**For the Year Ended December 31, 19X8**

	<i>(1)</i> <u>Successful</u> <u>Efforts</u>	<i>(2)</i> <u>Full</u> <u>Cost</u>
<b>Revenues</b>		
Oil and gas sales .....	\$14,000	\$14,000
Management fees .....	100	
Gain on sale of oil and gas leases .....	400	
Gain on sale of oil and gas properties .....	2,000	
Other .....	400	400
Total revenues .....	16,900	14,400
<b>Expenses</b>		
Lease operating .....	1,000	1,000
Production and windfall profit tax .....	1,000	1,000
Exploration .....	5,000	
Depreciation, depletion, and amortization .....	1,500	2,500 <sup>(a)</sup>
Interest .....	1,500	1,700
General and administrative .....	1,900	1,900
Total expenses .....	11,900	8,100
<b>Income before provision for income taxes</b> .....	5,000	6,300
<b>Provision for income taxes</b>		
Current .....	1,300	1,300
Deferred .....	450	1,050
Total income taxes .....	1,750	2,350
<b>Net income</b> .....	\$ 3,250	\$ 3,950

The accompanying footnotes are an integral part of the consolidated financial statements.

<sup>(a)</sup> If a write-down of oil and gas properties was recorded as a result of impairment or a capitalized cost ceiling limitation, the write-down may be reported as a separate expense item or included with depreciation, depletion, and amortization expense and separately disclosed.

XYZ OIL COMPANY

.04

Consolidated Statement of Stockholders' Equity

For the Year Ended December 31, 19X8

	<i>(1)</i> <u>Successful</u> <u>Efforts</u>	<i>(2)</i> <u>Full</u> <u>Cost</u>
Retained Earnings, beginning of year .....	\$6,500	\$18,815
Net Income .....	3,250	3,950
Cash dividends on common stock .....	(50)	(35)
Retained Earnings, end of year .....	<u>\$9,700</u>	<u>\$22,800</u>

The accompanying footnotes are an integral part of the consolidated financial statements.

## XYZ OIL COMPANY

.05

## Consolidated Statement of Cash Flows (Direct Method)

For the Year Ended December 31, 19X8

## Increase (Decrease) in Cash and Cash Equivalents

	(1) <u>Successful Efforts</u>	(2) <u>Full Cost</u>
<b>Cash flows from operating activities:</b>		
Cash received . . . . .	\$16,000	\$15,900
Cash paid to suppliers and employees . . . . .	(10,550)	(5,550)
Interest paid (net of interest capitalized) . . . . .	(700)	(1,100)
Income taxes paid . . . . .	(1,150)	(1,150)
Net cash provided by operating activities . . . . .	<u>3,600</u>	<u>8,100</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of oil and gas properties . . . . .	(5,600)	(6,600)
Purchase of oil and gas leases held for resale . . . . .	500	
Capital expenditures for property and equipment . . . . .	8,600	14,600
Net cash used for investing activities . . . . .	<u>(3,500)</u>	<u>(8,000)</u>
<b>Cash flows from financing activities:</b>		
Dividends paid . . . . .	(50)	(35)
Proceeds from additions to long-term debt . . . . .	4,300	4,300
Payments to reduce long-term debt . . . . .	(4,000)	(4,000)
Net cash provided by financing activities . . . . .	<u>250</u>	<u>265</u>
Net increase in cash and cash equivalents . . . . .	350	365
Cash and cash equivalents at beginning of year . . . . .	800	800
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u>\$ 1,150</u></b>	<b><u>\$ 1,165</u></b>

## RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Net income . . . . .	\$ 3,250	\$ 3,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization . . . . .	1,500	2,500
Gain on sale of oil and gas properties . . . . .	(2,000)	
Deferred income taxes . . . . .	450	1,050
Increase in receivables . . . . .	(1,500)	(1,500)
Decrease in materials and supplies . . . . .	150	150
Increase in oil and gas leases held for resale . . . . .	(200)	
Increase in current portion of long-term debt . . . . .	200	200
Increase in accounts payable . . . . .	1,250	1,250
Increase in drilling advances . . . . .	200	200
Increase in accrued expenses . . . . .	150	150
Increase in income taxes payable . . . . .	150	150
Total adjustments . . . . .	<u>350</u>	<u>4,150</u>
Net cash provided by operating activities . . . . .	<b><u>\$ 3,600</u></b>	<b><u>\$ 8,100</u></b>

The accompanying footnotes are an integral part of the consolidated financial statements.

## XYZ OIL COMPANY

.06

## Notes to Consolidated Financial Statements

## 1. Summary of Significant Accounting Policies

***Principles of consolidation***

The consolidated financial statements include the accounts of XYZ Oil Company, its wholly owned subsidiaries, and its proportionate share of the assets, liabilities, revenues, and expenses of all affiliated oil and gas partnerships for which the Company is the general partner. Intercompany accounts and transactions have been eliminated in consolidation.

***Materials and supplies***

Materials and supplies inventories, consisting primarily of tubular goods and oil field materials, are stated at the lower of cost or market, cost being determined by the average cost method.

***Method of accounting for oil and gas properties******(1) Successful efforts method***

The Company uses the successful efforts method of accounting for oil and gas producing activities, as set forth in the Statement of Financial Accounting Standards No. 19, as amended. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are *capitalized*. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs and costs of carrying and retaining unproved properties are expensed as incurred.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing a valuation allowance. Other unproved properties are amortized based on the Company's experience of successful drilling and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method.<sup>(a)</sup> Support equipment and other property and equipment are carried at cost and depreciated over their estimated useful lives.

On sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income.

On sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

***(2) Full cost method***

The company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are *capitalized*.

---

<sup>(a)</sup> Some companies record the additional depreciation, depletion, and amortization (DD&A) allowance (resulting from inclusion of these estimated costs in the DD&A calculation) as an accrued liability on the balance sheet, rather than as an increase in accumulated DD&A.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves.<sup>(b)</sup> Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

### ***Oil and gas leases for resale***

The Company has acquired certain oil and gas leases for the purpose of contributing the leases to affiliated oil and gas partnerships or for the purpose of selling the leases to industry partners for cash consideration. Such leases held for resale are periodically reviewed to determine if they have been impaired. If impairment exists, a loss is recognized by providing an impairment allowance. Abandonments of oil and gas leases held for resale are charged to expense. With respect to leases transferred to affiliated oil and gas partnerships, the determination of recovery of total costs is made on a partnership-by-partnership basis.

### ***Capitalized interest***

#### ***(1) Successful efforts method***

The Company capitalizes interest (\$8000 in 19X8) on expenditures for significant exploration and development projects while activities are in progress to bring the assets to their intended use.

#### ***(2) Full cost method***

The Company capitalizes interest (\$6000 in 19X8) on expenditures made in connection with exploration and development projects that are not subject to current amortization. Interest is capitalized only for the period that activities are in progress to bring these projects to their intended use.

### ***Management fees***

#### ***(1) Successful efforts method***

In connection with the sponsorship of oil and gas partnerships, the Company receives a management fee of 3 percent from partnership subscriptions, which is credited to income as earned.

#### ***(2) Full cost method***

In connection with the sponsorship of oil and gas partnerships, the Company receives a management fee of 3 percent from partnership subscriptions. Any excess of this management fee over the related costs of registration and sale of the partnership interests is credited to oil and gas properties as a component of the full cost pool.

---

<sup>(b)</sup> It is also acceptable, if economic circumstances (related to the effects of regulated prices) indicate, to use units of revenue as a basis for computing amortization.



***Change in presentation***

In 19X8, the Company replaced the Consolidated Statement of Changes in Financial Position with a Consolidated Statement of Cash Flows pursuant to Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows."

***Cash equivalents***

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

***Income taxes***

Deferred income taxes are provided to reflect the tax effect of timing differences between financial and tax reporting. These differences relate to different methods of accounting for intangible development costs, depreciation, revenue on wells in progress, interest income and accrued oil and gas revenues and expenses.

**2. Affiliated Oil and Gas Partnerships**

The Company generally acquires, explores, and operates oil and gas properties for its own account; however, since 19X0 the Company has sponsored the formation of limited partnerships for the purpose of conducting oil and gas exploration, development, and production activities on certain oil and gas properties. The Company serves as general partner for these partnerships and, as such, has full and exclusive discretion in the management and control of the partnerships. The partnership agreements generally provide that the limited partners pay 99 percent of the cost of acquiring and operating the partnership properties, and of drilling, equipping, completing, and operating the partnership properties while the Company pays the remaining 1 percent of such costs. Revenues from partnership oil and gas properties are allocated 99 percent to the limited partners and 1 percent to the Company, until such time as the limited partners have recovered their investment in the partnership. Thereafter, partnership revenues are allocated 85 percent to the limited partners and 15 percent to the Company.

**3. Sale of Interests in Oil and Gas Properties*****(1) Successful efforts method***

In 19X8, the Company completed the sale of the following oil and gas properties, which were not carried as oil and gas leases held for resale.

In February 19X8, the Company sold its entire interest in the ABC field, a proved property, for \$3 million. The Company recorded a gain from this transaction of \$2 million.

In July 19X8, the Company sold a partial interest in the DEF prospect, a block of unproved acreage, for \$1.6 million. The Company's cost in the prospect totalled \$2,000; however, since the Company anticipates incurring \$20,000 in exploration and development costs relating to the interest retained in the prospect, the Company has deferred recognizing income on the sale.

In December 19X8, the Company sold a partial interest in the GHI prospect, a block of unproved acreage for \$1 million. The net book value of these properties totalled \$1.5 million at the time of the sale.

***(2) Full cost method***

In 19X8, the Company completed the sale of the following oil and gas properties.

In February 19X8, the Company sold its entire interest in the ABC field, a proved property, for \$3 million. Since the sale of this property did not significantly alter the relationship between capitalized costs and oil and gas reserves, the entire proceeds were credited to the full cost pool.

In July 19X8, the Company sold a partial interest in the DEF prospect, an unproved property, for \$1.6 million, which was credited to the full cost pool.

In December 19X8, the Company sold a partial interest in the GHI prospect, an unproved property, for \$1 million, which was credited to the full cost pool.

During 19X8, the Company sold several unproved leases for \$1,000, which was credited to the full cost pool.

#### 4. Oil and Gas Properties Not Subject to Amortization (*Full cost method*)

The Company is currently participating in oil and gas exploration and development activities on an offshore block of acreage in the Gulf of Mexico. At December 31, 19X8, a determination cannot be made about the extent of additional oil reserves that should be classified as proved reserves as a result of this project. Consequently, the associated property costs and exploration costs have been excluded in computing amortization of the full cost pool. The Company will begin to amortize these costs when the project is evaluated, which is currently estimated to be 19X9. In addition, the cost of certain oil and gas leases which the Company has acquired for the purpose of contributing to affiliated oil and gas partnerships or of selling to third parties has been excluded in computing amortization of the full cost pool.

Costs excluded from amortization consist of the following at December 31, 19X8. (\$000)

<u>Year Incurred</u>	<u>Acquisition Costs</u>	<u>Exploration Costs</u>	<u>Development Costs</u>	<u>Capitalized Interest</u>	<u>Total</u>
19X7	\$2,600	\$ 500	\$400	\$200	\$3,700
19X8	1,500	3,200	500	600	5,800
Total	<u>\$4,100</u>	<u>\$3,700</u>	<u>\$900</u>	<u>\$800</u>	<u>\$9,500</u>

#### 5. Long-Term Debt

At December 31, 19X8, long-term debt and production payments consist of the following items. (\$000)

Revolving credit agreement . . . . .	\$7,200
Production payment . . . . .	1,200
	8,400
Less current portion due in one year . . . . .	700
Long-term debt . . . . .	<u>\$7,700</u>

In 19X8, the Company renegotiated its \$25,000 revolving credit agreement with a group of banks. Indebtedness under the agreement bears interest at 3 percent above a bank's prime lending rate (12 percent at December 31, 19X8) and is repayable in quarterly installments of \$3,500, beginning September 30, 19X9. This line of credit is secured by certain producing oil and gas properties located in Texas and New Mexico. At December 31, 19X8, the unused available line of credit was \$17,800.

In November 19X8, the Company received a production payment of \$1,200 relating to certain oil and gas properties in Utah that are presently shut in. The Company is obligated to repay this advance plus interest at the rate of 15 percent per annum from 80 percent of the revenues received through oil and gas production from these properties.

The Company's aggregate long-term debt and production payments are estimated to be repayable annually in the following schedule.

19X9 . . . . .	\$,200 <sup>(c)</sup>
19Y1 . . . . .	1,800
19Y2 . . . . .	1,700
19Y3 . . . . .	1,600
19Y4 . . . . .	1,400
Thereafter . . . . .	700

<sup>(c)</sup> For guidance on the balance sheet classification of maturities of nonrecourse production payments, see ARB. No. 43, chapter 3A, paragraph 8.

**6. Drilling Advances**

During 19X8 the Company received drilling advances from joint interest owners with a remaining balance of \$90,000 at December 31, 19X8. These advances will be applied toward the payment of drilling costs to be incurred in 19X9.

**7. Income Taxes**

Deferred federal income tax provisions result from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. These differences relate to different methods of accounting for intangible exploration and development costs, interest costs and accrued oil and gas revenues and expenses. The sources of these differences and the tax effect of each for the year ended December 31, 19X8, are calculated in the following manner.

	<u>Successful Efforts Method</u>	<u>Full Cost Method</u>
Exploration and development costs capitalized for financial purposes, expensed for tax purposes .....	\$1,750	\$ 3,250
Exploration costs capitalized for tax purposes, expensed for financial purposes .....	(300)	
Interest capitalized for financial purposes, expensed for tax purposes .....	400	300
Gain recognized on sales of oil and gas properties for tax purposes, not reported as a gain for financial purposes .....	(700)	(1,350)
Excess amortization of oil and gas properties for financial purposes over tax purposes .....	<u>(700)</u>	<u>(1,150)</u>
	<u>\$ 450</u>	<u>\$ 1,050</u>

The provision for income taxes differs from the federal statutory tax rate because of the following.

	<u>Successful Efforts Method</u>		<u>Full Cost Method</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Provision based on the statutory rate .....	\$ XXX	34%	\$ XXX	34%
Capital gains rates for sale of interest in properties .....	(500)	(X)	(500)	(X)
Excess statutory depletion .....	(200)	(X)	(200)	(X)
Investment tax credits .....	(400)	(X)	(400)	(X)
Alternative minimum tax on tax preference depletion .....	300	X	300	X
State income tax .....	150	X	150	X
Others, net .....	100	X	100	X
Provisions for income taxes .....	<u>\$1,750</u>	<u>25%</u>	<u>\$2,350</u>	<u>24%</u>

**8. Commitments and Contingencies<sup>(d)</sup>**

As general partner in certain oil and gas limited partnerships, the Company is contingently liable for the repayment of loans made to the partnerships. At December 31, 19X8, the outstanding balance of these loans, which are secured by the partnerships' oil and gas properties, is \$50,000. The Company believes that the partnerships' assets will be sufficient to satisfy these obligations without loss to the Company.

The Company is committed to purchase up to \$10,000 in limited partnership interests of a certain oil and gas limited partnership, if tendered by the limited partners. During 19X8 no such interests were tendered and no purchases were made.

Note: Extracted from AICPA Audit Guide—Audits of Entities with Oil and Gas Producing Activities.

<sup>(d)</sup> If the Company has any unusually significant commitments for exploration and development costs, those commitments should be disclosed in the footnotes.

**Standard****.07****Independent Auditor's Report**

We have audited the accompanying consolidated balance sheet of XYZ Oil Company as of December 31, 19X8, and the related consolidated statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of XYZ Oil Company as of December 31, 19X8, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

**XYZ OIL COMPANY**

**.08 Supplementary Information Regarding Oil and Gas Producing Activities**

**Year Ended December 31, 19X8**

**Note 1:** The following supplementary oil and gas information is provided in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing Activities" as required for publicly traded enterprises with significant oil and gas activities. The information required to be disclosed is the same regardless of whether the successful efforts method or the full cost method of accounting is utilized. Reporting entities that follow the full cost method of accounting shall disclose all of the information required, with each cost center considered as a separate geographic area. Reasonable groupings may be made of cost centers that are not significant in the aggregate (S-X Rule 4-10(i)(7)).

**Note 2:** These disclosures are presented assuming that XYZ Oil Company has operations in only one reportable geographic area (or, cost center). If operations are conducted in two or more reportable geographic areas (or, cost centers), the information in numbers 2, 3, 4 and 5 would be required to be reported in total and also by geographic area (or, cost center) as follows:

<u>Total</u>	<u>United States</u>	<u>Canada</u>	<u>Europe</u>	<u>Other</u>
\$XXX	\$XX	\$XX	\$XX	\$XX

**Note 3:** If XYZ Oil Company had an investment in an enterprise that was accounted for on the equity method, the Company's share of the investee's (1) net capitalized costs, (2) costs incurred, (3) results of operations for producing activities, (4) reserve quantities, and (5) standardized measure of discounted future net cash flows would be required to be disclosed in a separate line item.

**1. Capitalized Costs Relating to Oil and Gas Producing Activities at December 31, 19X8**

	<u>Successful Efforts</u>	<u>Full Cost</u>
	<u>Total</u>	<u>Total</u>
Unproved oil and gas properties .....	\$ 10,000	\$16,300
Proved oil and gas properties .....	14,000	33,000
Support equipment and facilities .....	1,000	1,000
	<u>25,000</u>	<u>50,300</u>
Less accumulated depreciation, depletion, amortization, and impairment allowances .....	4,800	10,700
Net capitalized costs .....	<u>\$ 20,200</u>	<u>\$39,600</u>
XYZ's share of equity method investee's net capitalized costs .....	<u>\$ XX</u>	<u>\$ XX</u>

**2. Costs Incurred in Oil and Gas Producing Activities for the Year Ended December 31, 19X8**

	<u>Successful Efforts</u>	<u>Full Cost</u>
	<u>Total</u>	<u>Total</u>
Property acquisition costs		
Proved .....	\$ 600	\$ 600
Unproved .....	1,500	3,700
Exploration costs .....	5,000	7,800
Development costs .....	1,500	2,500
XYZ's share of equity method investee's costs of property acquisition, development and exploration .....	<u>\$ XX</u>	<u>\$ XX</u>

## 3. Results of Operations for Oil and Gas Producing Activities for the Year Ended December 31, 19X8

	<u>Successful Efforts</u>	<u>Full Cost</u>
	<u>Total</u>	<u>Total</u>
Oil and gas sales .....	\$ 14,000	\$14,000
Gain on sale of oil and gas properties .....	2,000	
Gain on sale of oil and gas leases .....	400	
Production costs .....	(2,000)	(2,000)
Exploration expenses .....	(5,000)	
Depreciation, depletion, and amortization .....	(1,400)	(2,400)
	<u>8,000</u>	<u>9,600</u>
Income tax expense .....	(2,880)	(3,820)
Results of operations for oil and gas producing activities (excluding corporate overhead and financing costs) .....	<u>\$ 5,120</u>	<u>\$ 5,780</u>
XYZ's share of equity method investee's results of operations for producing activities .....	<u>\$ XX</u>	<u>\$ XX</u>

## 4. Reserve Quantity Information for the Year Ended December 31, 19X8

The following estimates of proved and unproved developed reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of currently producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the Company's reserves are located in the United States.

Proved reserves are estimated reserves of crude oil (including condensate and natural gas liquids) and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment, and operating methods.

	<u>Successful Efforts</u>	
	<u>Total</u>	
	<u>Oil</u>	<u>Gas</u>
<b>PROVED DEVELOPED AND UNDEVELOPED RESERVES</b>		
Beginning of year .....	\$5,000	\$20,000
Revisions of previous estimates .....	(100)	(2,000)
Improved recovery .....	100	
Purchases of minerals in place .....	80	
Extensions and discoveries .....	2,500	2,300
Production .....	(325)	(1,400)
Sales of minerals in place .....	(375)	
End of year .....	<u>\$6,800</u>	<u>\$18,900</u>
<b>PROVED DEVELOPED RESERVES</b>		
Beginning of Year .....	4,500	13,000
End of Year .....	6,200	16,000
XYZ's proportional interest in reserves of investee's accounted for by the equity method—end of year .....	<u>\$ XX</u>	<u>\$ XX</u>

## 5. Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves at December 31, 19X8

The standardized measure of discounted future net cash flows is computed by applying year-end prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-

end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses (based on year-end statutory tax rates, with consideration of future tax rates already legislated) to be incurred on pretax net cash flows less tax basis of the properties and available credits, and assuming continuation of existing economic conditions. The estimated future net cash flows are then discounted using a rate of 10 percent a year to reflect the estimated timing of the future cash flows.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS AT DECEMBER 31, 19X8	<i>Successful Efforts</i> <u>Total</u>
Future cash inflows	\$210,000
Future production costs .....	(40,000)
Future development costs .....	(10,000)
Future income tax expenses .....	<u>(70,000)</u>
	90,000
Future net cash flows	
10% annual discount for estimated timing of cash flow .....	<u>(12,000)</u>
Standardized measure of discounted future net cash flows relating to proved oil and gas reserves .....	<u>\$ 78,000</u>
XYZ's share of equity method investee's standardized measure of discounted future net cash flows .....	<u>\$ XX</u>

The following reconciles the change in the standardized measure of discounted future net cash flows during the year 19X8:

Beginning of year .....	\$ 66,000
Sales of oil and gas produced, net of production costs .....	(12,000)
Net changes in prices and production costs .....	(3,000)
Extensions, discoveries, and improved recovery, less related costs .....	29,000
Development costs incurred during the year which were previously estimated .....	2,500
Net change in estimated future development costs .....	2,000
Revisions of previous quantity estimates .....	(4,000)
Net change from purchases and sales of minerals in place .....	(5,500)
Accretion of discount .....	7,000
Net change in income taxes .....	(3,000)
Other .....	<u>(1,000)</u>
End of year .....	<u>\$ 78,000</u>

# FSP Section 5000

## DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR SAVINGS AND LOAN ASSOCIATIONS

.01 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. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. A supplemental checklist outlines disclosure requirements of FHLBB Regulations, part 563C, as of December 31, 1989. PA Bulletins issued through December 31, 1989, have been reviewed, and consequently, disclosure requirements in PA Bulletins 7a and 7a-1 have been incorporated. R & T memos issued through December 31, 1989, did not contain financial statement disclosure requirements and are consequently not incorporated. The checklists should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The auditor should be alert to new accounting and financial reporting requirements that may be issued by the new Office of Thrift Supervision ("OTS").
- 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 standard 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 examined.

.02 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.

---

[The next page is 5101.]



# FSP Section 5100

## *Introduction*

**.01** The Savings Institutions Industry operates under comprehensive Federal and state rules and regulations. Those rules and regulations greatly influence the accounting and financial reporting.

**.02** Savings institutions subject to the reporting requirements of the Securities and Exchange Act of 1934 administered by the Securities and Exchange Commission and the Federal Home Loan Bank Board are subject to extensive financial and accounting disclosures.

**.03** Common accounting and reporting by savings institutions include:

- The accrual basis of accounting is the only acceptable basis of accounting under GAAP. Certain revenue and expense items may be reported differently for regulatory accounting purposes.
  - Savings institutions usually prepare a non-classified statement of financial condition.
  - Investments in debt securities should be recorded at cost, except for investments held for sale or trading assets. Any premium or discount should be amortized using the interest method. Parenthetical disclosures of market values should be made in the financial statements or notes.
  - Most institutions invest in mortgage-backed securities which should be classified as a separate line item on the statement of financial condition.
  - Savings institutions that are members of the Federal Home Loan Bank system are required to maintain a specified investment in shares of FHLB stock and be insured.
  - Disclosures should be made in the notes to financial statements of the composition of savings accounts by interest rates and maturities.
  - Short-term and long-term advances can be obtained from the Federal Home Loan Bank. Appropriate note disclosures should be made.
  - The statement of operations is usually reported on a "net interest income" basis (interest expense is deducted from interest revenues).
  - The provision for loan losses is usually reported as a deduction from net interest income.
- 

[The next page is 5201.]

# FSP Section 5200

## *Disclosure Checklists—General*

**.01** Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to 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 Industry Audit Guides. 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 references to the authoritative literature.

**.03** Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements,” and “in notes” (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** 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.

---

[The next page is 5301.]

# FSP Section 5300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 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 <sup>1</sup>
AC =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1) of SAS cited
A&AG =	Audit and Accounting Guide, <i>Savings and Loan Associations</i>
SOP =	AICPA Statement of Position
NTP =	Notice to Practitioners—"ADC Arrangements"

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Titles and References</b>			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [(AU 411.04 and 431.02)]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity 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 the 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. 7 (AC I25.506)]	_____	_____	_____
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)]	_____	_____	_____

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Accounting Changes</b>			
1. For all changes in accounting principles, are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income?	_____	_____	_____
d. Effect on related per share amounts? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—21, 25 (AC A06.115—.118 and .121)]	_____	_____	_____
3. For changes in the method of accounting for post-retirement life insurance and health care benefits, are appropriate disclosures made? [TB 87-1, par. 4 (AC P50.503)]	_____	_____	_____
4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	_____	_____	_____
5. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10—11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5—6 (AC A06.112)]	_____	_____	_____
6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:			
a. Effect on income before extraordinary items and on net income?	_____	_____	_____
b. Effect on related per share amounts? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
7. 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?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income (and related per share amounts)? [APB 20, pars. 36—37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]	_____	_____	_____
8. If interim financial data and disclosures are not separately reported for the fourth quarter and an accounting change is made during the fourth quarter, is disclosure made in the year of change of:			
a. The effect on the interim periods?	_____	_____	_____
b. Cumulative effect? [APB 28, par. 31; SFAS 3, par. 14 (AC I73.147)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
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)]	_____	_____	_____
<b>E. Business Combinations</b>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests: [APB 16, pars. 45—48 (AC B50.104—.107)]			
a. Has the required accounting method been applied? [APB 16, pars. 50—62 (AC B50.109—.121)]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 63—65 (AC B50.122—.124)]	_____	_____	_____
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66—94; SFAS 96, pars. 23 and 205c (AC B50.125—.147A and .159—.163); SFAS 38 (AC B50.148—.150 and .166); FASBI 9, pars. 4—7 (AC B50.155—.157)]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 95—96 (AC B50.164—.165)]	_____	_____	_____
c. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]	_____	_____	_____
3. If significant, has the amount of net operating loss or tax credit carry-forwards for which any tax benefits will be applied to reduce goodwill and other noncurrent assets (of an acquired enterprise) been disclosed separately? [SFAS 96, par. 29 (AC I25.128 and .187)]	_____	_____	_____
4. If financial statements for prior years are restated, have all purchase business combinations that were consummated in those prior years been remeasured in accordance with the requirements of SFAS 96? [SFAS 96, par. 35]	_____	_____	_____
<b>F. Consolidations</b>			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]	_____	_____	_____
c. Are summarized financial statements of consolidated subsidiaries included in notes to financial statements or in a schedule? [A&AG, pages 93—96]	_____	_____	_____
d. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18—20 (AC I89.112—.114); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
2. Are the accounts of majority owned subsidiaries consolidated? [SFAS 94, par. 13 (AC C51.103)]	_____	_____	_____
3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed? [SFAS 12, par. 20 (AC I89.114)]	_____	_____	_____
4. If summarized information about the assets, liabilities, and results of operations (or separate statements) of unconsolidated majority-owned subsidiaries was disclosed in the financial statements for fiscal years 1986 and 1987, is that information disclosed in the current year's consolidated financial statements or notes? [SFAS 94, par. 14 (AC C51.120A)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>G. Related Party Transactions and Economic Dependency</b>			
1. For related party transactions do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholder, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements 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 income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
e. If part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
f. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____
2. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9 (AC S20.103)]	_____	_____	_____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
<b>H. Financial Instruments</b>			
1. Does the entity 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 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?	_____	_____	_____
(ii) To exchange other financial instruments on potentially favorable terms with the first entity? [SFAS 105, par. 6 (AC F25.106)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For financial instruments with off-balance sheet risk, (except for certain insurance contracts, lease contracts under SFAS 13, purchase obligations, employers' obligations for pension benefits and other forms of defined compensation, extinguished debt pursuant to an in-substance defeasance) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument <sup>1</sup> :			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, pars. 14, 15 and 17 (AC F25.112)]	_____	_____	_____
3. For financial instruments with off-balance sheet risk, (except as noted above in H.2.) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
4. Do the disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties, (except for certain insurance contracts, purchase contracts and pension obligations) include the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
5. For all fiscal years subsequent to the year of transition, have SFAS 105 disclosures been included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 105, par. 22]	_____	_____	_____
<b>I. Foreign Currency</b>			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____

<sup>1</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. Has disclosure of principal amounts of spot and forward exchange contracts been considered? [SFAS 80 (AC F80)]	_____	_____	_____
<b>J. Contingencies and Commitments</b>			
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. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); A&AG, page 36]	_____	_____	_____
<b>K. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, .09 and 561.01—.09 (AU 560.05—.07, .09 and 561.01—.09)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>L. Pension Plans—[For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 [AC Pe5]]</b>			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?			
Note: The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:			
(1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)	_____	_____	_____
(2) Amortization of the net gain or loss from earlier periods	_____	_____	_____
(3) Amortization of unrecognized prior service cost	_____	_____	_____
(4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 [AC P16.129—.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?	_____	_____	_____
(1) Also, if applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 [AC P16.135]?			
[SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
f. If more than one defined benefit plan exists:			
(1) Have the disclosures required by 1 above been aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
<b>2. If there is a defined contribution plan, do disclosures include:</b>			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If the answer is yes, are disclosures required for a defined benefit plan been made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
<b>3. If there is a multiemployer plan, do disclosures include:</b>			
a. A description of the multiemployer plan(s) including the employee groups covered, the types of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 [AC C59] been applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
<b>4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:</b>			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>M. Postretirement Health Care and Life Insurance Benefits</b>			
1. Do disclosures include:			
a. Description of benefits and employee groups covered?	_____	_____	_____
b. Description of accounting and funding policies?	_____	_____	_____
c. Cost of benefits recognized during the period?	_____	_____	_____
d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____
<b>N. Futures Contracts</b>			
1. If a futures contract is designated a hedge:			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	_____	_____	_____
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	_____	_____	_____
2. If the futures contract hedges an anticipated transaction:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Are the significant characteristics and expected terms of the anticipated transaction identified?	_____	_____	_____
b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)]	_____	_____	_____
3. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
<b>O. Other Matters</b>			
1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24 (AC S20.109—.110); SFAS 30 (AC S20.145); and TBs 79-4, 79-5 and 79-8 (AC S20.501—.507)]	_____	_____	_____

**Statement of Financial Condition**

**A. Cash**

1. If material, is the amount of certificates of deposit included in cash disclosed? [A&AG, page 98]	_____	_____	_____
2. Are compensating balance arrangements with other financial institutions disclosed?	_____	_____	_____
3. Are (1) cash with withdrawal restrictions and (2) material interest-bearing deposits with banks, disclosed separately on the statement of financial condition?	_____	_____	_____

**B. Securities Purchased Under Agreements to Resell**

1. Is the following end of period information disclosed:			
a. A description of the securities underlying the agreements?	_____	_____	_____
b. The cost of the agreements, including accrued interest?	_____	_____	_____
c. The market value of the securities underlying any agreement if less than the cost of that agreement?	_____	_____	_____
d. The maturity of the agreements?	_____	_____	_____
e. The dollar amount of agreements to resell the same securities?	_____	_____	_____
f. The dollar amount of agreements to resell substantially identical securities?	_____	_____	_____
g. The dollar amount of assets at risk under agreements outstanding? [SOP 86-1, par. 31]	_____	_____	_____
h. Any material concentrations at the end of the period?	_____	_____	_____
2. Is the following additional information disclosed:			
a. The maximum amount of outstanding agreements at any month-end during the period?	_____	_____	_____
b. The average amount of outstanding agreements for the period?	_____	_____	_____
c. A statement of whether the securities underlying the agreements were under the association's control? [SOP 86-1, par. 31]	_____	_____	_____

**C. Investment Securities**

1. For securities not covered by SFAS 12 [AC I89]:			
a. Does the statement of financial condition show separate amounts for U.S. Treasury and other U.S. Government agencies; states and political subdivisions; and other securities? [A&AG, page 98]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If material, is the amount of "federal funds" separately disclosed? [A&AG, page 21]	_____	_____	_____
c. Are securities recorded at amortized cost?	_____	_____	_____
d. Are market values disclosed in the notes or on the face of the statement of financial condition? [A&AG, pages 20 and 98]	_____	_____	_____
e. Is the amount of pledged securities disclosed? [A&AG, page 20]	_____	_____	_____
f. For a permanent impairment, has the estimated loss been recognized by charging current operations and reducing the carrying amount of the investment? [A&AG, page 21]	_____	_____	_____
2. Are appropriate disclosures made for marketable equity securities? [SFAS 12, par. 12 (AC 189.106)]	_____	_____	_____
3. Is Federal Home Loan Mortgage Corporation Participating Preferred Stock reported at lower of cost or market, with declines reflected as a component in equity absent an intent to dispose of the stock, in conformance with SFAS 12 [AC 189]? [TB 85-1, par. 3 (AC Bt7.503)]	_____	_____	_____
4. Has consideration been given to disclosure as of the latest balance sheet date of the maturity dates of the investment securities?	_____	_____	_____
<b>D. Mortgage Loans and Mortgage-Backed Securities Held for Investment</b>			
1. Are mortgage loans and mortgage-backed securities held for investment reported separately in the statement of financial condition? [SOP 86-1, par. 31]	_____	_____	_____
2. Is market value disclosed? [SOP 86-1, par. 31]	_____	_____	_____
<b>E. Mortgage Loans and Mortgage-Backed Securities Held for Sale</b>			
1. Are mortgage loans and mortgage-backed securities held for sale reported separately in the statement of financial condition? [SFAS 65, par. 28 (AC Mo4.129)]	_____	_____	_____
2. Are mortgage loans and mortgage-backed securities reported held for sale at the lower of cost or market value? [SFAS 65, par. 4 (AC Mo4.105)]	_____	_____	_____
3. Is the method used in determining lower of cost or market value disclosed (i.e. individual vs. aggregate method)? [SFAS 65, par. 29 (AC Mo4.130)]	_____	_____	_____
4. If the right to service mortgage loans was acquired, is the following information disclosed:			
a. The amount capitalized during the period in acquiring the right to service?	_____	_____	_____
b. The method of amortizing the capitalized amount?	_____	_____	_____
c. The amount of amortization for the period? [SFAS 65, par. 30 (AC Mo4.131)]	_____	_____	_____
<b>F. Loans Receivable</b>			
1. Are the significant components of the loan portfolio disclosed? [A&AG, pages 105—106]	_____	_____	_____
2. Are loans to related parties disclosed? [SFAS 57, par. 2 (AC R36.102)]	_____	_____	_____
3. For troubled debt restructurings, are the following disclosed by major category of loans as of the date of each balance sheet presented:			
a. Aggregate recorded investment?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since inception?	_____	_____	_____
c. Amount of interest income included in current net income?	_____	_____	_____
d. Amounts of any commitments to lend additional funds to debtors owing restructured troubled loans? [SFAS 15, pars. 40—41 (AC D22.136—.137); TBs 79-6 and 79-7 (AC D22.501—.505)]	_____	_____	_____
<b>4. For loans sold with recourse are the following disclosures made:</b>			
a. For each period for which an income statement is presented, the amount of proceeds?	_____	_____	_____
b. At the date of each balance sheet presented, the balance of sold receivables that remain uncollected? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
<b>5. For real estate loans other than troubled debt restructurings:</b>			
a. Are policies affecting evaluation of real estate loans disclosed? [A&AG, pages 39—40]	_____	_____	_____
b. If appropriate, is analysis of activity in the loss allowance account disclosed? [A&AG, page 41]	_____	_____	_____
<b>6. If material, are total loan commitments disclosed?</b> [A&AG, page 36]	_____	_____	_____
<b>7. Are amounts for the following accounts shown separately and deducted from loans receivable:</b>			
a. Undisbursed portion of mortgage loans? [A&AG, pages 36 and 106]	_____	_____	_____
b. Unamortized balance of unearned discounts on purchased loans? [SFAS 91, par. 21 (AC L20.120); A&AG, pages 63—64 and 106]	_____	_____	_____
c. Allowance for losses? [A&AG, pages 34 and 106]	_____	_____	_____
d. Unamortized balance of loan commitment and loan origination fees? [SFAS 91, pars. 21 and 65 (AC L20.120 and L20.124); A&AG, pages 74—75]	_____	_____	_____
<b>8. Is the unamortized balance of premiums on purchased loans shown as part of the related loan balance?</b> [SFAS 91, par. 21 (AC L20.120)]	_____	_____	_____
<b>G. Real Estate Acquired in Settlement of Loans</b>			
1. Is real estate acquired in settlement of loans shown separately on the statement of financial condition? [A&AG, page 98]	_____	_____	_____
2. Is such real estate stated at lower of fair value at acquisition date or net realizable value? [A&AG, page 105]	_____	_____	_____
3. If appropriate, is activity in the loss allowance account disclosed? [A&AG, page 41]	_____	_____	_____
<b>H. Real Estate Acquired for Sale or Development</b>			
1. Is such real estate recorded at lower of cost or estimated net realizable value? [A&AG, page 42]	_____	_____	_____
2. Is the amount of capitalized interest cost disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
3. Have ADC arrangements which do not have the characteristics of loans been appropriately classified as investments in joint ventures or investments in real estate? [NTP]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. Premises and Equipment</b>			
1. Are fixed assets shown on the balance sheet net of accumulated depreciation? [A&AG, page 98]	_____	_____	_____
2. Is the carrying basis disclosed? [A&AG, page 98]	_____	_____	_____
3. Are the balances of major classes of depreciable assets and the estimated useful lives disclosed? [APB 12, par. 5b (AC D40.105b)]	_____	_____	_____
4. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
5. Are material commitments for property expenditures disclosed? [A&AG, page 46]	_____	_____	_____
6. Is the amount of capitalized interest cost disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
<b>J. Federal Savings and Loan Insurance Corporation Secondary Reserve Prepayment</b>			
1. Has the amount been written off? [AICPA Practice Bulletin 3]	_____	_____	_____
<b>K. Federal Home Loan Bank Stock</b>			
1. Is stock shown separately on the statement of financial condition at cost? [A&AG, page 98]	_____	_____	_____
2. If used as collateral for advances from the Federal Home Loan Bank, is this fact disclosed? [A&AG, page 107]	_____	_____	_____
<b>L. Accrued Interest Receivable</b>			
1. Consider showing separately on the statement of financial condition, if material? [A&AG, page 98]	_____	_____	_____
<b>M. Other Assets</b>			
1. For investments in common stock accounted for by the equity method, are appropriate disclosures made? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
2. Are investments in life insurance reported at amounts which can be realized as of the balance sheet date? [TB 85-4, par. 2 (AC I50.508)]	_____	_____	_____
3. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired from a combination initiated after September 30, 1982:			
a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired? [SFAS 72, par. 4 (AC I60.131)]	_____	_____	_____
b. Is the interest method used as the amortization method?	_____	_____	_____
c. Is the interest method applied to outstanding balances of interest-bearing assets? [SFAS 72, par. 5 (AC I60.133)]	_____	_____	_____
d. Are method and period of amortization disclosed? [APB 17, par. 30 (AC I60.111)]	_____	_____	_____
e. If regulatory assistance was received, or receipt is probable and reasonably estimable, has it been reported as a reduction of goodwill at the acquisition date? [SAFS 72, par. 9 (AC B50.158D)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>N. Savings Accounts</b>			
1. Is the composition of savings accounts by interest rates disclosed? [A&AG, pages 49 and 106]	_____	_____	_____
<b>O. Advances From Federal Home Loan Bank</b>			
1. Do the notes to the financial statements disclose:			
a. Composition of advances by interest rates?	_____	_____	_____
b. Amounts due within one year and amounts due after one year? [A&AG, page 107]	_____	_____	_____
c. Assets pledged as collateral? [SFAS 5, par. 18 (AC C59.120); A&AG, page 107]	_____	_____	_____
<b>P. Securities Sold Under Agreements to Repurchase</b>			
1. Is the following end of period information disclosed?			
a. A description of the securities underlying the agreements?	_____	_____	_____
b. The book value, including accrued interest of the securities underlying the agreements?	_____	_____	_____
c. The market value of the securities underlying the agreements?	_____	_____	_____
d. The maturity of the agreements?	_____	_____	_____
e. The weighted-average interest rate of the agreements?	_____	_____	_____
f. The dollar amount of agreements to repurchase the same securities?	_____	_____	_____
g. The dollar amount of agreements to repurchase substantially identical securities?	_____	_____	_____
h. The dollar amount of assets at risk under agreements outstanding? [SOP 86-1, par. 31]	_____	_____	_____
2. Is the following additional information disclosed:			
a. The maximum amount of outstanding agreements at any month-end during the period?	_____	_____	_____
b. The average amount of outstanding agreements for the period?	_____	_____	_____
c. A statement of whether the securities underlying the agreements were under the association's control? [SOP 86-1, par. 31]	_____	_____	_____
<b>Q. Income Taxes (Assumes Adoption of FASB 96)</b>			
1. Have deferred tax assets been recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years:			
a. To reduce a current deferred tax liability?	_____	_____	_____
b. To reduce taxes paid in the current or a prior year? [SFAS 96, par. 17e (AC I25.116e)]	_____	_____	_____
2. Have deferred tax assets or liabilities been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)]	_____	_____	_____
3. Have deferred tax assets or liabilities attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
4. Have the types of temporary differences that give rise to significant portions of a deferred tax asset or liability been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
5. Is the amount of a deferred tax asset or liability the net deferred tax consequence of:			
a. Temporary differences that will result in net taxable or deductible amounts during the next year?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?	_____	_____	_____
c. Temporary differences for which there is no related identifiable asset or liability for financial reporting [SFAS 96, par. 12 (AC I25.111)] whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
6. Have deferred tax liabilities been recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par. 17f—h (AC I25.116f—h)]	_____	_____	_____
7. For undistributed earnings of subsidiaries and/or corporate joint ventures, for which a deferred tax liability is not recognized, do the disclosures include:			
a. A description of the type of temporary differences?	_____	_____	_____
b. The type of events that would cause the temporary differences to become taxable?	_____	_____	_____
c. The cumulative amount of each type of temporary difference?	_____	_____	_____
d. The amount of the unrecognized deferred tax liability for unremitted earnings and the amount of withholding taxes that would be payable upon remittance of the earnings? [SFAS 96, par. 25 (AC I25.124)]	_____	_____	_____
<b>R. Other Borrowed Money</b>			
1. Is the subordinated debt classified as debt? [A&AG, page 62]	_____	_____	_____
2. If material, is the amount of mortgage-backed bonds shown separately on the statement of financial condition and are all significant terms disclosed in notes to financial statements?	_____	_____	_____
3. Is 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. 10 (AC C32.105)]	_____	_____	_____
4. Are conversion features appropriately accounted for and disclosed? [APB 14, pars. 12 and 16—18 (AC D10.103 and D10.105—.107); APB 15, par. 19 (AC E09.110)]	_____	_____	_____
5. Are assets pledged as collateral disclosed? [SFAS 5, par. 18 (AC C59.120); A&AG, page 107]	_____	_____	_____
6. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement, or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
7. For periods after a troubled debt restructuring, do disclosures include:			
a. The extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. Has debt, as required, been considered extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?	_____	_____	_____
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A); TB 85-2 (AC C30)]	_____	_____	_____
9. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	_____	_____	_____
10. If there is an extinguishment of debt, (including prepayment of FHLB advances) is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20—21 (AC D14.103—.104); TB 80-1, pars. 3—4 (AC D14.503—.504); SFAS 84, par. 5 (AC D14.101)]	_____	_____	_____
b. Identified as a separate or extraordinary item? [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
11. Do disclosures for extinguishments of debt described in 9 above include:			
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment?	_____	_____	_____
c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
<b>S. Lessee Leases</b>			
1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate, and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)—(4))]	_____	_____	_____
c. The total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4)) amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. The total of future minimum rentals under noncancelable sublease as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements, including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13 see SFASs 17, 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]	_____	_____	_____
<b>T. Advances From Borrowers for Taxes and Insurance</b>			
1. Is the amount shown separately on the statement of financial condition? [A&AG, page 99]	_____	_____	_____
2. If required to establish special funds, are the special funds and related liability separately disclosed? [A&AG, pages 53—54]	_____	_____	_____
<b>U. Federal Income Taxes</b>			
1. Is the amount shown separately on the statement of financial condition? [A&AG, page 99]	_____	_____	_____
<b>V. Other Liabilities</b>			
1. Are short sale proceeds reported as a liability? [A&AG, page 22]	_____	_____	_____
2. For loans transferred with recourse which are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.109)]	_____	_____	_____
3. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
4. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (P16.185)]	_____	_____	_____
<b>W. Capital Stock</b>			
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 12, par. 10 (AC C08.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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, or unusual voting rights? [APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. 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 presented? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
4. Are liquidation preferences of preferred stock issues disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	_____	_____	_____
5. For preferred stock do disclosures include:			
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?	_____	_____	_____
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 (AC C16.102)]	_____	_____	_____
6. For stock option and stock purchase plans, do disclosures include:			
a. The number of shares under option?	_____	_____	_____
b. The option price?	_____	_____	_____
c. The number of shares as to which options are exercisable?	_____	_____	_____
d. For shares exercised, the number of shares exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123); 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)]	_____	_____	_____
<b>X. Additional Paid-In Capital</b>			
1. Is the amount shown separately on the statement of financial condition? [A&AG, page 99]	_____	_____	_____
<b>Y. Retained Earnings</b>			
1. Is the amount of retained earnings shown separately on the statement of financial condition? [A&AG, pages 64 and 99]	_____	_____	_____
2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120); A&AG, page 65]	_____	_____	_____
3. If significant restrictions exist, does the caption for retained earnings indicate that retained earnings are “substantially restricted”? [A&AG, pages 65 and 99]	_____	_____	_____
4. Are any appropriations of retained earnings for loss contingencies and general reserves clearly identified and included in stockholders’ equity? [SFAS 5, par. 15 (AC C59.117); A&AG, pages 65—66 and 107—108]	_____	_____	_____
5. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
<b>Z. Other Stockholders’ Equity Accounts</b>			
1. Are cumulative translation adjustments separately disclosed? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?<br>[TB 85-6, par. 3 (AC C23.501—.503)] | _____      | _____     | _____      |
| 3. Is the valuation allowance for marketable equity securities or investments in mutual funds separately disclosed?<br>[SFAS 12 par. 11 (AC I89.104) A&AG, page 99]   | _____      | _____     | _____      |

### Statement of Operations

#### A. Interest on Loans

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is interest on loans shown separately on the statement of operations?<br>[A&AG, page 100]  | _____ | _____ | _____ |
| 2. Has interest income been reported on a consistent basis?<br>[A&AG, page 33]  | _____ | _____ | _____ |
| 3. If it is probable that interest on delinquent loans will not be received, has accrual of such interest been discontinued?<br>[A&AG, page 33]   | _____ | _____ | _____ |
| 4. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield, reported as interest income?<br>[SFAS 91, par. 22 (AC L20.121)] | _____ | _____ | _____ |
| 5. Except as specified in SFAS 91, paragraph 20, [AC L20.119], is the interest method used as the method of amortization?<br>[SFAS 91, par. 18 (AC L20.117)]                                | _____ | _____ | _____ |

#### B. Loan Fees

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is amortization of loan fees being amortized on the straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income?<br>[SFAS 91, par. 22 (AC L20.121)] | _____ | _____ | _____ |
|---|-------|-------|-------|

#### C. Interest/Dividends on Investments

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is the amount for investment income shown separately on the statement of operations?<br>[A&AG, page 100] | _____ | _____ | _____ |
|---|-------|-------|-------|

#### D. Gain/Loss on Sales of Investments

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Is the amount shown separately on the statement of operations?<br>[A&AG, page 100]  | _____ | _____ | _____ |
| 2. If the market value of securities required to complete a short sale is greater than the short sale proceeds, has a loss been recorded?<br>[A&AG, page 22] | _____ | _____ | _____ |

#### E. Gain/Loss on Sales of Loans

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are material gains/losses on loans sold with recourse separately disclosed?<br>[SFAS 77, pars. 9 and 39b (AC R20.109b)] | _____ | _____ | _____ |
|--|-------|-------|-------|

#### F. Gain/Loss on Pension Plan Settlements or Curtailments or Termination Benefits

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are such gains (losses) disclosed?<br>[SFAS 88, par. 17 (AC P16.187)] | _____ | _____ | _____ |
|--|-------|-------|-------|

#### G. Interest on Savings Accounts

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Is the amount shown separately on the statement of operations or otherwise disclosed by type of account?<br>[A&AG, page 100]                             | _____ | _____ | _____ |
| 2. Is the interest penalty for early withdrawals reported as a reduction of interest expense in the period that the penalty is assessed?<br>[A&AG, page 51] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>H. Interest on Advances and Other Borrowings</b>			
1. Is the amount shown separately on the statement of operations? [A&AG, page 100]	_____	_____	_____
<b>I. Interest Capitalized</b>			
1. Is the amount shown separately on the statement of operations as a reduction of interest expense? [SFAS 34, par. 21 (AC I67.118); A&AG, page 100]	_____	_____	_____
<b>J. General and Administrative Expenses</b>			
1. Salaries:			
a. If there is a compensatory stock issuance plan:			
(1) Is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]	_____	_____	_____
(2) Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
(3) Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)]	_____	_____	_____
2. Employee Benefits:			
a. Is the amount of net periodic pension costs and its components disclosed? [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____
b. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]	_____	_____	_____
3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20—34, 39—53 and 77? <sup>1</sup> [SFAS 87, pars. 20—34, 39—53 and 77 (AC P16.114—.128, .133—.138 and .141—149)]	_____	_____	_____
4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3—5 and 9—11? [SFAS 88, pars. 3—5 and 9—11 (AC P16.172, .177—.179 and .181)]	_____	_____	_____
5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12—14? [SFAS 88, pars. 6 and 12—14 (AC P16.173 and .182—.184)]	_____	_____	_____
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7—8? [SFAS 88, pars. 7—8 (AC P16.174—.175)]	_____	_____	_____
6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9—10, 12—13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9—10, 12—13 and 15 (AC P16.177, .179, .182—.183 and .185)]	_____	_____	_____
8. If there is a compensatory stock issuance plan:			

<sup>1</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]	_____	_____	_____
b. Are deferred income taxes recorded to recognize timing differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
c. Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
9. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—8 (AC C38.101—.102)]	_____	_____	_____
10. Operating Leases:			
a. Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
<b>K. Loss Provisions and Expenses of Loans and Real Estate Owned</b>			
1. Is the amount shown separately on the statement of operations? [A&AG, page 100]	_____	_____	_____
2. Is the policy for providing valuation allowances for estimated losses on loans and real estate disclosed? [A&AG, page 105]	_____	_____	_____
<b>L. Other Expenses</b>			
1. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
<b>M. Income Taxes</b>			
1. If an entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners, has that fact and the net difference between the tax bases and the reported amounts of the enterprises assets and liabilities been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
2. Has the amount of income tax expense or benefit been allocated to:			
a. Continuing operations?	_____	_____	_____
b. Discontinued operations?	_____	_____	_____
c. Extraordinary items?	_____	_____	_____
d. Cumulative effect of accounting changes?	_____	_____	_____
e. Prior period adjustments?	_____	_____	_____
f. Gains and losses included in comprehensive income but excluded from net income?	_____	_____	_____
g. Capital transactions? [SFAS 96, par. 26 (AC I25.125)]	_____	_____	_____
3. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit exclusive of (f) below?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC I25.126)]	_____	_____	_____
4. Do disclosures regarding income tax expense attributable to continuing operations include:			
a. A reconciliation (using percentages or dollar amounts) to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?	_____	_____	_____
b. The estimated amount and the nature of each significant item? [SFAS 96, par. 28 (AC I25.127)]	_____	_____	_____
5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [APB 2, par. 16, SFAS 96, par. 29 (AC I25.128 and .187)]	_____	_____	_____
6. Do the disclosures for investment tax credits include the method followed (flow-through or deferral) and the amounts involved? [APB 4, par. 11 (AC I25.186)]	_____	_____	_____
7. If part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:			
a. The amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____
8. For the earliest year restated or for the year SFAS 96 is first adopted if no prior year is restated, has the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principles as described in paragraph 20 of APB Opinion No. 20, Accounting Changes, except for any effects of the type required by SFAS 96 to be excluded from net income? [SFAS 96, par. 33]	_____	_____	_____
9. When initially presented, have the financial statements for the year SFAS 96 is first adopted disclose the following:			
a. The effect of adopting SFAS 96 on income from continuing operations, income before extraordinary items, and on net income for the year of adoption if restated financial statements for the prior year are not presented?	_____	_____	_____
b. The effect of any restatement on income from continuing operations, income before extraordinary items, and on net income for each year presented? [SFAS 96, par. 34]	_____	_____	_____
10. Is the accumulated amount of bad debt reserves for which income taxes have not been accrued disclosed? [SFAS 96, par. 25 (AC I25.124 and .177—.181)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>N. Discontinued Operations</b>			
1. Are operations of a segment that has been discontinued or are the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
2. Is the gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106, .108 and .109)]	_____	_____	_____
3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)]	_____	_____	_____
4. For the period encompassing the measurement date, do the notes to financial statements disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal, of the discontinued segment during the period from the measurement date to the balance sheet date? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
5. For periods after the measurement date and including the period of disposal, do notes to the financial statements disclose the information required? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
<b>O. Extraordinary Items</b>			
1. 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)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gains(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. 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):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I25.505)]	_____	_____	_____
6. 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?	_____	_____	_____
c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)]	_____	_____	_____
<b>P. Other</b>			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi-organization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____
2. Is earnings per share information presented on the face of the statement of operations accompanied by appropriate disclosure that includes the basis of the calculation? [APB 15, (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c, and .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128—.131 and .169—.176); FASBI 38, par. 7 (AC E09.130A); SFAS 85, par. 3 (AC E09.123A)]	_____	_____	_____

**Statement of Changes in Stockholders' Equity**

A. Are changes in the separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
B. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
C. Are prior period adjustments limited to:			
1. Correction of an error(s) in financial statements of prior periods? [SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
2. Adjustments resulting from realization of income tax benefits of pre-acquisition operating loss or tax credit carryforwards of purchased subsidiaries? [SFAS 96, par. 23 (AC I25.122)]	_____	_____	_____
D. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
E. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:			
1. Nature of the error in previously issued financial statements?	_____	_____	_____
2. 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)]	_____	_____	_____
F. If appropriate or required, is a regulatory reserve account analysis presented in the statement of retained earnings or stockholders' equity? [A&AG, pages 64—65]	_____	_____	_____

**Statement of Cash Flows**

Yes      No      N/A

- A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented?  
[SFAS 95, par. 3 AC C25.101] \_\_\_\_\_
- B. Are cash receipts and cash payments from operating activities shown separately on statement of cash flows?  
[SFAS 95, pars. 27—28 (AC C25.125—.126)] \_\_\_\_\_
  - 1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows?  
[SFAS 102, par. 8 (AC C25.122A)] \_\_\_\_\_
  - 2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash?  
[SFAS 102, par. 9 (AC C25.122B)] \_\_\_\_\_
- C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:
  - 1. Interest received on loans? \_\_\_\_\_
  - 2. Insurance proceeds except those directly related to investing or financing activities? \_\_\_\_\_
  - 3. Interest paid to creditors? \_\_\_\_\_
  - 4. Payments to suppliers and employees? \_\_\_\_\_
  - 5. Payments to governments for taxes, duties, fines, and other fees or penalties? \_\_\_\_\_
  - 6. Payments to settle lawsuits? \_\_\_\_\_
  - 7. Contributions to charities?  
[SFAS 95, pars. 22—23 (AC C25.120—.121)] \_\_\_\_\_
  - 8. Acquisition and sales of loans specifically acquired for resale carried at market value or at the lower of cost or market value?  
[SFAS 102, par. 9 (AC C25.122A and .122B)] \_\_\_\_\_
- D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?  
[SFAS 95, par. 31 (AC C25.129)] \_\_\_\_\_
- E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:
  - 1. Receipts from collections or sales of loans? \_\_\_\_\_
  - 2. Receipts from sales of property or investments? \_\_\_\_\_
  - 3. Loans to another entity? \_\_\_\_\_
  - 4. Payments to acquire property or investments?  
[SFAS 95, pars. 16—17 (AC C25.114—.115)] \_\_\_\_\_
- F. Are cash receipts and cash payments from financing activities shown separately on statement of cash flows?  
[SFAS 95, par. 31 (AC C25.129)] \_\_\_\_\_
- G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:
  - 1. Proceeds from issuing debt or capital stock? \_\_\_\_\_
  - 2. Repayment of amounts borrowed? \_\_\_\_\_
  - 3. Dividend payments to shareholders? \_\_\_\_\_
  - 4. Acquisition of treasury stock?  
[SFAS 95, pars. 19—20 (AC C25.117—.118)] \_\_\_\_\_
- H. Are the net amounts of cash receipts and cash payments reported for:
  - 1. Deposits placed with financial institutions and withdrawals of deposits? \_\_\_\_\_
  - 2. Time deposits accepted and repayments of deposits? \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Loans made to customers and principal collections of loans? [SFAS 104, par. 7a (AC C25.111A)]			
I. If applicable, is the effect of exchange rate change on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
J. Does statement of cash flows explain the effect of cash flows by showing change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
K. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
L. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, pars. 29—30 (AC C25.127—.128)]	_____	_____	_____
M. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

[The next page is 5401.]

# FSP Section 5400

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

**.02 Explanation of references:**

- SAS = Statement of 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

**.03 Checklist Questionnaire**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include the 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 58, par. 46 (AU 508.46); SAS 26, pars. 15—17(AU 504.15—.17)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 26, par. 9, sec. 220 (AU 504.09)]	_____	_____	_____
a. For a public entity? [SAS 26, pars. 8—10 (AU 504.08—.10)]	_____	_____	_____
b. For a nonpublic entity? [SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
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 auditor's report include appropriate explanatory language with respect to the following:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
b. Departure from a promulgated accounting principle which could lead to a misleading financial statement? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____
d. There is substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 13 (AU 341.13)]	_____	_____	_____

	Yes	No	N/A
e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
f. Opinion on prior-period financial statements different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
g. Predecessor auditor’s report reissued? [SAS 58, pars. 80—82 (AU 508.80—.82)]	_____	_____	_____
h. Selected quarterly financial data required by the SEC has been omitted or has not been reviewed? [SAS 36, par. 29 (AU 722.29)]	_____	_____	_____
i. Required supplemental information has:			
(1) Been omitted?	_____	_____	_____
(2) Presentation of information departs materially from FASB guidelines?	_____	_____	_____
(3) The auditor is unable to complete prescribed procedures?	_____	_____	_____
(4) The auditor has substantial doubts that the information conforms to FASB guidelines? [SAS 52 (AU 551.15)]	_____	_____	_____
j. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
k. A matter regarding the financial statements that should be emphasized? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
1. Report on one basic financial statement and there are no scope limitations? [SAS 58, par. 48 (AU 508.48)]	_____	_____	_____
m. Reports on comparative financial statements? [SAS 58, pars. 74—75 (AU 508.74—.75)]	_____	_____	_____
n. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, disclaimer or an explanatory paragraph on one or more financial statements for one or more periods? [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	_____	_____	_____
o. Comparative financial statements with an opinion different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
p. Comparative financial statements when a predecessor auditor’s report is not presented? [SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
q. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
r. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods? [SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)]	_____	_____	_____
5. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? [SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40—48 (AU 508.40—.48)]	_____	_____	_____
6. Has a qualified opinion or an adverse opinion been expressed if the following circumstances are present:			
a. An uncertainty is not adequately disclosed in the financial statements? [SAS 58, par. 20 (AU 508.20)]	_____	_____	_____

	Yes	No	N/A
b. The accounting principles used cause the financial statements to be materially misstated? [SAS 58, par. 21 (AU 508.21)]	_____	_____	_____
c. Unreasonable accounting estimates that cause the financial statements to be misstated? [SAS 58, par. 22 (AU 508.22)]	_____	_____	_____
d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change with which the auditor does not concur? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]	_____	_____	_____
e. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
f. Financial statements reflect regulatory practices that differ from GAAP and the resulting difference is material in amount? [SAS 1, sec. 544.02 (AU 544.02); A&AG, page 16]	_____	_____	_____
g. Client representations about related party transactions? [SAS 45, par. 12 (AU 334.12)]	_____	_____	_____
h. There is no evidence to support carrying amount of investment securities and an allowance to write down to market has not been established? [A&AG, page 27]	_____	_____	_____
i. Clients' voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
7. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
8. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion? [SAS 58, par. 70 (AU 508.70)]	_____	_____	_____
a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed? [SAS 58, par. 71 (AU 508.71)]	_____	_____	_____
9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer of opinion disclosed? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .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)]	_____	_____	_____
10. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of the necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Regulated companies? [SAS 1, sec. 544.02—.04 (AU 544.02—.04); SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
c. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____

	Yes	No	N/A
d. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
e. Client's refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
f. Limitations on the scope of the lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
g. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
h. Scope limitation concerning errors or irregularities? [SAS 53, pars. 26—27 (AU 316.26—.27)]	_____	_____	_____
i. Illegal acts by clients? [SAS 54 (AU 317)]	_____	_____	_____
j. Segment information? [SAS 21 (AU 435)]	_____	_____	_____
k. Entity's continued existence? [SAS 59, pars. 12—16 (AU 341.12—.16)]	_____	_____	_____
l. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
m. 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 which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13—.15)]	_____	_____	_____
n. Client's voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
11. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]	_____	_____	_____
12. For special reports, have the provisions of SAS 35 and SAS 62 been complied with for the following:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
b. Specified elements, accounts or items of a financial statement? [SAS 62, pars. 11—14 (AU 623.11—.14); SAS 35 (AU 622)]	_____	_____	_____
c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—21 (AU 623.19—.21)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 22—26 (AU 623.22—.26)]	_____	_____	_____
13. If information is to accompany the basic financial statements and auditor's report 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 additional analysis and is not part of the basic financial statements?	_____	_____	_____

	Yes	No	N/A
(4) State whether the additional information has been subjected to the auditing procedures applied in auditing the basic financial statements and whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
14. If an auditor-submitted document with accompanying information is co-existing with a document that includes just the basic financial statements and the auditor's report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
15. 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)]	_____	_____	_____
16. 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 558.08 and .11)]	_____	_____	_____
17. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, has the auditor's report been appropriately modified if:			
a. Required supplementary information is omitted?	_____	_____	_____
b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?	_____	_____	_____
c. The auditor is unable to complete the procedures prescribed by SAS 52? [SAS 52, par. 2 (AU 558.08)]	_____	_____	_____
18. If a report on internal accounting control is to be issued (material weaknesses in internal accounting controls ("reportable conditions") that come to the auditor's attention must be communicated, preferably in writing, to the audit committee or the board of directors) [SAS 60 (AU 325)] is the appropriate form used for:			
a. A report for the restricted use of management, specified regulatory agencies, or other specified third parties, based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47—53 (AU 642.47—.53)]	_____	_____	_____
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed upon matters? [SAS 60, pars. 12—19 (AU 325.12—.19)]	_____	_____	_____
c. Report on all or part of an entity's system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
19. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate:			
a. That the auditor has examined and expressed an opinion on the completed financial statements?	_____	_____	_____
b. The date of the report on the complete financial statements?	_____	_____	_____
c. The type of opinion expressed?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 4 (AU 552.05)]	_____	_____	_____
20. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]	_____	_____	_____
21. If requested to report on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which the auditor is reporting?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
22. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
23. Has an explanatory paragraph been added to the auditors' report to disclose matters such as regulatory violations, enforcement actions, or not following FHLBB regulations? [SAS 58, pars. 31—32 (AU 508.31—32)]	_____	_____	_____
24. If a formal enforcement order has been received from the FHLBB to cease and desist from unsafe and unsound lending practices, has that fact been disclosed?	_____	_____	_____
25. Have material weaknesses in internal controls resulting in FHLBB enforcement actions been reported?	_____	_____	_____
26. Has the auditor determined the institution's compliance with regulatory capital requirements in considering appropriate disclosures to be made and opinion to be rendered?	_____	_____	_____
27. Has the contingent liability for a "liquidation account" resulting from a stock conversion been disclosed as a restriction on dividends?	_____	_____	_____

[The next page is 5501.]

# FSP Section 5500

## ***Supplemental Disclosure Checklist for Savings and Loan Associations That Are SEC Registrants***

.01 This Supplemental Disclosure Checklist for Savings and Loan Associations contains additional disclosures required in financial statements of publicly owned associations filed with the Federal Home Loan Bank Board (FHLBB) under the Securities Exchange Act of 1934. Many of the disclosures are routinely made by associations not covered by this act. References in this supplement, unless otherwise stated, are from Section 563C.102 of Rules and Regulations issued by the GTS.

### .02 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>A. Business Combinations</b>			
1. For significant acquisitions (acquired assets exceed 10 percent of consolidated assets), are aggregate interest-bearing assets and liabilities recorded at fair market value?	_____	_____	_____
2. Are related discounts or premiums described and the following information disclosed in the period in which the acquisition occurs:			
a. Amounts of discounts or premiums?	_____	_____	_____
b. Method of amortization or accretion?	_____	_____	_____
c. Estimated remaining lives?	_____	_____	_____
d. Effect on income before taxes of amortization and accretion of discounts, premiums, and intangible assets?	_____	_____	_____
3. If financial assistance is received from a federal regulatory agency in conjunction with either an acquisition of a troubled financial institution, transfer of nonperforming assets to a newly-formed entity, or other reorganization, have the disclosures required by Staff Accounting Bulletin 82 been made?	_____	_____	_____
<b>B. Cash and Amounts Due From Depository Institutions</b>			
1. Are noninterest-bearing deposits with depository institutions included?	_____	_____	_____
2. Have any withdrawal and usage restrictions or compensating balance requirements been disclosed?	_____	_____	_____
3. If an association is not in compliance with compensating balance requirements:			
a. Is this fact disclosed?	_____	_____	_____
b. Are possible or pending material sanctions for noncompliance disclosed? [SEC-FRR 203.02b]	_____	_____	_____
4. Are outstanding checks in excess of demand deposit account balances excluded and shown as a liability?	_____	_____	_____
5. Are interest-bearing deposits in other banks shown separately on the statement of financial condition?	_____	_____	_____
<b>C. Securities Purchased Under Agreements to Resell (or similar arrangements)</b>			
1. If the aggregate carrying value exceeds 10% of assets, is the following disclosed?			
a. Shown as a separate line item in the statement of financial condition?	_____	_____	_____
b. Policies regarding taking possession of the underlying securities?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Whether or not there are provisions to ensure that the market value of the underlying assets remain sufficient to protect against counterparty default, and the nature of such provisions?	_____	_____	_____
<b>D. Trading Account Assets</b>			
1. Is the amount shown separately on the statement of financial condition?	_____	_____	_____
<b>E. Loans Receivable</b>			
1. Are separate amounts disclosed for the following categories:			
a. Real estate mortgage?	_____	_____	_____
b. Real estate construction?	_____	_____	_____
c. Installment?	_____	_____	_____
d. Commercial, financial, and agricultural?	_____	_____	_____
e. Any other loan category indicative or unusual risk concentration?	_____	_____	_____
2. If more appropriate, have other categories been used?	_____	_____	_____
3. Is unearned income on installment loans, and unamortized discounts on purchased loans shown separately and deducted from total loans?	_____	_____	_____
4. Are total dollar amounts of loans being serviced for the benefit of other disclosed for each period for which a statement of operations is presented?	_____	_____	_____
5. If loans to related parties exceed 5 percent of stockholder's equity, is an analysis of activity presented for the latest fiscal year?	_____	_____	_____
6. For each period for which a statement of operations is presented, do notes to financial statements include a schedule of changes in allowance for loan losses showing beginning and ending balances, provision charged to income, recoveries of amounts previously charged off, and losses charged to the allowance?	_____	_____	_____
7. Has consideration been given to disclosure of commitments to fund loans at fixed and variable rates?	_____	_____	_____
<b>F. Real Estate Owned</b>			
1. Are amounts disclosed for:			
a. Real estate acquired by foreclosure?	_____	_____	_____
b. Real estate in judgement and subject to redemption?	_____	_____	_____
c. Real estate acquired for development or resale?	_____	_____	_____
2. Are accumulated depreciation or valuation allowances for each category of real estate shown separately?	_____	_____	_____
3. Are policies regarding, and amounts of, capitalized costs disclosed?	_____	_____	_____
4. For each period for which a statement of operations is presented, do notes to financial statements include a schedule of changes to the allowance for losses on real estate owned?	_____	_____	_____
<b>G. Investments in Joint Ventures</b>			
1. Are summarized aggregate financial statements presented, in the notes for those joint ventures which individually:			
a. Are 20 percent or more owned? or	_____	_____	_____
b. Have liabilities, including contingent liabilities, to the parent company exceeding 10 percent of the parent's net worth?	_____	_____	_____
2. If an allowance for real estate losses, subsequent to acquisition, is maintained, in the amount disclosed and deducted from other real estate owned?	_____	_____	_____
a. Are appropriate details disclosed?	_____	_____	_____
<b>H. Other Assets</b>			
1. For accrued interest receivable, are amounts relating to loans and to investments stated separately?	_____	_____	_____

**Supplemental Disclosure Checklist for Savings and Loan Associations That Are SEC Registrants 5503**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For equity method investments, is indebtedness of investees disclosed?	_____	_____	_____
3. For investments, other than equity method investments, are the amount and basis for determining carrying amount disclosed?	_____	_____	_____
<b>I. Savings Accounts</b>			
1. Are amounts disclosed separately for the following categories?			
a. NOW accounts and MMDA deposits?	_____	_____	_____
b. Savings deposits?	_____	_____	_____
c. Time deposits?	_____	_____	_____
2. Has consideration been given to disclosure of the weighted average interest rates for each category of deposits?	_____	_____	_____
3. Has consideration been given to disclosure of the maturities of time deposits, by year, for each of the next three years, and the remaining balance?	_____	_____	_____
<b>J. Securities Sold Under Agreements to Repurchase</b>			
1. If the higher of the aggregate carrying value or market value of repurchase agreements exceeds 10% of total assets, is the following disclosed?			
a. Shown as a separate line item in the statement of financial condition?	_____	_____	_____
b. The carrying value and market value of securities including accrued interest?	_____	_____	_____
c. The repurchase liability associated with such transactions and the interest rates thereon?	_____	_____	_____
2. If the "amount at risk" of the securities sold under repurchase agreements with any individual counterparty exceeds 10% of stockholder's equity, is the following disclosed?			
a. The name of the counterparty?	_____	_____	_____
b. The amount at risk with each counterparty?	_____	_____	_____
c. The weighted average maturity of the repurchase agreements with each counterparty? [SEC Reg. S-X, Rule 4-08(m)]	_____	_____	_____
<b>K. Borrowed Funds</b>			
1. Are the amount and terms of unused lines of credit for short-term financing disclosed?			
a. Is the amount of lines of credit supporting commercial paper shown separately?	_____	_____	_____
2. For bonds, mortgages, and similar debt is the following disclosed:			
a. Interest rate?	_____	_____	_____
b. Maturity date?	_____	_____	_____
c. Existence of contingency as to payment of principal and interest?	_____	_____	_____
d. Priority?	_____	_____	_____
e. Conversion basis?	_____	_____	_____
f. Amount and terms of unused commitments for long-term financing arrangements?	_____	_____	_____
3. Is the amount of each issue of debt of consolidated subsidiaries which has not been assumed or guaranteed by the parent disclosed?	_____	_____	_____
<b>L. Deferred Credits</b>			
1. Are deferred credits which exceed 30 percent of stockholders' equity shown separately on the statement of financial condition?	_____	_____	_____
<b>M. Other Liabilities</b>			
1. Are other liabilities which individually exceed 30 percent of stockholders' equity disclosed?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>N. Stockholders' Equity</b>			
1. For preferred stock subject to mandatory redemption requirements:			
a. Are carrying amount and redemption amount shown on the statement of financial condition?	_____	_____	_____
b. If carrying and redemption amounts differ, is the accounting treatment for the difference disclosed?	_____	_____	_____
2. If common stock is convertible, is this fact disclosed on the face of the statement of financial condition?	_____	_____	_____
3. Does the statement of financial condition show separate captions for:			
a. Additional paid-in capital?	_____	_____	_____
b. Other additional capital?	_____	_____	_____
c. Restricted retained earnings?	_____	_____	_____
d. Unrestricted retained earnings?	_____	_____	_____
4. Is the following information disclosed for regulatory capital requirements?			
a. The Association is or is not in compliance?	_____	_____	_____
b. Amount?	_____	_____	_____
c. The amount by which the Association exceeds or fails to meet requirements?	_____	_____	_____
<b>O. Interest Income</b>			
1. Does the statement of operations show separately:			
a. Interest and fees on loans?	_____	_____	_____
b. Interest and dividends on investment securities?	_____	_____	_____
c. Trading account interest?	_____	_____	_____
d. Other interest income?	_____	_____	_____
2. Is net interest income disclosed separately in the statement of operations?	_____	_____	_____
<b>P. Gain/Loss on Sales of Investments</b>			
1. Is the method of determining cost disclosed?	_____	_____	_____
2. Are related income taxes disclosed?	_____	_____	_____
<b>Q. Other Income</b>			
1. If the amount exceeds 1 percent of the aggregate of total interest income and other income, does the statement of operations show separately:			
a. Fiduciary fees?	_____	_____	_____
b. Other customer fees?	_____	_____	_____
c. Insurance commissions?	_____	_____	_____
d. Profit or loss on transactions in investment securities?	_____	_____	_____
e. Equity in earnings of investees?	_____	_____	_____
f. Gains or losses on disposition of investments in subsidiaries and 50 percent or less-owned persons?	_____	_____	_____
g. Profit or loss from real estate operations?	_____	_____	_____
<b>R. Interest Expense</b>			
1. Does the statement of operations show separately:			
a. Interest on deposits?	_____	_____	_____
b. Interest on short-term borrowings?	_____	_____	_____
c. Interest on long-term borrowings?	_____	_____	_____
2. For interest on deposits:			
a. Are separate amounts disclosed for NOW accounts and MMDA deposits; savings deposits; and time deposits?	_____	_____	_____

**Supplemental Disclosure Checklist for Savings and Loan Associations That Are SEC Registrants 5505**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If material, are early withdrawal penalties shown separately on the statement of operations?	_____	_____	_____
<b>S. Other Expenses</b>			
1. If the amount exceeds 1 percent of the aggregate of total interest income and other income, does the statement of operations show separately:			
a. Salaries and employee benefits?	_____	_____	_____
b. Net occupancy expense of premises?	_____	_____	_____
c. Net cost of operations of other real estate?	_____	_____	_____
d. Minority interest in income of consolidated subsidiaries?	_____	_____	_____
e. Goodwill amortization?	_____	_____	_____
<b>T. Unusual or Infrequently Occurring Items</b>			
1. Does the statement of operations show separately:			
a. Gain or loss from sale of premises and equipment?	_____	_____	_____
b. Provision for loss on real estate owned?	_____	_____	_____
c. Provision for gain or loss on sale of loans?	_____	_____	_____
<b>U. Income Taxes</b>			
1. Do disclosures regarding income taxes include:			
a. The nature and tax effect of selected timing differences?	_____	_____	_____
b. A reconciliation of the reported income tax expense with the "computed expected" tax amount? (The "computed expected" tax amount is defined as the amount determined by multiplying the financial statement income before income tax by the applicable statutory federal income tax rate. The reconciliation may be presented in percentages, in dollar amounts, or both.)	_____	_____	_____
c. Domestic and foreign components of income taxes?	_____	_____	_____
<b>V. Net Worth Certificate Act</b>			
1. For associations receiving capital assistance under the Net Worth Certificate Act:			
a. Do notes to financial statements include a note entitled Required Regulatory Financial Information?	_____	_____	_____
b. Do notes disclose amounts for the following nonoperating income and expense categories:			
(1) Profit (loss) on sales of real estate owned?	_____	_____	_____
(2) Profit (loss) on sale of investment securities?	_____	_____	_____
(3) Profit (loss) on sale of loans?	_____	_____	_____
(4) Profit (loss) on sale of other assets?	_____	_____	_____
(5) Miscellaneous nonoperating income?	_____	_____	_____
(6) Other nonoperating expenses?	_____	_____	_____
(7) Federal, state, local, and other income taxes?	_____	_____	_____
(8) Other state and local taxes based upon the amount of deposits held by the institution or the interest paid on such deposits?	_____	_____	_____
c. Do notes contain reconciliation for:			
(1) Total assets per the audited financial statements to total assets per the latest "Semiannual Financial Report"?	_____	_____	_____
(2) Net worth per the audited financial statements to net worth per the latest "Semiannual Financial Report"?	_____	_____	_____
(3) Net income per the audited financial statements with combined net income per the "Semiannual Financial Reports" for the year?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) Net income per the audited financial statements adjusted by nonoperating income or expense categories mentioned above with combined net operating income per the "Semiannual Financial Reports" for the year? [Bulletin PA 7a-1]	_____	_____	_____
<b>W. Reconciliation of Net Worth</b>			
1. If net worth or net income per GAAP differs from the amount shown in the "Monthly Report" to the FHLBB, is reconciliation included in the notes or a statement made that there are no differences? [Bulletin PA 7a]	_____	_____	_____
<b>X. Internal Control Report</b>			
1. Does the report explain material exceptions to confirmations of loans and savings accounts which were not satisfactorily reconciled?	_____	_____	_____
2. Does the report explain material exceptions noted in loan documents examined or missing from files which were not satisfactorily resolved?	_____	_____	_____
3. Does the audit report refer to the internal control report? [Bulletin PA 7a]	_____	_____	_____

## **FSP Section 5600**

# ***Illustrative Stock Savings and Loan Association Financial Statements***

.01 Article 9 of SEC Regulation S-X and the SEC Industry Guide 3 provide specific guidance for bank holding companies with respect to the form and content of financial statements and statistical disclosure requirements. In May 1987, the SEC issued Staff Accounting Bulletin No. 69, which expresses certain views of the SEC staff regarding the use of Article 9 and Guide 3 as guidance for disclosures of registrants that are not bank holding companies but are engaged in similar lending and deposit activities. It is anticipated that the Federal Home Loan Bank Board will increasingly expect savings and loans in future filings to apply the relevant requirements of Article 9 and Guide 3.

.02 As an example, SAB No. 69 suggests that registrants other than bank holding companies should use the "net interest income" format in the income statement and disclose aggregate market values of investment securities on the face of the statement of financial condition.

.03 The following are some additional disclosures not included in the illustrative savings and loan financial statements but could be found in a typical savings and loan financial statement:

- For SEC registrants, a five-year summary of selected financial data in a comparative columnar form which would report as a minimum the following selected financial data: total assets, total loans, total investments, total deposits, total borrowings, total net worth, total interest income, total interest expense, income (loss) from continuing operations, and net income (loss).
- Voluntary disclosure of the impact of inflation and changing prices.
- The disclosure of the nature and amounts of any regulatory financial assistance granted or to be recognized.
- Disclosure of business combinations and the method of accounting used for such combination, its effect on current and prior financial statements and other pertinent details. The general terms of the conversion from a mutual to a stock form of ownership, including restrictions on the operations imposed by the conversion, and the amount of net proceeds received from the conversion and the costs associated with the conversion.
- Amortization policy of goodwill or other acquired intangibles.
- Principles of consolidation.
- The dollar amount of assets that have been restructured because of borrowers' financial difficulties and the effect on income of such troubled debt including disclosure of commitments to advance additional funds to such debtors.
- Separate reporting of the activity in the allowance for losses and the related provision applicable to foreclosed real estate.
- Disclosure of the sale of future cash flows related to principal payments or interest payments on mortgage-backed securities or other groups of unsecuritized loans.
- Disclosure of the dollar amount of fixed versus variable rate loans and the average yield of the year-end loan portfolio.



- Disclosure of total commitments to fund loans as well as the dollar amounts and terms of other than floating-market-rate commitments.
- Disclosure of mortgage banking and loan servicing activities including a summary of the amounts included in income, the dollar amount of loans serviced, and the amount of deferred premiums on loans sold.
- Disclosure of the maturities of investment securities and the existence of high-yield securities included in the portfolio.
- Activities and investments in real estate joint ventures, partnerships and acquisition, development, or construction (ADC) projects.
- For deposits, the contractual maturities, weighted-average interest rate of year-end deposits, the amount of interest forfeitures on early withdrawals and the amount of securities or mortgage loans pledged as collateral for certain deposits.
- Disclosure of unused lines of credit, including fees and conditions that could cause them to be withdrawn.
- The dollar amount of the regulatory capital requirement and the amount by which the institution exceeds or fails to meet the requirement.
- For financial futures or options, disclosure of the accounting for the futures contracts, including a description of the events, or transactions including the dollar value, and number of futures contracts open at year-end.
- Information concerning interest rate swaps and mortgage swaps, including the notional principal amount outstanding at year-end, whether the institution paid or received a fixed or variable rate, the interest rates or range of interest rates on swaps, the collateral, if any, and the original or remaining term of the swap agreements.
- Selected unaudited quarterly financial data, if applicable.

**Notice**

At the date of publication the AICPA has under consideration revisions to the Savings and Loan Associations Audit Guide.

(The following report of the independent CPA and financial statements illustrate one form of currently acceptable practice. The CPA should be guided by existing auditing standards concerning the report. Other forms of financial statements are acceptable. More or less detail should appear in the financial statements or in the notes depending on the circumstances.)

**.04**

### **Independent Auditor's Report**

To the Board of Directors and Stockholders

We have audited the accompanying statements of financial condition of Sample Stock Savings and Loan Association as of September 30, 19X2 and 19X1, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Stock Savings and Loan Association as of September 30, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[City]

[Date]

.05

**Sample Stock Savings and Loan Association**  
**Statements of Financial Condition**  
(In Thousands)

Assets	<i>September 30</i>	
	19X2	19X1
Cash (including certificates of deposits of \$1,300, (19X2) and \$2,400, (19X1)) .....	\$ 1,563	\$ 2,751
Securities purchased under agreements to resell .....	10	11
Investment securities		
U.S. government (including agencies) market value \$2,346, (19X2) and \$2,141, (19X1) .....	2,400	2,200
Municipals		
Market value \$1,970, (19X2) and \$2,474, (19X1) .....	2,125	2,565
Other		
Securities carried at market in 19X2 and at cost in 19X1 (cost in 19X2 of \$411, market in 19X1 of \$283) .....	365	275
Mortgage-backed certificates, market value \$8, (19X2) and \$7, (19X1) .....	8	7
Loans receivable, net .....	136,134	119,998
Real estate		
Acquired in settlement of loans less allowance for losses of \$86, (19X2) and \$70, (19X1) .....	1,101	1,424
Acquired for development .....	1,120	1,176
Office properties and equipment, at cost, less accumulated depreciation of \$1,127, (19X2) and \$1,006, (19X1) .....	5,034	4,794
Federal Home Loan Bank stock, at cost .....	3,061	2,254
Accrued interest receivable .....	844	736
Other assets .....	628	275
	<b>\$ 154,393</b>	<b>\$ 138,466</b>
<b>Liabilities and Stockholders' Equity</b>		
Savings accounts .....	\$ 119,162	\$ 114,532
Advances from Federal Home Loan Bank .....	24,880	13,500
Securities sold under agreements to repurchase .....	10	10
Other borrowed money .....	1,362	2,800
Advances from borrowers for taxes and insurance .....	701	678
Federal income taxes		
Current .....	36	29
Deferred .....	234	187
Other liabilities .....	2,287	1,136
Total liabilities .....	148,672	132,872
Stockholders' equity		
Capital stock—\$1 par value, 500,000 shares authorized; 297,340 shares issued and outstanding .....	297	297
Additional paid-in capital .....	149	149
Retained earnings—substantially restricted .....	5,321	5,148
Net unrealized loss on marketable equity securities .....	(46)	—
Total stockholders' equity .....	5,721	5,594
	<b>\$ 154,393</b>	<b>\$ 138,466</b>

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

.06

Sample Stock Savings and Loan Association

Statements of Operations

(In Thousands)

	<i>Years Ended September 30</i>	
	<u>19X2</u>	<u>19X1</u>
<b>Income</b>		
Interest on loans .....	\$ 10,260	\$ 8,667
Interest and dividends on investments .....	494	425
Gain (loss) on sales of investments, net .....	37	(14)
Gain (loss) on sales of loans, net .....	(63)	27
Other .....	66	66
<b>Total income</b> .....	<u>10,794</u>	<u>9,171</u>
Interest on savings accounts .....	7,007	6,048
Interest on advances and other borrowing .....	1,512	777
	<u>8,519</u>	<u>6,825</u>
Less interest capitalized .....	(98)	(71)
	<u>8,421</u>	<u>6,754</u>
<b>Net interest income</b> .....	<u>2,373</u>	<u>2,417</u>
Provision for losses on loans and real estate .....	90	80
<b>Net interest income after provision for losses on loans and real estate</b> .....	<u>2,283</u>	<u>2,337</u>
<b>Expenses</b>		
General and administrative expenses .....	1,404	1,324
Expenses of loans and real estate owned, net .....	98	96
Other .....	520	462
<b>Total expenses</b> .....	<u>2,022</u>	<u>1,882</u>
Income before provision for federal income taxes .....	261	455
<b>Provision for federal income taxes</b>		
Current .....	40	29
Deferred .....	48	111
<b>Total income tax provision</b> .....	<u>88</u>	<u>140</u>
<b>Net income</b> .....	<u>\$ 173</u>	<u>\$ 315</u>

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

## Sample Stock Savings and Loan Association

## Statements of Stockholders' Equity

For the Years Ended September 30, 19X2 and 19X1

(In Thousands)

	<u>Capital Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Valuation Reserve</u>	<u>Total Stockholders' Equity</u>
Balance October 1, 19X0 .....	\$297	\$149	\$4,833	\$—	\$5,279
Net income for the year ended September 30, 19X1 .....	—	—	315	—	315
Balance September 30, 19X1 .....	297	149	5,148	—	5,594
Net income for the year ended September 30, 19X2 .....	—	—	173	—	173
Unrealized loss on marketable equity securities .....	—	—	—	(46)	(46)
Balance September 30, 19X2 .....	<u>\$297</u>	<u>\$149</u>	<u>\$5,321</u>	<u>\$(46)</u>	<u>\$5,721</u>

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

.08

Sample Stock Savings and Loan Association

Statements of Cash Flows

Increase (Decrease) in Cash

(In Thousands)

	<i>Years Ended September 30</i>	
	<u>19X2</u>	<u>19X1</u>
<b>Cash flows from operating activities:</b>		
Interest and dividends received .....	\$10,646	\$ 5,504
Interest paid .....	(3,615)	(2,718)
Cash paid to suppliers and employees .....	(647)	(1,426)
Income taxes paid .....	(33)	(93)
Other .....	66	(47)
<b>Net cash provided by operating activities .....</b>	<u>6,417</u>	<u>1,220</u>
<b>Cash flows from financing activities:</b>		
Net increase in savings accounts .....	(274)	(82)
Advances from Federal Home Loan Bank .....	11,380	14,500
Additional borrowings .....	400	-
Repayment of other borrowed money .....	(1,838)	(700)
Net increase in advances from borrowers for taxes and insurance .....	23	72
<b>Net cash provided by financing activities .....</b>	<u>9,691</u>	<u>13,790</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of securities purchased under agreements to resell .....	(1)	-
Proceeds from investment securities sold .....	24,308	5,305
Purchase of investment securities .....	(24,167)	(6,743)
Net increase in loans made to customers .....	(16,289)	(18,564)
Proceeds from the sales of real estate .....	477	5,092
Expenditures for office properties and equipment .....	(465)	(457)
Purchase of Federal Home Loan Bank stock .....	(807)	-
Other .....	(352)	261
<b>Net cash used for investing activities .....</b>	<u>(17,296)</u>	<u>(15,106)</u>
Net decrease in cash .....	(1,188)	(96)
Cash at beginning of year .....	2,751	2,847
<b>Cash at end of year .....</b>	<u>\$ 1,563</u>	<u>\$ 2,751</u>

## Reconciliation of Net Income to Net Cash

## Provided by Operating Activities

	Years Ended September 30	
	19X2	19X1
Net income . . . . .	\$ 173	\$ 315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization . . . . .	225	220
Provision for losses on loans and real estate . . . . .	90	80
Provision for federal income taxes deferred . . . . .	47	111
(Gain) loss on sales of investments, net . . . . .	(37)	14
(Gain) loss on sales of loans, net . . . . .	63	(27)
Increase in taxes payable . . . . .	7	11
Increase in accrued interest receivable . . . . .	(108)	(92)
Increase (decrease) in accrued expenses . . . . .	1,151	(3,635)
Increase in interest credited to savings accounts . . . . .	4,904	4,294
Interest capitalized . . . . .	(98)	(71)
Cash provided by operating activities . . . . .	<u>\$6,417</u>	<u>\$1,220</u>
Supplemental schedule of noncash activities:		
Acquisition of real estate in settlement of loan . . . . .	<u>\$ 52</u>	<u>\$ 75</u>

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

.09

**Sample Stock Savings and Loan Association****Notes to Financial Statements****September 30, 19X2 and September 30, 19X1****Summary of Significant Accounting Policies**

**Investment securities.** Investment securities, except for marketable equity securities, are stated at cost, adjusted for amortization of premiums, and accretion of discounts on purchase. Marketable equity securities have been stated at the lower of aggregate cost or market. At September 30, 19X1, market exceeded cost on these securities, and, as a result, they were carried at cost. A valuation allowance (reducing the carrying value of investment securities to market) was established at September 30, 19X2, by a charge to stockholders' equity. The amount of this valuation allowance (\$46) represents the net unrealized loss on investment securities.

**Loan commitment fees.** Nonrefundable fees received for commitments to make or purchase loans in the future are deferred together with certain direct costs of underwriting the commitments. For commitments issued to make or purchase loans at market interest rates established at the time the commitments are funded (floating rate commitments), fees and certain direct costs are amortized ratably over the commitment period. For commitments issued to make or purchase loans at market rates established at the time the commitments are issued (fixed-rate commitments), fees and certain direct costs are amortized over the combined commitment (on the straight-line method) and loan (on the interest method) period. Unamortized fixed-rate commitment fees are recognized as income at the time the loans are made or purchased transactions settled.

**Loan origination fees, discounts, and premiums.** The portion of loan origination fees and certain direct costs of underwriting and closing loans is deferred. The deferred fees and discounts received in connection with mortgage loans made and purchased are amortized to income over the life of mortgage loans, using the interest method. Premiums on purchased loans are generally amortized using the interest method.

Unearned income on home improvement and mobile home loans is amortized over the term of loans using the interest method.

**Real estate and other assets acquired in settlement of loans.** Real estate and other assets acquired in settlement of loans are recorded at the balance of the loan or at estimated fair value, whichever is less, at the date acquired, plus capital improvements made thereafter to facilitate sale. Adjustments are made to reflect declines, if any, in net realizable values below the recorded amounts. Costs of holding real estate acquired in settlement of loans are reflected in income currently. Gains on sales of such real estate are taken into income based on the buyer's initial and continuing investment in the property. Other assets acquired in settlement of loans consist primarily of reacquired mobile homes.

**Depreciation.** The association computes depreciation and amortization generally on the straight-line method for both financial reporting and federal income tax purposes. The estimated useful lives used to compute depreciation and amortization are building, forty years; equipment, three to fifteen years; and leasehold improvements, over the life of the lease or the life of the improvements, whichever is less.

**Allowance for losses.** It is the policy of the association to provide valuation allowances for estimated losses on loans and real estate when a significant and permanent decline in value occurs. In providing valuation allowances, costs of holding real estate including the cost of capital are considered. Major loans, real estate owned including development projects, and major lending areas are reviewed periodically to determine potential problems at an early date. The association's experience has shown that foreclosures on loans result in some loss. Therefore, in addition to allowances for specific loans, the association makes a provision for losses on properties based in part on experience and in part on prevailing market conditions. Additions to allowances are charged to earnings.



**Income taxes.** Deferral of income taxes results primarily from the practice of preparing tax returns on the cash basis of accounting, while the financial statements are prepared on the accrual basis of accounting, and from different methods of accounting for loan fees.

The investment tax credit is accounted for on the flow-through method.

### Notes to Financial Statements

#### Securities Purchased Under Agreements to Resell

	<i>September 30</i>	
	<u>19X2</u>	<u>19X1</u>
Securities purchased under agreements to resell, including accrued interest		
Mortgage-backed certificates with market value approximating cost . . . . .	\$ 2	\$ 3
U.S. government securities with a market value of \$8 (\$8 at 19X1) . . . . .	8	8
	<u>\$10</u>	<u>\$11</u>

The association enters into purchases of securities under agreements to resell (repurchase agreements). The amounts advanced under these agreements represent short-term loans and are reflected as a receivable in the statement of financial condition. The securities underlying the agreements are book entry securities. During the period, the securities were delivered by appropriate entry into the association's account maintained at the Federal Reserve Bank of New York (or MBS Clearing Corporation for GNMA securities) or into a third-party custodian's account designated by the association under a written custodial agreement that explicitly recognizes the association's interest in the securities. At September 30, 19X2, these agreements matured within ninety days. The agreements relating to mortgage-backed certificates were agreements to resell substantially identical securities. At September 30, 19X2, no material amount of agreements to resell securities purchased was outstanding with any individual dealer. Securities purchased under agreements to resell averaged \$25 and \$24 during 19X2 and 19X1, and the maximum amounts outstanding at any month-end during 19X2 and 19X1 were \$29 and \$27 respectively.

#### Securities Sold Under Agreements to Repurchase

	<i>September 30</i>	
	<u>19X2</u>	<u>19X1</u>
Securities sold under agreements to repurchase		
Mortgage-backed certificates with a book value including accrued interest of \$8 (\$8 at 19X1) and a market value of \$8 (\$8 at 19X1) . . . . .	\$ 8	\$ 8
U.S. government securities with a book value including accrued interest of \$2 (\$2 at 19X1) and a market value of \$2 (\$2 at 19X1) . . . . .	2	2
	<u>\$10</u>	<u>\$10</u>

The association enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Fixed-coupon reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the statement of financial condition. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities. During the period, the securities were delivered by appropriate entry into the counterparties' accounts maintained at the Federal Reserve Bank of New York (or MBS Clearing Corporation for GNMA securities). At September 30, 19X2, these agreements had a weighted-average interest rate of 8.92 percent (9.23 percent at September 30, 19X1) and matured within one year. At September 30, 19X1, five of the agreements relating to mortgage-backed certificates were agreements to repurchase substantially identical securities. At September 30, 19X2, three of the agreements involving mortgage-backed certificates with a book value of \$4 and a market value of \$4 were transacted with one primary dealer. The mortgage-backed certificates underlying the agreements were delivered to the dealers who arranged the transactions. The dealers may have sold, loaned, or otherwise disposed of such securities to other parties in the normal course of their operations, have agreed to resell to the association

substantially identical securities at the maturities of the agreements. Securities sold under agreements to repurchase averaged \$10 and \$9 during 19X2 and 19X1 and the maximum amounts outstanding at any month-end during 19X2 and 19X1 were \$12 and \$10 respectively.

*Loans receivable.* Loans receivable at September 30, 19X2, and 19X1, consisted of the following.

	September 30	
	19X2	19X1
First mortgage loans .....	\$135,824	\$122,273
Insured and GNMA guaranteed loans .....	3,855	1,946
Loans to depositors, secured by savings .....	1,300	916
Mobile home loans .....	1,153	654
Property improvement loans .....	783	620
Other loans .....	57	52
	<u>142,972</u>	<u>126,461</u>
Less:		
Undisbursed portion of mortgage loans .....	6,115	5,873
Unearned discounts and net deferred loan fees .....	624	512
Allowance for losses .....	99	78
	<u>\$136,134</u>	<u>\$119,998</u>

At September 30, 19X2, and 19X1, loans receivable included \$4,000 and \$4,200, respectively, of loans collateralized by multifamily residential properties the terms of which were modified. Interest on the loans under the original terms would have been approximately \$350 and \$375 for the years ended September 30, 19X2 and 19X1, respectively. Interest income recorded under the modified terms was \$120 and \$100, respectively, for the two years. The association is not committed to lend additional funds to debtors whose loans have been modified.

*Allowance for losses.* A summary of the changes in the allowance for loan losses for the years ended September 30, 19X2 and 19X1, is as follows (write-off includes transfers to allowance for losses on real estate acquired in settlement of loans and transfers to other liabilities for amounts related to loans sold with recourse):

Balance, September 30, 19X0 .....	\$70
Provision .....	90
Write-off .....	(82)
Balance, September 30, 19X1 .....	78
Provision .....	80
Write-off .....	(59)
Balance, September 30, 19X2 .....	<u>\$99</u>

*Savings Account Analysis*

	September 30			
	19X2		19X1	
Balances by Interest Rate	Amount	%	Amount	%
5.25% passbook .....	\$ 47,665	40%	\$ 44,667	39%
Certificate Accounts:				
5.25% to 5.75% .....	27,407	23	45,813	40
5.75% to 6.5% .....	17,874	15	12,599	11
6.5% and over .....	26,216	22	11,453	10
	<u>71,497</u>	<u>60</u>	<u>69,865</u>	<u>61</u>
	<u>\$119,162</u>	<u>100%</u>	<u>\$114,532</u>	<u>100%</u>

*Advances from Federal Home Loan Bank.* The advances from the Federal Home Loan Bank consisted of the following:

	Interest Rate	September 30	
		19X2	19X1
Due within one year	8 1/2%- 9 %	\$ -	\$10,500
	9%-10 %	12,200	-
	11 1/2%	3,700	-
Other—all due within five years:	7 1/2%- 8 %	2,500	3,000
	9%-10 %	6,480	-
		<u>\$24,880</u>	<u>\$13,500</u>

These advances are collateralized by Federal Home Bank stock and certain first mortgage loans.

*Other borrowed money.* Other borrowed money consisted of the following:

	September 30	
	19X2	19X1
9 3/4% note, due August 19X2 .....	\$ -	\$1,637
10 1/4% note, due August 19X3 .....	290	-
9% mortgage loan, due October 19X9 .....	1,071	1,163
	<u>\$1,361</u>	<u>\$2,800</u>

The 10 1/4 percent note is collateralized by investment securities with a carrying value of \$375.

The 9 percent mortgage loan is collateralized by lots in a land development project. A principal payment of \$10 is required for each lot sold, with any remaining unpaid balance due in October 19X9.

*Retained earnings.* In connection with the insurance of savings accounts, the association is required to maintain a federal insurance reserve. In addition, the association is subject to the reserve requirements of the state regulatory authorities. These required reserves, which aggregated approximately \$4,050 at September 30, 19X2, represent a statutory restriction on retained earnings and cash dividends may not be charged against such reserves. A summary of retained earnings restricted by statutory requirements and the amounts available for payment of cash dividends appears in the table below:

Required statutory reserve .....	<u>\$4,050</u>
Retained earnings available for cash dividends	
Not subject to federal income taxes .....	425
Subject to federal income taxes, which must be provided at the then current corporate tax rate .....	847
	<u>1,272</u>
	<u>\$5,322</u>

Retained earnings at September 30, 19X2, includes approximately \$4,897 for which federal income tax has not been provided.

The association is allowed a special bad debt deduction limited generally in the current year to 8 percent of otherwise taxable income and subject to certain limitations based on aggregate loans and savings account balances at the end of the year. If the amounts that qualify as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, including distributions in liquidation, they will be subject to federal income tax at the then current corporate rate.

*Federal income tax.* Deferred tax expense results from timing differences in the recognition of income and expense for tax and financial reporting purposes. The sources of the differences and the related tax effects were as follows:

	<i>For Years Ended September 30</i>	
	<u>19X2</u>	<u>19X1</u>
Loan fees recognized for financial reporting purposes		
when loans are recorded but deferred for tax purposes . . . . .	\$ 96	\$ 107
Interest capitalized as part of real estate development costs		
in the financial statements but expensed for tax purposes . . . . .	98	71
Income and expenses recognized in the financial statements		
on the accrual basis but on the cash basis for tax purposes . . . . .	(99)	(6)
Other . . . . .	(16)	12
Effect of allowable federal tax bad debt deduction applied to		
above (net of preference tax) . . . . .	(32)	(73)
	<u>\$ 47</u>	<u>\$ 111</u>

The provision for federal income taxes differs from that computed at the statutory corporate tax rate, as follows:

	<i>For Years Ended September 30</i>	
	<u>19X2</u>	<u>19X1</u>
Tax at statutory rate . . . . .	\$ 125	\$ 218
Increases (decreases) in taxes resulting from:		
Bad debt deduction based on percentage of income (net of		
applicable preference tax) . . . . .	(49)	(87)
Provisions for loan and real estate losses . . . . .	25	21
Other . . . . .	(13)	(12)
	<u>\$ 88</u>	<u>\$ 140</u>

*Pension plan.* Effective as of October 1, 19X0 the association adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the association's 19X1 net income by \$50.

A summary of the plan's funding status and the amounts recognized in the statement of financial condition.

	<i>September 30</i>	
	<u>19X2</u>	<u>19X1</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$90 in		
19X2 and \$87 in 19X1 . . . . .	\$ 97	\$ 96
Projected benefit obligation for service rendered to date . . . . .	(113)	(110)
Plan assets at fair value, primarily listed stocks and U.S. government securities . . . . .	153	140
Plan assets in excess of benefit obligation . . . . .	40	30
Unrecorded net loss (gain) from past experience different from that assumed		
and effects of changes in assumptions . . . . .	(11)	10
Unrecognized net assets at October 19X0 being recognized over 10 years . . . . .	10	11
Prepaid pension cost . . . . .	<u>\$ 39</u>	<u>\$ 51</u>

A summary of the components of income follows:

	<u>19X2</u>	<u>19X1</u>
Service cost-benefits earned during the year .....	\$ 349	\$ 350
Interest cost on projected benefit obligation .....	938	950
Actual return on plan assets .....	(2,274)	(2,261)
Net asset gain deferred for later recognition .....	1,062	1,046
Amortization of unrecognized net asset .....	(33)	(33)
Net periodic pension income .....	<u>\$ 42</u>	<u>\$ 52</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 5% and 4.5%, respectively. The expected long-term rate of return on assets was 8%.

In 19X2 and 19X1, \$5 and \$7, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the association recognized gains of \$2 in 19X2 and 19X1, respectively.

*Lease commitments.* Rental under long-term operating leases for property amounted to \$92, in 19X2 and \$56, in 19X1. The amounts have been reduced by rental income of \$59, in 19X2 and \$59, in 19X1 from subleases of one to three years in duration. At September 30, 19X2, the minimum rental commitments under all noncancelable leases with initial or remaining terms of more than one year are as follows:

<u>Year Ending September 30</u>	<u>Gross Rental Expense</u>	<u>Rental Income From Subleases</u>	<u>Net Rental Expense</u>
19X3 .....	\$ 151	\$33	\$ 118
19X4 .....	153	21	132
19X5 .....	154	5	149
19X6 .....	154	—	154
19X7 .....	154	—	154
Later years .....	2,568	—	2,568
Total minimum payments required—net .....			<u>\$3,275</u>

# **FSP Section 6000**

## **DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR BANKS**

.01 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. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. 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 standard should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being examined.

.02 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.

---

[The next page is 6101.]

# FSP Section 6100

## Introduction

**.01** The U.S. banking system operates under comprehensive state and Federal rules and regulations. These rules and regulations greatly influence accounting and financial reporting. Banks subject to reporting requirements of the Securities Exchange Act of 1934 administered by the Securities and Exchange Commission are subject to extensive additional financial and accounting disclosures.

**.02** Banks also are subject to examination by Federal and state bank examiners and periodic examinations by the bank's board of directors.

**.03** Common accounting and reporting by banks include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP, although some banks may report certain revenue and expense items on a cash or modified cash basis.
- Banks usually prepare a non-classified balance sheet.
- Regulatory accounting policy requires that "goodwill" should not be capitalized but written off against stockholders' equity. For GAAP, banks are required to capitalize the goodwill.
- Assets and liabilities of a bank's trust accounts are not recorded in the balance sheet.
- Subordinated debt is classified as debt and not as capital.
- Trading account securities are presented at market value. Any unrealized appreciation or depreciation is included in the income statement.
- The income statement is usually reported on a "net interest income" basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)
- The provision for loan losses is usually reported as a deduction from net interest income.
- Realized gains and losses on investment securities are presented on a separate line, on a pretax basis, in the "other income" section of the income statement.
- Transfers of securities from an investment account to the trading account are recorded at market on the transfer date. Unrealized gains are to be deferred until disposition; unrealized losses are recognized at the transfer date.
- Transfers from the trading account to the investment account are recorded at market on the transfer date. Unrealized gains or losses are included in income on the transfer date.
- The components and approximate market value of the investment security portfolio should be disclosed on the balance sheet or in the related notes.
- Note disclosures should include a break-down of loans by major types of lending activities, with disclosure of information about maturities and loans with fixed and floating rates of interest.
- Fixed assets are normally shown as a single caption on the balance sheet, net of accumulated depreciation and amortization with note disclosures of the components.
- The components of the deposit liability accounts should be disclosed on the balance sheet or in the related notes.
- The interest method is used to amortize unearned discount on loans and deferred loan origination fees and costs.

**.04** If a bank owns a captive finance company, the accounting provisions of the AICPA Finance Companies Audit Guide apply. See Section 15,000 of this manual.

---

[The next page is 6201.]

# **FSP Section 6200**

## ***Disclosure Checklists—General***

**.01** Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of 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 which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Emerging Issues Task Force proceedings. Some checklists also include references to FASB Interpretations, Industry Audit Guides and Emerging Issues Task Force proceedings. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

**.03** Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** 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.

---

[The next page is 6301.]



# FSP Section 6300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

**.02 Explanation of references:**

- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- SAS = Statement of Auditing Standards
- FASBI = Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB<sup>1</sup>
- AC = Reference to section number in *FASB Accounting Standards Current Text*
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited
- IAG = Industry Audit Guide, *Audits of Banks*
- SOP = AICPA Statement of Position

**.03 Checklist Questionnaire**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Titles and References</b>			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes that they are an integral part of the financial statement presentation? [(AU 411.04 and 431.02)]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity 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. 7 (AC I25.506)]	_____	_____	_____
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)]	_____	_____	_____

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Accounting Changes</b>			
1. For all changes in accounting principles, are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income?	_____	_____	_____
d. Effect on related per share amounts? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—21, 25 (AC A06.115—.118, .121)]	_____	_____	_____
3. For changes in the method of accounting for post-retirement life insurance and health care benefits, are appropriate disclosures made? [TB 87-1, par. 4 (AC P50.503)]	_____	_____	_____
4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	_____	_____	_____
5. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10—11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5—6 (AC A06.112)]	_____	_____	_____
6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:			
a. Effect on income before extraordinary items and on net income?	_____	_____	_____
b. Effect on related per share amounts? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
7. 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?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income (and related per share amounts)? [APB 20, pars. 36—37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]	_____	_____	_____
8. If interim financial data and disclosures are not separately reported for the fourth quarter, and an accounting change is made during the fourth quarter, is disclosure made in the year of change of:			
a. The effect on the interim periods?	_____	_____	_____
b. Cumulative effect? [APB 28, par. 31; SFAS 3, par. 14 (AC I73.147)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
<b>E. Business Combinations</b>			

	Yes	No	N/A
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests [APB 16, pars. 45—48 (AC B50.104—.107)]			
a. Has the required accounting method been applied? [APB 16, pars. 50—62 (AC B50.109—.121)]			
b. Do the statements and notes include the required disclosures? [APB 16, pars. 63—65 (AC B50.122—.124)]			
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66—94; SFAS 96, pars. 23 and 205c (AC B50.125—.147A and .159—.163); SFAS 38 (AC B50.148—.150 and .166); FASBI 9, pars. 4—7 (AC B50.155—.157)]			
b. Do the statements and notes include the required disclosures? [APB 16, pars. 95—96 (AC B50.164—.165)]			
c. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]			
3. If significant, has the amount of net operating loss or tax credit carry-forwards for which any tax benefits will be applied to reduce goodwill and other noncurrent assets (of an acquired enterprise) been disclosed separately? [SFAS 96, par. 29 (AC I25.128 and .187)]			
4. If financial statements for prior years are restated, have all purchase business combinations that were consummated in those prior years been remeasured in accordance with the requirements of SFAS 96? [SFAS 96, par. 35]			
<b>F. Consolidations</b>			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]			
b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]			
c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18—20 (AC I89.112—.114); FASBI 13 (AC I89.120—.122)]			
2. Are the accounts of majority owned subsidiaries consolidated? [SFAS 94, par. 13 (AC C51.103)]			
a. If the bank owns a captive finance company, the accounting provisions of the Finance Companies Audit Guide apply. See Section 15,000 of this manual.			
3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed? [SFAS 12, par. 20 (AC I89.114)]			
4. If summarized information about the assets, liabilities, and results of operations (or separate statements) of unconsolidated majority-owned subsidiaries was disclosed in the financial statements for fiscal years 1986 and 1987, is that information disclosed in the current year's consolidated financial statements or notes? [SFAS 94, par. 14 (AC C51.120A)]			
5. In consolidated bank holding company financial statements, is goodwill written off by bank subsidiaries reinstated by an adjustment in consolidation? [IAG, page 120]			

	Yes	No	N/A
<b>G. Related Party Transactions and Economic Dependency</b>			
1. For related party transactions do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements 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 income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
e. If part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
f. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____
2. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9 (AC S20.103)]	_____	_____	_____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
<b>H. Financial Instruments</b>			
1. Does the entity 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 financial instrument to a second entity?	_____	_____	_____
(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?	_____	_____	_____
(ii) To exchange other financial instruments on potentially favorable terms with the first entity? [SFAS 105, par. 6 (AC F25.106)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For financial instruments with off-balance sheet risk, (except for certain insurance contracts, lease contracts under SFAS 13, purchase obligations, employers' obligations for pension benefits and other forms of defined compensation, extinguished debt pursuant to an in-substance defeasance) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument <sup>1</sup> :			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, pars. 14, 15 and 17 (AC F25.112)]	_____	_____	_____
3. For financial instruments with off-balance sheet risk, (except as noted above in H.2.) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
4. Do the disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties, (except for certain insurance contracts, purchase contracts and pension obligations) include the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
5. For all fiscal years subsequent to the year of transition, have SFAS 105 disclosures been included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 105, par. 22]	_____	_____	_____
<b>I. Foreign Currency</b>			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____

<sup>1</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. Has disclosure of principal amounts of spot and forward exchange contracts been considered? [IAG, page 137, SFAS 80 (AC F80)]	_____	_____	_____
<b>J. Contingencies and Commitments</b>			
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. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114) IAG, page 137]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); IAG, page 15]	_____	_____	_____
6. Are unused commercial letters of credit reported as commitments and not as liabilities? [IAG, page 136]	_____	_____	_____
<b>K. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05—.07, .09 and 561.01—.09 (AU 560.05—.07, .09 and 561.01—.09)]	_____	_____	_____
<b>L. Pension Plans—[For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe35)]</b>			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? Note: The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes: (1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets) (2) Amortization of the net gain or loss from earlier periods (3) Amortization of unrecognized prior service cost (4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately: (1) The fair value of plan assets? (2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation? (3) The amount of unrecognized prior service cost? (4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)? (5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)? (6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)? (7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 [AC P16.129—.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?	_____	_____	_____
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87 paragraph 41 [AC P16.135]? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
g. If more than one defined benefit plan exists:			

	Yes	No	N/A
(1) Have the required disclosures above been aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
<b>2. If there is a defined contribution plan, do disclosures include:</b>			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If answer is yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
<b>3. If there is a multiemployer plan, do disclosures include:</b>			
a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 (AC C59) been applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
<b>4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:</b>			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>M. Postretirement Health Care and Life Insurance Benefits</b>			
<b>1. Do disclosures include:</b>			
a. Description of benefits and employee groups covered?	_____	_____	_____
b. Description of accounting and funding policies?	_____	_____	_____
c. Cost of benefits recognized during the period?	_____	_____	_____
d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____
<b>N. Futures Contracts</b>			
<b>1. If a futures contract is designated a hedge:</b>			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	_____	_____	_____
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If the futures contract hedges an anticipated transaction:			
a. Are the significant characteristics and expected terms of the anticipated transaction identified?	_____	_____	_____
b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)]	_____	_____	_____
3. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
<b>O. Other Matters</b>			
1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24 (AC S20.109—.110); SFAS 30 (AC S20.145); and TBs 79-4, 79-5 and 79-8 (AC S20.501—.507)]	_____	_____	_____

**Balance Sheet**

**A. General**

1. Are trust assets excluded? [IAG, page 98]	_____	_____	_____
2. Has the tax equivalent basis of reporting income from tax-exempt securities been avoided? [IAG, page 33]	_____	_____	_____
3. If the bank liquidity is not sufficient to meet prospective needs and there is evidence that the bank may have to dispose of certain assets to obtain liquidity, has the propriety of the accounting basis for any assets that may be sold been considered? [IAG, page 11]	_____	_____	_____

**B. Cash and Due From Banks**

1. For financial statement purposes have cash items and debits been reclassified to the account of ultimate disposition? [IAG, page 23]	_____	_____	_____
2. Does cash and due from banks include cash on hand, clearing and exchange, cash items and due from banks? [IAG, page 25]	_____	_____	_____
3. Have reciprocal due to/from balances been offset for balance sheet presentation? [IAG, page 25]	_____	_____	_____
4. Have "due from" credit balances been reclassified to short-term borrowings? [IAG, page 25]	_____	_____	_____
5. Have "due to" debit balances been reclassified to loans? [IAG, page 25]	_____	_____	_____

**C. Interest-Bearing Deposits in Other Banks**

1. If material, are such deposits disclosed separately in the balance sheet? [IAG, page 25]	_____	_____	_____
--	-------	-------	-------

**D. Federal Funds Sold and Securities Purchased Under Resale Agreements**

1. Are such amounts presented gross and not netted against federal funds purchased and securities sold under agreements to repurchase? [IAG, page 68]	_____	_____	_____
--	-------	-------	-------

	Yes	No	N/A
<b>E. Trading Account</b>			
1. Are trading account assets and related futures contracts stated at market value? [IAG, page 41]	_____	_____	_____
2. Are major categories disclosed? [IAG, page 43]	_____	_____	_____
3. Are short positions shown as liabilities? [IAG, page 42]	_____	_____	_____
4. When securities are purchased, is a determination made whether they are intended to be trading or investment securities and is this policy disclosed?	_____	_____	_____
a. Has the practice of recording the securities purchased in a suspense account for later determination of the category been avoided? [IAG, page 40]	_____	_____	_____
5. Is trade date accounting used for reporting transactions in the trading account? [IAG, page 40]	_____	_____	_____
6. Are trading securities accounted for at market value, and the resulting unrealized appreciation or depreciation recognized in income in the current accounting period? [IAG, page 41]	_____	_____	_____
7. If securities were transferred from the trading account to the investment account, was the transfer recorded at market value on the date of transfer, and the resulting gain or loss recognized in trading income?	_____	_____	_____
a. Were the securities recorded in the investment account as a new acquisition? [IAG, page 41]	_____	_____	_____
8. If securities were transferred from the investment account to the trading account, was the transfer recorded at market value on the date of transfer and the resulting writedown from cost to estimated market value charged to investment security losses?	_____	_____	_____
a. Was the recognition of a gain from write-up of cost to estimated market value deferred until final disposition of the securities?	_____	_____	_____
b. When the gain is recognized, is it reported as an investment security gains? [IAG, page 41]	_____	_____	_____
9. Is the interest paid on short positions reported as trading securities interest expense? [IAG, page 42]	_____	_____	_____
10. On transactions that cannot be demonstrated to be a short sale, is the resulting gain or loss recognized immediately? [IAG, page 42]	_____	_____	_____
11. Is interest income on trading securities reported separately from trading income? [IAG, page 43]	_____	_____	_____
<b>F. Investment Securities</b>			
1. Does carrying amount reflect:			
a. Permanent declines in value? [IAG, page 15]	_____	_____	_____
b. Unrealized losses attributable to:			
(1) Need to dispose of in foreseeable future?	_____	_____	_____
(2) Specific adverse conditions for a particular security? [IAG, page 30]	_____	_____	_____
2. Is aggregate market value disclosed? [IAG, page 34]	_____	_____	_____
3. Are carrying amount and market value of pledged securities disclosed? [IAG, page 35]	_____	_____	_____
4. Are appropriate disclosures made for marketable equity securities? [SFAS 12, par. 12 (AC 189.106)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are marketable equity securities carried at the lower of aggregate cost or estimated market value as of the balance sheet date? [IAG, page 34]	_____	_____	_____
6. Is the accumulated amortization account for premiums on debt securities netted against the asset account on the balance sheet? [IAG, page 31]	_____	_____	_____
7. Have securities transactions been recorded based on trade date accounting rather than settlement date accounting? [IAG, page 30]	_____	_____	_____
8. If the bank has the ability and intent to hold debt obligations of others on a long-term basis, are they carried at cost? [IAG, page 30]	_____	_____	_____
9. If an allowance for market decline has been provided has it been classified in the income statement with securities gains and losses? [IAG, page 30]	_____	_____	_____
10. If subsequent events prove that the conditions precipitating the origination of an allowance for decline in the value of securities was only temporary, has the allowance been reduced or eliminated? [IAG, page 30]	_____	_____	_____
11. Is the amortization of premiums on debt securities been included in interest income with a corresponding credit to the investment account or accumulated amortization account? [IAG, page 31]	_____	_____	_____
12. Is the period of amortization or accretion from the purchase date to the maturity date, except for securities purchased at a premium carrying an early call date at a price higher than par? a. Is the premium on securities premium with an early call date amortized to the maturity date or to an earlier call date? [IAG, page 31]	_____	_____	_____
13. Have premiums or discounts on GNMA modified pass-through certificates systematically been amortized or accreted income over the estimated average life of the contract? [IAG, page 31]	_____	_____	_____
14. Is the interest method used to amortize or accrete premiums and discounts? [IAG, page 31]	_____	_____	_____
15. Have security gains and losses been recognized on the completed transaction basis? [IAG, page 32]	_____	_____	_____
16. Has sale recognition been deferred where the bank sells a security and concurrently reinvests the proceeds from the sale in the same or substantially the same security? [IAG, page 33]	_____	_____	_____
<b>G. Mortgage Loans and Mortgage-Backed Securities Held for Sale</b>			
1. Are mortgage loans and mortgage-backed securities held for sale distinguished from mortgage loans and mortgage-backed securities held for long-term investment? [SFAS 65, par. 28 (AC Mo4.129)]	_____	_____	_____
2. Are mortgage loans and mortgage-backed securities held for sale reported at lower of cost or market value? [SFAS 65, par. 4 (AC Mo4.105)]	_____	_____	_____
3. Is the method used in determining lower of cost or market value disclosed (i.e. individual vs. aggregate method)? [SFAS 65, par. 29 (AC Mo4.130)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If right to service mortgage loans was acquired, is the following information disclosed:			
a. Amount capitalized during period in acquiring right to service?	_____	_____	_____
b. Method of amortizing capitalized amount?	_____	_____	_____
c. Amount of amortization for the period? [SFAS 65, par. 30 (AC Mo4.131)]	_____	_____	_____
<b>H. Loans</b>			
1. Are amounts disclosed separately in the balance sheet or related notes for the following categories or similar groupings:			
a. Commercial and industrial?	_____	_____	_____
b. Financial institutions?	_____	_____	_____
c. Real estate—construction?	_____	_____	_____
d. Real estate—other?	_____	_____	_____
e. Consumer installment?	_____	_____	_____
f. Lease financing?	_____	_____	_____
g. Foreign? [IAG, page 54]	_____	_____	_____
2. Are maturities for each category disclosed? [IAG, page 54]	_____	_____	_____
3. Is the amount of loans at fixed interest rates disclosed? [IAG, page 54]	_____	_____	_____
4. Is the amount of loans at variable interest rates disclosed? [IAG, page 54]	_____	_____	_____
5. Are loans to related parties disclosed? [IAG, pages 54—55; SFAS 57, par. 2 (AC R36.102)]	_____	_____	_____
6. For troubled debt restructurings, are the following disclosed by major category of loans as of each balance sheet presented:			
a. Aggregate recorded investment?	_____	_____	_____
b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?	_____	_____	_____
c. Amount of interest income included in net income?	_____	_____	_____
d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans? [SFAS 15, pars. 40—41 (AC D22.136—.137); TBs 79-6 and 79-7 (AC D22.501—.505)]	_____	_____	_____
7. For loans sold to other banks with recourse, are such loans reported as an asset and proceeds reported as borrowings? [IAG, page 54]	_____	_____	_____
8. For loans sold with recourse, are the following disclosures made:			
a. For each period for which an income statement is presented, the amount of proceeds?	_____	_____	_____
b. At date of each balance sheet presented, balance of sold receivables that remains uncollected? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
9. Are overdrafts classified as loans? [IAG, pages 55 and 76]	_____	_____	_____
10. Is the unamortized balance of unearned discounts on purchased loans shown separately and deducted from loans? [SFAS 91, par. 21 (AC L20.120); IAG, page 54]	_____	_____	_____

	Yes	No	N/A
11. Is the amortized balance of loan commitment and loan origination fees shown separately and deducted from loans? [SFAS 91, pars. 21 and 65 (AC L20.120 and 20.124); IAG, page 54]	_____	_____	_____
12. Is the unamortized balance of premiums on purchased loans (except credit card portfolios) shown as part of the related loan balance? [SFAS 91, par. 21 (AC L20.120)]	_____	_____	_____
13. If at the end of an accounting period it is apparent that the bank intends to sell certain loans and the anticipated sale will result in a loss, has an allowance for losses been established and deducted from the related asset in the balance sheet? [IAG, page 112]	_____	_____	_____
14. Is unearned income or unearned discount on loans transferred to income using the interest method? [IAG, page 47]	_____	_____	_____
15. Is the accrual of interest suspended on loans when the payment of interest has become delinquent or collection of the principal is doubtful and is this policy disclosed?	_____	_____	_____
a. If amounts are received on a loan on which the accrual of interest has been suspended, is a determination made about whether the payment received should be recorded as a reduction of the principal balance or as interest income?	_____	_____	_____
b. If the ultimate collectibility of principal, wholly or partially, is in doubt, are any payments received on a loan on which the accrual of interest has been suspended first applied to reduce principal to the extent necessary to eliminate such doubt? [IAG, pages 51 and 52]	_____	_____	_____
16. Is the amount of loans on a nonaccrual basis (including loans accruing at a reduced rate) and the income effect of nonaccrual loans disclosed? [IAG, page 54]	_____	_____	_____
17. Are federal funds transactions with maturities exceeding one business day classified as loans? [IAG, page 68]	_____	_____	_____
18. If loans are being serviced and the current service fees are expected to be less than estimated servicing costs over the estimated life of the mortgage loans, is the expected loss on servicing the loans accrued? [IAG, page 112]	_____	_____	_____
<b>I. Lease Finance Receivables</b>			
1. Is aggregate of lease payments receivable plus estimated residual value, less the amount of unearned income and applicable allowance for losses, classified as loans on the balance sheet or set forth in a separate caption? [IAG, page 55]	_____	_____	_____
2. Do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23u (AC L10.119a)]	_____	_____	_____
3. Is method of amortizing deferred investment credits retained as lessor disclosed? [IAG, page 95]	_____	_____	_____
4. Are leasing arrangements described?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SFAS 13, par. 23c (AC L10.119c); For amendments of SFAS 13 see SFASs 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]			
5. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41—47 (AC L10.143—.149)]	_____	_____	_____
<b>J. Allowance for Credit Losses</b>			
1. Is the allowance shown on the balance sheet as a deduction from loans and lease finance receivables? [IAG, page 54; APB 12, par. 3 (AC V18.102)]	_____	_____	_____
2. Is the method of providing for loan losses disclosed? [IAG, page 55]	_____	_____	_____
3. Does the schedule of changes in the allowance show:			
a. Balances at the beginning and end of each period?	_____	_____	_____
b. Provision charged to income?	_____	_____	_____
c. Losses charged to the allowance?	_____	_____	_____
d. Recoveries of amounts charged off? [IAG, page 62]	_____	_____	_____
4. If the prior years' provisions for loan losses charged to operating expenses are deemed to be less than losses currently anticipated, is the amount necessary to increase the allowance to equal losses currently anticipated recognized as a current period charge to operating expenses? [IAG, page 61]	_____	_____	_____
5. Are loans written off when they are deemed uncollectible and is that practice applied consistently in all interim financial reporting periods? [IAG, page 62]	_____	_____	_____
6. In reviewing the adequacy of the allowance for losses, has consideration been given to a bank's ability to transfer the excess allowance for loan losses to another member of the consolidated group? [IAG, page 122]	_____	_____	_____
<b>K. Premises and Equipment</b>			
1. Are fixed assets shown on the balance sheet net of accumulated depreciation? [IAG, page 71]	_____	_____	_____
2. Is the carrying basis disclosed? [IAG, page 71]	_____	_____	_____
3. Are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b) IAG, page 71]	_____	_____	_____
4. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
5. Is the amount of capitalized interest cost disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
6. Is property not used in operations, such as repossessed collateral, excluded? [IAG, page 72]	_____	_____	_____
7. If properties were previously written down to nominal values, have material amounts of property still in use been reinstated at original cost less accumulated depreciation to the beginning of the earliest year's financial statements presented, with a corresponding credit to retained earnings at the beginning of that year? [IAG, page 70]	_____	_____	_____
8. Do fixed assets include all costs related to the acquisition of the property, including transportation costs and all costs connected with installation?	_____	_____	_____

**Financial Statements and Notes Checklist**

**6315**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. If the property is constructed, do costs include all direct construction costs together with architects' fees, costs of excavations, and supervision of construction? [IAG, page 70]	_____	_____	_____
9. Are all costs and expenses identified with or directly allocable to the maintenance and operations of the bank premises included as net occupancy expense, including salaries and wages, payroll taxes, insurance, depreciation, rent expense, and real estate taxes, less rentals from tenants and other income related to the premises? [IAG, page 72]	_____	_____	_____
<b>L. Other Assets</b>			
1. If material, are amounts disclosed separately for:			
a. Due from customers on acceptances?	_____	_____	_____
b. Investments?	_____	_____	_____
c. Other real estate owned by bank?	_____	_____	_____
d. Accrued interest receivable?	_____	_____	_____
e. Accrued income receivable?	_____	_____	_____
f. Accounts receivable?	_____	_____	_____
g. Prepaid expenses and deferred charges?	_____	_____	_____
h. Suspense accounts? [IAG, page 73]	_____	_____	_____
2. Are other assets presented as the last item or items on the balance sheet? [IAG, page 73]	_____	_____	_____
3. For investments in common stock accounted for by the equity method, are appropriate disclosures made? (Very few banks can own common stocks.) [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
4. Is real estate acquired through foreclosure at the lower of fair value or the recorded investment? [IAG, page 74]	_____	_____	_____
5. Are investments in life insurance reported at amounts which can be realized as of the balance sheet date? [TB 85-4, par. 2 (AC I50.508)]	_____	_____	_____
6. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired:			
a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired? [SFAS 72, par. 4 (AC I60.131)]	_____	_____	_____
b. Is the interest method used as the amortization method? [SFAS 72, par. 5 (AC I60.133)]	_____	_____	_____
c. Are method and period of amortization disclosed? [APB 17, par. 30 (AC I60.111)]	_____	_____	_____
7. For real estate foreclosures, if the fair value of the real estate acquired is less than the bank's recorded investment in the related loan, is a writedown recognized through a charge to allowance for loan losses? [IAG, page 74]	_____	_____	_____
a. If it is later determined that the cost of the property cannot be recovered through sale or use, is the additional loss immediately recognized by a charge to income with a corresponding writedown of the asset or by a credit to an allowance for losses on real estate owned?	_____	_____	_____
b. If the property is in a condition for use or sale at the time of foreclosure, are any subsequent holding costs included in expense as incurred?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If a property is not in a condition for sale or use at the time of foreclosure, are completion and holding costs, including such items as real estate taxes, maintenance, and insurance capitalized?	_____	_____	_____
d. Are legal fees and other direct costs incurred in a foreclosure included in expenses when they are incurred? [IAG, pages 74 and 75]	_____	_____	_____
<b>M. Deposits</b>			
1. Are amounts disclosed separately for:			
a. Noninterest-bearing deposits in domestic offices?	_____	_____	_____
b. Noninterest-bearing deposits in foreign offices?	_____	_____	_____
c. Interest-bearing deposits in domestic offices?	_____	_____	_____
d. Interest-bearing deposits in foreign offices? [IAG, page 79]	_____	_____	_____
2. Are details provided as to:			
a. Amounts and maturities of certificates of deposit in amounts of \$100,000 or more?	_____	_____	_____
b. Amounts of large concentrations of deposits?	_____	_____	_____
c. NOW accounts? [IAG, page 79]	_____	_____	_____
3. Is disclosure made as to:			
a. Deposits received on unusual terms or from related parties? [IAG, page 79]	_____	_____	_____
4. If the bank draws a check on itself or certifies a customer's check, is a liability recorded and cash reduced only when the check is paid? [IAG, pages 78 and 79]	_____	_____	_____
<b>N. Federal Funds Purchased and Securities Sold Under Repurchase Agreements</b>			
1. Are all necessary disclosures made?	_____	_____	_____
<b>O. Income Taxes (Assumes the adoption of FASB 96)</b>			
1. Have deferred tax assets been recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years:			
a. To reduce a current deferred tax liability?	_____	_____	_____
b. To reduce taxes paid in the current or a prior year? [SFAS 96, par. 17e (AU 125.116e)]	_____	_____	_____
2. Have deferred tax assets or liabilities been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC 125.119)]	_____	_____	_____
3. Have deferred tax assets or liabilities attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC 125.123)]	_____	_____	_____
4. Have the types of temporary differences that give rise to significant portions of a deferred tax asset or liability been disclosed? [SFAS 96, par. 24 (AC 125.123)]	_____	_____	_____
5. Is the amount of a deferred tax asset or liability the net deferred tax consequence of:			
a. Temporary differences that will result in net taxable or deductible amounts during the next year?	_____	_____	_____
b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Temporary differences for which there is no related identifiable asset or liability for financial reporting [SFAS 96, par. 12 (AC I25.111)] whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
6. Have deferred tax liabilities been recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par. 17f—h (AC I25.116f—h)]	_____	_____	_____
7. For undistributed earnings of subsidiaries and/or corporate joint ventures, for which a deferred tax liability is not recognized, do the disclosures include:			
a. A description of the types of temporary differences?	_____	_____	_____
b. The type of events that would cause the temporary differences to become taxable?	_____	_____	_____
c. The cumulative amount of each type of temporary difference?	_____	_____	_____
d. The amount of the unrecognized deferred tax liability for unremitted earnings and the amount of withholding taxes that would be payable upon remittance of the earnings? [SFAS 96, par. 25 (AC I25.124)]	_____	_____	_____
<b>P. Borrowed Funds</b>			
1. If funds are transferred from the Treasury tax and loan remittance option account to the Treasury tax and loan note option account, are they included in the financial statements as other borrowed funds? [IAG, page 83]	_____	_____	_____
2. Are borrowings from the Federal Reserve Bank grouped with promissory notes such as commercial paper, and reported as other borrowed funds? [IAG, page 83]	_____	_____	_____
<b>Q. Other Liabilities</b>			
1. 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)]	_____	_____	_____
2. Are liabilities appropriately accrued and reported for employees’ compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
4. For loans transferred with recourse which are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.109)]	_____	_____	_____
5. If material, are amounts disclosed separately for:			
a. Acceptances outstanding?	_____	_____	_____
b. Accrued payrolls?	_____	_____	_____
c. Accrued income taxes?	_____	_____	_____
d. Deferred income taxes?	_____	_____	_____
e. Undistributed payroll deductions?	_____	_____	_____
f. Accounts payable?	_____	_____	_____
g. Cash dividends declared but unpaid? [IAG, page 86]	_____	_____	_____
<b>R. Long-Term Debt</b>			
1. Is the following information disclosed:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Amounts of significant components?	_____	_____	_____
b. Interest rates?	_____	_____	_____
c. Due dates?	_____	_____	_____
d. Pledged property?	_____	_____	_____
e. Restrictive covenants? [IAG, page 84]	_____	_____	_____
2. Is 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. 10 (AC C32.105)]	_____	_____	_____
3. Are conversion features appropriately accounted for and disclosed? [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]	_____	_____	_____
4. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement, or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
5. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
6. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	_____	_____	_____
7. Has debt, as required, been considered extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?	_____	_____	_____
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A)]	_____	_____	_____
8. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20—21 (AC D14.103—.104); TB 80-1, pars. 3—4 (AC D14.503—.504); SFAS 84, par. 5 (AC D14.101)]	_____	_____	_____
b. Identified as a separate or extraordinary item? [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
9. Do disclosures for extinguishments of debt described in 7 above include:			

	Yes	No	N/A
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment?	_____	_____	_____
c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
10. Are mortgages payable reported separately? [IAG, page 83]	_____	_____	_____
11. Are subordinated notes and debentures reported separately? [IAG, page 84]	_____	_____	_____
12. Are capital notes reported separately as liabilities?	_____	_____	_____
<b>S. Lessee Leases</b>			
1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a (1)—(4))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate, and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)—(4))]	_____	_____	_____
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4)) amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants?	_____	_____	_____

[SFAS 13, par. 16d (AC L10.112d); For amendments of SFAS 13 see SFAS 17, 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]

Yes No N/A

T. Capital Stock

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 12, par. 10 (AC C08.102)]

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 and pertinent dates, sinking fund requirements, or unusual voting rights? [APB 15, par. 19 (AC E09.110)]

3. 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 presented? [SFAS 47, par. 10 (AC C32.105)]

4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]

5. For preferred stock, do disclosures include:
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 (AC C16.102)]

6. For stock option and stock purchase plans, do disclosures include:
a. The number of shares under option?
b. The option price?
c. The number of shares as to which options are exercisable?
d. For shares exercised, the number of shares exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123); 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)]

U. Additional Paid-in Capital

1. Is the amount shown separately on the balance sheet? [IAG, page 142]

V. Retained Earnings

1. Is the amount of retained earnings shown separately on the balance sheet? [IAG, page 142]

2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120); [IAG, page 89]

3. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]

4. If stock dividends are recorded at less than fair value, is the difference between recorded amount and fair value disclosed in the year of issuance? [IAG, page 89]

5. If a portion of initial paid-in capital has been transferred to retained earnings, is the amount of paid-in capital included in retained earnings disclosed?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[IAG, page 89]			
6. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
7. If an amount has been transferred by subsidiaries from retained earnings, are such transfers not recognized in consolidation? [IAG, page 88]	_____	_____	_____
8. Have stock dividends been accounted for using the fair value of the shares issued in connection with the dividend?	_____	_____	_____
a. Is there disclosure of the remaining amount of surplus available for future stock dividends? [IAG, page 89]	_____	_____	_____
9. If there has been an assumption of a subsidiary bank's debt by its parent company, is it reported as a capital contribution in the bank's separate financial statements with disclosure of the bank's contingent liability for such debt? [IAG, page 89]	_____	_____	_____
10. If there has been a transfer from paid-in capital to retained earnings to avoid reporting a deficit in retained earnings, is the amount being restored as rapidly as profitable operations permit? [IAG, page 90]	_____	_____	_____
<b>W. Other Stockholders' Equity Accounts</b>			
1. Are cumulative translation adjustments separately disclosed? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [TB 85-6, par. 3 (AC C23.501—.503)]	_____	_____	_____
3. Is the valuation allowance for marketable equity securities separately disclosed? [SFAS 12, par. 11 (AC I89.104) IAG, page 34]	_____	_____	_____
<b>Income Statement</b>			
<b>A. Interest Income</b>			
1. For interest income from loans:			
a. Is method of recognizing interest income disclosed? [IAG, page 55]	_____	_____	_____
b. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield, reported as interest income? [SFAS 91, par. 22 (AC L20.121)]	_____	_____	_____
2. For interest income from investment securities:			
a. Is the interest method used to record amortization and accretion? [IAG, page 32]	_____	_____	_____
3. Except as specified in SFAS 91, paragraph 20 [AC L20.119], is the interest method used as the method of amortization? [SFAS 91, par. 18 (AC L20.117)]	_____	_____	_____
<b>B. Interest Expense</b>			
1. If significant, is interest on short positions disclosed? [IAG, page 42]	_____	_____	_____
<b>C. Provision for Credit Losses</b>			
1. Is the method of providing for credit losses disclosed? [IAG, page 55]	_____	_____	_____
<b>D. Other Income</b>			

	Yes	No	N/A
1. For investment securities gains/losses:			
a. Are such gains/losses presented separately on a pretax basis and classified as "Other Income"? [SOP 83—1, par. 16]	_____	_____	_____
b. Is provision for estimated losses included? [IAG, page 30]	_____	_____	_____
c. Are material gains/losses on U.S. Treasury bills included? [IAG, pages 32—33]	_____	_____	_____
2. Is amortization of loan fees being amortized on the straight-line basis over the commitment period or included in income when the commitment expires, reported as other income? [SFAS 91, par. 22 (AC L20.121)]	_____	_____	_____
3. Are gains/losses on pension plan settlements or curtailments or termination benefits disclosed? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
4. For marketable equity securities are the following disclosed for each period for which an income statement is presented:			
a. Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
b. For entities with certain specialized accounting practices, 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)]	_____	_____	_____
d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
5. For investments in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)]	_____	_____	_____
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]	_____	_____	_____
c. Are income taxes of the investor'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)]	_____	_____	_____
<b>E. Other Expenses</b>			
1. Salaries:			
a. If there is a compensatory stock issuance plan:			
(1) Is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]	_____	_____	_____
(2) Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
(3) Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)]	_____	_____	_____
2. Employee Benefits:			
a. Is the amount of net periodic pension costs and their components disclosed? [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____
b. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]	_____	_____	_____
3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20—34, 39—53 and 77? <sup>1</sup> [SFAS 87, pars. 20—34, 39—53 and 77 (AC P16.114—.128, .133—.138 and .141—.149)]	_____	_____	_____
4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3—5 and 9—11? [SFAS 88, pars. 3—5 and 9—11 (AC P16.172, .177—.179 and .181)]	_____	_____	_____
5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12—14? [SFAS 88, pars. 6 and 12—14 (AC P16.173 and .182—.184)]	_____	_____	_____
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7—8? [SFAS 88, pars. 7—8 (AC P16.174—.175)]	_____	_____	_____
6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9—10, 12—13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9—10, 12—13 and 15 (AC P16.177, .179, .182—.183 and .185)]	_____	_____	_____
8. If there is a compensatory stock issuance plan:			
a. Is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]	_____	_____	_____
b. Are deferred income taxes recorded to recognize timing differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
c. Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
9. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—8 (AC C38.101—.102)]	_____	_____	_____
10. Occupancy Expense:			
a. Are expenses of holding other real estate excluded?	_____	_____	_____
b. Is mortgage interest expense excluded? [IAG, page 72]	_____	_____	_____
c. Are net occupancy expenses or net occupancy income classified as an operating item in the statement of income? [IAG, page 72]	_____	_____	_____

<sup>1</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
12. Operating Leases:			
a. Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
<b>F. Income Taxes</b>			
1. If an entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners, has that fact and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
2. Has the amount of income tax expense or benefit been allocated to:			
a. Continuing operations?	_____	_____	_____
b. Discontinued operations?	_____	_____	_____
c. Extraordinary items?	_____	_____	_____
d. Cumulative effect of accounting changes?	_____	_____	_____
e. Prior period adjustments?	_____	_____	_____
f. Gains and losses included in comprehensive income but excluded from net income?	_____	_____	_____
g. Capital transactions? [SFAS 96, par. 26 (AC I25.125)]	_____	_____	_____
3. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit exclusive of (f) below?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC I25.126)]	_____	_____	_____
4. Do disclosures regarding income tax expense attributable to continuing operations include:			
a. A reconciliation (using percentages or dollar amounts) to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?	_____	_____	_____
b. The estimated amount and the nature of each significant item? [SFAS 96, par. 28 (AC I25.127)]	_____	_____	_____
c. Domestic and foreign components of income taxes? [IAG, page 97]	_____	_____	_____
5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [APB 2, par. 16, SFAS 96, par. 29 (AC I25.128 and .187)]	_____	_____	_____



	Yes	No	N/A
6. Do the disclosures for investment tax credits include the method followed (flow-through or deferral) and the amounts involved? [APB 4, par. 11 (AC I25.186)]	_____	_____	_____
7. If part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:			
a. The amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____
8. For the earliest year restated or for the year SFAS 96 is first adopted if no prior year is restated, has the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, Accounting Changes, except for any effects of the type required by SFAS 96 to be excluded from net income? [SFAS 96, par. 33]	_____	_____	_____
9. When initially presented, have the financial statements for the year SFAS 96 is first adopted disclosed the following:			
a. The effect of adopting SFAS 96 on income from continuing operations, on income before extraordinary items, and on net income for the year of adoption if restated financial statements for the prior year are not presented?	_____	_____	_____
b. The effect of any restatement on any income from continuing operations, on income before extraordinary items, and on net income for each year presented? [SFAS 96, par. 34]	_____	_____	_____
<b>G. Discontinued Operations</b>			
1. Are operations of a segment that has been discontinued or are the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)]	_____	_____	_____
4. For the period encompassing the measurement date, do notes to financial statements disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____

	Yes	No	N/A
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
5. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information required? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
<b>H. Extraordinary Items</b>			
1. 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)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. 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):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. 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 I25.505)]	_____	_____	_____
6. 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?	_____	_____	_____
c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)]	_____	_____	_____
<b>I. Other</b>			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____
2. Is earnings per share information presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation?	_____	_____	_____

[APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c and .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128—.131 and .169—.176); FASBI 38, par. 7 (AC E09.130A); SFAS 85, par. 3 (AC E09.123A)]

Yes	No	N/A
-----	----	-----

**Statement of Changes in Stockholders' Equity**

- A. Are changes in separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)] \_\_\_\_\_
- B. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)] \_\_\_\_\_
- C. Are prior period adjustments limited to:
  - 1. Correction of an error(s) in financial statements of prior periods? [SFAS 16, par. 11 (AC A35.103)] \_\_\_\_\_
  - 2. Adjustments resulting from realization of income tax benefits of pre-acquisition operating loss or tax credit carryforwards of purchased subsidiaries? [SFAS 96, par. 23 (AC I25.122)] \_\_\_\_\_
- D. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)] \_\_\_\_\_
- E. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:
  - 1. Nature of the error in previously issued financial statements? \_\_\_\_\_
  - 2. 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)] \_\_\_\_\_

**Statement of Cash Flows**

- A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)] \_\_\_\_\_
- B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27—28 (AC C25.125—.126)] \_\_\_\_\_
  - 1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)] \_\_\_\_\_
  - 2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)] \_\_\_\_\_
- C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:
  - 1. Interest received on loans? \_\_\_\_\_
  - 2. Insurance proceeds except those directly related to investing or financing activities? \_\_\_\_\_
  - 3. Interest paid to creditors? \_\_\_\_\_
  - 4. Payments to suppliers and employees? \_\_\_\_\_
  - 5. Payments to governments for taxes, duties, fines, and other fees or penalties? \_\_\_\_\_
  - 6. Payments to settle lawsuits? \_\_\_\_\_
  - 7. Contributions to charities? [SFAS 95, pars. 22—23 (AC C25.120—.121)] \_\_\_\_\_

	Yes	No	N/A
8. Purchase and sale of trading account securities and assets if acquired specifically for resale and carried at market value?	_____	_____	_____
9. Acquisition and sales of loans specifically acquired for resale carried at market value or at the lower of cost or market value? [SFAS 102, pars. 8—9 (AC C25—122A and 122B)]	_____	_____	_____
D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from collections or sales of loans?	_____	_____	_____
2. Receipts from sales of property or investments?	_____	_____	_____
3. Loans to other entities?	_____	_____	_____
4. Payments to acquire property or investments? [SFAS 95, pars. 16—17 (AC C25.114—.115)]	_____	_____	_____
F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt or capital stock?	_____	_____	_____
2. Repayment of amounts borrowed?	_____	_____	_____
3. Dividend payments to shareholders?	_____	_____	_____
4. Acquisition of treasury stock? [SFAS 95, pars. 19—20 (AC C25.117—.118)]	_____	_____	_____
H. Are the net amounts of cash receipts and cash payments reported for:			
1. Deposits placed with financial institutions and withdrawals of deposits?	_____	_____	_____
2. Time deposits accepted and repayments of deposits?	_____	_____	_____
3. Loans made to customers and principal collections of loans? [SFAS 104, par. 7a (AC C25.111A)]	_____	_____	_____
I. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
J. Does statement of cash flows explain the effect of cash flows by showing change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
K. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
L. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, par. 29—30 (AC C25.127—.128)]	_____	_____	_____
M. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

**Trusted Affiliates**

A. Is one of the following accounting treatments appropriately used:			
1. Consolidated financial statements?	_____	_____	_____
2. Combined financial statements?	_____	_____	_____
3. Equity method? [IAG, page 123]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. If material, is summarized information presented for:			
1. Assets?	_____	_____	_____
2. Liabilities?	_____	_____	_____
3. Results of operations? [ <u>IAG, page 123</u> ]	_____	_____	_____
C. If a separate auditor's report is issued on the financial statements, is the relationship of the trustee affiliate to the parent disclosed? [ <u>IAG, page 124</u> ]	_____	_____	_____

---

[The next page is 6401.]

# FSP Section 6400

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

**.02 Explanation of references:**

- SAS = Statement of 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
- IAG = Industry Audit Guide, *Audits of Banks*

**.03 Checklist Questionnaire**

	<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 58, par. 46 (AU 508.46); SAS 26, pars. 15—17 (AU 504.15—17)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 26, par. 6 (AU 504.06)]	_____	_____	_____
a. For a public entity? [SAS 26, pars. 8—10 (AU 504.08—10)]	_____	_____	_____
b. For a nonpublic entity? [SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
3. Does the reporting explanatory 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 auditor's report include appropriate explanatory language with respect to the following:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—13)]	_____	_____	_____
b. Departure from a promulgated accounting principle which could lead to a misleading financial statement? [SAS 58, pars. 14—15 (AU 508.14—15)]	_____	_____	_____
c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation? [SAS 58, pars. 16—33 (AU 508.16—33)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. There is substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 13 (AU 341.13)]	_____	_____	_____
e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
f. Opinion on prior-period financial statements different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
g. Predecessor auditor's report reissued? [SAS 58, pars. 80—82 (AU 508.80—.82)]	_____	_____	_____
h. Selected quarterly financial data required by the SEC has been omitted or has not been reviewed? [SAS 36, par. 29 (AU 722.29)]	_____	_____	_____
i. Required supplemental information has:			
(1) Been omitted?	_____	_____	_____
(2) Presentation of information departs materially from FASB guidelines?	_____	_____	_____
(3) The auditor is unable to complete prescribed procedures?	_____	_____	_____
(4) The auditor has substantial doubts that the information conforms to FASB guidelines? [SAS 52 (AU 551.15)]	_____	_____	_____
j. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
k. A matter regarding the financial statements that should be emphasized? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
l. Report on one basic financial statement and there are no scope limitations? [SAS 58, par. 48 (AU 508.48)]	_____	_____	_____
m. Reports on comparative financial statements? [SAS 58, pars. 74—75 (AU 508.74—.75)]	_____	_____	_____
n. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, a disclaimer, or an explanatory paragraph on one or more financial statements for one or more periods? [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	_____	_____	_____
o. Comparative financial statements with an opinion different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
p. Comparative financial statements when predecessor auditor's report not presented? [SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
q. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
r. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods? [SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)]	_____	_____	_____
5. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? [SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40—48 (AU 508.40—.48)]	_____	_____	_____

**Auditors' Reports Checklist**

**6403**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Alternative procedures are not practicable for a significant number of confirmation requests returned undelivered by postal authorities? [IAG, page 81]	_____	_____	_____
6. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. An uncertainty is not adequately disclosed in the financial statements? [SAS 58, par. 20 (AU 508.20)]	_____	_____	_____
b. The accounting principles used cause the financial statements to be materially misstated? [SAS 58, par. 21 (AU 508.21)]	_____	_____	_____
c. Unreasonable accounting estimates that cause the financial statements to be misstated? [SAS 58, par. 22 (AU 508.22)]	_____	_____	_____
d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change with which the auditor did not concur? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]	_____	_____	_____
e. There is no evidence to support carrying amount of investment securities and an allowance to write down to market has not been established? [IAG, pages 36—37]	_____	_____	_____
f. GAAP financial statements reflect regulatory practice of immediate write-off of goodwill? [IAG, page 120]	_____	_____	_____
g. Client representations about related party transactions cannot be substantiated? [SAS 45, par. 12 (AU 334.12)]	_____	_____	_____
h. Client's voluntarily including supplementary information which has not been audited? [SAS 52, par. 3, (AU 558.03)]	_____	_____	_____
7. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
8. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion? [SAS 58, par. 70 (AU 508.70)]	_____	_____	_____
a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed? [SAS 58, par. 71 (AU 508.71)]	_____	_____	_____
9. 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, 40, 51, 68 and 71 (AU 508.39, 40, 51, 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)]	_____	_____	_____
10. Does the auditor's report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to long-term investments?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SAS 58, par. 42 (AU 508.42)]			
b. Regulated companies? [SAS 1, sec. 544.02—.04 (AU 544.02—.04); SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
c. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____
d. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
e. Client's refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
f. Limitations on scope of lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
g. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
h. Scope limitation concerning errors or irregularities? [SAS 53, pars. 26—27 (AU 316.26—.27)]	_____	_____	_____
i. Illegal acts by clients? [SAS 54 (AU 317)]	_____	_____	_____
j. Segment information? [SAS 21 (AU 435)]	_____	_____	_____
k. Entity's continued existence? [SAS 59, pars. 12—16 (AU 341.12—.16)]	_____	_____	_____
l. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
m. 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 which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13—.15)]	_____	_____	_____
n. Client's voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
11. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]	_____	_____	_____
12. Have the provisions of SAS 35 and SAS 62 been complied with for the following:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
b. When reporting on specified elements, accounts or items of a financial statement? [SAS 62, pars. 11—14 (AU 623.11—.14); SAS 35 (AU 622)]	_____	_____	_____
c. When reporting on compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—21 (AU 623.19—.21)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 22—26 (AU 623.22—.26)]	_____	_____	_____
13. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document:			
a. Is there a clear distinction between the client's representation and auditor's representations? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
b. Does the auditor's report on the accompanying information:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(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 additional 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 whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
14. If an auditor-submitted document with accompanying information is coexisting with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
15. 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)]	_____	_____	_____
16. 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 558.08—.11)]	_____	_____	_____
17. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, has the auditor's report been appropriately modified if:			
a. Required supplementary information is omitted?	_____	_____	_____
b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?	_____	_____	_____
c. The auditor is unable to complete the procedures prescribed by SAS 52? [SAS 52, par. 2 (AU 558.08)]	_____	_____	_____
18. If a report on internal accounting control is to be issued [material weaknesses in internal accounting controls ("reportable conditions") that come to the auditor's attention must be communicated, preferably in writing, to the audit committee or board of directors SAS 60 (AU 325)] is the appropriate form used for:			
a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specific period of time? [SAS 30, pars. 37—46 (AU 642.37—.46)]	_____	_____	_____
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed upon matters? [SAS 60, pars. 12—19 (AU 325.12—.19)]	_____	_____	_____
c. Report on all or part of an entity's system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, 41 and 46)]			
19. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The date of the report on the complete financial statements?	_____	_____	_____
c. The type of opinion expressed?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 5 (AU 552.05)]	_____	_____	_____
20. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]	_____	_____	_____
21. If requested to report on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which the auditor is reporting?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
22. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____

[The next page is 6501.]

# FSP Section 6500

## Supplemental Disclosure Checklist for Banks That Are SEC Registrants

.01 This Supplemental Disclosure Checklist for Banks contains additional disclosures that are required in financial statements of banks that are SEC registrants. References in this supplement are from SEC Rules and Regulations, specifically Rule S-X, since there is no specific counterpart under GAAP. This checklist only includes SEC disclosures for banks and not general SEC disclosures and does not repeat SEC required disclosures if such disclosures are generally required and included in the "Financial Statements and Notes Checklists." Many of the disclosures are routinely made by banks not subject to the requirements of the Securities Exchange Act of 1934.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>A. Cash and Due From Banks</b>			
1. Has cash and due from banks, including all non-interest bearing deposits with other banks, been stated separately? (S-X Rule 9-03.1)	_____	_____	_____
2. Have any withdrawal and usage restrictions (including average reserve balances maintained with the Federal Reserve) or compensating balance requirements been disclosed? (S-X Rule 9-03.1(a))	_____	_____	_____
<b>B. Investment Securities</b>			
1. Have the carrying value and market value of each of the following categories of securities been disclosed (exclude borrowed securities and securities purchased under resale agreements or similar arrangements): (S-X Rule 9-03.6(a))			
a. U.S. Treasury and other U.S. Government agencies and corporations?	_____	_____	_____
b. States of the U.S. and political subdivisions?	_____	_____	_____
c. Other?	_____	_____	_____
d. Has disclosure been made regarding the nature and extent of registrants' repurchase and reverse repurchase agreements and the degree of risk involved in these transactions? (FRR 24, Regulation S-X Disclosure Amendment)	_____	_____	_____
<b>C. Loans</b>			
1. Have each of the following loan categories been stated separately: (9-03.7(a) and (b))			
a. Foreign?	_____	_____	_____
b. Other (if necessary to reflect any unusual risk concentration, regardless of size)?	_____	_____	_____
c. If related party loan disclosures are made, was an analysis of such loans for the latest fiscal year also provided (i.e., beginning balance, new loans, repayments, other charges and ending balance) (S-X Rule 9-03.7(e)).	_____	_____	_____
(1) For SEC purposes related party loans include loans made by the registrant or any of its subsidiaries to directors, executive officers, principal holders of equity securities or associates of such persons of the registrant or any of its significant subsidiaries (1-02). See (S-X Rule 9-03.7(e) for definition of "associate." Loans to any related party that do not exceed \$60,000 (in aggregate) during the latest year may be excluded. (S-X Rule 9-03.7(e))	_____	_____	_____
d. Are significant nonaccrual, past due, restructured, and potential problem loans disclosed? (S-X Rule 9-03.7(e))	_____	_____	_____
e. For liquidity problem loans in foreign countries, is a tabular summary presented showing: (FRR 27 Regulation S-X Disclosure Amendment)			
(1) Aggregate loans outstanding at beginning of period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Net change in short-term outstandings?	_____	_____	_____
(3) Additional outstandings?	_____	_____	_____
(4) Interest income accrued?	_____	_____	_____
(5) Collections of principal and interest?	_____	_____	_____
(6) Aggregate loans outstanding at end of period?	_____	_____	_____
f. Have disclosures about restructuring for problem loans in foreign countries been made? (FRR 27, Regulation S-X Disclosure Amendment)	_____	_____	_____
<b>D. Adjustments to Allowance for Loan Losses</b>			
1. Have adjustments to allowance for loan losses in connection with business combinations been examined to determine their appropriateness? (SAB 61)	_____	_____	_____
<b>E. Other Assets</b>			
1. For acquisitions occurring after December 23, 1981, has the amortization period for goodwill been reexamined prior to its initial filing with the SEC? (SAB 42 and 42A)	_____	_____	_____
a. For real estate other than bank premises: (S-X Rule 9-03.10(4a))			
(1) Is carrying basis disclosed?	_____	_____	_____
(2) Is allowance for losses deducted therefrom?	_____	_____	_____
(3) Is a summary of changes in allowance for losses presented?	_____	_____	_____
(4) Does summary show beginning balance, provision charged to income, losses charged to the allowance, and ending balance?	_____	_____	_____
<b>F. Deposits</b>			
1. Have the amounts of noninterest bearing and interest bearing deposits been stated separately? Have foreign amounts also been stated separately? (S-X Rule 9-03.12)	_____	_____	_____
<b>G. Other Liabilities</b>			
1. Has the amount of indebtedness to directors, executive officers, and principal holders of equity securities (*) of the registrant or any of its significant subsidiaries (1-02) if the aggregate amount exceeds five percent of shareholders' equity, been disclosed? (S-X Rule 9-03.15)	_____	_____	_____
(*) See (S-X Rule 9-03.7(e)) for definitions of related party terms.			
<b>H. Interest and Fees on Loans</b>			
1. Have interest and fees on loans been stated separately? (S-X Rule 9-04.1)	_____	_____	_____
<b>I. Interest and Dividends of Investment Securities</b>			
1. Have the following amounts for investment securities been stated separately: (S-X Rule 9-04.2)			
a. Taxable interest income?	_____	_____	_____
b. Nontaxable interest income?	_____	_____	_____
c. Dividends?	_____	_____	_____
<b>J. Income Statement Captions</b>			
1. Have the following captions in the income statement been stated separately: (S-X Rule 9-04)			
a. Trading account interest?	_____	_____	_____
b. Other interest income?	_____	_____	_____
c. Total interest income?	_____	_____	_____
d. Interest on deposits?	_____	_____	_____
e. Interest on short-term borrowings?	_____	_____	_____
f. Interest on long-term debt?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. Total interest expense?	_____	_____	_____
h. Net interest income?	_____	_____	_____
i. Provision for loan losses?	_____	_____	_____
j. Net interest income after provision for loan losses?	_____	_____	_____
k. Other income?	_____	_____	_____
l. Other expense?	_____	_____	_____
m. Income or loss before income tax expense?	_____	_____	_____
n. Income tax expense?	_____	_____	_____
o. Income or loss before extraordinary items and cumulative effects of changes in accounting principles?	_____	_____	_____
p. Extraordinary items, less applicable taxes?	_____	_____	_____
q. Cumulative effects of changes in accounting principles?	_____	_____	_____
r. Net income or loss?	_____	_____	_____
s. Earnings per share data?	_____	_____	_____
<b>K. Other Income</b>			
1. Have any of the following amounts that exceed one percent of the aggregate of total interest income and other income been stated separately: (S-X Rule 9-04.13)			
a. Commissions and fees from fiduciary activities (i.e., trust department income)?	_____	_____	_____
b. Commissions, brokers' fees and markups on securities underwriting and other securities activities?	_____	_____	_____
c. Insurance commissions, fees and premiums?	_____	_____	_____
d. Fees for customer services?	_____	_____	_____
e. Trading account profit or loss?	_____	_____	_____
f. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons?	_____	_____	_____
g. Gains or losses on the disposition of equity investees or 50% or less owned persons?	_____	_____	_____
h. Other?	_____	_____	_____
(1) For investment security gains or losses: (S-X Rule 9-04.13)			
(a) Are investment securities gains or losses shown separately regardless of amount?	_____	_____	_____
(b) Is method followed in determining cost of investments sold disclosed?	_____	_____	_____
(c) Are related taxes disclosed in a footnote or parenthetically as a part of income tax expense?	_____	_____	_____
<b>L. Other Expenses</b>			
1. Have any of the following amounts that exceed one percent of the aggregate of total interest income and other income been stated separately: (S-X Rule 9-03.14)			
a. Salaries and employee benefits?	_____	_____	_____
b. Net occupancy expense of premises?	_____	_____	_____
c. Goodwill amortization?	_____	_____	_____
d. Net cost of operation of other real estate (including provisions for losses, rental income and gains and losses on sales)?	_____	_____	_____
e. Minority interest in income of consolidated subsidiaries?	_____	_____	_____
f. Other?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>M. Condensed Financial Information of Registrant</b>			
1. Has disclosure in a footnote been made of the parent company's condensed balance sheet, income statement and statement of cash flows for periods that correspond with the consolidated financial statements presented? (S-X Rule 9-06) [Note: Such disclosure is required when restricted net assets (as defined) of consolidated subsidiaries exceed 25% of consolidated net assets as of the end of the most recent fiscal year.]	_____	_____	_____
2. Has the following condensed parent company information been stated separately:			
a. Investments in bank subsidiaries?	_____	_____	_____
b. Indebtedness of and to bank subsidiaries?	_____	_____	_____
c. Cash dividends paid to the registrant by bank subsidiaries?	_____	_____	_____
3. Has each of the following been disclosed unless stated separately in the consolidated statements: (S-X Rule 9-06 and 12-04(a))			
a. Material contingencies?	_____	_____	_____
b. Significant provisions of long-term debt obligations?	_____	_____	_____
c. A five-year schedule of debt maturities?	_____	_____	_____
d. Mandatory dividend or redemption requirements or redeemable stocks?	_____	_____	_____
e. Guarantees?	_____	_____	_____
4. Has separate disclosure been made of cash dividends paid to the parent for each of the last three years by subsidiaries and investees accounted for by the equity method? (S-X Rule 12-04(b))	_____	_____	_____
<b>N. Foreign Activities</b>			
Has the following checklist been completed for items 1 to 5 if one or more of the following amounts associated with "foreign activities" exceed ten percent of the related consolidated amounts as reported in the financial statements: (S-X Rule 9-05 (a))			
a. Assets?	_____	_____	_____
b. Total interest income and other income?	_____	_____	_____
c. Income (loss) before income tax expense?	_____	_____	_____
d. Net Income (loss)?	_____	_____	_____
<i>Note: The term "foreign activities" includes loans and other revenue producing assets and transactions for which the debtor or customer, whether an affiliated or unaffiliated person, is domiciled outside of the United States.</i>			
1. For each balance sheet, disclose total identifiable assets (net of valuation allowances) associated with foreign activities. (S-X Rule 9-05 (b1))	_____	_____	_____
2. For each income statement, disclose revenue, income (loss) before taxes, and net income (loss) associated with foreign activities. (S-X Rule 9-05 (b2))	_____	_____	_____
3. Disclose the information required by items 1 and 2 for each significant geographic area and in the aggregate for all other geographic areas not deemed significant. (S-X Rule 9-05 (b3))	_____	_____	_____
a. A "significant geographic area" is one in which assets, revenue, income before tax or net income exceed 10 percent of the consolidated amount as reported in the financial statements.	_____	_____	_____
4. Disclose any significant estimates and assumptions, including those related to the cost of capital, used in allocating revenue and expenses to foreign activities. (S-X Rule 9-05 (b-2))	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Disclose the nature and effects of any changes in estimates and assumptions referred to in item 4 which have a significant impact on interperiod comparability. (S-X Rule 9-05 (b-2))	_____	_____	_____
<b>O. Financial Guarantees</b>			
When aggregate amounts guaranteed are material to consolidated equity or where there is a material effect on results of operations before income taxes, have the following disclosures been made: (SAB 60)			
1. A general description of the type of obligations guaranteed (e.g., corporate, municipal general obligation, industrial revenue, etc.), the relative amount and range of maturity dates of each, and the degree of risk involved?	_____	_____	_____
2. The amount of exposure with respect to the debts of others guaranteed at the date of each balance sheet presented including a discussion of how the participation by other parties and other factors that may reduce exposure are treated in determining the amount reported?	_____	_____	_____
3. The manner in which the registrant recognizes revenue with respect to the guarantees?	_____	_____	_____
4. The amount of unearned premiums as of the date of each balance sheet?	_____	_____	_____
5. Whether the registrant provides an allowance for losses by charges against income and, if so, the basis for the reserve and its amount at each balance sheet date?	_____	_____	_____
6. Any other information that may be necessary to adequately describe the nature and extent of the obligations guaranteed and the degree of risk related to the guarantees?	_____	_____	_____
<b>P. Quarterly Information</b>			
For registrants required to include selected quarterly financial data, have the following captions, at a minimum, been disclosed: (SAB Topic 6.G.)			
1. Interest Income?	_____	_____	_____
2. Provision for loan losses?	_____	_____	_____
3. Security gains or losses?	_____	_____	_____
4. Net income?	_____	_____	_____
5. Earnings per share?	_____	_____	_____
<b>Q. Foreign Debt Exchanges</b>			
If the registrant is involved in a "Mexican Debt Exchange," have the following disclosures been considered: (SAB 75)			
1. Carrying value and terms of obligations exchanged?	_____	_____	_____
2. Face value, carrying value, market value and terms of securities received?	_____	_____	_____
3. The effect of the transaction on the allowance for loan losses and the provision for loan losses?	_____	_____	_____
4. Annual interest income on the obligations exchanged and the annual interest income on the securities received?	_____	_____	_____
<b>R. Schedules</b>			
1. Schedule Number I refers to S-X Rule 9-07 and S-X Rule 12-05 (Note)			
a. Indebtedness to Related Parties—[Filed in support of subcaption (9-03.15(4))—Indebtedness to directors, executive officers, and principal holders of equity securities of the registrant or any of its significant subsidiaries].	_____	_____	_____



Note: Rule 12-05 provides instructions for the schedule, "Indebtedness of and to Related Parties." Portions of that schedule relating to "indebtedness of" related parties may be omitted because that information is required to be disclosed under Rule 9-03.7(c) of Regulation S-X.

2. Schedule Number II refers to S-X Rule 9-07 and S-X Rule 12-08:

- a. Guarantees of Securities of Other Issuers—[Filed with respect to any guarantees of securities of other issuers by the person for which the statement is being filed].

**S. Other SEC Related Disclosures**

1. SAB Topic 11-K, added by SAB 69, expresses the staff's views on the use of Article 9 and Industry Guide 3 as guidance for disclosure purposes by registrants that are not bank holding companies.
2. SAB Topic 1-F, added by SAB No. 50, reflects the staff's views on the financial statement requirements in filings involving the formation of a one-bank holding company.
3. SAB Topic 11-G discusses the use of tax-equivalent-adjusted amounts in financial statements.
4. SAB Topic 11-1, added by SAB 56, expresses the staff's views about the reporting of Allocated Transfer Risk Reserve (ATTR) provisions established when federal banking agencies determine that such reserves are necessary.
5. SAB Topic 5-V, added by SAB No. 82, discusses the staff's views regarding the accounting for transfers of nonperforming assets by financial institutions. (See also SAB Topic 5-E)
6. SAB Topic 11-N, also added by SAB No. 82, expresses the staff's views regarding the required disclosure by a financial institution that receives financial assistance from a federal regulatory agency.

Yes      No      N/A

<u>Yes</u>	<u>No</u>	<u>N/A</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

# FSP Section 6600

## *Illustrative Bank Financial Statements*

.01 The following are some additional disclosures not included in the illustrative bank financial statements but could be found in typical bank financial statements.

- Consolidation policy and accounting for equity investments.
- Basis of translation for foreign currency assets and liabilities and foreign exchange gains and losses.
- Description of any business combination, the method of accounting for such combinations, its effect on current and prior financial statements, and other pertinent details.
- Amounts of restricted cash, including legally restricted compensating balances.
- Maturity distribution of investment securities.
- Amounts by type of loan for both domestic and foreign loans, if not disclosed by type on the balance sheet, and any loan category, regardless of relative size, if necessary to reflect any unusual risk concentration.
- Foreign loans reported as governments and official institutions; banks and other financial intermediaries; commercial and industrial; and other.
- Disclosure of loans to less developed countries (LDC loans), loan loss allowances established, and the accrual of interest income on those loans.
- Amounts for net investment in and certain details about direct financing leases.
- The dollar amount of assets that have been restructured because of borrowers' financial difficulties and the effect on income of such troubled debt including disclosure of commitments to advance additional funds to such debtors.
- An analysis of changes in the allowance for loan losses showing, by category of loans, amounts charged against and recoveries credited to the allowance, as well as provisions charged to operations, for both the consolidated total allowance and for the portion of the allowance applicable to loans related to foreign activities.
- Disclosure of the allocation of the period-end allowance for loan losses by loan type.
- Disclosure of the nature and amount of any assets pledged to secure indebtedness or for other purposes permitted or required by law.
- Separate identification of non-interest-bearing versus interest-bearing deposits and deposits taken in domestic banking offices versus deposits taken in foreign offices, average balances rates paid for deposits (domestic and foreign), and disclosure of time certificates of \$100,000 or more (domestic and foreign).
- Disclosure of unused lines of credit, including fees and conditions that could cause them to be withdrawn.
- Disclosure of each outstanding debt issue or type of obligation and pertinent details such as interest rate, maturity, convertibility, priority, and any contingent repayment terms, together with disclosure of the aggregate maturities and sinking fund requirements for each of the five years following the balance sheet date and, if significant, details regarding unused commitments for long-term debt.
- Disclosure of the amount of long-term debt qualifying as primary or secondary capital.

- For SEC purposes, redeemable preferred stock with mandatory redemption features or redemption features outside the control of the issuer, should be disclosed in a caption preceding and not included in the shareholders' equity accounts.
- Description of major provisions and pertinent details regarding stock option plans, including the security issues involved, the number of shares under option, and the number of shares related to options granted, exercised, exercisable, and expired, showing dates, option prices, and market prices.
- Disclosure of identifiable assets and revenue and expense attributable to foreign operation in the aggregate and by significant geographic area.
- Accounting treatment of interest rate swaps, futures, options, and risk participations.
- Notional principal amounts outstanding under interest rate swap agreements, forward and future contracts, outstanding exposure on banker's acceptance and commitments to purchase loans.
- Disclosure of option contracts and income or expense recognition.
- Disclosure of fiduciary fees.

**Notice**

At date of publication the AICPA had under consideration a proposal to revise the financial statement presentation by banks.

(The following report of the independent CPA and financial statements illustrate one form of currently acceptable practice. The CPA should be guided by existing auditing standards concerning the report. Other forms of financial statements are acceptable. More or less detail should appear in the financial statements or in the notes depending on the circumstances.)

**.02**

### **Independent Auditor's Report**

To the Board of Directors and Stockholders  
Sample Bank  
Sometown, U.S.A.

We have audited the accompanying balance sheets of Sample Bank as of December 31, 19X2 and 19X1, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Bank at December 31, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*[Signature]*

*Office Town, U.S.A.  
January 24, 19X3*

## Sample Bank

## Balance Sheets

December 31, 19X2 and 19X1

(in thousands)

<b>Assets</b>	<u>19X2</u>	<u>19X1</u>
Cash and due from banks .....	\$ 5,498	\$ 5,425
Interest-bearing deposits in banks .....	1,000	1,000
Federal funds sold and securities purchased under reverse repurchase agreements .....	2,100	—
Investment securities (approximate market value of \$32,886, and \$41,567, respectively) .....	37,695	43,528
Trading securities .....	4,640	5,915
Loans, less allowance for loan losses of \$830, and \$823, respectively .....	48,586	43,772
Investment in leveraged leases, net .....	1,897	1,113
Office buildings, equipment, and leasehold improvements, net .....	2,144	1,878
Customers' acceptance liability .....	237	379
Accrued interest receivable .....	200	180
Other assets .....	1,208	614
	<u>\$105,205</u>	<u>\$103,804</u>
 <b>Liabilities and Stockholders' Equity</b>		
<b>Deposits</b>		
Demand .....	\$ 19,427	\$ 24,061
NOW accounts .....	7,107	—
Savings .....	30,135	33,449
Time, \$100,000 and over .....	15,500	12,200
Other time .....	17,574	19,181
	<u>89,743</u>	<u>88,891</u>
Federal funds purchased and securities sold under repurchase agreements ...	2,279	2,558
Acceptances outstanding .....	237	379
Accrued interest and other liabilities .....	1,918	2,062
Subordinated debentures .....	1,000	1,000
<b>Total liabilities</b>	<u>95,177</u>	<u>94,890</u>
 <b>Commitments and contingent liabilities</b>		
<b>Stockholders' equity</b>		
Common stock, par value \$10; 150,000 shares authorized and outstanding	1,500	1,500
Capital surplus .....	4,500	4,500
Retained earnings .....	4,028	2,914
<b>Total stockholders' equity</b>	<u>10,028</u>	<u>8,914</u>
	<u>\$105,205</u>	<u>\$103,804</u>

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

.04

Sample Bank

Statements of Income

Years Ended December 31, 19X2 and 19X1

(in thousands)

	<u>19X2</u>	<u>19X1</u>
<b>Interest income</b>		
Interest and fees on loans .....	\$6,859	\$5,527
Interest on investment securities		
U.S. Treasury securities .....	741	836
Obligations of other U.S. government agencies and corporations .....	186	268
Obligations of states and political subdivisions .....	1,248	1,256
Other securities .....	58	42
Interest on trading securities .....	221	241
Interest on federal funds sold and securities purchased under reverse repurchase agreements .....	332	105
Interest on deposits in banks .....	86	72
	<u>9,731</u>	<u>8,347</u>
<b>Interest expense</b>		
Interest on deposits .....	6,446	5,340
Interest of federal funds purchased and securities sold under repurchase agreements .....	253	78
Interest on subordinated debentures .....	80	80
	<u>6,779</u>	<u>5,498</u>
Net interest income .....	2,952	2,849
Provision for loan losses .....	60	68
Net interest income after provision for loan losses .....	<u>2,892</u>	<u>2,781</u>
<b>Other income</b>		
Trust department .....	187	166
Service fees .....	106	103
Trading profits and commissions .....	174	67
Other .....	74	77
Investment security gains (losses) .....	131	(30)
	<u>672</u>	<u>383</u>
<b>Other expense</b>		
Salaries .....	727	718
Pensions and other employee benefits .....	153	130
Occupancy expenses, net .....	356	304
Other expenses .....	747	648
	<u>1,983</u>	<u>1,800</u>
Income before income taxes .....	1,581	1,364
Applicable income taxes .....	146	33
Net income .....	<u>\$1,435</u>	<u>\$1,331</u>

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

## Sample Bank

## Statements of Changes in Stockholders' Equity

Years Ended December 31, 19X2 and 19X1

(in thousands, except share amounts)

	<u>Common Stock</u>		<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>			
Balance, December 31, 19X0 .....	150	\$1,500	\$4,500	\$1,904	\$ 7,904
Net income .....				1,331	1,331
Cash dividends declared, \$2.14 per share .....				(321)	(321)
Balance, December 31, 19X1 .....	150	1,500	4,500	2,914	8,914
Net income .....				1,435	1,435
Cash dividends declared, \$2.14 per share .....				(321)	(321)
Balance, December 31, 19X2 .....	<u>150</u>	<u>\$1,500</u>	<u>\$4,500</u>	<u>\$4,028</u>	<u>\$10,028</u>

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

.06

## Sample Bank

## Statements of Cash Flows

For the Years Ended December 31, 19X2 and 19X1

## Increase (decrease) in Cash and Equivalents

(in thousands)

<b>Cash flows from operating activities</b>	<u>19X2</u>	<u>19X1</u>
Interest received .....	\$ 8,531	\$ 7,347
Fees and commissions received .....	1,200	1,000
Other income received .....	318	413
Financing revenue received under leases .....	223	122
Interest paid .....	(7,013)	(5,408)
Cash paid to suppliers and employees .....	(1,810)	(1,638)
Income taxes (paid) refunded .....	(56)	80
Net proceeds (purchases) of trading and investment securities .....	7,239	(3,513)
Net cash provided (used) by operating activities .....	<u>8,632</u>	<u>(1,597)</u>
 <b>Cash flows from investing activities</b>		
Net increase in short-term installment receivables .....	(2,333)	(1,647)
Net increase in loans with maturities of 3 months or less .....	(5,000)	(4,614)
Net decrease in loans made to customers .....	2,459	10,497
Purchase of assets to be leased .....	(1,518)	—
Principal payments received under leases .....	300	142
Capital expenditures .....	(439)	(807)
Other .....	(614)	84
Net cash used (provided) in investing activities .....	<u>(7,145)</u>	<u>3,655</u>
 <b>Cash flows from financing activities</b>		
Net (increase) decrease in demand deposits, NOW and savings accounts .....	(2,448)	6,195
Proceeds from sales of certificates of deposit .....	13,300	18,708
Payments for maturing certificates of deposit .....	(10,000)	(24,607)
Net decrease in federal funds purchased and securities sold under repurchase agreements .....	(279)	(308)
Proceeds from issuance of nonrecourse debt for leveraged lease .....	434	500
Dividends paid .....	(321)	(321)
Net cash provided by financing activities .....	<u>686</u>	<u>167</u>
Net increase in cash and cash equivalents .....	2,173	2,225
Cash and due from banks and interest-bearing deposits at beginning of year .....	<u>6,425</u>	<u>4,200</u>
Cash and due from banks, interest-bearing deposits and federal funds sold at end of year .....	<u>\$ 8,598</u>	<u>\$ 6,425</u>

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



---

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

**Reconciliation of Net Income to Net Cash**

**Provided by Operating Activities**

(in thousands)

	<u>19X2</u>	<u>19X1</u>
Net income .....	\$1,435	\$ 1,331
Adjustments to reconcile net cash provided by operating activities:		
Depreciation .....	173	162
Provision for loan losses .....	60	68
Provision for deferred taxes .....	90	(113)
(Gain) loss on sale of trading and investment securities .....	(131)	30
(Decrease) increase in accrued interest and other liabilities .....	(234)	438
Net proceeds (purchases) of trading and investing securities .....	7,239	(3,513)
Net cash provided (used) by operating activities .....	<u>\$8,632</u>	<u>\$ (1,597)</u>

**Notes to Financial Statements**  
**Years Ended December 31, 19X2 and 19X1**  
**(in thousands)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Investment securities.** Investment securities are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

**Trading securities.** Trading securities are carried at market value. Realized gains and losses on sales and unrealized changes in market values are included in other income.

**Loans and allowance for loan losses.** Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay. Accrual of interest is discontinued on loans past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection is doubtful.

**Leveraged leases.** Income on leveraged leases is recognized by a method that yields a level rate of return on the lease investment.

**Other real estate.** Other real estate, acquired through partial or total satisfaction of loans, is carried at the lower of cost or fair market value. At the date of acquisition, losses are charged to the allowance for loan losses.

**Depreciation.** Office equipment and buildings are stated at cost less accumulated depreciation computed principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on the declining-balance method over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

**Pension plan.** The bank has a trustee, noncontributory defined benefit retirement plan covering substantially all employees. Actuarially determined pension costs are charged to current operations. The funding policy is to pay at least the minimum amounts required by the Employee Retirement Income Security Act of 1974.

**Income taxes.** Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. The differences relate principally to depreciation of office buildings and equipment, accretion of discounts on investment securities, provision for loan losses, and differences in method of recognizing income from leases. Investment tax credits on equipment leased to others are recognized over a period related to the recovery of the lease investment that gives rise to the credits.

**Investment Securities**

Carrying amounts and approximate market values of investment securities are summarized as follows.

	<i>December 31, 19X2</i>	
	<u>Carrying Amount</u>	<u>Approximate Market Value</u>
U.S Treasury securities .....	\$11,023	\$ 9,801
Obligations of other U.S. government agencies and corporations .....	2,493	2,192
Obligations of states and political subdivisions .....	23,279	20,056
Other securities .....	900	837
	<u>\$37,695</u>	<u>\$32,886</u>
U.S Treasury securities .....	\$14,674	\$13,858
Obligations of other U.S. government agencies and corporations .....	4,690	4,540
Obligations of states and political subdivisions .....	23,364	22,442
Other securities .....	800	727
	<u>\$43,528</u>	<u>\$41,567</u>

Investment securities with a carrying amount of \$6,892 and \$13,524 at December 31, 19X2 and 19X1, respectively, were pledged to secure public deposits and securities sold under agreements to repurchase and for other purposes required or permitted by law.

**Loans**

Major classifications of loans are as follows.

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Commercial .....	\$14,634	\$11,823
Construction .....	4,200	4,223
Mortgage .....	10,346	10,482
Installment .....	22,222	19,889
	51,402	46,417
Unearned discount .....	(1,986)	(1,822)
	49,416	44,595
Allowance for loan losses .....	(830)	(823)
Loans, net .....	<u>\$48,586</u>	<u>\$43,772</u>

Loans on which the accrual of interest has been discontinued or reduced amounted to \$373 and \$596 at December 31, 19X2 and 19X1, respectively. If interest on those loans had been accrued, such income would have approximated \$37 and \$59 for 19X2 and 19X1, respectively. Interest income on those loans, which is recorded only when received, amounted to \$9 and \$18 for 19X2 and 19X1, respectively.

Changes in the allowance for loan losses were as follows.

	<i>Year Ended December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Balance, beginning of year .....	\$ 823	\$ 819
Provision charged to operations .....	60	68
Loans charged off .....	(80)	(103)
Recoveries .....	27	39
Balance, end of year .....	<u>\$ 830</u>	<u>\$ 823</u>

### Investment in Leveraged Leases

Leveraged leases of equipment to customers comprise the following.

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Gross rents receivable .....	\$ 4,248	\$ 2,760
Nonrecourse debt .....	(1,219)	(785)
Net rentals receivable .....	3,029	1,975
Estimated residual value .....	222	115
Unearned income .....	(1,354)	(977)
Investment in leveraged leases .....	<u>\$ 1,897</u>	<u>\$ 1,113</u>

Income on leveraged leases of \$223 for 19X2 and \$122 for 19X1 is included in interest and fees on loans.

### Office Buildings, Equipment, and Leasehold Improvements

Major classifications of these assets are summarized as follows.

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Land .....	\$ 535	\$ 526
Buildings .....	1,417	1,144
Equipment .....	691	596
Leasehold improvements .....	112	125
	2,755	2,391
Accumulated depreciation and amortization .....	(611)	(513)
	<u>\$ 2,144</u>	<u>\$ 1,878</u>

Depreciation and amortization expense amounted to \$173 in 19X2 and \$162 in 19X1.

**Income Taxes**

The total income taxes in the statements of income are as follows.

	<u>Year Ended December 31,</u>	
	<u>19X2</u>	<u>19X1</u>
Currently payable		
Federal .....	\$ 20	\$ (105)
State .....	36	25
Deferred		
Federal .....	85	100
State .....	5	13
	<u>\$ 146</u>	<u>\$ 33</u>

Accumulated deferred income taxes of \$1,102 and \$1,012 at December 31, 19X2 and 19X1, respectively, are included in accrued interest and other liabilities.

Deferred income taxes according to the temporary differences which caused them were as follows.

	<u>Year Ended December 31,</u>	
	<u>19X2</u>	<u>19X1</u>
Income on leases recognized under the finance method for financial statement purposes but recognized under the operating method for income tax purposes .....	\$ 73	\$ 22
Excess of provision for loan losses over deduction for federal income tax purposes .....	(3)	(2)
Accretion of discount on investment securities .....	6	78
Accelerated depreciation .....	10	10
Other .....	4	5
	<u>\$ 90</u>	<u>\$ 113</u>

The principal reasons for the difference in the effective tax rate and the federal statutory rate are as follows.

	<u>Year Ended December 31,</u>	
	<u>19X2</u>	<u>19X1</u>
Statutory Federal income tax rate .....	40.0%	46.0%
Effect on rate of:		
Tax-exempt securities .....	(24.7)	(25.6)
Tax-exempt loan income .....	(7.7)	(8.4)
Lease financing transactions .....	(2.0)	(9.0)
State and local taxes .....	3.0	3.0
Other .....	.6	(3.6)
Tax rate based on reported income .....	<u>9.2%</u>	<u>2.4%</u>

**Commitments and Contingencies**

Minimum lease payments at December 31, 19X2, under net noncancelable real property operating lease commitments for succeeding years are: \$14,393 in 19X3; \$13,539 in 19X4; \$12,127 in 19X5; \$10,933 in 19X6; \$9,311 in 19X7 and \$57,064 thereafter. Operating expenses include equipment and occupancy rentals of \$21,146 in 19X2, and \$18,658 in 19X1.

In the normal course of business, there are various commitments and contingent liabilities (such as guarantees, commitments to extend credit, letters of credit, lines of credit and liability for assets held in trust) which are properly not recorded in the financial statements. In the opinion of management, these do not represent unusual risks.

The following table summarizes the Bank's significant commitments and contingent liabilities at December 31, 19X2 and 19X1:

	<u>19X2</u>	<u>19X1</u>
Commitments to extend credit .....	\$5,497	\$3,958
Standby letters of credit and similar arrangements .....	618	452
Other letters of credit .....	96	71

Standby letters of credit and similar arrangements guaranteeing the debt of municipalities and other entities in the event of default of principal and interest payments amounted to \$73 and \$74 (included in the table above) at December 31, 19X2 and 19X1, respectively.

The Bank is also subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Bank in connection with such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Bank.

#### **Funds Available for Dividends**

The Bank is restricted under applicable laws in the payment of cash dividends. Such laws generally restrict cash dividend payments for the year 19X3 to the extent of the Bank's earnings for 19X3 plus \$4,406 of available earnings from prior years.

#### **Loans to Related Parties**

Loans to related parties include loans made to directors, executive officers and their associates, as defined.

The aggregate dollar amount of these loans was \$964 and \$1,462 at December 31, 19X2 and 19X1, respectively. During 19X2, \$377 of new loans were made and repayments totaled \$875.

#### **Subordinated Debentures**

Subordinated debentures consist of 8 percent notes due June 1, 19X5. The notes are subordinated to all other indebtedness of the bank, and they may be prepaid, in whole or part, at a premium of 1.833 percent to May 1, 19X3, and at reducing premiums thereafter. The terms also restrict incurrence of debt, mergers, and payment of cash dividends. As of December 31, 19X2, none of the restrictions effectively limit the bank's operations.

**Pension Plan**

Pension costs were \$39 in 19X2 and \$27 in 19X1. The plan's funded status at December 31, 19X2 follows.

Projected benefits obligation:	
Vested benefits . . . . .	\$ 960
Nonvested benefits . . . . .	58
Accumulated benefit obligation . . . . .	1,018
Effect of projected future compensation levels . . . . .	450
Projected benefit obligation . . . . .	<u>1,468</u>
Plan's assets at fair value, primarily stocks and bonds . . . . .	<u>1,918</u>
Funded status-plan assets in excess of projected benefit obligation . . . . .	<u>\$ 450</u>
Comprised of:	
Unrecognized net gains . . . . .	210
Unrecognized net assets being recognized over 15 years . . . . .	401
Less accrued pension liability on balance sheet . . . . .	(161)
	<u>\$ 450</u>

The weighted average discount rate and the average assumed rate of compensation increase used in determining the present value of the projected benefit obligations were 8.5% and 6.0% respectively. The expected long-term rate of return on assets was 9.0%.

Net pension cost for 19X2 using a discount rate of 8.25%, an average assumed rate of compensation increases of 6%, and an expected long-term rate of return on assets of 9%, included the following components:

	<u>19X2</u>
Service cost-benefits earned during year . . . . .	\$16
Interest cost on projected benefit obligation . . . . .	11
Actual return on plan assets . . . . .	(6)
Net amortization and deferral . . . . .	18
Net periodic pension cost . . . . .	<u>\$39</u>

The actuarial present value of accumulated benefits as of the pension plan year end was \$85, including vested benefits of \$77 based on an interest rate assumption of 9.0%.

In addition to pension benefits, retired employees are also provided with certain health care and life insurance benefits. Health care and life insurance benefits are made available to all active employees. The costs of these benefits are accrued based upon actuarial evaluations and are paid as premiums and claims are submitted. The total cost of such benefits for 19X2 was \$13, which included coverage for 980 active employees and 141 retired employees. For 19X1, total costs were \$12, which included coverage for 970 active employees and 111 retired employees.



# **FSP Section 7000**

## **DISCLOSURE SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR REAL ESTATE VENTURES**

**.01** The checklist and illustrative financial statements included in this booklet have been developed as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist and illustrative financial statements are to be used in conjunction with the "Disclosure Checklists and Illustrative Financial Statements for Corporations," and have been updated to include relevant FASB Statements, Accounting Principles Board Opinions and AICPA Statements of Position. In addition, suggested guidance has been provided from various accounting textbooks where no specific authoritative literature exists. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. To determine the applicability of a pronouncement, its effective date should be considered.
- The checklist and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklist and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

**.02** Users of this checklist 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.

---

[The next page is 7101.]

# FSP Section 7100

## *Introduction*

**.01** Real Estate joint ventures are entities organized to accomplish a business purpose for the benefit of the members of the group. They are formed in a variety of legal ways. There are corporate joint ventures, partnerships (general or limited) and undivided interests.

**.02** Real Estate joint ventures ordinarily are formed to accomplish various activities such as the sale of homes and homesites, to complete development of commercial or residential real estate, or to operate and maintain those facilities.

**.03** An AICPA Issues Paper (Issues Paper), "Joint Venture Accounting," dated July 17, 1979, describes certain characteristics common to joint ventures: The entities are "(1) owned, operated, and jointly controlled by a small group as a separate and specific business project; (2) operated for the mutual benefit of the ownership group; (3) frequently organized to share risks and rewards in developing a new market, product, or technology by pooling resources and facilities; (4) operated under arrangements by which each venturer may participate in overall management regardless of the percentage of ownership; (5) usually of limited duration; (6) usually operated as an extension of the business or investment of one or more of the venturers; and (7) owned by a small number of venturers." In addition to real estate activities, joint ventures are used to explore for oil and gas, and construct and operate manufacturing facilities.

### **Accounting Literature**

**.04** The accounting literature has given little attention to the accounting by a joint venture. Most literature in this area deals with the accounting by the investor for an investment in a joint venture. For example, the Issues Paper and its addendum issued on October 8, 1979, the AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," and FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise," all deal primarily with the accounting and disclosure by an investor in a joint venture or investee.

### **Current Developments**

**.05** The FASB has on its agenda a project that will consider, among other things, the accounting for a reporting entity's investment in other entities that do not qualify for consolidation (e.g., accounting for investments in joint venture entities), and a reconsideration of APB Opinion No. 18. In the initial stages of the project, the Board has focused on the application of the equity method to investments in two types of joint ventures: (a) investments in jointly controlled entities and (b) participations in joint operations, commonly referred to as undivided interests in ventures. The Board has tentatively agreed that in participations in undivided interests in ventures, each joint venturer should account for its own assets, liabilities, revenues, and expenses. That also appears to be characteristic of present practice.

### **Financial Statements**

**.06** The financial statements accompanying the disclosure checklist illustrate how a joint venture entity would report its financial condition, results of operations, and cash flows.

**.07** Please note that the equity section of those joint venture financial statements presents separately the ownership interest of each venturer based on his equity interest in the joint venture. If the joint venture is a corporation, the equity section would show the equity interest of each corporation. If the joint venture is a partnership, the equity section would be entitled "Partner's Capital," and would list the equity interest of each partner.

---

[The next page is 7201.]

# FSP Section 7200

## Disclosure Supplement for Real Estate Ventures

.01 This checklist has been developed as a nonauthoritative practice aid, and is to be used in conjunction with the "Disclosure Checklists for Corporations." Accordingly, the notice on page 7001 is incorporated herein by reference.

**.02 Explanation of references:**

- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- (AC) = Reference to section number in *FASB Accounting Standards Current Text*
- SOP = AICPA Statement of Position
- AT = Suggested guidance from various accounting textbooks

**.03 Checklist Questionnaire**

### Financial Statements and Notes Checklist for Real Estate Ventures

Note: This checklist is to be used in conjunction with section 2000 of the "Disclosure Checklist for Corporations."

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Disclosure of Accounting Policies</b>			
1. Has treatment of the following items been considered for disclosure:			
—preacquisition costs	_____	_____	_____
—interest, property taxes and insurance	_____	_____	_____
—indirect property costs	_____	_____	_____
—amenities	_____	_____	_____
—incidental operations [SFAS 67, pars. 4—10 (AC Re2.104—.110); AT]	_____	_____	_____
2. Has the method of allocating capitalized costs to components of real estate projects been considered for disclosure? [SFAS 67, par. 11 (AC Re2.111); AT]	_____	_____	_____
3. Disclosure of method of revenue recognition			
a) If more than one method is used, is a description of the circumstances under which each method is used provided?	_____	_____	_____
b) If the percentage-of-completion method is used for condominium projects or time-sharing interests, have the minimum requirements for units sold and project costs incurred before profit is recognized been considered for disclosure? [APB 22, par. 12 (AC A10.105); SFAS 66, par. 37 (AC Re1.137); AT]	_____	_____	_____
4. Is the method of reporting investments in joint ventures disclosed?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SOP 78-9, par. 12; APB 18, par. 20 (AC I82.110); APB, 22, par. 12 (AC A10.105)]			
5. Has the nature of significant differences between tax expense attributable to continuing operations and the amount of income tax expense resulting from applying the domestic federal statutory rates to pretax income from continuing operations been disclosed? [SFAS 96, par. 28 (AC I25.127)]	_____	_____	_____
6. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, pars. 12—13 (AC A10.105—.106)]	_____	_____	_____
<b>B. Accounting Changes</b>			
1. Are significant revisions in estimates of the percentage-of-completion disclosed if the effects are material? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
2. If a retail land sale that has been accounted for by the installment method subsequently qualifies and is accounted for by the percentage-of-completion method, has the effect been accounted for as a change in accounting estimate and the effect on income before extraordinary items, net income and related per share amounts of the current period disclosed? [APB 20, par. 33 (AC A06.132); SFAS 66, par. 49 (AC Re1. 149)]	_____	_____	_____
3. If a sale, other than a retail land sale, which is accounted for using the installment or cost recovery methods subsequently qualifies and is changed to the full accrual method, is this change disclosed? [APB 22, par. 12 (AC A10.105); SFAS 66, par. 61 and 64 (AC Re1.159 and .162)]	_____	_____	_____
<b>C. Contingencies and Commitments</b>			
1. Have the following disclosures regarding improvements for retail land sales operations been made:			
a) Estimated total costs and estimated dates of expenditures for improvements for major areas from which sales are being made over each of the five years following the date of the financial statements?	_____	_____	_____
b) Recorded obligations for improvements? [SFAS 66, par. 50 (AC Re1.150)]	_____	_____	_____
2. Are other significant commitments disclosed such as commitments to purchase or construct real estate or provide financing to affiliates? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
<b>D. Segment Reporting</b>			
(Note: Segment reporting is not required for nonpublic enterprises. [SFAS 21, par. 15 (AC S20.101)]			
● See SFAS 24, par. 5 (AC S20.109—.110) for other circumstances where this section may not be applicable)			
1. Have the following disclosures been presented for each of an enterprise's reportable segments and in the aggregate for the remainder of the enterprise's industry segments not deemed reportable segments:			
a) Sales to unaffiliated customers and sales or transfers to other industry segments of the enterprise?	_____	_____	_____
● The basis of accounting for intersegment sales or transfers?	_____	_____	_____
● If the basis of accounting for intersegment sales or transfers is changed, disclosure of the change and its effect on the reportable segments' operating profit or loss in the period of change?	_____	_____	_____
b) Operating profit or loss?	_____	_____	_____
● An explanation of the nature and amount of any unusual or infrequently occurring items reported in its income statement that have been added or deducted in computing the operating profit or loss of a reportable segment?	_____	_____	_____

	Yes	No	N/A
● If the methods used to allocate operating expenses among industry segments in computing operating profit or loss are changed, the nature of the change and its effect on the reportable segments' operating profit or loss in the period of change?	_____	_____	_____
● If an enterprise chooses to disclose some other measure of profitability for some or all of its segments in addition to operating profit or loss, the nature and amount of each category of revenue or expense that was added or deducted and the methods of allocation?	_____	_____	_____
● If the methods used above are changed, the nature and effect of the change in the period of change?	_____	_____	_____
c) The aggregate carrying amount of identifiable assets?	_____	_____	_____
d) The aggregate amount of depreciation, depletion and amortization expense?	_____	_____	_____
e) Capital expenditures?	_____	_____	_____
f) The enterprise's equity in the net income from and investment in the net assets of unconsolidated subsidiaries and other equity method investees whose operations are vertically integrated with the operation of that segment? The geographic areas in which those vertically integrated equity method investees operate?	_____	_____	_____
g) The effect on operating profit of a change in an accounting principle in the period in which the change is made? [SFAS 14, pars. 22—27 (AC S20.128—.133)]	_____	_____	_____
2. Have the following disclosures been presented for an enterprise's foreign operations and for its domestic operations as appropriate, if applicable?			
a) Revenue with sales to unaffiliated customers and sales or transfers between geographic areas shown separately?	_____	_____	_____
● The basis of accounting for intraenterprise sales or transfers?	_____	_____	_____
● If the basis of accounting for intraenterprise sales or transfers is changed, the nature of the change and its effect in the period of change?	_____	_____	_____
b) Operating profit or loss or net income or some other measure of profitability between operating profit or loss and net income?	_____	_____	_____
c) Identifiable assets? [SFAS 14, par. 35 (AC S20.141)]	_____	_____	_____
3. If the amount of export sales from an enterprise's home country to unaffiliated customers in foreign countries is 10 percent or more of total revenue from sales to unaffiliated customers as reported in the enterprise's consolidated income statement, is that amount separately reported, in the aggregate and by such geographic areas as are considered appropriate in the circumstances? [SFAS 14, par. 36 (AC S20.142)]	_____	_____	_____
4. Have the geographic areas been identified into which an enterprise's foreign operations have been disaggregated? [SFAS 14, par. 37 (AC S20.143)]	_____	_____	_____
5. Has the information about revenue, profitability and identifiable assets required to be presented for foreign operations been reconciled to related amounts in the financial statements of the enterprise as a whole? [SFAS 14, par. 38 (AC S20.144)]	_____	_____	_____
6. If 10 percent or more of the revenue of an enterprise is derived from sales to any single customer, has that fact and the amount of revenue from each such customer been disclosed? [SFAS 30, par. 6 (AC S20.145)]	_____	_____	_____
<b>E. Other Matters</b>			
1. If the installment method of profit recognition is used, have the following items been disclosed?			
a) The sales value, unrecognized gross profit and total cost of the sale in the income statement or related footnotes for the period including the date of sale?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b) The revenue and cost of sales presented as separate items in the income statement or related footnotes when profit is recognized as earned? [SFAS 66, par. 59 (AC Re1.157)]	_____	_____	_____
2. If the cost recovery method of profit recognition is used, have the following items been disclosed?	_____	_____	_____
a) The sales value, unrecognized gross profit and total cost of the sale in the income statement for the period including the date of sale?	_____	_____	_____
b) Has the unrecognized gross profit been offset against the related receivable on the balance sheet?	_____	_____	_____
c) Has the gross profit been presented as a separate item of revenue on the income statement when it is recognized as earned? [SFAS 66, par. 63 (AC Re1.161)]	_____	_____	_____
3. If the deposit method of profit recognition is used, is disclosure made that the property and related existing debt are subject to a sale contract? [SFAS 66, par. 65 (AC Re1.163)]	_____	_____	_____

**Balance Sheet**

**A. General**

1. Has an unclassified balance sheet been considered where it is not possible to clearly define the operating cycle and classification of current assets and liabilities on the basis of the one-year rule in ARB 43, chapter 3A, paragraph 5? [AT—Not required.]	_____	_____	_____
2. Are real estate assets grouped in a manner that discloses the company's operations? The following are examples of classifications to consider:	_____	_____	_____
● Unimproved land	_____	_____	_____
● Land under development	_____	_____	_____
● Residential lots	_____	_____	_____
● Condominiums	_____	_____	_____
● Single-family dwellings	_____	_____	_____
● Rental properties	_____	_____	_____
● Commercial and industrial properties [AT—Not required.]	_____	_____	_____

**B. Receivables**

Are the following disclosures regarding accounts receivable of enterprises with retail land sales operations disclosed?

a. Maturities of accounts receivable for each of the five years following the date of the financial statements?	_____	_____	_____
b. Delinquent accounts receivable and the method(s) for determining delinquency?	_____	_____	_____
c. The weighted average and range of stated interest rates of receivables? [SFAS 66, par. 50 (AC Re1.150)]	_____	_____	_____

**C. Investments**

1. For investments in real estate ventures accounted for under the equity method, are the following items disclosed?	_____	_____	_____
a) The name of each joint venture and percentage of ownership?	_____	_____	_____
b) The accounting policies of the investor with respect to investments in joint ventures?	_____	_____	_____
c) The difference, if any, between the amount at which an investment is carried and the amount of underlying equity in the investee's net assets and the accounting treatment of the difference?	_____	_____	_____

	Yes	No	N/A
d) For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)	_____	_____	_____
e) If investments in unconsolidated subsidiaries are, in the aggregate, material in relation to financial position or results of operations, summarized information as to assets, liabilities, and results of operations for such subsidiaries (in the notes or in separate statements), either individually or in groups, as appropriate?	_____	_____	_____
f) If investments in joint ventures are in the aggregate, material in relation to the financial position or results of operations, summarized information as to assets, liabilities and results of operations of the investees (in the notes or in separate statements), either individually or in groups, as appropriate?	_____	_____	_____
g) Material effects of possible conversions, exercises, and other contingent issuances of an investee on the investor's share of reported earnings or loss if conversion of outstanding convertible securities, exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on an investor's share of reported earnings?	_____	_____	_____
h) The names of any significant investments in which the investor holds less than 20 percent of the voting stock and the investment is accounted for on the equity method together with reasons why the equity method is considered appropriate? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
2. Are the following items relating to investments in real estate ventures accounted for under the cost method disclosed?	_____	_____	_____
a) The accounting policies of the investor with respect to investments in joint ventures? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
b) The amount of dividends or distributions received in the current period? [AT—Not required.]	_____	_____	_____
c) The names of any significant investments in which the investor holds 20 percent or more of the voting stock and the investment is not accounted for on the equity method, together with reasons why the equity method is not considered appropriate? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. Are the following items relating to investments in real estate ventures accounted for under the proportionate consolidation method disclosed?	_____	_____	_____
a) The accounting policies of the investor with respect to investment in joint ventures? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
b) If investments in joint ventures are, in the aggregate, material in relation to the financial position or results of operations of the investor, summarized information as to assets, liabilities and results of operations of the investees (in the notes or in separate statements), either individually or in groups, as appropriate? [AT—Not required.]	_____	_____	_____
<b>D. Properties</b>			
1. Is the amount by which the carrying amount of a real estate project, or part thereof, held for sale or development and sale exceeds net realizable value disclosed? [SFAS 67, par. 24 (AC Re2.124)]	_____	_____	_____
2. Has the method of determining net realizable value been considered for disclosure? [AT—Not required.]	_____	_____	_____

**Income Statement**

<u>Yes</u>	<u>No</u>	<u>N/A</u>
------------	-----------	------------

**A. General**

Have revenue and cost of operations been classified by principal type of activity? The following are examples of classifications to consider:

- Unimproved land
- Land under development
- Residential lots
- Condominiums
- Single-family dwellings
- Rental properties
- Commercial and industrial properties  
[AT—Not required.]

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

\_\_\_\_\_



# **FSP Section 7300**

## ***Illustrative Financial Statements***

**.01**

### **Illustrative Independent Auditor's Report**

We have audited the accompanying balance sheets of Real Estate Joint Venture Company as of December 31, 19X1 and 19X0, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture Company as at December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

**[Signature]**

**[February 15, 19X2]**

## Real Estate Joint Venture Company

## Illustrative Balance Sheets

December 31, 19X0 and 19X1

	December 31, 19X1	December 31, 19X0
<b>Assets</b>		
Fixed assets, at cost .....	\$ XX	\$ XX
Less: accumulated depreciation .....	(XX)	(XX)
Total fixed assets .....	<u>XX</u>	<u>XX</u>
Cash and cash equivalents .....	XX	XX
Accounts receivable .....	XX	XX
Land held for development and sale .....	XX	XX
Supplies .....	XX	XX
Total assets .....	<u>\$ XX</u>	<u>\$ XX</u>
<b>Liabilities and Capital</b>		
Current maturities of long-term debt .....	\$ XX	\$ XX
Accounts payable .....	XX	XX
Accrued expenses .....	XX	XX
Long-term debt, less current maturities:		
Mortgage loans .....	XX	XX
Construction loans .....	XX	XX
Total liabilities .....	<u>\$ XX</u>	<u>\$ XX</u>
Capital:		
ABC Company .....	XX	XX
XYZ Company .....	XX	XX
Total capital .....	<u>\$ XX</u>	<u>\$ XX</u>
Total liabilities and capital .....	<u>\$ XX</u>	<u>\$ XX</u>

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

.03

**Real Estate Joint Venture Company**

**Illustrative Income Statements**

**Years Ended December 31, 19X0 and 19X1**

	<u>Year Ended December 31, 19X1</u>	<u>Year Ended December 31, 19X0</u>
Sales .....	\$ XX	\$ XX
Interest income .....	XX	XX
Total revenue .....	<u>\$ XX</u>	<u>\$ XX</u>
Cost of sales .....	\$ XX	\$ XX
Operating expenses .....	XX	XX
Sales commissions .....	XX	XX
Interest expense .....	XX	XX
Depreciation and amortization .....	XX	XX
Total expenses .....	<u>\$ XX</u>	<u>\$ XX</u>
Net income (loss) .....	<u>\$ XX</u>	<u>\$ XX</u>

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

## Real Estate Joint Venture Company

## Illustrative Statements of Cash Flows

Years Ended December 31, 19X0 and 19X1

## Increase (Decrease) in Cash and Cash Equivalents

	<i>Year Ended December 31, 19X1</i>	<i>Year Ended December 31, 19X0</i>
<b>Cash flows from operating activities:</b>		
Cash received from operating activities .....	\$ XX	\$ XX
Cash paid for operating activities .....	(XX)	(XX)
Interest received .....	XX	XX
Interest paid .....	(XX)	(XX)
Net cash provided by operating activities .....	<u>\$ XX</u>	<u>\$ XX</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures .....	\$(XX)	\$(XX)
Purchase of equipment .....	(XX)	(XX)
Net cash used in investing activities .....	<u>\$(XX)</u>	<u>\$(XX)</u>
<b>Cash flows from financing activities:</b>		
Net borrowings .....	\$ XX	\$ XX
Principal debt payments .....	(XX)	(XX)
Net cash provided by financing activities .....	<u>\$ XX</u>	<u>\$ XX</u>
Net increase in cash and cash equivalents .....	<u>\$ XX</u>	<u>\$ XX</u>
Cash and cash equivalents at beginning of year .....	XX	XX
Cash and cash equivalents at end of year .....	<u><u>\$ XX</u></u>	<u><u>\$ XX</u></u>
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income .....	\$ XX	\$ XX
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation .....	XX	XX
Provision for losses on accounts receivable .....	XX	XX
Increase in liabilities .....	XX	XX
Total adjustments .....	<u>\$ XX</u>	<u>\$ XX</u>
Net cash provided by operating activities .....	<u><u>\$ XX</u></u>	<u><u>\$ XX</u></u>

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

.05

Illustrative Notes to Financial Statements of

Real Estate Joint Venture Company

(1) The Company

In 19X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company ("Joint Venture"). The joint venture was formed to sell homes and homesites, to complete development, and to operate and maintain the facilities.

The joint venture agreement provides that earnings are distributed based on the proportionate share of contributed capital. During 19X1 and 19X0, \$X and \$X, respectively, were distributed to each of the joint venturers.

(2) Significant Accounting Policies

Substantially all sales of real estate are of homesites located in residential areas. Included in joint venture income for the year ended December 31, 19X1, is a gain of \$X on the sale of homesites between the two joint venturers. That gain has been deferred until the ultimate sale of the property to outside parties.

No federal income tax provision is included because each venturer will report in its return its share of the income (loss) of each venture.

Fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

(3) Loans Payable

Mortgage and construction loans payable as of December 31, 19X1, consist of the following:

	<u>Interest rate</u>	<u>Total</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	<u>19X6 or later</u>
Mortgage loans—							
ABC company .....	10 <sup>1</sup> / <sub>2</sub> —12 <sup>1</sup> / <sub>2</sub> %	\$X	\$X	\$X	\$X	\$X	\$X
XYZ company .....	11%	X	X	X	X	X	X
		<u>\$X</u>	<u>\$X</u>	<u>\$X</u>	<u>\$X</u>	<u>\$X</u>	<u>\$X</u>
Construction loans .....	11 <sup>1</sup> / <sub>2</sub> %	X	X	X	X	X	X
		<u>\$X</u>	<u>\$X</u>	<u>\$X</u>	<u>\$X</u>	<u>\$X</u>	<u>\$X</u>

The borrowings are collateralized by certain of the joint venture's real estate, with a carrying value of approximately \$X at December 31, 19X1.

(4) Commitments

As of December 31, 19X1, the Joint Venture had remaining commitments of approximately \$X on construction contracts and was contingently liable for approximately \$X of notes discounted with banks.

(5) Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the company's financial position.

# FSP Section 8000

## DISCLOSURE SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CONSTRUCTION CONTRACTORS

The checklist and illustrative financial statements are *not* designed to be applied to the financial statements of government contractors.

.01 The checklist 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 checklist and illustrative financial statements are to be used in conjunction with the “Disclosure Checklists and Illustrative Financial Statements for Corporations,” and have been updated to include relevant FASB Statements, Accounting Principles Board Opinions, AICPA Statements of Position, and the Audit and Accounting Guide entitled *Construction Contractors*. The checklist 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 checklist 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 checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested, and to what extent the disclosure is relevant to the statements being examined.

.02 Users of the checklist 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.

---

[The next page is 8101.]

# FSP Section 8100

## *Introduction*

.01 The growth in the U.S. economy has produced a variety of uses of construction type contracts and the types of business enterprises that use them.

.02 The organizational structure, resources and capabilities of contractors tend to vary with the type of construction activity.

.03 Common accounting and reporting by contractors include:

- The predominant practice is to present balance sheets with assets and liabilities classified as current and noncurrent on the basis of one year or the operating cycle. An unclassified balance sheet is also acceptable.
  - Billings in excess of costs and estimated earnings are classified as current liabilities.
  - Net debit balances for certain contracts should not be offset against net credit balances of other unrelated contracts.
  - Contractors frequently participate in construction joint ventures, corporations and general and limited partnerships. These may be reported as investments or combined or consolidated in the financial statements.
  - The percentage-of-completion method of contract accounting is preferable, but the completed-contract method is also acceptable.
  - The method of revenue recognition should be disclosed.
  - A provision for losses on a contract should be made as soon as the losses become evident, regardless of the method of accounting for the contract, and reported as a liability or deducted from any related accumulated costs.
  - Contractors are encouraged to present backlog information.
- 

{The next page is 8201.}

# FSP Section 8200

## *Disclosure Supplement for Construction Contractors*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid, and is to be used in conjunction with the "Disclosure Checklists for Corporations."

.02 Explanation of references:

- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- (AC) = Reference to section number in *FASB Accounting Standards Current Text*
- SOP = AICPA Statement of Position
- CC = AICPA Audit and Accounting Guide, *Construction Contractors*

.03 Checklist Questionnaire

Yes      No      N/A

### Financial Statements and Notes Checklist for Construction Contractors

Note: This checklist is to be used in conjunction with Section 2000 of the "Disclosure Checklists for Corporations."

#### General

##### A. Disclosure of Accounting Policies

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Is the method of reporting affiliates disclosed?<br>[CC, Ch. 6, p. 51]  | _____ | _____ | _____ |
| 2. Is the operating cycle disclosed?   | _____ | _____ | _____ |
| ● If the operating cycle exceeds one year, is the range of contract durations disclosed?<br>[CC, Ch. 6, p. 51]   | _____ | _____ | _____ |
| 3. Disclosure of method of revenue recognition:  |       |       |       |
| a) If the percentage-of-completion method is used, is the method of computing percentage of completion (e.g., cost to cost, labor hours) disclosed?  | _____ | _____ | _____ |
| b) If the completed-contract method is used:   |       |       |       |
| (1) Is the basis of selecting that method disclosed?   | _____ | _____ | _____ |
| (2) Are the criteria employed to determine substantial completion disclosed?   | _____ | _____ | _____ |
| c) Where applicable, is the policy with respect to combining or segmenting contracts disclosed?  | _____ | _____ | _____ |
| d) In those instances where the basic accounting policy is percentage-of-completion and the completed-contract method is used for a single contract or group of contracts, because the criteria for the use of percentage-of-completion are not present, is such a departure from the basic policy disclosed?<br>[CC, Ch. 6, pp. 51—52; SOP 81-1, pars. 21, 25, 39—42, 45, and 52] | _____ | _____ | _____ |
| e) The policy for recognition of revenue or deferral of costs related to back charges or claims for additional contract compensation?  | _____ | _____ | _____ |



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f) The policy on revisions in revenue, costs, and profit estimates or in measurements of the extent of progress toward completion (i.e. cumulative catch-up or reallocation)? [CC, Ch. 2, p. 25; SOP 81-1, par. 84]	_____	_____	_____
4. Is the method of reporting investments in joint ventures disclosed? [CC, Ch. 6, p. 52]	_____	_____	_____
5. Is the following contract cost information disclosed:			
a) The aggregate amount included in contract costs representing unapproved change orders, claims, or similar items subject to uncertainty concerning their determination or ultimate realization, plus a description of the nature and status of the principal items comprising such aggregate amounts and the basis on which such items are recorded (for example, cost or realizable value)?	_____	_____	_____
b) The amount of progress payments netted against contract costs at the date of the balance sheet?	_____	_____	_____
c) The types of contract costs?	_____	_____	_____
d) Where there are fees recognized from construction management contracts where the contractor acts solely in the capacity of an agent, has disclosure of the volume of subcontracts and materials contracts entered into been considered in the notes to the financial statements?	_____	_____	_____
e) Where there is a provision for loss on a contract and it is material in amount or unusual or infrequent in nature, is the loss shown separately as a component of cost included in the computation of gross profit? [CC, Ch. 6, p. 52; SOP 81-1, pars. 65—66, 69—72, and 88]	_____	_____	_____
6. For costs deferred either in anticipation of future sales (precontract costs) or as a result of an unapproved change order, are the policy of deferral and the amounts involved disclosed? [CC, Ch. 6, p. 52]	_____	_____	_____
<b>B. Accounting Changes</b>			
● Are significant revisions in estimates of the percentage of completion disclosed if the effects are material? [CC, Ch. 6, p. 52; SOP 81-1, pars. 82—84; APB 20, par. 33 (AC A06.132)]	_____	_____	_____
<b>C. Related Party Transactions and Economic Dependency</b>			
1. If there are affiliated members of a group under common control whose operations are closely interrelated and economically interdependent, are combined financial statements presented, unless consolidated financial statements are appropriate under Accounting Research Bulletin 51 and SFAS 94? [CC, Ch. 4, p. 38]	_____	_____	_____
2. If combined financial statements are presented, is the following information disclosed:			
a) A statement to the effect that the statements are not those of a separate legal entity?	_____	_____	_____
b) The names and year-ends of the major entities included in the combined group?	_____	_____	_____
c) The nature of the relationship between the companies?	_____	_____	_____
d) The capital of each entity, either in detail by entity if the number of entities is small or, if detailed disclosure is not practicable, in condensed form with an explanation as to how the information was accumulated? [CC, Ch. 4, p. 38]	_____	_____	_____
<b>D. Contingencies and Commitments</b>			
1. Disclosure of backlog information is encouraged:			
a) Is backlog information for signed contracts on hand whose cancellations are not anticipated, disclosed?	_____	_____	_____
b) Is backlog information for letters of intent disclosed?	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| c) If so, is it reported separately from (a) above?<br>[CC, Ch. 6, pp. 52—53]                      | _____      | _____     | _____      |
| 2. Have state statutes affecting construction contractors been considered?<br>[CC, Ch. 11, p. 100] | _____      | _____     | _____      |

**Balance Sheet**

**A. General**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Was a classified balance sheet considered if the operating cycle is one year or less?<br>[CC, Ch. 6, p. 45]   | _____ | _____ | _____ |
| 2. If the operating cycle exceeds one year an unclassified balance sheet is preferable. However, if in management's opinion an unclassified balance sheet would not result in a meaningful presentation, are the following contract-related items generally classified as current under the operating cycle concept: |       |       |       |
| a) Contract-related assets:  |       |       |       |
| (1) Accounts receivable on contracts (including retentions)?   | _____ | _____ | _____ |
| (2) Unbilled contract receivables?   | _____ | _____ | _____ |
| (3) Cost in excess of billings and estimated earnings?   | _____ | _____ | _____ |
| (4) Other deferred contract costs?   | _____ | _____ | _____ |
| (5) Equipment and small tools specifically purchased for, or expected to be used solely on, an individual contract?  | _____ | _____ | _____ |
| b) Contract-related liabilities:   |       |       |       |
| (1) Accounts payable on contracts (including retentions)?  | _____ | _____ | _____ |
| (2) Accrued contract costs?  | _____ | _____ | _____ |
| (3) Billings in excess of cost and, if using the completed contract method, estimated earnings?  | _____ | _____ | _____ |
| (4) Deferred taxes resulting from the use of a method of income recognition for tax purposes different from the method used for financial reporting purposes?  | _____ | _____ | _____ |
| (5) Advanced payments on contracts for mobilization or other purposes?   | _____ | _____ | _____ |
| (6) Obligations for equipment specifically purchased for, or expected to be used solely on, an individual contract regardless of the payment terms of the obligations?   | _____ | _____ | _____ |
| (7) Provisions for losses on contracts (except in circumstances in which related costs are accumulated on the balance sheet, in which case the provision may be deducted from the related accumulated costs)?<br>[CC, Ch. 6, pp. 45—48; SOP 81-1, par. 89]   | _____ | _____ | _____ |

**B. Receivables**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are the nature and status of billed or unbilled amounts included in receivables representing unapproved change orders, claims, or similar items subject to uncertainty disclosed, including amounts to be collected after one year?<br>[CC, Ch. 6, p. 53; SOP 81-1, par. 65]  | _____ | _____ | _____ |
| 2. Are amounts in receivables representing the recognized sales value of performance under contracts in which the amounts have not been billed and are not billable to customers at the balance sheet date disclosed with a general description of the prerequisite for billing? | _____ | _____ | _____ |
| ● Are the amounts to be collected after one year disclosed?<br>[CC, Ch. 6, p. 53]  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If it is not probable that a claim will result in additional contract revenue or if the amount cannot be reliably estimated, is disclosure of a contingent asset considered? (When disclosing contingencies that may result in gains, care should be exercised to avoid misleading implications concerning the likelihood of realization.) [CC, Ch. 6, p. 53; SOP 81-1, par. 67; SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
4. If revenue from claims are recorded only when the amounts have been received or awarded, is the aggregated amount of such claims disclosed? [SOP 81-1, par. 66]	_____	_____	_____
5. If receivables include amounts maturing after one year, are the following disclosed:			
a) The amounts maturing after one year and, if practicable, the amounts maturing in each year?	_____	_____	_____
b) Interest rates on major receivable items, or on classes of receivables, maturing after one year or an indication of the average interest rate or the range of rates on all receivables? [CC, Ch. 6, pp. 53—54]	_____	_____	_____
6. If receivables include amounts representing balances billed but not yet paid by customers under retainage provisions, is disclosure made of the amounts included, the amounts expected to be collected after one year and, if practicable, the years in which the amounts are expected to be collected? [CC, Ch. 6, p. 54]	_____	_____	_____
7. Is retentions receivable not due within the company's operating cycle classified as noncurrent in a classified balance sheet? [CC, Ch. 6, p. 48]	_____	_____	_____
<b>C. Investments</b>			
1. Are the following disclosures relating to significant joint ventures considered:			
a) The name of each joint venture, the percentage of ownership, and any important provisions of the joint venture agreement?	_____	_____	_____
b) If the joint venture's financial statements are not fully consolidated with those of the venturer, separate or combined financial statements of the ventures in summary form, including disclosure of accounting principles of the ventures that differ significantly from those of the venturer?	_____	_____	_____
c) Intercompany transactions during the period and the basis of intercompany billings and charges?	_____	_____	_____
d) Liabilities and contingent liabilities arising from the joint venture arrangement? [CC, Ch. 3, p. 36]	_____	_____	_____
2. Is an investment in a joint venture which is presented on the cost or equity method classified as noncurrent unless the venture is expected to be completed and liquidated during the current operating cycle? [CC, Ch. 6, p. 48]	_____	_____	_____
3. Are losses in excess of an investment in a joint venture presented as a liability? [CC, Ch. 6, p. 49]	_____	_____	_____
<b>D. Property and Equipment</b>			
● Is equipment acquired for a specific contract that will be used only on that contract and will be consumed during the life of the contract or disposed of at the conclusion of the contract classified as a contract cost? [CC, Ch. 6, p. 49]	_____	_____	_____
<b>E. Current Liabilities</b>			
1. Are the following disclosures made for billings in excess of cost and estimated earnings:			

**Disclosure Supplement for Construction Contractors**

**8205**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a) If costs exceed billings on some contracts, and billings exceed costs on others, are the contracts segregated so that figures on the asset side include only those on which costs exceed billings, and those on the liability side include only those on which billings exceed costs?	_____	_____	_____
b) Are billings and related costs presented separately either by short extension of the amounts on the balance sheet or in the notes to the financial statements?	_____	_____	_____
c) Are billings in excess of costs and estimated earnings classified as a current liability, except to the extent billings exceed total estimated costs at completion of the contract plus contract profits earned to date, in which case are they classified as deferred income? [CC, Ch. 6, pp. 49—51]	_____	_____	_____
<b>F. Other Liabilities and Deferred Credits</b>			
● Is retentions payable not due within the company's operating cycle classified as noncurrent in a classified balance sheet? [CC, Ch. 6, p. 48]	_____	_____	_____

[The next page is 8301.]

# FSP Section 8300

## *Supplemental Disclosures for Construction Contractors*

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>.01</b> Has the following supplementary information been considered by contractors using the percentage-of-completion method:			
a) Earnings from contracts?	_____	_____	_____
b) Contracts completed?	_____	_____	_____
c) Contracts in progress? [CC, App. 7, pp. 196—198]	_____	_____	_____

# FSP Section 8400

## *Illustrative Financial Statements*

(The following report of the independent CPA and financial statements illustrates one form of currently acceptable practice. The CPA should be guided by existing auditing standards concerning the report. Other forms of financial statements are acceptable. More or less detail should appear in the financial statements or in the notes depending on the circumstances.)

### .01 **Illustrative Independent Auditor's Report**

#### **Independent Auditor's Report**

To the Board of Directors and Stockholders

Percentage Contractors, Inc.

We have audited the accompanying consolidated balance sheets of Percentage Contractors, Inc. as of December 31, 19X8 and 19X7, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Percentage Contractors, Inc. as of December 31, 19X8 and 19X7, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[City, State]

[Date]

## Percentage Contractors, Inc.

## Illustrative Consolidated Balance Sheets

December 31, 19X8 and 19X7

Assets	19X8	19X7
Cash .....	\$ 264,100	\$ 221,300
Certificates of deposit .....	40,300	
Contract receivables .....	3,789,200	3,334,100
Costs and estimated earnings in excess of billings on uncompleted contracts .....	80,200	100,600
Inventory, at lower of cost, on a first-in, first-out basis, or market .....	89,700	99,100
Prepaid charges and other assets .....	118,400	83,200
Advances to and equity in joint venture .....	205,600	130,700
Note receivable, related company .....	175,000	150,000
Property and equipment, net of accumulated depreciation and amortization .....	976,400	1,019,200
	\$5,738,900	\$5,138,200
 <b>Liabilities and Shareholders' Equity</b>		
Notes payable .....	\$ 468,100	\$ 578,400
Lease obligations payable .....	197,600	251,300
Accounts payable .....	2,543,100	2,588,500
Billings in excess of costs and estimated earnings on uncompleted contracts .....	242,000	221,700
Accrued income taxes payable .....	52,000	78,600
Other accrued liabilities .....	36,600	36,000
Due to consolidated joint venture minority interests .....	154,200	26,200
Deferred income taxes .....	619,200	408,000
	4,312,800	4,188,700
Contingent liability		
Shareholders' equity		
Common stock—\$1 par value, 500,000 authorized shares, 300,000 issued and outstanding shares .....	300,000	300,000
Retained earnings .....	1,126,100	649,500
Total shareholders' equity .....	1,426,100	949,500
	\$5,738,900	\$5,138,200

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

.03

## Percentage Contractors, Inc.

## Illustrative Consolidated Statements of Income and Retained Earnings

Years Ended December 31, 19X8 and 19X7

	19X8	19X7
Contract revenues earned .....	\$22,554,100	\$16,225,400
Cost of revenues earned .....	20,359,400	14,951,300
Gross profit .....	2,194,700	1,274,100
Selling, general, and administrative expense .....	895,600	755,600
Income from operations .....	1,299,100	518,500
Other income (expense)		
Equity in earnings from unconsolidated joint venture .....	49,900	5,700
Gain on sale of equipment .....	10,000	2,000
Interest expense (net of interest income of \$8,800 in 19X8 and \$6,300 in 19X7) .....	(69,500)	(70,800)
	(9,600)	(63,100)
Income before taxes .....	1,289,500	455,400
Provision for income taxes .....	662,900	225,000
Net income (per share, \$2.09 (19X8); \$.77 (19X7)) .....	626,600	230,400
Retained earnings, beginning of year .....	649,500	569,100
	1,276,100	799,500
Less: Dividends paid (per share, \$.50 (19X8); \$.50 (19X7)) .....	150,000	150,000
Retained earnings, end of year .....	\$ 1,126,100	\$ 649,500

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



**Illustrative Consolidated Statements of Cash Flows (Indirect Method)**

**For The Years Ended December 31, 19X8 and 19X7**

**Increase (Decrease) in Cash and Cash Equivalents**

	<u>19X8</u>	<u>19X7</u>
Cash flows from operating activities		
Net income .....	\$ 626,600	\$ 230,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	167,800	153,500
Gain on sale of equipment .....	(10,000)	(2,000)
Increase (decrease) in income taxes .....	184,600	(78,300)
Increase in joint venture minority interest .....	128,000	26,200
Equity in earnings from unconsolidated joint venture .....	(49,900)	(5,700)
Increase in contract receivable .....	(455,100)	(9,100)
Net increase in billings related to costs and estimated earnings on uncompleted contracts .....	40,700	10,500
Decrease (increase) in inventory .....	9,400	(3,600)
Decrease (increase) in prepaid charges and other assets .....	(35,200)	16,100
Increase (decrease) in accounts payable .....	(45,400)	113,200
Increase in other accrued liabilities .....	600	21,200
Net cash provided by operating activities .....	<u>562,100</u>	<u>472,400</u>
Cash flows from investing activities		
Proceeds from equipment sold .....	25,000	5,000
Acquisition of equipment .....	(140,000)	(175,000)
Advances to joint venture .....	(25,000)	(9,700)
Increase in note receivable, related company .....	(25,000)	(50,000)
Net cash used in investing activities .....	<u>(165,000)</u>	<u>(229,700)</u>
Cash flows from financing activities		
Principal payments on notes payable .....	(110,300)	(90,300)
Principal payments under capital lease obligation .....	(53,700)	(9,700)
Cash dividends paid .....	(150,000)	(150,000)
Net cash used in financing activities .....	<u>(314,000)</u>	<u>(250,000)</u>
Net increase (decrease) in cash and certificates of deposit .....	83,100	(7,300)
Cash at beginning of year .....	<u>221,300</u>	<u>228,600</u>
Cash and certificates of deposit at end of year .....	<u>\$ 304,400</u>	<u>\$ 221,300</u>

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

Supplementary data:

Cash equivalents include certificates of deposit with original maturities of one to three months.

Interest paid—19X8, \$XXX; 19X7, \$XXX.

Income taxes paid—19X8, \$XXXX; 19X7, \$XXXX.

.05

**Percentage Contractors, Inc.****Illustrative Notes to Consolidated Financial Statements****December 31, 19X8 and 19X7****Significant Accounting Policies**

*Company's activities and operating cycle.* The company is engaged in a single industry: the construction of industrial and commercial buildings. The work is performed under cost-plus-fee contracts, fixed-price contracts, and fixed-price contracts modified by incentive and penalty provisions. These contracts are undertaken by the company or its wholly owned subsidiary alone or in partnership with other contractors through joint ventures. The company also manages, for a fee, construction projects of others.

The length of the company's contracts varies but is typically about two years. Therefore, assets and liabilities are not classified as current and noncurrent because the contract-related items in the balance sheet have realization and liquidation periods extending beyond one year.

*Principles of consolidation.* The consolidated financial statements include the company's majority-owned entities, a wholly owned corporate subsidiary and a 75 percent-owned joint venture (a partnership). All significant intercompany transactions are eliminated. The company has a minority interest in a joint venture (partnership), which is reported on the equity method.

*Revenue and cost recognition.* Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract. This method is used because management considers expended labor hours to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost-to-cost method.

Contracts to manage, supervise, or coordinate the construction activity of others are recognized only to the extent of the fee revenue. The revenue earned in a period is based on the ratio of hours incurred to the total estimated hours required by the contract.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

*Property and equipment.* Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the assets. Amortization of leased equipment under capital leases is included in depreciation and amortization.

**Pension plan.** The company has a pension plan covering substantially all employees not covered by union-sponsored plans. Pension costs charged to earnings include current-year costs and the amortization of prior-service costs. The company's policy is to fund the costs accrued.

**Income taxes.** Deferred income taxes are provided for temporary differences in reporting income for financial statement and tax purposes arising from differences in the methods of accounting for construction contracts and depreciation.

Construction contracts are reported for tax purposes on the completed-contract method and for financial statement purposes on the percentage-of-completion method. Accelerated depreciation is used for tax reporting, and straight-line depreciation is used for financial statement reporting.

### Contract Receivables

	<u>December 31,</u> <u>19X8</u>	<u>December 31,</u> <u>19X7</u>
Contract receivables		
Billed		
Completed contracts .....	\$ 621,100	\$ 500,600
Contracts in progress .....	2,146,100	1,931,500
Retained .....	976,300	866,200
Unbilled .....	121,600	105,400
	<u>3,865,100</u>	<u>3,403,700</u>
Less: Allowances for doubtful collections .....	75,900	69,600
	<u>\$3,789,200</u>	<u>\$3,334,100</u>

Contract receivables at December 31, 19X8, include a claim, expected to be collected within one year, for \$290,600 arising from a dispute with the owner over design and specification changes in a building currently under construction. The changes were made at the request of the owner to improve the thermal characteristics of the building and, in the opinion of counsel, gave rise to a valid claim against the owner.

The retained and unbilled contract receivables at December 31, 19X8, included \$38,600 that was not expected to be collected within one year.

### Costs and Estimated Earnings on Uncompleted Contracts

	<u>December 31,</u> <u>19X8</u>	<u>December 31,</u> <u>19X7</u>
Costs incurred on uncompleted contracts .....	\$15,771,500	\$12,165,400
Estimated earnings .....	1,685,900	1,246,800
	<u>17,457,400</u>	<u>13,412,200</u>
Less: Billings to date .....	17,619,200	13,533,300
	<u>\$ (161,800)</u>	<u>\$ (121,100)</u>
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts .....	\$ 80,200	\$ 100,600
Billings in excess of costs and estimated earnings on uncompleted contracts .....	(242,000)	(221,700)
	<u>\$ (161,800)</u>	<u>\$ (121,100)</u>

**Advances to and Equity in Joint Venture**

The company has a minority interest (one-third) in a general partnership joint venture formed to construct an office building. All of the partners participate in construction, which is under the general management of the company. Summary information on the joint venture follows:

	<u>December 31,</u> <u>19X8</u>	<u>December 31,</u> <u>19X7</u>
Current assets . . . . .	\$ 483,100	\$280,300
Construction and other assets . . . . .	220,500	190,800
	<u>703,600</u>	<u>471,100</u>
Less: Liabilities . . . . .	236,800	154,000
Net assets . . . . .	<u>\$ 466,800</u>	<u>\$317,100</u>
Revenue . . . . .	<u>\$3,442,700</u>	<u>\$299,400</u>
Net income . . . . .	<u>\$ 149,700</u>	<u>\$ 17,100</u>
Company's interest		
Share of net income . . . . .	<u>\$ 49,900</u>	<u>\$ 5,700</u>
Advances to joint venture . . . . .	<u>\$ 50,000</u>	<u>\$ 25,000</u>
Equity in net assets . . . . .	<u>155,600</u>	<u>105,700</u>
Total advances and equity . . . . .	<u>\$ 205,600</u>	<u>\$130,700</u>

**Transactions With Related Party**

The note receivable, related company, is an installment note bearing annual interest at 9<sup>1</sup>/<sub>4</sub>%, payable quarterly, with the principal payable in annual installments of \$25,000, commencing October 1, 19Y0.

The major stockholder of Percentage Contractors, Inc., owns the majority of the outstanding common stock of this related company, whose principal activity is leasing land and buildings. Percentage Contractors, Inc., rents land and office facilities from the related company on a ten-year lease ending September 30, 19Y6, for an annual rental of \$19,000.

**Property and Equipment**

	<u>December 31,</u> <u>19X8</u>	<u>December 31,</u> <u>19X7</u>
<b>Assets</b>		
Land . . . . .	\$ 57,500	\$ 57,500
Buildings . . . . .	262,500	262,500
Shop and construction equipment . . . . .	827,600	727,600
Automobiles and trucks . . . . .	104,400	89,100
Leased equipment under capital leases . . . . .	300,000	300,000
	<u>1,552,000</u>	<u>1,436,700</u>
<b>Accumulated depreciation and amortization</b>		
Buildings . . . . .	140,000	130,000
Shop and construction equipment . . . . .	265,600	195,500
Automobiles and trucks . . . . .	70,000	42,000
Leased equipment under capital leases . . . . .	100,000	50,000
	<u>575,600</u>	<u>417,500</u>
Net property and equipment . . . . .	<u>\$ 976,400</u>	<u>\$1,019,200</u>

**Accounts Payable**

Accounts payable include amounts due to subcontractors, totaling \$634,900 at December 31, 19X8, and \$560,400 at December 31, 19X7, which have been retained pending completion and customer acceptance of jobs. Accounts payable at December 31, 19X8, include \$6,500 that is not expected to be paid within one year.

**Notes Payable**

	<i>December 31, 19X8</i>	<i>December 31, 19X7</i>
Unsecured note payable to bank, due in quarterly installments of \$22,575 plus interest at 1% over prime . . . . .	\$388,100	\$478,400
Note payable to bank, collateralized by equipment, due in monthly installments of \$1,667 plus interest at 10% through January 19Y3 . . . . .	80,000	100,000
	<u>\$468,100</u>	<u>\$578,400</u>

At December 31, 19X8, the payments due within one year totaled \$110,300.

**Lease Obligations Payable**

The company leases certain specialized construction equipment under leases classified as capital leases. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of December 31, 19X8:

Year ending December 31	
19X9 . . . . .	\$ 76,500
19Y0 . . . . .	76,500
19Y1 . . . . .	76,500
Total minimum lease payments . . . . .	<u>229,500</u>
Less: Amount representing interest . . . . .	<u>31,900</u>
Present value of minimum lease payments . . . . .	<u>\$197,600</u>

At December 31, 19X8, the present value of minimum lease payments due within one year is \$92,250. Total rental expense, excluding payments on capital leases, totaled \$86,300 in 19X8 and \$74,400 in 19X7.

**Contingent Liability**

A claim for \$180,000 has been filed against the company and its bonding company arising out of the failure of a subcontractor of the company to pay its suppliers. In the opinion of counsel and management, the outcome of this claim will not have a material effect on the company's financial position or results of operations.

**Pension Plan**

Effective as of January 1, 19X7 the company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the company's 19X7 net income by \$21,000 (\$.07 per share).

A summary of the plan's funding status and the amounts recognized in the consolidated balance sheet follows:

	December 31,	
	19X8	19X7
<b>Actuarial present value of benefit obligations:</b>		
Accumulated benefit obligation, including vested benefits of \$38,185 in 19X8 and \$37,731 in 19X7 .....	\$ 39,307	\$ 38,852
Projected benefit obligation for service rendered to date .....	53,435	55,211
Plan assets at fair value, primarily listed stocks and U.S. government securities ..	66,695	66,730
Plan assets in excess of benefit obligation .....	13,260	11,519
Unrecorded net loss (gain) from past experience different from that assumed and effects of changes in assumptions .....	(1,309)	2,753
Unrecognized net assets at January 1, 19X7 being recognized over 15 years ....	(11,704)	(13,728)
Prepaid pension cost .....	\$ 247	\$ 544

A summary of the components of income follows:

	19X8	19X7
Service cost-benefits earned during the year .....	\$ 2,750	\$ 2,007
Interest cost on projected benefit obligation .....	4,337	3,785
Actual return on plan assets .....	(2,154)	(8,919)
Net asset gain (loss) deferred for later recognition .....	(5,009)	2,756
Amortization of unrecognized net asset .....	(60)	100
Net periodic pension income .....	\$ (136)	\$ (271)

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 9% and 6%, respectively. The expected long-term rate of return on assets was 9.5%.

In 19X8 and 19X7, \$30,185 and \$27,731, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the company recognized gains of \$627 and \$382 in 19X8 and 19X7, respectively.

**Management Contracts**

The company manages or supervises commercial and industrial building contracts of others for a fee. These fees totaled \$121,600 in 19X8 and \$1,700 in 19X7 and are included in contract revenues earned.

**Income Taxes and Deferred Income Taxes**

The components of the provision for taxes on income consist of the following:

	<i>December 31,</i>	
	<u>19X8</u>	<u>19X7</u>
Currently payable .....	\$451,700	\$300,900
Deferred		
Contract related .....	204,200	(80,900)
Property and equipment related .....	7,000	5,000
	<u>\$662,900</u>	<u>\$225,000</u>

The components of the balance of deferred income taxes were:

	<i>December 31,</i>	
	<u>19X8</u>	<u>19X7</u>
Contract related .....	\$594,000	\$389,800
Property and equipment related .....	25,200	18,200
	<u>\$619,200</u>	<u>\$408,000</u>

A reconciliation of the statutory Federal tax rate to the effective tax rate on pretax income is as follows:

	<i>Year Ended December 31,</i>	
	<u>19X8</u>	<u>19X7</u>
Statutory Federal tax rate .....	40.0%	46.0%
Contract related .....	10.6	8.7
Depreciation .....	3.2	3.0
State and local taxes .....	1.5	(3.6)
Other .....	(3.9)	(4.7)
Total effective tax rate .....	<u>51.4%</u>	<u>49.4%</u>

**Backlog**

The following schedule shows a reconciliation of backlog representing signed contracts, excluding fees from management contracts, in existence at December 31, 19X7 and 19X8:

Balance, December 31, 19X7 .....	\$24,142,600
Contract adjustments .....	1,067,100
New contracts, 19X8 .....	3,690,600
	<u>28,900,300</u>
Less: Contract revenue earned, 19X8 .....	22,432,500
Balance, December 31, 19X8 .....	<u>\$ 6,467,800</u>

In addition, between January 1, 19X9 and February 18, 19X9, the company entered into additional construction contracts with revenues of \$5,332,800.

**Illustrative Additional Information****Percentage Contractors, Inc.****.06 Illustrative Independent Auditor's Report on Additional Information**

The Shareholders and Board of Directors  
Percentage Contractors, Inc.

Our audits of the basic financial statements presented in the preceding section of this report were made primarily to form an opinion on such financial statements taken as a whole. The additional information, contained in the following pages, is not considered essential for the fair presentation of the financial position of Percentage Contractors, Inc., the results of its operations, or the changes in its financial position in conformity with generally accepted accounting principles. However, the following data were subjected to the audit procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature]

[City, State]

[Date]



8412

Construction Contractors

.07

Percentage Contractors, Inc.  
 Schedule 1  
 Earnings from Contracts  
 Year Ended December 31, 19X8

	19X8			19X7
	Revenues earned	Cost of revenues earned	Gross profit (loss)	Gross profit (loss)
Contracts completed during the year .....	\$ 6,290,800	\$ 5,334,000	\$ 956,800	\$ 415,300
Contracts in progress at year-end .....	16,141,700	14,636,900	1,504,800	921,400
Management contract fees earned .....	121,600	51,800	69,800	1,700
Unallocated indirect and warranty costs .....		46,700	(46,700)	(38,100)
Minority interest in joint venture .....		128,000	(128,000)	(26,200)
Charges on prior year contracts .....		162,000	(162,000)	
	<u>\$22,554,100</u>	<u>\$20,359,400</u>	<u>\$ 2,194,700</u>	<u>\$ 1,274,100</u>

.08

Percentage Contractors, Inc.  
 Schedule 2  
 Contracts Completed  
 Year Ended December 31, 19X8

Contract		Contract totals			Before January 1, 19X8			During the year ended December 31, 19X8		
Number	Type	Revenues earned	Cost of revenues	Gross profit (loss)	Revenues earned	Cost of revenues	Gross profit (loss)	Revenues earned	Cost of revenues	Gross profit (loss)
1511	B	\$ 5,475,300	\$ 4,802,500	\$ 672,800	\$3,223,400	\$2,932,700	\$290,700	\$2,251,900	\$1,869,800	\$382,100
1605	A	695,000	880,900	(185,900)	596,100	558,100	38,000	98,900	322,800	(223,900)
1624	A	140,700	150,700	(10,000)	29,600	31,800	(2,200)	111,100	118,900	(7,800)
1711	A	2,725,100	2,391,700	333,400	1,654,100	1,510,000	144,100	1,071,000	881,700	189,300
1791	B	4,770,100	4,288,900	481,200	3,028,500	2,929,600	98,900	1,741,600	1,359,300	382,300
1792	A	635,000	457,900	177,100				635,000	457,900	177,100
Small contracts		413,400	349,500	63,900	32,100	25,900	6,200	381,300	323,600	57,700
		<u>\$14,854,600</u>	<u>\$13,322,100</u>	<u>\$1,532,500</u>	<u>\$8,563,800</u>	<u>\$7,988,100</u>	<u>\$575,700</u>	<u>\$6,290,800</u>	<u>\$5,334,000</u>	<u>\$956,800</u>

Contract types  
 A—Fixed-price.  
 B—Cost-plus-fee.

**.09**  
**PERCENTAGE CONTRACTORS, INC.**  
**Schedule 3**  
**Contracts in Progress**  
**December 31, 19X8**

Contract Number	Contract Type	Total contract		From inception to December 31, 19X8							At December 31, 19X8		For the year ended December 31, 19X8		
		Revenues	Estimated gross profit (loss)	Revenues earned	Total costs incurred	Cost of revenues	Gross profit (loss)	Billed to date	Estimated cost to complete	Costs and estimated earnings in excess of billings	Billings in excess of costs and estimated earnings	Revenues earned	Cost of revenues	Gross profit (loss)	
1845	A	\$ 6,750,200	\$ 877,000	\$ 5,890,500	\$ 5,244,500	\$ 5,143,900	\$ 746,600	\$ 5,976,000	\$ 628,700	\$15,100	\$ 5,664,200	\$ 4,984,500	\$ 679,700		
1847	B	1,471,800	127,100	1,250,400	1,139,800	1,139,800	110,600	1,195,800	204,900	54,600	962,800	899,000	63,800		
1912	A	451,800	(130,100)	108,600	238,700	238,700	(130,100)	98,100	343,200	10,500	98,600	191,500	(92,900)		
1937	B	11,125,000	847,900	7,337,900	7,045,500	6,721,100	616,800	7,808,000	3,231,600		6,981,900	6,469,900	512,000		
1945	A	3,650,100	497,000	2,395,200	2,061,300	2,061,300	333,900	2,491,500	1,091,800		2,395,200	2,061,300	333,900		
Small contracts		51,300	8,400	49,800	41,700	41,700	8,100	49,800	1,200		39,000	30,700	8,300		
		<b>\$23,500,200</b>	<b>\$2,227,300</b>	<b>\$17,032,400</b>	<b>\$15,771,500</b>	<b>\$15,346,500</b>	<b>\$1,685,900</b>	<b>\$17,619,200</b>	<b>\$5,501,400</b>	<b>\$80,200</b>	<b>\$16,141,700</b>	<b>\$14,636,900</b>	<b>\$1,504,800</b>		

Contract types  
A—Fixed-price.  
B—Cost-plus-fee.

**Illustrative Financial Statements  
Completed Contractors, Inc.****.10****Illustrative Independent Auditor's Report  
Independent Auditor's Report**

The Stockholders and Board of Directors

Completed Contractors, Inc.

We have audited the accompanying balance sheets of Completed Contractors, Inc., as of December 31, 19X8 and 19X7, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Completed Contractors, Inc., as of December 31, 19X8 and 19X7, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature ]

[City, State ]

[Date ]

Completed Contractors, Inc.

Illustrative Balance Sheets

December 31, 19X8 and 19X7

<b>Assets</b>	<u>19X8</u>	<u>19X7</u>
<b>Current assets</b>		
Cash .....	\$ 242,700	\$ 185,300
Contract receivables (less allowance for doubtful accounts of \$10,000 and \$8,000) .....	893,900	723,600
Costs in excess of billings on uncompleted contracts .....	418,700	437,100
Inventories, at lower of cost or realizable value on first-in, first-out basis .....	463,600	491,300
Prepaid expenses .....	89,900	53,900
<b>Total current assets</b> .....	<u>2,108,800</u>	<u>1,891,200</u>
Cash value of life insurance .....	35,800	32,900
<b>Property and equipment, at cost</b>		
Building .....	110,000	110,000
Equipment .....	178,000	163,000
Trucks and autos .....	220,000	200,000
	<u>508,000</u>	<u>473,000</u>
Less: Accumulated depreciation .....	218,000	203,200
	290,000	269,800
Land .....	21,500	21,500
	<u>311,500</u>	<u>291,300</u>
	<u><u>\$2,456,100</u></u>	<u><u>\$2,215,400</u></u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Current maturities, long-term debt .....	\$ 37,000	\$ 30,600
Accounts payable .....	904,900	821,200
Accrued salaries and wages .....	138,300	155,100
Accrued income taxes .....	53,000	36,200
Accrued and other liabilities .....	116,400	55,550
Billings in excess of costs on uncompleted contracts .....	34,500	43,700
<b>Total current liabilities</b> .....	<u>1,284,100</u>	<u>1,142,350</u>
Long-term debt, less current maturities .....	245,000	241,000
	<u>1,529,100</u>	<u>1,383,350</u>
<b>Stockholders' equity</b>		
Common stock—\$10 par value, 50,000 authorized shares, 23,500 issued and outstanding shares .....	235,000	235,000
Additional paid-in capital .....	65,000	65,000
Retained earnings .....	627,000	532,050
	<u>927,000</u>	<u>832,050</u>
	<u><u>\$2,456,100</u></u>	<u><u>\$2,215,400</u></u>

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

**Illustrative Statements of Income and Retained Earnings**

Years Ended December 31, 19X8 and 19X7

	<u>19X8</u>	<u>19X7</u>
Contract revenues .....	\$9,487,000	\$8,123,400
Costs and expenses		
Cost of contracts completed .....	8,458,500	7,392,300
General and administrative .....	684,300	588,900
Interest expense .....	26,500	23,000
	<u>9,169,300</u>	<u>8,004,200</u>
Income before income taxes .....	317,700	119,200
Income taxes .....	164,000	54,200
Net income (\$6.54 and \$2.77 per share) .....	153,700	65,000
Retained earnings		
Balance, beginning of year .....	532,050	525,800
	<u>685,750</u>	<u>590,800</u>
Dividends paid (\$2.50 per share) .....	58,750	58,750
Balance, end of year .....	<u>\$ 627,000</u>	<u>\$ 532,050</u>

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

.13

## Completed Contractors, Inc.

## Illustrative Statements of Cash Flows (Indirect Method)

For The Years Ended December 31, 19X8 and 19X7

## Increase (Decrease) in Cash

	<u>19X8</u>	<u>19X7</u>
Cash flows from operating activities:		
Net income .....	\$ 153,700	\$ 65,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation .....	54,800	50,300
Increase in contract receivables .....	(170,300)	(36,500)
Increase in billings in excess of costs .....	(9,200)	(16,300)
Increase (decrease) in costs in excess of billings on uncompleted contracts .....	18,400	(49,100)
(Decrease) increase in inventories .....	27,700	(3,400)
Increase (decrease) in prepaid expenses .....	(36,000)	16,500
Increase in accounts payable .....	83,700	24,600
Decrease (increase) in accrued salaries and wages .....	(16,800)	24,300
Decrease (increase) in income taxes .....	16,800	(6,300)
Decrease (increase) in accrued and other liabilities .....	60,850	(33,100)
Net cash provided by operating activities .....	<u>183,650</u>	<u>36,000</u>
Cash flows from investing activities:		
Purchase of property and equipment .....	<u>(75,000)</u>	<u>(53,500)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt .....	44,000	68,000
Principal payments on long-term debt .....	(33,600)	(15,500)
Cash dividends paid .....	(58,750)	(58,750)
Increase in cash value of life insurance .....	(2,900)	(2,685)
Net cash used in investing activities .....	<u>(51,250)</u>	<u>(8,935)</u>
Net increase (decrease) in cash .....	57,400	(26,435)
Cash at beginning of year .....	185,300	211,735
Cash at end of year .....	<u>\$ 242,700</u>	<u>\$ 185,300</u>

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

## Supplementary data:

Cash equivalents include certificates of deposit with original maturities of one to three months.

Interest paid—19X8, \$XXX; 19X7, \$XXX.

Income taxes paid—19X8, \$XXXX; 19X7, \$XXXX.

**Completed Contractors, Inc.**  
**Illustrative Notes to Financial Statements**  
**December 31, 19X8 and 19X7**

**Significant Accounting Policies**

*Company's activities.* The company is a heating and air-conditioning contractor for residential and commercial properties. Work on new structures is performed primarily under fixed-price contracts. Work on existing structures is performed under fixed-price or time-and-material contracts.

*Revenue and cost recognition.* Revenues from fixed-price construction contracts are recognized on the completed-contract method. This method is used because the typical contract is completed in two months or less and financial position and results of operations do not vary significantly from those which would result from use of the percentage-of-completion method. A contract is considered complete when all costs except insignificant items have been incurred and the installation is operating according to specifications or has been accepted by the customer.

Revenues from time-and-material contracts are recognized currently as the work is performed.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Claims are included in revenues when received.

Costs in excess of amounts billed are classified as current assets under costs in excess of billings on uncompleted contracts. Billings in excess of costs are classified under current liabilities as billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.

*Inventories.* Inventories are stated at cost on the first-in, first-out basis using unit cost for furnace and air-conditioning components and average cost for parts and supplies. The carrying value of furnace and air-conditioning component units is reduced to realizable value when such values are less than cost.

*Property and equipment.* Depreciation is provided over the estimated lives of the assets principally on the declining-balance method, except on the building where the straight-line method is used.

*Pension plan.* The company has a pension plan covering all employees not covered by union-sponsored plans. Pension costs charged to earnings include current-year costs and the amortization of prior-service costs. The company's policy is to fund the costs accrued.

*Income Taxes.* Deferred income taxes in the accompanying financial statements reflect temporary differences in reporting results of operations for income tax and financial accounting purposes.

**Contract Receivables**

	<i>December 31, 19X8</i>	<i>December 31, 19X7</i>
Completed contracts, including retentions .....	\$438,300	\$408,600
Contracts in progress		
Current accounts .....	386,900	276,400
Retentions .....	78,700	46,600
	<u>903,900</u>	<u>731,600</u>
Less: Allowance for doubtful accounts .....	10,000	8,000
	<u>\$893,900</u>	<u>\$723,600</u>

Retentions include \$10,300 in 19X8, which is expected to be collected after 12 months.

**Costs and Billings on Uncompleted Contracts**

	<u>December 31, 19X8</u>	<u>December 31, 19X7</u>
Costs incurred on uncompleted contracts .....	\$ 2,140,400	\$ 1,966,900
Billings on uncompleted contracts .....	1,756,200	1,573,500
	<u>\$ 384,200</u>	<u>\$ 393,400</u>
Included in accompanying balance sheets under the following captions:		
Costs in excess of billings on uncompleted contracts .....	\$ 418,700	\$ 437,100
Billings in excess of costs on uncompleted contracts .....	(34,500)	(43,700)
	<u>\$ 384,200</u>	<u>\$ 393,400</u>

**Inventories**

	<u>December 31, 19X8</u>	<u>December 31, 19X7</u>
Furnace and air-conditioning components .....	\$303,200	\$308,700
Parts and supplies .....	160,400	182,600
	<u>\$463,600</u>	<u>\$491,300</u>

Furnace and air-conditioning components include used items of \$78,400 in 19X8 and \$71,900 in 19X7 that are carried at the lower of cost or realizable value.

**Income Taxes**

The components of the provision for income taxes are as follows:

	<u>Year Ended December 31,</u>	
	<u>19X8</u>	<u>19X7</u>
Currently payable .....	\$ 97,600	\$ 22,100
Deferred		
Contract related .....	57,400	17,100
Property and equipment related .....	9,000	15,000
	<u>\$ 164,000</u>	<u>\$ 54,200</u>

The components of the balance of deferred income taxes were:

	<u>December 31,</u>	
	<u>19X8</u>	<u>19X7</u>
Contract related .....	\$ 118,800	\$ 61,400
Property and equipment related .....	48,000	39,000
	<u>\$ 166,800</u>	<u>\$ 100,400</u>



A reconciliation of the statutory Federal tax rate to the effective tax rate on pretax income is as follows:

	<i>Year Ended December 31,</i>	
	<u>19X8</u>	<u>19X7</u>
Statutory Federal tax rate .....	40.0%	46.0%
Contract related .....	8.1	3.2
Depreciation .....	3.2	3.0
State and local taxes .....	.2	(3.5)
Other .....	.1	(3.2)
Total effective tax rate .....	<u>51.6%</u>	<u>45.5%</u>

### Long-Term Debt

	<u>December 31,</u> <u>19X8</u>	<u>December 31,</u> <u>19X7</u>
Notes payable, bank		
Notes due in quarterly installments of \$2,500, plus interest at 8% .....	\$140,000	\$150,000
Notes due in monthly installments of \$1,500, plus interest at prime plus 1½% .....	87,000	58,000
Mortgage payable		
Due in quarterly payments of \$3,500, including interest at 9% .....	55,000	63,600
	<u>282,000</u>	<u>271,600</u>
Less: Current maturities .....	37,000	30,600
	<u>\$245,000</u>	<u>\$241,000</u>

### Pension Plans

Effective as of January 1, 19X7, the company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the company's 19X7 net income by \$21,000 (\$.89 per share).

A summary of the plan's funding status and the amounts recognized in the consolidated balance sheet follows:

	<i>December 31,</i>	
	<u>19X8</u>	<u>19X7</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$38,185 in 19X8 and \$37,731 in 19X7 .....	\$ 39,307	\$ 38,852
Projected benefit obligation for service rendered to date .....	53,435	55,211
Plan assets at fair value, primarily listed stocks and U.S. government securities .....	66,695	66,730
Plan assets in excess of benefit obligation .....	13,260	11,519
Unrecorded net loss (gain) from past experience different from that assumed and effects of changes in assumptions .....	(1,309)	2,753
Unrecognized net assets at January 1, 19X7 being recognized over 15 years .....	(11,704)	(13,728)
Prepaid pension cost .....	<u>\$ 247</u>	<u>\$ 544</u>

A summary of the components of income follows:

	19X8	19X7
Service cost-benefits earned during the year .....	\$ 2,750	\$ 2,007
Interest cost on projected benefit obligation .....	4,337	3,785
Actual return on plan assets .....	(2,154)	(8,919)
Net asset gain (loss) deferred for later recognition .....	(5,009)	2,756
Amortization of unrecognized net asset .....	(60)	100
Net periodic pension income .....	\$ (136)	\$ (271)

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 9% and 6%, respectively. The expected long-term rate of return on assets was 9.5%.

In 19X8 and 19X7, \$30,185 and \$27,731, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the company recognized gains of \$627 and \$382 in 19X8 and 19X7, respectively.

**Backlog**

The estimated gross revenue of work to be performed on signed contracts was \$4,691,000 at December 31, 19X8, and \$3,617,400 at December 31, 19X7. In addition to the backlog of work to be performed, there was gross revenue, to be reported in future periods under the completed-contract method used by the company, of \$2,460,000 at December 31, 19X8, and \$2,170,000 at December 31, 19X7.

# FSP Section 9000

## DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NONPROFIT ORGANIZATIONS

These checklists and illustrative financial statements are not designed to be applied to the financial statements of colleges, universities, hospitals or governmental units.

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members these checklists and illustrative financial statements are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 102, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. 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 examined.

.02 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.

---

[The next page is 9101.]

# FSP Section 9100

## *Introduction—Financial Statements of Nonprofit Organizations*

**.01** The basic financial statements of a nonprofit organization are a balance sheet and a statement of activity, also referred to as a statement of support, revenue, expenses, capital additions, and changes in fund balances, or similar titles. If a reconciliation between beginning and ending fund balances is not included in the statement of activity, a separate statement of changes in fund balances ordinarily would be presented. Additionally, the basic financial statements may include a statement of cash flows.<sup>1</sup> The basic financial statements of the current period are often presented on a comparative basis with those of one or more prior periods.

**.02** Nonprofit organizations present their expenses classified either on a functional basis (according to the purpose for which costs are incurred, such as specific programs and supporting services) or on an object basis (according to their natural classification, such as salaries, employee benefits, and purchased services).

**.03** A wide variety of users are interested in the financial statements of nonprofit organizations. Among the principal users are (1) contributors to the organization, (2) beneficiaries of the organization, (3) the organization's trustees or directors, (4) employees of the organization, (5) governmental units, (6) the organization's creditors and potential creditors, and (7) constituent organizations.

**.04** A principal purpose of a nonprofit organization's financial statements is to communicate the ways resources have been used to carry out the organization's objectives. It requires reporting the nature and amount of available resources, the uses made of the resources, and the net changes in fund balances during the period. In addition, while adequate measures of program accomplishment generally are not available in the context of present financial statements, the financial statements should identify the organization's principal programs and their costs. A third aspect of financial reporting for nonprofit organizations is disclosure of the degree of control exercised by donors over use of resources. A fourth aspect is that the financial statements of a nonprofit organization should help the user evaluate the organization's ability to carry out its fiscal objectives.

**.05** Many nonprofit organizations receive resources restricted for particular purposes. To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts are maintained for each fund, the usual practice in preparing financial statements is to group funds that have similar characteristics.

---

[The next page is 9201.]

---

<sup>1</sup> Nonprofit organizations are not subject to FASB Statement No. 95, *Statement of Cash Flows*. According to that statement, a profit-oriented business entity whose financial statements purport to present both financial position and results of operations must present, as a basic financial statement, a statement summarizing cash flows for each period for which an income statement is presented. Under such circumstances, a nonprofit entity may, but is not required to, present a statement of cash flows. A nonprofit entity may also continue to present a statement of changes in financial position as described in SOP 78-10, but this is not mandatory.

The Illustrative Cash Flow Statements in this checklist are based on the commentary and advisory conclusions contained in "Display in the Financial Statements of Not-for-Profit Organizations," a report of the AICPA Task Force on Not-for-Profit Organizations.

# FSP Section 9200

## *Nonprofit Organizations Disclosure Checklists—General*

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of 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 which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “material,” “in statements” and “in note” (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

---

[The next page is 9301.]

# FSP Section 9300

## *Nonprofit Organizations Auditors' Reports Checklist*

.01 This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 9001 is incorporated herein by reference.

### .02 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
- ACNO = AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations
- VHW = AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations

### .03 Checklist Questionnaire

	<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 58, par. 46 (AU 508.46); SAS 26, pars. 15—17 (AU 504.15—.17)]	_____	_____	_____
c. A title that includes the word independent? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
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)]	_____	_____	_____
b. Report on comparative statements of support revenue and expenses and changes in fund balances? [SAS 58, fns. 7 and 27]	_____	_____	_____
c. Part of examination was made by other independent auditors and the principal auditor is indicating a division of responsibility for the examination in his report? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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. Report of a predecessor auditor for prior year has not been included with current comparative financial statements? [SAS 7 (AU 315); SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
f. Updating of a previously issued opinion? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
g. Comparative financial statements with differing opinions? [SAS 58, pars. 74—76 (AU 508.74—.76)]	_____	_____	_____
h. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
i. Decision to emphasize a matter? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
j. If the audit report will be used to satisfy the requirements of a Federal grant agreement or if the audit is reporting on the receipt or disbursement of Federal funds, does the accountants' report include a scope reference to the publication <i>Government Auditing Standards</i> issued by the Comptroller General of the United States? (Chapter V of this publication)	_____	_____	_____
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. There is a substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 12 (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(s) on the prior period(s) is (are) different from the one(s) previously expressed? [SAS 58, pars. 77, 78 and 81—83 (AU 508.77—.78 and .81—.83)]	_____	_____	_____
6. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. 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)]	_____	_____	_____
b. The organization has inadequate internal control structure policies and procedures over contributions and there is a significant risk that such revenue may be materially underrecorded? [VHW, p. 19]	_____	_____	_____
7. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. Lack of conformity with generally accepted accounting principles (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)]	_____	_____	_____
b. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____
8. 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:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(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)]	_____	_____	_____
9. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
c. Client's refusal to provide written representation? [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. Errors or irregularities which materially affect the financial statements? [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 which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13—.15)]	_____	_____	_____
10. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 14, par. 12 (AU 621.12)]	_____	_____	_____
11. For special reports, have the provisions of SAS 62 and SAS 35 been complied with (i.e., does at least one of the following apply):			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [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. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—31 (AU 623.19—.31)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 32—33 (AU 623.32—.33)]	_____	_____	_____
12. If information is to accompany the basic financial statements and auditor's report 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?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(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 examining the basic financial statements and the appropriate expression or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
13. If an auditor-submitted document with accompanying information (long-form report) is co-existing with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
14. 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)]	_____	_____	_____
15. If a report on internal control structure is to be issued <sup>1</sup> is the appropriate form used for:			
a. Expression of an opinion on the entity's internal control structure in effect as of a specified date or during a specific period of time? [SAS 30, pars. 37—46 (AU 642.37—.46)]	_____	_____	_____
b. Report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on documentation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 60]	_____	_____	_____
c. Report on all or part of an entity's internal control structure for restricted use of management or specified regulatory agencies, based on the regulatory agencies' preestablished criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
d. Other special purpose reports on all or parts of the entity's internal control structure for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	_____	_____	_____
16. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements and the data is derived from the audited financial statements, does the auditor's report indicate the following:			
a. That he has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which he is reporting?	_____	_____	_____
d. Whether, in his opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____

<sup>1</sup> Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of directors or its audit committee. [SAS 60]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
17. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
18. Condensed Financial Data Standing Alone: If the organization publishes condensed financial statements, which do not include all required disclosures, standing alone, did the auditor <i>not</i> report on such data [unless in accordance with SAS 14, pars. 9—14 (elements of financial statements)], and not permit his name to be associated improperly with the data? (ACNO, pp. 41, 42) (Note: the form of report illustrated at SAS 42, pars. 5, 6 (AU 552.03—.04) may not be used for a nonpublic entity.) [ACNO, Ch. 7, pp. 41—42]	_____	_____	_____
19. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used? [SAS 62, pars. 9—10 (AU 623.09—.10)]	_____	_____	_____
20. If the organization uses Internal Revenue Form 990, "Return of Organizations Exempt from Income Tax" as a uniform annual report by a charitable organization to a state government as well as the Federal government, has the auditor considered the following:			
a. Are the financial statements included in the report presented fairly in conformity with GAAP? [Interpretation 10 of SAS 62, Section 623 (AU 9623.47)]	_____	_____	_____
b. Whether the financial statements and auditor's report are a matter of public record? [Interpretation 10 of SAS 62, Section 623 (AU 9623.48)]	_____	_____	_____
c. Is there public distribution of the financial statements and the accountant's report? [Interpretation 10 of SAS 62, Section 623 (AU 9623.48 and .53)]	_____	_____	_____
d. If the financial statements are not in conformity with GAAP, would it be appropriate to issue a special report? [Interpretation 10 of SAS 62, Section 623 (AU 9623.50—.52)]	_____	_____	_____

[The next page is 9401.]

# FSP Section 9400

## Accountants' Reports on Compiled or Reviewed Financial Statements of Nonprofit Organizations Checklist <sup>1</sup>

.01 This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 9101 is incorporated herein by reference.

.02 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

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is the report appropriately worded?	_____	_____	_____
a. For compiled financial statements does the report state that:			
(1) A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants?	_____	_____	_____
(2) A compilation is limited to presenting in the form of financial statements information that is the representation of management? [See SSARS No. 3, par. 3 (AR 300.03) for different wording that may be used when the financial statements are included in a prescribed form and the form or related instructions call for departure from generally accepted accounting principles.]	_____	_____	_____
(3) 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)]	_____	_____	_____
b. For reviewed financial statements does the report state that:			
(1) A review was performed in accordance with standards established by the American Institute of Certified Public Accountants?	_____	_____	_____
(2) All information included in the financial statements is the representation of the management of the entity?	_____	_____	_____
(3) A review consists principally of inquiries of organization personnel and analytical procedures applied to financial data?	_____	_____	_____
(4) 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?	_____	_____	_____
(5) 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 generally accepted accounting principles or, where applicable, with another comprehensive basis of accounting, other than those modifications, if any, indicated in his report? [SSARS No. 1, par. 32 (AR 100.32)]	_____	_____	_____

<sup>1</sup> It is assumed that the nonprofit organization meets the criteria of a nonpublic entity as defined in SSARS No. 1, par. 100.04.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. 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)]	_____	_____	_____
2. For compiled financial statements that contain departures <sup>2</sup> from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting:			
a. If the departure is the omission in compiled financial statements of substantially all required disclosures does the accountant's report clearly indicate such omission? [SSARS No. 1, pars. 19 and 21 (AR 100.19 and 100.21)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by generally accepted accounting principles include disclosures about only a few matters in the form of notes to such financial statements, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles (or, where applicable, another comprehensive basis of accounting) Are Not Included" ? [SSARS No. 1, par. 19 (AR 100.19)]	_____	_____	_____
c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than generally accepted accounting principles, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS No. 1, par. 20 (AR 100.20)]	_____	_____	_____
d. If compiled financial statements contain a departure from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	_____	_____	_____
(1) If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____
(2) 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)]	_____	_____	_____
(3) If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____
3. For reviewed financial statements that contain departures from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting (including the omission of required disclosures), did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	_____	_____	_____
a. If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____
b. 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)]	_____	_____	_____
c. If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report? [SSARS No. 1, par. 40 (AR 100.40)]	_____	_____	_____

<sup>2</sup> Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS No. 3 [AR 300] compilation report on financial statements included in a prescribed form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If the accountant is not independent with respect to the entity for which he has compiled financial statements, did the accountant state in the last paragraph of his report, "I am (we are) not independent with respect to XYZ organization"? (The accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent.) [SSARS No. 1, pars. 22 and 38 (AR 100.22 and 100.38)]	_____	_____	_____
5. Is the report dated?	_____	_____	_____
6. a. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountant's Compilation Report"? [SSARS No. 1, par. 16 (AR 100.16)] or	_____	_____	_____
b. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountant's Review Report"? [SSARS No. 1, par. 34 (AR 100.34)]	_____	_____	_____
7. When accompanying information is presented with the financial statements, did the accountant clearly indicate his degree of responsibility with respect to such information as follows:			
a. If the basic financial statements were reviewed, was the degree of responsibility disclosed in the report or in a separate report on the other data that states:			
(1) The review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, and either:	_____	_____	_____
(2) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or	_____	_____	_____
(3) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data? [SSARS No. 1, par. 43 (AR 100.43)]	_____	_____	_____
b. If the accountant has compiled both the basic financial statements and other data which are presented for supplementary analysis purposes, does the compilation report also include the other data? [SSARS No. 1, par. 43 (AR 100.43)]	_____	_____	_____
8. 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, c) any scope limit that resulted in the changed engagement? [SSARS No. 1, par. 49 (AR 100.49)]	_____	_____	_____
9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS No. 2, par. 2 (AR 200.02)]	_____	_____	_____
10. Is the report appropriate for the current status of the entity? [SSARS No. 2, pars. 31—32 (AR 200.31—.32)]	_____	_____	_____
11. Does each page of the comparative financial statements compiled or reviewed include a reference such as "See Accountant's Report"? [SSARS No. 2, par. 6 (AR 200.06)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. If compiled financial statements which omit substantially all of the disclosures required by generally accepted accounting principles are included among the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph which indicates:			
a. The nature of the previous service rendered (compilation, review or audit)?	_____	_____	_____
b. Date of the previous report?	_____	_____	_____
c. Appropriate language in accordance with SSARS No. 1, paragraphs 19—20 and SSARS No. 2, paragraph 30? [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)]	_____	_____	_____
13. If the level of service performed by the continuing accountant on the current period financial statements is the same 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)]	_____	_____	_____
14. 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:			
a. Does the report on the current period include a separate paragraph which describes the responsibility assumed for the prior period?	_____	_____	_____
or			
b. 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)]	_____	_____	_____
15. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include:			
a. The date of the previous report?	_____	_____	_____
b. Description of the circumstances or events underlying the change?	_____	_____	_____
c. Indication, if applicable, that the prior-period financial statements have changed? [SSARS No. 2, pars. 14—15 (AR 200.14—.15)]	_____	_____	_____
16. If the predecessor accountant does not reissue his compilation or review report on the prior-period financial statements, has the successor:			
a. Made appropriate reference in his report to the predecessor's report in accordance with SSARS No. 2?	_____	_____	_____
or			
b. 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)]	_____	_____	_____
17. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as presented? [SSARS No. 2, pars. 25—26 (AR 200.25—.26)]	_____	_____	_____
18. If the current-period financial statements were compiled or reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current period report include a separate paragraph which contains the following:			
a. Statement that the prior-period financial statements were examined previously?	_____	_____	_____
b. Date of the previous report?	_____	_____	_____
c. Type of opinion expressed previously?	_____	_____	_____
d. If the opinion was other than unqualified, the substantive reasons therefor?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. 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).]	_____	_____	_____
_____	_____	_____	_____

[The next page is 9501.]

# FSP Section 9500

## *Nonprofit Organizations Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 9101 is incorporated herein by reference.

.02 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 <sup>1</sup>
(AC) =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
(AU) =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1) of SAS cited
ACNO =	AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations
VHW =	AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations
SOP =	AICPA Statement of Position
OMB =	Office of Management and Budget

.03 This checklist is organized into the following classifications:

- **General**
  - A. Titles and References
  - B. Disclosure of Accounting Policies and Other Disclosures
  - C. Accounting Changes
  - D. Comparative Financial Statements
  - E. Nonmonetary Transactions
  - F. Contingencies and Commitments
  - G. Subsequent Events
  - H. Pension Plans
  - I. Related Parties

---

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.



- **Balance Sheet**

- A. General
- B. Cash
- C. Carrying Amount of Investments
- D. Receivables
- E. Property and Equipment
- F. Collections of Works of Art and Similar Items
- G. Other Assets and Deferred Charges
- H. Current Liabilities
- I. Notes Payable and Other Debt
- J. Lessees
- K. Other Liabilities and Deferred Credits

- **Activity Statement**

- A. Fund Accounting
- B. Capital Gains
- C. Third-Party Reimbursements
- D. Donated or Contributed Services
- E. Donated Materials and Facilities
- F. Subscription and Membership Income
- G. Fund Raising
- H. Restricted Gifts, Grants, Pledges, etc.
- I. Gifts of Future Interest
- J. Origination, Commitment and Other Fees and Costs
- K. Expenses
- L. Remittances to National Organizations
- M. Prior Period Adjustments
- N. Wills or Trusts
- O. Accounting for a Change in Method of Accounting for Certain Postretirement Benefits

- **Additional Financial Statements**

- A. Statement of Changes in Financial Position
- B. Statement of Functional Expenses

- **Tax Status**

- **Federal Grants to Nonprofit Organizations**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>.04 General</b>			
<b>A. Titles and References</b>			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
<b>B. Disclosure of Accounting Policies and Other Disclosures</b>			
1. Is a description of all significant accounting policies of the reporting entity 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. 7 (AC I28.513)]	_____	_____	_____
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)]	_____	_____	_____
4. Considering the following potential users of the financial statements:			
a. Contributors to and other funders of the organization			
b. Beneficiaries of the organization			
c. The organization's trustees or directors and key managers			
d. Other employees of the organization			
e. Governmental units			
f. The organization's creditors and potential creditors			
g. Related organizations			
Do the financial statements identify the organization's			
a. Principal programs? [SOP 78-10, par. 9]	_____	_____	_____
b. Principal program costs? [SOP 78-10, par. 9]	_____	_____	_____
c. Do the financial statements and/or notes disclose the degree of control exercised by donors over the use of resources? [SOP 78-10, par. 9]	_____	_____	_____
d. Do the financial statements help the reader to evaluate the organization's ability to carry out its fiscal objectives? [SOP 78-10, par. 9]	_____	_____	_____
<b>C. Accounting Changes</b>			
1. For an accounting change does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable?	_____	_____	_____
c. Effect on excess of revenues over expenses? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10—11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5—6 (AC A06.112)]	_____	_____	_____
3. Is a correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on excess of revenues over expenses before and after extraordinary items? [APB 20, pars. 36—37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102) (SOP 78-10, par. 41)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
<b>E. Nonmonetary Transactions</b>			
1. Are nonmonetary transactions accounted for in conformity with APB 29 and/or SOP 78-10, par. 71 or VHW, Chapter 5? [APB 29, pars. 18—27 (AC C11.101 and N35.105—.113)][SOP 78-10, par. 71] [VHW, Chapter 5]	_____	_____	_____
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)]	_____	_____	_____
<b>F. Contingencies and Commitments</b>			
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 C59.111)]	_____	_____	_____
3. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, obligations of banks under standby letters of credit)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments such as those for capital expenditures, grants to be awarded to others, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
6. Are encumbrances, appropriations of fund balance, unspecified reserves, and other commitments not meeting the criteria of SFAS 5, par. 8 not reported as expenses or liabilities? [SFAS 5, pars. 14—15 (AC C59.116.—.117)] (These may be reported as segregations of fund balance on the balance sheet.)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>G. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09)]	_____	_____	_____
<b>H. Pension Plans (See Appendix for effective dates of SFAS 87)</b>			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? <sup>2</sup>	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
1. The fair value of plan assets?	_____	_____	_____
2. The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
3. The amount of unrecognized prior service cost?	_____	_____	_____
4. The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
5. The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
6. The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	_____	_____	_____
7. The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 [AC P16.129—.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amount and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization methods used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in paragraph 41 [AC P16.135]? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____

<sup>2</sup> The net total of other components is the net effect during the period of certain delayed recognition provisions of this statement. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)
- b. Amortization of the net gain or loss from earlier periods
- c. Amortization of unrecognized prior service cost
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. If more than one defined benefit plan exists:			
(1) Have the disclosures required by H1 above been aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligation not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If answer is yes, are accounting and disclosure requirements in accordance with the provisions of H1 above, applicable to a defined benefit plan? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 [AC C59] been applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>I. Related Parties</b>			
1. Do the financial statements represent one of the following components of a nonprofit organization [ACNO, Ch. 8, p. 51]:			
a. A branch of an existing organization?	_____	_____	_____
b. A separate operation?	_____	_____	_____
c. A separate fund?	_____	_____	_____
d. A grant?	_____	_____	_____
2. If the answer to any of the questions in No. 1 is yes, do the financial statements or footnotes disclose the following:			
a. Existence of affiliated or controlling interest? [ACNO, Ch. 8, p. 52]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Nature and volume of material transactions (individually or in the aggregate) with related parties? [ACNO, Ch. 8, p. 52]	_____	_____	_____
c. Any allocations of common expenses? [ACNO, Ch. 8, p. 52]	_____	_____	_____
d. Do the Financial Statements of the Component clearly indicate what part of the organization is included and what parts are not included? [ACNO, Ch. 8, p. 52]	_____	_____	_____
<b>3. Affiliated Organizations</b>			
If other organizations are affiliated with, or otherwise financially related to, the organizations under examination, have we considered whether combined financial statements are necessary for fair presentation in conformity with GAAP? [ACNO, Ch. 7, p. 39] [VHW, pp. 34—35]	_____	_____	_____
If combined financial statements are not necessary, did the auditor consider whether appropriate disclosure of the affiliation was made in the notes to financial statements? [ACNO, Ch. 7, p. 39; SFAS 57 (AC R36)]	_____	_____	_____
4. With respect to disclosure of related party transactions, has consideration been given to transactions with chapters, foundations, auxiliaries, guilds, trusts, etc., as well as members of management and the governing board and other organizations with which such parties are affiliated? [SFAS 57, AC R36]	_____	_____	_____
<b>.05 Balance Sheet</b>			
<b>A. General</b>			
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); (SOP 78-10, pars. 23, 24)]	_____	_____	_____
2. Are assets not expected to be realized during the current operating cycle classified as non-current? [ARB 43, Ch. 3A, pars. 5—6 (AC B05.106—.107)]	_____	_____	_____
3. 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)]	_____	_____	_____
4. If necessary, in order to segregate unrestricted from restricted resources does the organization report on a fund accounting basis? [SOP 78-10, pars. 15, 20—24]	_____	_____	_____
<b>B. Cash</b>			
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)]	_____	_____	_____
<b>C. Carrying Amount of Investments</b>			
1. For those organizations covered by SOP 78-10:			
a. Marketable debt securities Assuming the organization has ability and intention to hold the securities to maturity, are the securities being reported at amortized cost, market value, or the lower of amortized cost or market value? [SOP 78-10, par. 79]	_____	_____	_____
b. Marketable equity securities and Marketable debt securities			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
For debt securities which are <i>not</i> expected to be held to maturity and all equity securities, are they reported at either market value or the lower of cost or market value? [SOP 78-10, par. 79]	_____	_____	_____
c. Are other investments, such as real estate, oil and gas interests, reported at either fair value or the lower of cost or fair value? [SOP 78-10, par. 79]	_____	_____	_____
2. For the above three categories has the same basis of valuation been applied to all investments in each group? [SOP 78-10, par. 79]	_____	_____	_____
3. If investments are <i>not</i> carried at market value, is the market value for that group disclosed at the balance sheet date? [SOP 78-10, par. 79]	_____	_____	_____
4. For those organizations covered by VHW Guide:			
a. If the market value of the investment portfolio is below the recorded value, if considered necessary was the carrying value reduced to market? [VHW, Ch. 2, p. 5]	_____	_____	_____
Or was an allowance for decline in market value provided? [VHW, Ch. 2, p. 5]	_____	_____	_____
b. When VHW investments are carried at cost is current market value disclosed? [VHW, Ch. 2, p. 6]	_____	_____	_____
c. When VHW investments are carried at market value is cost disclosed? [VHW, Ch. 2, p. 6]	_____	_____	_____
5. Have other investments than securities been valued at cost or fair market value? [VHW, Ch. 2]	_____	_____	_____
<b>D. Receivables</b>			
1. Are accounts and notes receivable from officers, employees, and affiliated organizations 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 income statement? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
4. Are legally enforceable pledges receivable recorded? [SOP 78-10, pars. 64-66] [VHW, p. 18]	_____	_____	_____
<b>E. Property and Equipment</b>			
1. Are <i>purchased</i> fixed assets capitalized at cost? [SOP 78-10, par. 105] [VHW, p. 10]	_____	_____	_____
2. Are <i>donated</i> fixed assets recorded at their fair value at the date of the gift? [SOP 78-10, par. 105] [VHW, p. 10]	_____	_____	_____
3. If fixed assets were not capitalized in the past are they being capitalized retroactively? [SOP 78-10, par. 105]	_____	_____	_____
4. If historical costs are unavailable for assets already in service, has another reasonable basis been used to value the assets?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SOP 78-10, par. 105]			
5. For depreciable assets, do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period? [SFAS 93, par. 5a (AC D40.105a)] * [SOP 78-10, par. 110]	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function? [SFAS 93, par. 5b (AC D40.105b)] *	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total? [SFAS 93, par. 5c (AC D40.105c)] *	_____	_____	_____
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [SFAS 93, par. 5d (AC D40.105d)] * APB 22, par. 13 (AC A10.106)]	_____	_____	_____
6. Are capitalized fixed assets depreciated? [SOP 78-10, par. 107]	_____	_____	_____
7. If the organization owns any fixed assets, such as landmarks, monuments, cathedrals, historical treasures or houses of worship, which are considered inexhaustible and do not meet the conditions of paragraph 6 of SFAS 93, are they depreciated? [SFAS 93, par. 3] *	_____	_____	_____
8. Has the amount of depreciation provided on assets carried at historical cost and the amount, if any, provided on assets carried on a basis other than historical cost been disclosed? [SOP 78-10, par. 110]	_____	_____	_____
9. Are capitalized interest costs appropriately determined and reported? [SFAS 34, pars. 6—23 (AC I67.102—.103, I67.105—.107 and I67.109—.118) as amended by SFAS 42, par. 4 (AC I67.104); SFAS 58, pars. 5—7 (AC I67.105c, I67.106c—.106e and I67.117); SFAS 62, par. 5 (AC I67.106)]	_____	_____	_____
10. Has the basis of valuation and the amount of any assets pledged to secure outside borrowing been disclosed in the financial statements? [SOP 78-10, p. 166, Note 3]	_____	_____	_____
<b>F. Collections of Works of Art and Similar Items</b>			
1. If the organization has inexhaustible collections usually associated with museums, art galleries, botanical gardens, libraries or similar entities and if such collections are not capitalized, does the caption "Collections" appear on the balance sheet with no amount shown but with a reference to a note that describes the collection? [SOP 78-10, par. 113]	_____	_____	_____
2. If the valuation basis is shown on the balance sheet have we obtained assurance that it is appropriate? [SOP 78-10, par. 113]	_____	_____	_____
3. Do the financial statements disclose the cost or contributed value of current period accessions and the nature of and proceeds from deaccessions? [SOP 78-10, par. 114]	_____	_____	_____
<b>G. Other Assets and Deferred Charges</b>			
1. Are the costs of intangible assets acquired from other entities recorded as assets? [APB 17, pars. 24—26 (AC I60.105—.107)]	_____	_____	_____
2. Are the costs of developing, maintaining or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred? [APB 17, par. 24 (AC I60.105)]	_____	_____	_____
3. Has interest been accrued on interfund borrowings if appropriate?	_____	_____	_____

\* The effective date of SFAS 93 has been deferred by SFAS 99 to fiscal years beginning on or after January 1, 1990



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SOP 78-10, par. 118]			
4. When funds for repayment are not available have such borrowings been considered permanent and recorded as transfers? [SOP 78-10, par. 118]	_____	_____	_____
<b>H. Current Liabilities</b>			
1. Do current liabilities include:			
a. Obligations for items which have entered the operating cycle?	_____	_____	_____
b. Collections received in advance of the delivery of goods or performance of services?	_____	_____	_____
c. Debts which arise from operations directly related to the operating cycle?	_____	_____	_____
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 B05.118)]	_____	_____	_____
2. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8-14 (AC B05.112-.116); FASBI 8 (AC B05.117 and B05.138-.139)]	_____	_____	_____
<b>I. Notes Payable and Other Debt</b>			
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, etc.? [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?	_____	_____	_____
c. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
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? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109)]	_____	_____	_____
5. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)]	_____	_____	_____
<b>J. Lessees</b>			
1. For capital leases do disclosures include:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and L10.112a(1)—(4))]	_____	_____	_____
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4)) amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Bases for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); For amendments of SFAS 13 see SFASs 17, 22, 23, 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, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17 and 79-18]	_____	_____	_____
<b>K. Other Liabilities and Deferred Credits</b>			
1. Are estimated losses from loss contingencies accrued if both "probable" 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 C59.124—.127)]	_____	_____	_____
2. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6—7 (AC C44.104 and C44.108)]	_____	_____	_____
3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102)]	_____	_____	_____
<b>.06 Activity Statement or Statement of Revenue and Expenses, or Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances (SOP 78-10, par. 25)</b>			
<b>A. Fund Accounting</b>			
1. If necessary, in order to segregate unrestricted from restricted resources does the organization report on a fund accounting basis? [SOP 78-10, par. 15]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does the Activity Statement include all the funds of the organization? [SOP 78-10, pars. 25—31]	_____	_____	_____
3. Does the Activity Statement disclose all legally unrestricted income, expenses and fund balances on a functional basis where the organization receives significant support from the general public in the form of contributions? [SOP 78-10, Exhibits 1B and 4B] [VHW, pp. 42, 43]	_____	_____	_____
4. Is the total amount for all legally unrestricted income, expenses and fund balances shown in one column so as to be clearly distinguishable to a reader of the financial statements? [SOP 78-10, Exhibits 1B and 4B] [VHW, pp. 42, 43]	_____	_____	_____
5. Does the Activity Statement indicate which contributions cannot be spent currently for program or support services because of donor or legal restrictions? [SOP 78-10, pars. 28, 62]	_____	_____	_____
6. Has the client complied with all restrictions imposed by donors or other third parties and are significant restrictions disclosed in the financial statements? [SOP 78-10, par. 59]	_____	_____	_____
7. Are contributions that cannot be spent currently differentiated from items that are available for current operations by use of captions such as "Capital Additions" or "Nonexpendable Additions"? [SOP 78-10, par. 28]	_____	_____	_____
8. If a columnar format is used, do the statements show a total all-funds column? (Not mandatory) [SOP 78-10, pars. 37, 39]	_____	_____	_____
9. Are comparative financial statements being presented? (Not mandatory) [SOP 78-10, par. 41]	_____	_____	_____
10. Is an excess of revenues over expenses clearly shown? [SOP 78-10, par. 30] and if there are capital additions, are there two excess captions? [SOP 78-10, par. 31]	_____	_____	_____
11. If the auditor will be rendering an opinion on the prior period as well as the current period, has the auditor evaluated whether the prior period information contains sufficient information to constitute a fair presentation in conformity with GAAP or will additional columns or details be required, or does the auditor need to modify his report? [SOP 78-10, par. 41 and SAS 58, fn. 27]	_____	_____	_____
<b>B. Capital Gains</b>			
1. If the aggregate market value by fund group is less than the carrying amount for investments carried at the lower of (amortized) cost or market value, has the decline been recognized? [SOP 78-10, par. 80]	_____	_____	_____
2. Have recoveries in aggregate market value in subsequent periods been recorded subject to the limitation that the carrying amount should not exceed original cost? [SOP 78-10, par. 80]	_____	_____	_____
a. Where such adjustments relate to noncurrent investments was this recognized as an addition or deduction to the fund balance? [SOP 78-10, par. 80]	_____	_____	_____
b. If the adjustments relate to current investments were they reflected in the statement of activity in the same manner as realized gains and losses? [SOP 78-10, par. 80]	_____	_____	_____
3. Assuming that the organization has adopted the so called total-return approach for the management of investments of endowment and quasi-endowments funds:			
a. Is this in conformity with State Regulations? [See pars. 75 and 76 of SOP 78-10, and VHW, Ch. 2, p. 7]	_____	_____	_____

	Yes	No	N/A
b. Has the organization reported the portion of available net gains from endowment investments utilized in the statement of activity as a transfer from endowment funds to other funds? [SOP 78-10, par. 76] [VHW, p. 8]	_____	_____	_____
c. If the answer is "no" has this been disclosed in the accountants' report?	_____	_____	_____
d. Do the notes to financial statements summarize total realized and unrealized gains and losses and income earned from investments held by all funds except life income and custodial funds? [SOP 78-10, par. 83]	_____	_____	_____
<b>4. Tax Allocation</b>			
a. Is the organization subject to federal excise tax on investment income or to federal and state income taxes on unrelated business income? [SOP 78-10, par. 103]	_____	_____	_____
b. If the answer is "yes" and temporary differences exist between the income base for tax and financial reporting purposes, has interperiod allocation of taxes been made and disclosed? [SOP 78-10, par. 103]	_____	_____	_____
<b>5. Transfers</b>			
Where applicable does the Activity Statement show that transfers of resources among fund groups are neither revenues nor expenses and are distinguished from support and revenues and are reported as changes in fund balances below the caption "fund balance at beginning of period"? [SOP 78-10, par. 104]	_____	_____	_____
<b>C. Third-Party Reimbursements</b>			
If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose information related to these arrangements? [ACNO, Ch. 3, pp. 14, 15]	_____	_____	_____
<b>D. Donated or Contributed Services</b>			
Do the notes to financial statements disclose the methods used by the organization in valuing, recording and reporting donated or contributed services? [SOP 78-10, par. 67] [VHW, p. 22]	_____	_____	_____
<b>E. Donated Materials and Facilities</b>			
1. Have significant donated materials and facilities been recorded at their fair value?	_____	_____	_____
2. Did the organization have a clear, measurable and objective basis for determining these fair values? [SOP 78-10, par. 71] [VHW, p. 21]	_____	_____	_____
<b>F. Subscription and Membership Income</b>			
1. Are subscriptions and revenues derived from services rendered or sale of goods recognized as revenue in the period in which they are provided? [SOP 78-10, par. 84]	_____	_____	_____
2. Is revenue from membership dues recognized ratably over the period to which the dues relate? [SOP 78-10, par. 84]	_____	_____	_____
3. If dues, assessments and nonrefundable initiation fees are in substance contributions and services are not to be provided to the member, are they recognized as revenue in the period the organization is entitled to them? [SOP 78-10, par. 84]	_____	_____	_____
<b>G. Fund Raising</b>			
If revenue from fund-raising affairs is reported net of expenses are such expenses disclosed? [SOP 78-10, par. 93] [VHW, p. 42]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>H. Restricted Gifts, Grants, Pledges, etc.</b>			
1. Are gifts, grants, pledges and other revenues which are restricted by the donor for a particular purpose recorded as follows: For "Certain Nonprofit Organizations"—in accordance with SOP 78-10, pars. 54—62? For "Voluntary Health and Welfare Organizations"—in accordance with Chapter 1, p. 2?	_____	_____	_____
2. For VHW Organizations and ACNO is investment income recorded directly into the appropriate fund based on the nature of any restrictions placed on the income? [VHW, Ch. 1, p. 3; SOP 78-10, pars. 72, 73]	_____	_____	_____
<b>I. Gifts of Future Interest (ACNO Ch. 4, p. 25)</b>			
1. Has the present value of the actuarially determined liability resulting from such gifts been recorded at the date of the gifts? [SOP 78-10, par. 121]	_____	_____	_____
2. Has any excess or deficiency in the amount of an annuity gift over the liability been recorded as support in the year of the gift if it may be used immediately for the general purpose of the organization? [SOP 78-10, par. 121]	_____	_____	_____
3. If this was not done has the excess been reported as deferred revenue if it is restricted for specific purposes? [SOP 78-10, par. 121]	_____	_____	_____
4. For the principal amount of life income gifts where the donor reserves the right to the income from the gift for life or some other stipulated period, has this principal amount been recorded as deferred support in the balance sheet in the period the gift is received? [SOP 78-10, par. 121]	_____	_____	_____
5. Has the amount previously recorded as deferred support been reflected as support or a capital addition at the future date when the terms of the annuity or life income gift was met? [SOP 78-10, par. 121]	_____	_____	_____
<b>J. Origination, Commitment and Other Fees and Costs</b>			
Are these fees recognized and amortized as follows:			
1. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 91, par. 22 (AC L20.121) (Effective for leasing and lending transactions entered into and commitments granted in fiscal years beginning after December 15, 1987)]	_____	_____	_____
2. Is amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income? [SFAS 91, par. 22 (AC L20.121) (Effective for leasing and lending transactions entered into and commitments granted in fiscal years beginning after December 15, 1987)]	_____	_____	_____
3. For direct financing leases only, have initial direct costs been disclosed? [SFAS 91, par. 25 d (L 10.119(c)) (Effective for leasing and lending transactions entered into and commitments granted in fiscal years beginning after December 15, 1987)]	_____	_____	_____
<b>K. Expenses</b>			
1. Allocation of Expenses			
a. Has a reasonable allocation of the organization's functional expenses been made to various programs and supporting services?	_____	_____	_____

	Yes	No	N/A
[SOP 78-10, par. 97 and par. 100] [VHW, Chapter 6]			
b. Have these allocations been disclosed in the notes to financial statements? [SOP 78-10, par. 100]			
2. Does disclosure of allocated joint costs incurred for materials and activities which include a fund-raising appeal include:			
a. The total amount of joint costs incurred?			
b. The total amount of joint costs allocated?			
c. The portion allocated to each functional expense category? [SOP 87-2, par. 22]			
3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, <sup>3</sup> paragraphs 20—34, 39—53, and 77? (See Exhibit A) [SFAS 87, pars. 20—34, 39—53, and 77 (AC P16.114—.128, .133—.138, and .141—.149)]			
4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3—5 and 9—11? [SFAS 88, pars. 3—5 and 9—11 (AC P16.172, .177—.179 and .181)]			
5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12—14? [SFAS 88, pars. 6 and 12—14 (AC P16.173 and .182—.184)]			
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7—8? [SFAS 88, pars. 7—8 (AC P16.174—.175)]			
6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]			
7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9—10, 12—13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9—10, 12—13 and 15 (AC P16.177, .179, .182—.183 and .185)]			
8. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—8 (AC C38.101—.102)]			
9. Are grants to other organizations recorded as expenses and liabilities at the time recipients are entitled to them? (Normally this occurs when the board approves a specific grant or notifies the grantee.) [SOP 78-10, par. 101]			
10. Do fund-raising expenses include any applicable portion of management salaries, depreciation and other occupancy expenses? [SOP 78-10, par. 98]			
11. Has disclosure of postretirement health care and life insurance benefits been made? [SFAS 81, pars. 6—7 (AC P50.102—.103)]			
<b>L. Remittances to National Organizations</b>			
When the organization remits a portion of their receipts to an affiliated state or national organization is this amount properly reported? [SOP 78-10, par. 90] [VHW, p. 29]			
<b>M. Prior Period Adjustments</b>			
1. Are prior period adjustments limited to: correction of an error(s) in financial statements of prior periods? [SFAS 16, par. 11 (AC A35.103)]			

<sup>3</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The new pension rules apply primarily to organizations offering defined benefit pension plans.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2 Are prior period adjustments and their resulting effects appropriately disclosed? [APB 9, par. 26 (AC C35.107)]	_____	_____	_____
<b>N. Wills or Trusts</b>			
If the organization is certain to receive sizeable, but indeterminable amounts under a will or trust, did the organization make adequate disclosure in a footnote to the financial statements regardless of the period of time which is estimated to elapse before the date of receipt? [FASB 5, par. 17 (AC C59.118); SAS 32 (AU 431.02)]	_____	_____	_____
<b>O. Accounting for a Change in Method of Accounting for Certain Postretirement Benefits <sup>4</sup></b>			
1. If an employer changes its method of accounting from (a) the cash basis to an accrual method or (b) one accrual method to another accrual method for postretirement life insurance benefits not provided through a pension plan or for postretirement health care benefits (regardless of whether those benefits are provided through a pension plan or through a separate plan), did the employer account for the effect of the change prospectively in the period of change and in future periods? [TB 87-1, par. 3]	_____	_____	_____
2. If the employer did not account for the change prospectively in the period of change and in future periods, did the employer recognize the cumulative effect of the change in net income of the period of the change? [TB 87-1, par. 3]	_____	_____	_____
3. In the financial statements for the period in which the change is adopted was the nature of, the justification for, and the method of accounting for the accounting change disclosed? [TB 87-1, par. 4]	_____	_____	_____
4. Does the justification for the change explain clearly why the newly adopted accounting method is preferable? [TB 87-1, par. 4]	_____	_____	_____
5. Has the effect of adopting the new accounting method on excess of revenue over expenses before and after extraordinary items of the period of the change been disclosed? [TB 87-1, par. 4]	_____	_____	_____
6. Have the following disclosures also been made:			
a. If the effect of the change will be recognized prospectively in the current year and future periods, has the effect and method for prospective recognition been disclosed? [TB 87-1, par. 4]	_____	_____	_____
b. Has the effect of the change, when recognized, been included in income from operations? [TB 87-1, par. 4]	_____	_____	_____
c. If the cumulative effect of the change is recognized in net income of the period of the change, as described in paragraph 20, of Opinion 20, has the pro forma effect of retroactive application on excess of revenue over expenses before and after extraordinary items, been disclosed as required by paragraph 21 of Opinion 20? [TB 87-1, par. 4]	_____	_____	_____
<b>.07 Additional Financial Statements</b>			
<b>A. Statement of Changes in Financial Position *</b>			

<sup>4</sup> Effective for fiscal years beginning after December 15, 1986. Earlier application is permitted. Restatement of previously issued annual financial statements is not permitted.

\* See footnote on page 9101.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. If required by SOP 78-10, is a statement of changes in financial position presented as a basic financial statement for each period for which an activity statement or statements of support, revenue and expenses is presented? [APB 19, par. 7 (AC F40.101)] [SOP 78-10, par. 17, Exhibit C]	_____	_____	_____
2. Does the format provide the most useful portrayal of the reporting entity's financial and investing activities and changes in financial position and functional expenses? [APB 19, par. 11 (AC F40.105)]	_____	_____	_____
3. Does the statement of changes in financial position disclose all important aspects of financing and investing activities regardless of whether cash or other elements of working capital are directly affected? [APB 19, par. 8 (AC F40.101—.102)] [SOP 78-10, pars. 32, 33 and 34]	_____	_____	_____
4. Does the statement of changes in financial position:			
a. Begin with excess (deficiency) of support and revenue over expenses before capital additions or similar captions? [SOP 78-10, Exhibits 5C, 6D, 8C, 9C, 10C and 12C]	_____	_____	_____
b. Present additions or deductions of items recognized in determining income or loss that did not provide or use working capital or cash? [APB 19, par. 10 (AC F40.104)] [SOP 78-10, Exhibits 6D, 8C, 9C, 10C and 12C]	_____	_____	_____
c. Individually disclose the effects of other financing and investing activities including:			
(1) Outlays for purchase of long-term assets? [SOP 78-10, Exhibits 6D and 8C]	_____	_____	_____
(2) Proceeds from sale of long-term assets? [SOP 78-10, Exhibit 5C]	_____	_____	_____
(3) Issuance, assumption, redemption and repayment of long-term debt? [SOP 78-10, Exhibits 4C and 6D]	_____	_____	_____
d. Are net changes in each element of working capital disclosed? [APB 19, par. 12 (AC F40.106)] [SOP 78-10, Exhibits 6D, 8C, and 10C]	_____	_____	_____
<b>B. Statement of Cash Flows *</b>			
1. Is a statement of cash flows presented as a basic financial statement for each period for which an activity statement or statements of support, revenue and expenses is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
2. Does the statement report the cash effects during the period of the entity's operations, its investing transactions and its financing transactions?	_____	_____	_____
3. Are the effects of investing and financing transactions that affect the entity's financial position but do not directly affect cash flows during the period reported in related disclosures? [SFAS 95, par. 6 (AC 25.104)]	_____	_____	_____
4. Does the statement of cash flows report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]	_____	_____	_____
5. Does the statement of cash flows separately report:			
a. Cash collected from contributors	_____	_____	_____
b. Interest and dividends received	_____	_____	_____
c. Other operating cash receipts (if any)	_____	_____	_____
d. Cash paid to employees and other suppliers of goods or services	_____	_____	_____

\* See footnote on page 9101.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Interest paid	_____	_____	_____
f. Income taxes paid	_____	_____	_____
g. Other operating cash payments (if any) [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
6. Have investing and financing activities of the entity during the period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period been disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
<b>C. Statement of Functional Expenses</b>			
1. For entities covered by the Audit Guide for Voluntary Health and Welfare Organizations, is a statement of functional expenses presented as a basic financial statement for each period for which a statement of support, revenue and expenses is presented? [VHW, p. 29, 44—45]	_____	_____	_____
2. Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization's activities? [VHW, p. 29]	_____	_____	_____
<b>.08 Tax Status</b>			
1. Do the financial statements, footnotes and other disclosures in the annual report contain any information or language which may adversely affect the organization's tax status, as for example:			
a. Cause the IRS to assert that the entity is a private foundation (if it is not)?	_____	_____	_____
b. Cause the IRS to claim that the organization is subject to the tax on unrelated business income?	_____	_____	_____
c. Result in the organization being subject to any penalties or taxes (for example, for excess lobbying activities, private investments, imprudent unreasonable compensation, activities not in accordance with the organization's exempt status)?	_____	_____	_____
2. If the entity's tax exempt status is in question by the IRS, is the impact disclosed in a footnote? [FASB 5 (pars. 1, 39) (AC C59.101, C59.145)]	_____	_____	_____
<b>.09 Federal Grants to Nonprofit Organizations</b>			
1. In-Kind Contributions from Non-Federal Third Parties			
a. Have volunteer services by outside contributors been disclosed?	_____	_____	_____
b. Has the basis for determining the valuation for personal services, material, equipment, buildings and land been disclosed? [OMB Circular A-110, Attachment E]	_____	_____	_____
2. Do the organization's financial statements show accurate, current and complete disclosure of the financial results separately for each federally sponsored project or program? [OMB Circular A-110, Attachment F]	_____	_____	_____
3. Financial Reporting Requirements			
Have the following disclosures of OMB Circular A-110 been made in the financial statements:			
a. Summarization of expenditures made and unexpended Federal funds shown for each award?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Status of Federal cash advanced? [OMB Circular A-110, Attachment G]	_____	_____	_____
4. Where property was acquired with Federal funds and remains in the grantee's possession at conclusion of the grant period do the financial statements disclose what the final disposition will be? [OMB Circular A-110, Attachment N]	_____	_____	_____

---

# **FSP Section 9600**

## ***Illustrative Auditors' Reports and Financial Statements***

### **Introduction**

.01 The following illustrative auditors' reports and financial statements (exhibits 1 through 3) demonstrate the practical applications of the reporting practices discussed in Statement of Position 78-10 and the AICPA Industry Audit Guide for Voluntary Health and Welfare Organizations. Specific types of nonprofit organizations have been selected to illustrate a wide diversity of reporting practices; it is not intended that these illustrations represent either the only types of disclosure or the only statement formats that would be appropriate. Nonprofit organizations are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices discussed in SOP 78-10 and AICPA Industry Audit Guide for Voluntary Health and Welfare Organizations.

.02

**Illustrative Auditors' Report—Nonprofit Organization**

We have audited the accompanying balance sheets of Sample Nonprofit Organization as of December 31, 19X2 and 19X1 and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Nonprofit Organization as of December 31, 19X2 and 19X1, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

**EXHIBIT 1—INDEPENDENT SCHOOL**

**EXHIBIT 1A**

.03

**Sample Independent School**

**Balance Sheet**

**June 30, 19X1**

	<u>Operating Funds</u>	<u>Plant Funds</u>	<u>Endowment Funds</u>	<u>Total All Funds</u>
<b>Assets</b>				
Cash .....	\$ 87,000	\$ 15,000	\$ 19,000	\$ 121,000
Accounts receivable, less allowance for doubtful receivables of \$3,000 .....	34,000	—	—	34,000
Pledges receivables, less allowance for doubtful pledges of \$10,000 .....	—	75,000	—	75,000
Inventories, at lower of cost (FIFO) or market .....	7,000	—	—	7,000
Investments (Note 2) .....	355,000	10,000	100,000	465,000
Land, buildings, equipment, and library books, at cost less accumulated depreciation of \$980,000 (Note 3) .....	—	2,282,000	—	2,282,000
Other assets .....	17,000	—	—	17,000
<b>Total assets .....</b>	<b><u>\$ 500,000</u></b>	<b><u>\$ 2,382,000</u></b>	<b><u>\$ 119,000</u></b>	<b><u>\$ 3,001,000</u></b>
<b>Liabilities and Fund Balances</b>				
Accounts payable and accrued expenses .....	\$ 13,000	—	—	\$ 13,000
Deferred amounts (Note 6)				
Unrestricted .....	86,000	—	—	86,000
Restricted .....	27,000	\$ 100,000	—	127,000
Long-term debt (Note 4) .....	—	131,000	—	131,000
<b>Total liabilities .....</b>	<b><u>126,000</u></b>	<b><u>231,000</u></b>	<b><u>—</u></b>	<b><u>357,000</u></b>
<b>Fund balances</b>				
<b>Unrestricted</b>				
Designated by the governing board for long-term investment .....	355,000	—	—	355,000
Undesignated .....	19,000	—	—	19,000
	<b><u>374,000</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>374,000</u></b>
Restricted—nonexpendable .....	—	—	\$ 119,000	119,000
Net investment in plant .....	—	2,151,000	—	2,151,000
<b>Total fund balances .....</b>	<b><u>374,000</u></b>	<b><u>2,151,000</u></b>	<b><u>119,000</u></b>	<b><u>2,644,000</u></b>
<b>Total liabilities and fund balances .....</b>	<b><u>\$ 500,000</u></b>	<b><u>\$ 2,382,000</u></b>	<b><u>\$ 119,000</u></b>	<b><u>\$ 3,001,000</u></b>

## EXHIBIT 1B

.04

## Sample Independent School

**Statement of Support and Revenue, Expenses,  
Capital Additions, and Changes in Fund Balances**

Year Ended June 30, 19X1

	Operating Funds		Total	Plant Funds	Endowment Funds	Total All Funds
	Unrestricted	Restricted				
<b>Support and Revenue</b>						
Tuition and fees	\$ 910,000	—	\$ 910,000	—	—	\$ 910,000
Contributions	104,000	\$ 80,500	184,500	—	—	184,500
Endowment and other investment income	23,000	1,500	24,500	—	—	24,500
Net loss on investment transactions	(8,000)	—	(8,000)	—	—	(8,000)
Auxiliary activities	25,000	—	25,000	—	—	25,000
Summer school and other programs	86,000	—	86,000	—	—	86,000
Other sources	26,000	—	26,000	—	—	26,000
<b>Total support and revenue</b>	<b>1,166,000</b>	<b>82,000</b>	<b>1,248,000</b>	<b>—</b>	<b>—</b>	<b>1,248,000</b>
<b>Expenses</b>						
<b>Program services</b>						
Instruction and student activities	798,000	43,000	841,000	\$ 69,000	—	910,000
Auxiliary activities	24,000	—	24,000	—	—	24,000
Summer school and other programs	91,000	—	91,000	7,000	—	98,000
Financial aid	—	37,000	37,000	3,000	—	40,000
<b>Total program services</b>	<b>913,000</b>	<b>80,000</b>	<b>993,000</b>	<b>79,000</b>	<b>—</b>	<b>1,072,000</b>
<b>Support services</b>						
General administration	147,000	2,000	149,000	13,000	—	162,000
Fund raising	12,000	—	12,000	1,000	—	13,000
<b>Total supporting services</b>	<b>159,000</b>	<b>2,000</b>	<b>161,000</b>	<b>14,000</b>	<b>—</b>	<b>175,000</b>
<b>Total expenses</b>	<b>1,072,000</b>	<b>82,000</b>	<b>1,154,000</b>	<b>93,000</b>	<b>—</b>	<b>1,247,000</b>
<b>Excess (deficiency) of support and revenue over expenses before capital additions</b>	<b>94,000</b>	<b>—</b>	<b>94,000</b>	<b>(93,000)</b>	<b>—</b>	<b>1,000</b>
<b>Capital additions</b>						
Contributions and bequests	—	—	—	80,000	\$ 30,000	110,000
Investment income	—	—	—	5,000	—	5,000
Net gain on investment transactions	—	—	—	1,000	2,000	3,000
<b>Total capital additions</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>86,000</b>	<b>32,000</b>	<b>118,000</b>
<b>Excess (deficiency) of support and revenue over expenses after capital additions</b>	<b>94,000</b>	<b>—</b>	<b>94,000</b>	<b>(7,000)</b>	<b>32,000</b>	<b>119,000</b>
<b>Fund balances at beginning of year</b>	<b>387,000</b>	<b>—</b>	<b>387,000</b>	<b>2,047,000</b>	<b>91,000</b>	<b>2,525,000</b>
<b>Transfers</b>						
Equipment acquisitions and principal debt service payments	(111,000)	—	(111,000)	111,000	—	—
Realized gains on endowment funds utilized	4,000	—	4,000	—	(4,000)	—
<b>Fund balances at end of year</b>	<b>\$ 374,000</b>	<b>—</b>	<b>\$ 374,000</b>	<b>\$2,151,000</b>	<b>\$ 119,000</b>	<b>\$ 2,644,000</b>

EXHIBIT 1C

.05

Sample Independent School

Statement of Cash Flows\*

Year Ended June 30, 19X1

	<i>Operating Funds</i>	<i>Plant Funds</i>	<i>Endowment Funds</i>	<i>Total All Funds</i>
<b>Cash flows from operating activities:</b>				
Tuition, fees and auxiliary activities . . . . .	\$ 1,044,000	—	—	\$ 1,044,000
Endowment and investment income . . . . .	24,500	—	—	24,500
Contributions . . . . .	187,500	—	—	187,500
Cash paid to suppliers and employees . . . . .	(1,145,000)	—	—	(1,145,000)
Interest paid . . . . .	(11,000)	—	—	(11,000)
Net cash flow from operating activities . . . . .	<u>100,000</u>	<u>—</u>	<u>—</u>	<u>100,000</u>
<b>Capital cash flows:</b>				
Contributions . . . . .	—	\$ 95,000	\$ 30,000	125,000
Investment income . . . . .	—	5,000	—	5,000
Net capital cash flows . . . . .	<u>—</u>	<u>100,000</u>	<u>30,000</u>	<u>130,000</u>
<b>Cash flows from financing activities:</b>				
Repayments of long-term debt . . . . .	—	(52,000)	—	(52,000)
Net cash flow from financing activities . . . . .	<u>—</u>	<u>(52,000)</u>	<u>—</u>	<u>(52,000)</u>
<b>Cash flows from investing activities:</b>				
<b>Land, buildings, equipment and library books:</b>				
Purchases . . . . .	—	(145,000)	—	(145,000)
Proceeds from sales . . . . .	—	—	—	—
<b>Investments:</b>				
Purchases . . . . .	(210,000)	(6,000)	(136,000)	(352,000)
Proceeds . . . . .	160,000	2,000	47,000	209,000
Net cash flow from investing activities . . . . .	<u>(50,000)</u>	<u>(149,000)</u>	<u>(89,000)</u>	<u>(288,000)</u>
Increase (decrease) in cash . . . . .	50,000	(101,000)	(59,000)	(110,000)
<b>Transfers:</b>				
Equipment acquisitions and principal debt service payments . . . . .	(111,000)	111,000	—	—
Realized gains on endowment funds utilized . . . . .	4,000	—	(4,000)	—
Net increase (decrease) in cash . . . . .	<u>(57,000)</u>	<u>10,000</u>	<u>(63,000)</u>	<u>—</u>
<b>Cash:</b>				
Beginning of year . . . . .	144,000	5,000	82,000	231,000
End of year . . . . .	<u>\$ 87,000</u>	<u>\$ 15,000</u>	<u>\$ 19,000</u>	<u>\$ 121,000</u>

\* See footnote on Page 9101.

## EXHIBIT 1D

.06

## Sample Independent School

## Notes to Financial Statements

Year Ended June 30, 19X1

**Note 1—Summary of Significant Accounting Policies**

The financial statements of Sample Independent School have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

*Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the school, the accounts of the school are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the school are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

*Expendable Restricted Resources*

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the school has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

*Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

*Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, if restricted, as deferred amounts until the terms of the restriction have been met.



Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

**Note 2—Investments**

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

	<u>Cost</u>	<u>Market</u>
Operating funds .....	\$355,000	\$365,000
Plant funds .....	10,000	11,000
Endowment funds .....	100,000	109,000
	<u>\$465,000</u>	<u>\$485,000</u>

Investments are composed of the following:

	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds .....	\$318,000	\$320,000
U.S. government obligations .....	141,000	159,000
Municipal bonds .....	6,000	6,000
	<u>\$465,000</u>	<u>\$485,000</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance at end of year .....	\$465,000	\$485,000	\$20,000
Balance at beginning of year .....	<u>\$327,000</u>	<u>\$335,000</u>	8,000
Increase in unrealized appreciation .....			12,000
Realized net loss for year .....			<u>(5,000)</u>
Total net gain for year .....			<u>\$ 7,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X1.

**Note 3—Inventories**

Inventories at June 30, 19X1 consist of:

Paper and supply stock .....	\$2,000
Textbooks .....	5,000
	<u>\$7,000</u>

**Note 4—Plant Assets and Depreciation**

A summary of plant assets follows.

Land .....	\$ 255,000
Buildings .....	2,552,000
Equipment .....	340,000
Library books .....	115,000
	<u>3,262,000</u>
Less accumulated depreciation .....	980,000
	<u>\$2,282,000</u>

**Note 5—Long-Term Debt**

A summary of long-term debt follows.

7½% unsecured notes payable to bank due in quarterly installments of \$2,500 .....	\$ 29,000
8½% mortgage payable in semiannual installments of \$3,500 through 19X7 .....	102,000
	<u>\$131,000</u>

Long-term debt maturing in the next five years consists of:

19X2	\$17,000
19X3	17,000
19X4	16,000
19X5	7,000
19X6	7,000
Total	<u>\$64,000</u>

**Note 6—Pension Plans**

Effective July 1, 19X0 the school adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1 was a reduction of \$XX,XXX.

A summary of the components of income follows:

Service cost—benefits earned during the year .....	\$ XX,XXX
Interest cost on projected benefit obligation .....	XX,XXX
Actual return on plan assets .....	(XX,XXX)
Net asset gain (loss) deferred for later recognition .....	(XX,XXX)
Amortization of unrecognized net asset .....	(XX,XXX)
Net periodic pension income .....	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation:

Accumulated benefit obligation, including vested benefits of \$XX,XXX n 19X1 .....	\$ (XX,XXX)
Projected benefit obligation for service rendered to date .....	(XX,XXX)

Assets available for benefits:

Plan assets at fair value, primarily listed stocks and U.S. government securities .....	XXX,XXX
Plan assets in excess of benefit obligation .....	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions .....	XXX
Unrecognized net assets at July 1, 19X0 being recognized over XX years .....	(XX,XXX)
Prepaid pension cost included in other assets .....	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1, \$X,XXX of the vested benefit portion of the projected benefit obligation was settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the school recognized gains of \$X,XXX in 19X1.

**Note 7—Postretirement Health Care and Life Insurance Benefits**

Sample Independent School offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Independent School shares the cost of providing these benefits with all affected retirees. Sample Independent School's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totalled \$XX,XXX for the year ended June 30, 19X1. Sample Independent School has made no provision for recognizing the cost or postretirement benefits which may eventually be paid to employees who have not yet retired.

**Note 8—Changes in Deferred Restricted Amounts**

	<i>Operating Funds</i>	<i>Plant Fund</i>
Balances at beginning of year .....	\$ 24,000	\$ 25,000
<b>Additions</b>		
Contributions and bequests .....	79,000	158,000
Investment income .....	6,000	1,000
Net gain on investment transactions .....	—	2,000
	<u>109,000</u>	<u>186,000</u>
Deductions—funds expended during the year .....	82,000	86,000
Balances at end of year .....	<u>\$ 27,000</u>	<u>\$100,000</u>

**Note 9—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 10—Commitments**

The school has entered into various agreements aggregating approximately \$80,000 for the purchase of equipment to be received subsequent to June 30, 19X1.

## EXHIBIT 2—UNION

## EXHIBIT 2A

.07

## Sample Union

## Balance Sheet

December 31, 19X1

(With Comparative Totals for 19X0)

<b>Assets</b>	<i>General Fund (Undesignated)</i>	<i>Strike Insurance Fund (Designated)</i>	<i>December 31, 19X1 Total</i>	<i>December 31, 19X0 Total</i>
<b>Current assets</b>				
Cash (including savings accounts of \$2,100,000 and \$1,050,000) (Note 3) .....	\$ 650,800	\$ 1,710,000	\$ 2,360,800	\$ 1,238,100
Investments at market .....	491,800	9,054,200	9,546,000	9,640,400
Per capita dues receivable .....	51,800	133,200	185,000	189,500
Accrued interest receivable .....	1,800	210,700	212,500	214,600
Loans to affiliated organizations (Note 4) .....	21,400	-	21,400	27,300
Accounts receivable (less allowance for doubtful accounts of \$2,300 and \$2,500) ....	67,900	-	67,900	68,900
Prepaid expenses .....	74,900	-	74,900	71,500
Total current assets .....	<u>1,360,400</u>	<u>11,108,100</u>	<u>12,468,500</u>	<u>11,450,300</u>
<b>Property, furniture, and equipment at cost (Note 1)</b>				
Land .....	678,400	-	678,400	678,400
Buildings (net of accumulated depreciation of \$743,500 and \$675,600) .....	1,973,400	-	1,973,400	1,515,500
Furniture and equipment (net of accumulated depreciation of \$314,800 and \$278,200) .....	50,800	-	50,800	87,400
Total property, furniture, and equipment ..	<u>2,702,600</u>	<u>-</u>	<u>2,702,600</u>	<u>2,281,300</u>
Total assets .....	<u>\$ 4,063,000</u>	<u>\$11,108,100</u>	<u>\$15,171,100</u>	<u>\$13,731,600</u>
<b>Liabilities and Fund Balances</b>				
<b>Current liabilities</b>				
Accounts payable .....	\$ 337,600	-	\$ 337,600	\$ 423,100
Notes payable .....	13,100	-	13,100	19,600
Affiliation dues payable .....	48,800	-	48,800	49,600
Accrued salaries .....	31,500	-	31,500	33,000
Payroll taxes and employee deductions payable .....	89,300	-	89,300	90,400
Total current liabilities .....	<u>520,300</u>	<u>-</u>	<u>520,300</u>	<u>615,700</u>
Fund balances .....	3,542,700	\$11,108,100	14,650,800	13,115,900
Total liabilities and fund balances .....	<u>\$ 4,063,000</u>	<u>\$11,108,100</u>	<u>\$15,171,100</u>	<u>\$13,731,600</u>

EXHIBIT 2B

.08

Sample Union

Statement of Revenue, Expense, and Changes in Fund Balances

Year Ended December 31, 19X1

(With Comparative Totals for 19X0)

	<i>General Fund (Undesignated)</i>	<i>Strike Insurance Fund (Designated)</i>	<i>December 31, 19X1 Total</i>	<i>December 31, 19X0 Total</i>
<b>Revenue</b>				
Per capita dues (Note 2) .....	\$9,385,500	\$ 3,532,300	\$12,917,800	\$13,219,800
Initiation fees .....	24,100	-	24,100	22,800
Sales of organizational supplies .....	26,700	-	26,700	17,900
Rental income .....	216,300	-	216,300	216,100
Administrative fees—apprentice training .....	11,800	-	11,800	12,100
Interest income .....	28,100	609,000	637,100	644,100
Total revenue .....	<u>9,692,500</u>	<u>4,141,300</u>	<u>13,833,800</u>	<u>14,132,800</u>
<b>Expense (Note 6)</b>				
Program services				
Strike assistance to local unions .....	877,900	2,630,500	3,508,400	3,345,600
Constitutional convention .....	154,600	-	154,600	132,800
Field office services				
Organization .....	2,054,000	-	2,054,000	2,106,500
Negotiation .....	2,156,700	-	2,156,700	2,212,000
Grievance .....	924,300	-	924,300	947,900
Total program services .....	<u>6,167,500</u>	<u>2,630,500</u>	<u>8,798,000</u>	<u>8,744,800</u>
Administrative and general .....	3,537,700	57,600	3,595,300	1,425,200
Net (gains) losses on investments .....	(94,400)	-	(94,400)	2,062,800
Total expense .....	<u>9,610,800</u>	<u>2,688,100</u>	<u>12,298,900</u>	<u>12,232,800</u>
Excess of revenue over expense .....	81,700	1,453,200	1,534,900	1,900,000
Fund balances, beginning of year .....	3,461,000	9,654,900	13,115,900	11,215,900
Fund balances, end of year .....	<u>\$3,542,700</u>	<u>\$11,108,100</u>	<u>\$14,650,800</u>	<u>\$13,115,900</u>

EXHIBIT 2C

.09

Sample Union

Statement of Cash Flows\*

Year Ended December 31, 19X1

	<i>General Fund (Undesignated)</i>	<i>Strike Insurance Fund (Designated)</i>	<i>Total All Funds</i>	<i>December 31, 19X0 Total</i>
<b>Cash flows from operating activities:</b>				
Per capita dues, fees, and sales .....	\$9,450,800	\$3,535,500	\$12,986,300	\$13,276,200
Rental income .....	216,300	-	216,300	216,100
Interest income .....	28,100	610,700	638,800	644,100
Cash paid to suppliers and employees ....	(9,597,000)	(57,600)	(9,654,600)	(8,821,200)
Strike assistance to local unions .....	-	(2,630,500)	(2,630,500)	(3,345,600)
Interest paid .....	(1,600)	-	(1,600)	(2,200)
<b>Net cash flow from operating activities .....</b>	<b>96,600</b>	<b>1,458,100</b>	<b>1,554,700</b>	<b>1,967,400</b>
<b>Cash flows from financing activities:</b>				
Repayment of debt .....	(6,500)	-	(6,500)	(6,500)
<b>Net cash flow from financing activities .....</b>	<b>(6,500)</b>	<b>-</b>	<b>(6,500)</b>	<b>(6,500)</b>
<b>Cash flows from investing activities:</b>				
Purchase of property, furniture and equipment .....	(525,800)	-	(525,800)	(352,000)
Principal collected on loans to affiliated organizations .....	5,900	-	5,900	2,600
Investments:				
Purchases .....	(103,000)	(110,000)	(213,000)	(1,925,200)
Proceeds from sale .....	118,900	188,500	307,400	500,000
<b>Net cash flow from investing activities .....</b>	<b>(504,000)</b>	<b>78,500</b>	<b>(425,500)</b>	<b>(1,774,600)</b>
<b>Increase (decrease) in cash .....</b>	<b>(413,900)</b>	<b>1,536,600</b>	<b>1,122,700</b>	<b>186,300</b>
<b>Cash:</b>				
Beginning of year .....	1,064,700	173,400	1,238,100	1,051,800
End of year .....	<b>\$ 650,800</b>	<b>\$1,710,000</b>	<b>\$ 2,360,800</b>	<b>\$ 1,238,100</b>

\*See footnote on Page 9101.

## EXHIBIT 2D

.10

## Sample Union

## Notes to Financial Statements

December 31, 19X1, and 19X0

**Note 1—Summary of Significant Accounting Policies**

The financial statements of Sample Union have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

*Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the Union, the accounts of the Union are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the Union are reported in two self-balancing fund groups as follows:

- General funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Strike funds represent resources restricted for benefits to the membership in the event of a strike.

*Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

*Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets.

**Note 2—Strike Insurance Fund**

In accordance with the provisions of the Union Constitution, 27 percent of the per capita dues paid to the Union are designated for the Strike Insurance Fund. The fund may be distributed for strike relief at the discretion of the Union Executive Board. No charges may be made against the fund for administrative expenses.

**Note 3—Pledged Assets and Contingent Liabilities**

The Union is contingently liable as guarantor of a loan of \$15,000 to an affiliated local. In connection with the guarantee, a savings account, having a balance of \$20,000, is pledged as collateral for the loan.

**Note 4—Loans to Affiliated Organizations**

The loans to affiliated organizations represent short-term loans to local unions at current interest rates. All such loans are expected to be collected within one year.

**Note 5—Investments**

Investments are presented in the financial statements in the aggregate at fair market value.

	December 31,	
	19X1	19X0
General fund .....	\$ 491,800	\$ 496,000
Strike fund .....	9,054,200	9,144,400
	<u>\$9,546,000</u>	<u>\$9,640,400</u>

Investments are composed of the following:

U.S. government obligations .....	\$ 6,683,000	\$ 6,748,000
Municipal bonds .....	2,863,000	2,892,000
	<u>\$ 9,546,000</u>	<u>\$ 9,640,000</u>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended December 31, 19X1.

**Note 6—Pension Plan**

Effective January 1, 19X0 Sample Union adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended June 30, 19X1 was a reduction of \$XX,XXX.

A summary of the components of income follows:

	December 31,	
	19X1	19X0
Service cost—benefits earned during the year .....	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation .....	XX,XXX	XX,XXX
Actual return on plan assets .....	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition .....	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net asset .....	(XX,XXX)	(XX,XXX)
Net periodic pension income .....	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation:

Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X1 and \$XX,XXX in 19X0 .....	\$ (XX,XXX)	\$ (XX,XXX)
Projected benefit obligation for service rendered to date .....	(XX,XXX)	(XX,XXX)

Assets available for benefits:

Plan assets at fair value, primarily listed stocks and U.S. government securities .....	XXX,XXX	XXX,XXX
Plan assets in excess of benefit obligation .....	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions .....	XXX	XXX
Unrecognized net assets at July 1, 19X0 being recognized over XX years .....	(XX,XXX)	(XX,XXX)
Prepaid pension cost included in other assets .....	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>



The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X1 and 19X0, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of non-participating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the Union recognized gains of \$X,XXX and \$X,XXX in 19X1 and 19X0, respectively.

**Note 7—Postretirement Health Care and Life Insurance Benefits**

Sample Union offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Union shares the cost of providing these benefits with all affected retirees. Sample Union's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totalled \$XX,XXX and \$XX,XXX for the years ended December 31, 19X1 and 19X0, respectively. Sample Union has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

**Note 8—Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue, expenses, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**EXHIBIT 3—VOLUNTARY HEALTH AND WELFARE SERVICE****EXHIBIT 3A****.11 Illustrative Auditors' Report—Voluntary Health and Welfare Service**

We have audited the accompanying balance sheets of Sample Voluntary Health and Welfare Service as of December 31, 19X2 and 19X1 and the related statements of support, revenues, expenses, and changes in fund balances and of functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Service's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Voluntary Health and Welfare Service as of December 31, 19X2 and 19X1 and the results of its operations, changes in fund balances, functional expenses and cash flows for the years then ended in conformity with generally accepted accounting principles.

EXHIBIT 3B

.12

Sample Voluntary Health and Welfare Service

Balance Sheets

December 31, 19X2 and 19X1

	<i>Current Funds, Unrestricted</i>	
	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
Cash .....	\$2,207,000	\$2,530,000
Investments (Note 2):		
For long-term purposes .....	2,727,000	2,245,000
Other .....	1,075,000	950,000
Pledges receivable less allowance for uncollectibles of \$105,000 and \$92,000 .....	475,000	363,000
Inventories of educational materials, at cost .....	70,000	61,000
Accrued interest, other receivables and prepaid expenses .....	299,000	186,000
<b>Total</b> .....	<u>\$6,840,000</u>	<u>\$6,335,000</u>
<b>Liabilities and Fund Balances</b>		
Accounts payable .....	\$ 148,000	\$ 139,000
Research grants payable .....	596,000	616,000
Contributions designated for future periods .....	245,000	219,000
<b>Total liabilities and deferred revenues</b> .....	<u>989,000</u>	<u>974,000</u>
<b>Fund balances:</b>		
Designated by the governing board for:		
Long-term investments .....	2,800,000	2,300,000
Purchases of new equipment .....	100,000	—
Research purposes (Note 3) .....	1,152,000	1,748,000
Undesignated, available for general activities (Note 4) .....	1,799,000	1,313,000
<b>Total fund balance</b> .....	<u>5,851,000</u>	<u>5,361,000</u>
<b>Total</b> .....	<u>\$6,840,000</u>	<u>\$6,335,000</u>
		<i>Restricted</i>
<b>Assets</b>		
Cash .....	\$ 3,000	\$ 5,000
Investments (Note 2) .....	71,000	72,000
Grants receivable .....	58,000	46,000
<b>Total</b> .....	<u>\$ 132,000</u>	<u>\$ 123,000</u>
<b>Liabilities and Fund Balances</b>		
<b>Fund balances:</b>		
Professional education .....	\$ 84,000	\$ —
Research grants .....	48,000	123,000
<b>Total</b> .....	<u>\$ 132,000</u>	<u>\$ 123,000</u>

## EXHIBIT 3B (continued)

## Sample Voluntary Health and Welfare Service

## Balance Sheets

December 31, 19X2 and 19X1

<b>Assets</b>	<i>Land, Building and Equipment Fund</i>	
Cash .....	\$ 3,000	\$ 2,000
Investments (Note 2) .....	177,000	145,000
Pledges receivable less allowance for uncollectibles of \$7,500 and \$5,000 .....	32,000	25,000
Land, buildings and equipment, at cost less accumulated depreciation of \$296,000 and \$262,000 (Note 5) .....	516,000	513,000
Total .....	<u>\$ 728,000</u>	<u>\$ 685,000</u>
<b>Liabilities and Fund Balances</b>		
Mortgage payable, 8% due 19XX .....	\$ 32,000	\$ 36,000
Fund balances:		
Expended .....	484,000	477,000
Unexpended—restricted .....	212,000	172,000
Total fund balance .....	<u>696,000</u>	<u>649,000</u>
Total .....	<u>\$ 728,000</u>	<u>\$ 685,000</u>
<b>Assets</b>	<i>Endowment Funds</i>	
Cash .....	\$ 4,000	\$ 10,000
Investments (Note 2) .....	1,944,000	2,007,000
Total .....	<u>\$1,948,000</u>	<u>\$2,017,000</u>
<b>Liabilities and Fund Balance</b>		
Fund balance .....	\$1,948,000	\$2,017,000
Total .....	<u>\$1,948,000</u>	<u>\$2,017,000</u>

(See accompanying notes to financial statements)

EXHIBIT 3C

.13

Sample Voluntary Health and Welfare Service

Statement of Support, Revenue, and Expenses and Changes in Fund Balances

Year Ended December 31, 19X2 with Comparative Totals for 19X1

	19X2					
	Current Funds		Land, Building and Equipment Fund	Endowment Fund	Total All Funds	
	Unrestricted	Restricted			19X2	19X1
Public support and revenue:						
Public support:						
Contributions (net of estimated uncollectible pledges of \$195,000 in 19X2 and \$150,000 in 19X1) .....	\$3,764,000	\$162,000	\$ —	\$ 2,000	\$3,928,000	\$3,976,000
Contributions to building fund .....	—	—	72,000	—	72,000	150,000
Special events (net of direct costs of \$181,000 in 19X2 and \$163,000 in 19X1) ...	104,000	—	—	—	104,000	92,000
Legacies and bequests .....	92,000	—	—	4,000	96,000	129,000
Received from federated and nonfederated campaigns (which incurred related fund-raising expenses of \$38,000 in 19X2 and \$29,000 in 19X1) .....	275,000	—	—	—	275,000	308,000
Total public support .....	<u>4,235,000</u>	<u>162,000</u>	<u>72,000</u>	<u>6,000</u>	<u>4,475,000</u>	<u>4,655,000</u>
Revenue:						
Membership dues .....	17,000	—	—	—	17,000	12,000
Investment income .....	98,000	10,000	—	—	108,000	94,000
Realized gain on investment transactions .....	200,000	—	—	25,000	225,000	275,000
Miscellaneous .....	42,000	—	—	—	42,000	47,000
Total revenue .....	<u>357,000</u>	<u>10,000</u>	<u>—</u>	<u>25,000</u>	<u>392,000</u>	<u>428,000</u>
Total support and revenue .....	<u>4,592,000</u>	<u>172,000</u>	<u>72,000</u>	<u>31,000</u>	<u>\$4,867,000</u>	<u>\$5,083,000</u>
Expenses:						
Program services:						
Research .....	1,257,000	155,000	2,000	—	\$1,414,000	\$1,365,000
Public health education .....	539,000	—	5,000	—	544,000	485,000
Professional education and training .....	612,000	—	6,000	—	618,000	516,000
Community services .....	568,000	—	10,000	—	578,000	486,000
Total program services .....	<u>2,976,000</u>	<u>155,000</u>	<u>23,000</u>	<u>—</u>	<u>3,154,000</u>	<u>2,852,000</u>
Supporting services:						
Management and general .....	567,000	—	7,000	—	574,000	638,000
Fund raising .....	642,000	—	12,000	—	654,000	546,000
Total supporting services .....	<u>1,209,000</u>	<u>—</u>	<u>19,000</u>	<u>—</u>	<u>1,228,000</u>	<u>1,184,000</u>
Total expenses .....	<u>4,185,000</u>	<u>155,000</u>	<u>42,000</u>	<u>—</u>	<u>\$4,382,000</u>	<u>\$4,036,000</u>
Excess (deficiency) of public support and revenue over expenses .....	407,000	17,000	30,000	31,000		
Other changes in fund balances:						
Property and equipment acquisitions from unrestricted funds .....	(17,000)	—	17,000	—		
Transfer of realized endowment fund appreciation .....	100,000	—	—	(100,000)		
Returned to donor .....	—	(8,000)	—	—		
Fund balances, beginning of year .....	5,361,000	123,000	649,000	2,017,000		
Fund balances, end of year .....	<u>\$5,851,000</u>	<u>\$132,000</u>	<u>\$696,000</u>	<u>\$1,948,000</u>		

(See accompanying notes to financial statements)

## EXHIBIT 3D

.14

## Sample Voluntary Health and Welfare Service

## Statement of Cash Flows\*

Year Ended December 31, 19X2 with Comparative Totals for 19X1

	Current Funds		Land, Building and Equipment Fund	Endowment Fund	Total All Funds	
	Unrestricted	Restricted			19X2	19X1
<b>Cash flows from operating activities:</b>						
Public support .....	\$4,129,000	\$150,000	—	—	\$4,279,000	\$4,407,000
Membership dues .....	17,000	—	—	—	17,000	18,000
Investment income .....	98,000	11,000	—	—	109,000	112,000
Other revenues .....	42,000	—	—	—	42,000	44,000
Cash paid to suppliers and employees .....	(2,831,000)	—	—	—	(2,831,000)	(2,916,000)
Cash paid for awards and grants .....	(1,454,000)	(155,000)	—	—	(1,609,000)	(1,657,000)
Net cash flow from operating activities .....	1,000	6,000	—	—	7,000	8,000
<b>Capital cash flows:</b>						
Investment income .....	—	—	—	\$ 25,000	25,000	27,000
Public support .....	—	—	\$57,000	6,000	63,000	65,000
Net capital cash flow .....	—	—	57,000	31,000	88,000	92,000
<b>Cash flows from investing activities:</b>						
<b>Land, buildings and equipment:</b>						
Purchases .....	—	—	(37,000)	—	(37,000)	(35,000)
Proceeds from sales .....	—	—	—	—	—	—
<b>Investments:</b>						
Purchases .....	(1,107,000)	—	(32,000)	(100,000)	(1,239,000)	(1,202,000)
Proceeds .....	700,000	—	—	163,000	863,000	837,000
Net cash flow from investing activities .....	(407,000)	—	(69,000)	63,000	(413,000)	(400,000)
<b>Cash flows from financing activities:</b>						
Proceeds from borrowing .....	—	—	—	—	—	—
Repayment of debt .....	—	—	(4,000)	—	(4,000)	(4,000)
Net cash flow from financing activities .....	—	—	(4,000)	—	(4,000)	(4,000)
Increase (decrease) in cash ...	(406,000)	6,000	(16,000)	94,000	(322,000)	(304,000)
<b>Transfers:</b>						
Property and equipment acquisitions from unrestricted funds .....	(17,000)	—	17,000	—	—	—
Realized endowment fund appreciation .....	100,000	—	—	(100,000)	—	—
Funds returned to donors .....	—	(8,000)	—	—	(8,000)	—
Net increase (decrease) in cash .....	(323,000)	(2,000)	1,000	(6,000)	(330,000)	(304,000)
<b>Cash:</b>						
Beginning of year .....	2,530,000	5,000	2,000	10,000	2,547,000	2,851,000
End of year .....	\$2,207,000	\$ 3,000	\$ 3,000	\$ 4,000	\$2,217,000	\$2,547,000

\* See footnote on Page 9101.

EXHIBIT 3E

.15

Sample Voluntary Health and Welfare Service

Statement of Functional Expenses

Year Ended December 31, 19X2 with Comparative Totals for 19X1  
19X2

	Program Services					Supporting Services			Total Expenses	
	Research	Public Health Education	Professional Education and Training	Community Services	Total	Management and General	Fund Raising	Total	19X2	19X1
Salaries . . . . .	\$ 45,000	\$291,000	\$251,000	\$269,000	\$ 856,000	\$331,000	\$368,000	\$699,000	\$1,555,000	\$1,433,000
Employee health and retirement benefits . . . . .	4,000	14,000	14,000	14,000	46,000	22,000	15,000	37,000	83,000	75,000
Payroll taxes, etc. . . . .	2,000	16,000	13,000	14,000	45,000	18,000	18,000	36,000	81,000	75,000
<b>Total salaries and related expenses . . . . .</b>	<b>51,000</b>	<b>321,000</b>	<b>278,000</b>	<b>297,000</b>	<b>947,000</b>	<b>371,000</b>	<b>401,000</b>	<b>772,000</b>	<b>1,719,000</b>	<b>1,583,000</b>
Professional fees and contract service payments . . . . .	1,000	10,000	3,000	8,000	22,000	26,000	8,000	34,000	56,000	53,000
Supplies . . . . .	2,000	13,000	13,000	13,000	41,000	18,000	17,000	35,000	76,000	71,000
Telephone and telegraph . . . . .	2,000	13,000	10,000	11,000	36,000	15,000	23,000	38,000	74,000	68,000
Postage and shipping . . . . .	2,000	17,000	13,000	9,000	41,000	13,000	30,000	43,000	84,000	80,000
Occupancy . . . . .	5,000	26,000	22,000	25,000	78,000	30,000	27,000	57,000	135,000	126,000
Rental of equipment . . . . .	1,000	24,000	14,000	4,000	43,000	3,000	16,000	19,000	62,000	58,000
Local transportation . . . . .	3,000	22,000	20,000	22,000	67,000	23,000	30,000	53,000	120,000	113,000
Conferences, conventions, meetings . . . . .	8,000	19,000	71,000	20,000	118,000	38,000	13,000	51,000	169,000	156,000
Printing and publications . . . . .	4,000	56,000	43,000	11,000	114,000	14,000	64,000	78,000	192,000	184,000
Awards and grants . . . . .	1,332,000	14,000	119,000	144,000	1,609,000	—	—	—	1,609,000	1,448,000
Miscellaneous . . . . .	1,000	4,000	6,000	4,000	15,000	16,000	21,000	37,000	52,000	64,000
<b>Total expenses before depreciation . . . . .</b>	<b>1,412,000</b>	<b>539,000</b>	<b>612,000</b>	<b>568,000</b>	<b>3,131,000</b>	<b>567,000</b>	<b>650,000</b>	<b>1,217,000</b>	<b>4,348,000</b>	<b>4,004,000</b>
Depreciation of buildings and equipment . . . . .	2,000	5,000	6,000	10,000	23,000	7,000	4,000	11,000	34,000	32,000
<b>Total expenses . . . . .</b>	<b>\$1,414,000</b>	<b>\$544,000</b>	<b>\$618,000</b>	<b>\$578,000</b>	<b>\$3,154,000</b>	<b>\$574,000</b>	<b>\$654,000</b>	<b>\$1,228,000</b>	<b>\$4,382,000</b>	<b>\$4,036,000</b>

(See accompanying notes to financial statements)

## EXHIBIT 3F

.16

## Sample Voluntary Health and Welfare Service

## Notes to Financial Statements

**Note 1—Summary of Significant Accounting Policies**

The financial statements of Sample Voluntary Health and Welfare have been prepared on the accrual basis and include the accounts of the Service and its affiliated chapters.

*Fund Accounting*

To ensure observance of limitations and restrictions placed on the use of resources available to the Service, the accounts of the Service are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the Service are reported in three self-balancing fund groups as follows:

- Current funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of operations.
- Land, building and equipment funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

*Expendable Restricted Resources*

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the Service has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

*Plant Assets and Depreciation*

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Donated assets are capitalized at fair value. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

*Other Matters*

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the current unrestricted fund or, if restricted, as deferred amounts until the terms of the restriction have been met.



Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply. Policies concerning donated materials and services are described in Note 6.

**Note 2—Investments**

Investments are stated at cost. Market values and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	Quoted Market Value	Unrealized Appreciation	Quoted Market Value	Unrealized Appreciation (Depreciation)
Current unrestricted fund:				
For long-term purposes .....	\$2,735	\$ 8	\$2,230	\$(15)
Other .....	1,100	25	941	( 9)
Current restricted funds .....	73	2	73	1
Endowment funds .....	2,125	181	2,183	176
Land, building and equipment fund .....	184	7	153	8

Interfund transfers include \$100,000 for 19X2, which represents the portion of the realized appreciation (\$25,000 realized in the current year and \$75,000 realized in prior years) in endowment funds that, under the laws of (a state), were designated by the governing board for unrestricted operations. At December 31, 19X2, \$200,000 of realized appreciation was available in endowment funds, which the governing board may, if it deems prudent, also transfer to the unrestricted fund.

*If the organization accounts for its investment on the market value basis, the first part of the above note might be worded as follows:*

Cost and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1 are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	Cost	Unrealized Appreciation	Cost	Unrealized Appreciation (Depreciation)
Current unrestricted fund:				
For long-term purposes .....	\$2,727	\$ 8	\$2,245	\$(15)
Other .....	1,075	25	950	( 9)
Current restricted funds .....	71	2	72	1
Endowment funds .....	1,944	181	2,007	176
Land, building and equipment fund .....	177	7	45	8

**Note 3—Research Grants**

The Service's awards for research grants-in-aid generally cover a period of one to three years, subject to annual renewals at the option of the governing board. At December 31, 19X2, \$1,748,000 had been designated by the board for research grants, of which \$596,000 had been awarded for research to be carried out within the next year.

**Note 4—Proposed Research Center**

The XYZ Foundation has contributed \$50,000 to the Service with the stipulations that it be used for the construction of a research center and that construction of the facilities begin within four years. The Service is considering the construction of a research center, the cost of which would approximate \$2,000,000. If the governing board approves the construction of these facilities, it is contemplated that its cost would be financed by a special fund drive.

**Note 5—Land, Buildings and Equipment and Depreciation**

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. At December 31, 19X2 and 19X1, the costs of such assets were as follows:

	<u>19X2</u>	<u>19X1</u>
Land .....	\$ 76,000	\$ 76,000
Buildings .....	324,000	324,000
Medical research equipment .....	336,000	312,000
Office furniture and equipment .....	43,000	33,000
Automobiles and trucks .....	33,000	30,000
Total costs .....	<u>812,000</u>	<u>775,000</u>
Less accumulated depreciation .....	<u>296,000</u>	<u>262,000</u>
Net .....	<u>\$516,000</u>	<u>\$513,000</u>

**Note 6—Donated Materials and Services**

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the organization's program services and in its fund-raising campaigns.

**Note 7—Long-Term Debt**

Long-term debt at December 31, 19X2 and 19X1 consists of the following:

	<u>19X2</u>	<u>19X1</u>
8% mortgage note payable in semiannual installments of \$5,400 (including principal and interest) to December 31, 19X0 collateralized by equipment .....	<u>\$32,000</u>	<u>\$36,000</u>

Long-term debt maturing in the next five years consists of:

19X3 .....	\$ 4,000
19X4 .....	4,000
19X5 .....	4,000
19X6 .....	4,000
19X7 .....	4,000
Total .....	<u>\$20,000</u>

**Note 8—Leased Facilities**

The buildings used by the organization for its community services programs are leased under operating leases. At December 31, 19X2, fifteen such buildings were being leased for an annual cost of approximately \$12,000.

**Note 9—Pension Plan**

Effective January 1, 19X0 Sample Voluntary Health and Welfare Organization adopted Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. Adoption of the statement is accounted for prospectively, without adjustment to prior years. The effect of this change in accounting principles on net pension expense for the year ended December 31, 19X2 was a reduction of \$XX,XXX.

A summary of the components of income follows:

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Service cost—benefits earned during the year . . . . .	\$ XX,XXX	\$ XX,XXX
Interest cost on projected benefit obligation . . . . .	XX,XXX	XX,XXX
Actual return on plan assets . . . . .	(XX,XXX)	(XX,XXX)
Net asset gain (loss) deferred for later recognition . . . . .	(XX,XXX)	(XX,XXX)
Amortization of unrecognized net asset . . . . .	(XX,XXX)	(XX,XXX)
Net periodic pension income . . . . .	<u>\$ (XX,XXX)</u>	<u>\$ (XX,XXX)</u>

Funded status of the plan:

Actuarial present value of benefit obligation:

Accumulated benefit obligation, including vested benefits of \$XX,XXX in 19X2 and \$XX,XXX in 19X1 . . . . .	\$(XX,XXX)	\$(XX,XXX)
Projected benefit obligation for service rendered to date . . . . .	(XX,XXX)	(XX,XXX)
Assets available for benefits:		
Plan assets at fair value, primarily listed stocks and U.S. government securities . . . . .	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Plan assets in excess of benefit obligation . . . . .	XX,XXX	XX,XXX
Unrecorded net (gain) loss from past experience different from that assumed and effects of changes in assumptions . . . . .	XXX	XXX
Unrecognized net assets at January 1, 19X0 being recognized over XX years . . . . .	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
Prepaid pension cost included in other assets . . . . .	<u>\$ XX,XXX</u>	<u>\$ XX,XXX</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation was X%. The expected long-term rate of return on assets was X%.

In 19X2 and 19X1, \$X,XXX and \$XX,XXX, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the school recognized gains of \$X,XXX and \$X,XXX in 19X2 and 19X1, respectively.

**Note 10—Postretirement Health Care and Life Insurance Benefits**

Sample Voluntary Health and Welfare Organization offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees. Sample Voluntary Health and Welfare Organization shares the cost of providing these benefits with all affected retirees. Sample Health and Welfare Organization's cost of providing such benefits is recognized by expensing the insurance programs' premiums as paid. The aggregate amount so expensed totalled \$XX,XXX and \$XX,XXX for the years ended December 31, 19X2 and 19X1, respectively. Sample Voluntary Health and Welfare Organization has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

# **FSP Section 10,000**

## **DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CREDIT UNIONS**

.01 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. 63, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. 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 standard 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 examined.

.02 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.

---

[The next page is 10,101.]

# FSP Section 10,100

## *Introduction*

**.01** Credit unions are cooperatives owned and directed by their members. The credit union industry operates under federal and state supervision and regulation. Those regulations influence the accounting and financial reporting.

**.02** Credit unions are subject to periodic examinations by supervisory agency examiners in addition to examinations by the credit unions own supervisory committee.

**.03** Common accounting and reporting by credit unions include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP, although some credit unions may report certain revenue and expense items on a cash or modified cash basis.
  - Credit unions usually prepare a non-classified statement of financial condition.
  - The first item on the asset side of the statement of financial condition is loans to members.
  - For GAAP purposes, members' savings (share) accounts are classified as liabilities. For regulatory purposes those accounts are considered equity.
  - Provision for loan losses should be reported as an expense.
  - Note disclosure should include information on loan maturities and the amount of loans at fixed rates of interest.
  - Accrued loan interest can be reported separately or in "other assets."
  - Accumulated undistributed earnings should be reported as a single amount captioned "retained earnings."
  - Credit unions are exempt from federal income taxes and most are exempt from state and local income taxes.
- 

[The next page is 10,201.]

# **FSP Section 10,200**

## ***Disclosure Checklists—General***

**.01** Many auditors and accountants find it helpful to use checklists as practice aids to prepare financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients who 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 their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to 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 Industry Audit Guides. 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 references to the authoritative literature.

**.03** Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used in this section is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements," and "in notes" (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Disclosure checklists generally are accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** If widespread circulation is expected, the preparers generally also stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

---

[The next page is 10,301.]

# FSP Section 10,300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

**.02 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 <sup>1</sup>
- AC = Reference to section number in *FASB Accounting Standards Current Text*
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited
- A&AG = Audit and Accounting Guide, *Audits of Credit Unions*
- SOP = AICPA Statement of Position

**.03 Checklist Questionnaire**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Titles and Notes to Financial Statements</b>			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes that is an integral part of the financial statement presentation? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity 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 the 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. 7 (AC I25.506)]	_____	_____	_____
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)]	_____	_____	_____

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	Yes	No	N/A
<b>C. Accounting Changes</b>			
1. For all changes in accounting principles, are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, have such disclosures been made? [APB 20, pars. 19—21, 25 (AC A06.115—.118, .121); TB 87-1, pars. 1, 3—5, 17 (AC P50.501—.505)]	_____	_____	_____
3. For those changes in accounting principles requiring restatement of prior periods is the effect of change on income before extraordinary items and net income been disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	_____	_____	_____
4. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10—11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5—6 (AC A06.112)]	_____	_____	_____
5. For a change in accounting estimate affecting several future periods, is effect of change on income before extraordinary items and on net income disclosed in year of change? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
6. 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?	_____	_____	_____
b. Effect of its correction on income before extraordinary items and net income? [APB 20, pars. 36—37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]	_____	_____	_____
<b>D. Business Combinations</b>			
1. Is name of acquired credit union disclosed?	_____	_____	_____
2. Is method of accounting (purchase method) disclosed?	_____	_____	_____
3. Is cost of combination disclosed?	_____	_____	_____
4. If fair value of liabilities assumed exceeds fair value of assets acquired, are method and period of amortization for unidentified intangible asset disclosed? [APB 16, par. 19 (AC B50.164)]	_____	_____	_____
5. If regulatory financial assistance is received, are the nature and amount of such assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]	_____	_____	_____
<b>E. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____



	Yes	No	N/A
<b>F. Related Party Transactions</b>			
1. Do disclosures include:			
a. The nature of the relationship(s) involved?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements 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 income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
<b>G. Financial Instruments</b>			
1. Does the entity 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 financial instrument to a second entity?	_____	_____	_____
(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?	_____	_____	_____
(ii) To exchange other financial instruments on potentially favorable terms with the first entity? [SFAS 105, par. 6 (AC F25.106)]	_____	_____	_____
2. For financial instruments with off-balance sheet risk (except for certain insurance, investment or pension contracts, purchase or lease obligations, or foreign currency contracts), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument <sup>1</sup> :			
a. The face or contract amount (or national principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____

<sup>1</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

	Yes	No	N/A
3. For financial instruments with off-balance sheet risk, (except as noted above in G.2.) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), included the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
<b>H. Lessee Leases</b>			
1. For capital leases do disclosures include:			
a. Gross amount of assets recorded by major classes (according to nature or function) as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a (1)—(4))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)—(4))]	_____	_____	_____
c. The total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a (1)—(4))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1) —(4)) amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____
e. Amount of accumulated amortization as of the date of each balance sheet presented?	_____	_____	_____
f. Amount of amortization charged to expense or disclosure that amortization included in depreciation expense for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a (5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____

	Yes	No	N/A
b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements, including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); For amendments of SFAS 13 see SFASs 17, 22, 23, 26, 27, 28, 29, 76, 77, 91, 94, 96, and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]	_____	_____	_____
<b>I. Contingencies and Commitments</b>			
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. Are the nature and amount of material violations of applicable laws and regulations either reflected or disclosed in financial statements? [A&AG, page 14]	_____	_____	_____
4. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [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 the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
6. Is there adequate disclosure of commitments such as those for capital expenditures and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80); A&AG, pages 50 and 79]	_____	_____	_____
<b>J. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05—.07, .09 and 561.01—.09 (AU 560.05—.07, .09 and 561.01—.09)]	_____	_____	_____
<b>K. Pension Plans—[For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 [AC Pe5]]</b>			
1. If there is a defined benefit plan, do disclosures include:			

	Yes	No	N/A
a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period and showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?	_____	_____	_____
<p><i>Note:</i> The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:</p>			
a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)	_____	_____	_____
b. Amortization of the net gain or loss from earlier periods	_____	_____	_____
c. Amortization of unrecognized prior service cost	_____	_____	_____
d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 [AC P16.129—.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?	_____	_____	_____
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 [AC P16.135] [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____

	Yes	No	N/A
(2) If answer is yes, have disclosures required for a defined benefit plan been made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
3. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>L. Postretirement Health Care and Life Insurance Benefits</b>			
1. Do disclosures include:			
a. Description of benefits and employee groups covered?	_____	_____	_____
b. Description of accounting and funding policies?	_____	_____	_____
c. Cost of benefits recognized during the period?	_____	_____	_____
d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____

**Statement of Financial Condition**

**A. Loans to Members**

1. Are amounts for the following accounts shown separately and deducted from loans to members:			
a. Undisbursed portion of mortgage loans? [A&AG, pages 38 and 76]	_____	_____	_____
b. Allowance for loan losses? [A&AG, pages 38 and 76]	_____	_____	_____
c. Unamortized balance of net deferred fees or costs? [SFAS 91, pars. 21 and 65 (AC L20.120 and .124); A&AG, page 38]	_____	_____	_____
2. Are the following disclosures made in notes to financial statements:			
a. Carrying basis of loans? [A&AG, page 75]	_____	_____	_____
b. Method of recognizing loan income (including non-accrual policy) and, if significant, loan fees. [A&AG, page 75]	_____	_____	_____
c. Composition of loan portfolio by major types of lending activities? [A&AG, pages 38 and 76]	_____	_____	_____
d. Maturities for significant categories? [A&AG, pages 38 and 76]	_____	_____	_____
e. Amount of loans at fixed interest rates? [A&AG, page 38]	_____	_____	_____
f. Amount of loans at floating interest rates? [A&AG, page 38]	_____	_____	_____
g. Principal amount of loans on which accrual of interest was discontinued or reduced? [A&AG, pages 38 and 76]	_____	_____	_____
h. Interest income that would have been recorded if loans in item g had been current per original terms? [A&AG, page 76]	_____	_____	_____
i. Interest income recorded for item g loans? [A&AG, page 76]	_____	_____	_____
j. Loans to related parties? [SFAS 57, par. 2 (AC R36.102); A&AG, page 38]	_____	_____	_____

	Yes	No	N/A
3. For loans sold with recourse are the following disclosures made:			
a. For each period for which an income statement is presented, the amount of proceeds?	_____	_____	_____
b. At the date of each balance sheet presented, the balance of sold receivables that remain uncollected? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
4. For loans to be sold subsequent to balance sheet date:			
a. Has an allowance been established for expected losses?	_____	_____	_____
b. Is such an allowance disclosed and deducted from related loans? [A&AG, pages 36—37]	_____	_____	_____
5. If loans are sold at servicing fee rates significantly different from current rates, are such loans accounted for in accordance with SFAS 65, par. 11 (AC Mo4.112)? [A&AG, page 36]	_____	_____	_____
6. Is accrued loan interest receivable presented in caption "Other Assets" or as a separate category of assets? [A&AG, page 38]	_____	_____	_____
7. Are credit card fees deferred and amortized over the term to which the fees relate? [A&AG, page 35; SFAS 91, par. 10 (L20.109)]	_____	_____	_____
<b>B. Allowance for Loan Losses</b>			
1. Is allowance deducted from related assets? [A&AG, page 43]	_____	_____	_____
2. Do notes to the financial statements include a summary of activity in the allowance? [A&AG, pages 43 and 76]	_____	_____	_____
3. Are the policy and method for providing for loan losses disclosed in the footnotes? [A&AG, page 75]	_____	_____	_____
<b>C. Cash and Cash Equivalents</b>			
1. Are restricted amounts segregated in the statement of financial condition? [A&AG, page 18]	_____	_____	_____
2. Is the definition of cash equivalents disclosed?	_____	_____	_____
<b>D. Investments</b>			
1. Is carrying basis disclosed? [A&AG, page 75]	_____	_____	_____
2. Is market value disclosed? [A&AG, pages 25 and 75]	_____	_____	_____
3. Are separate amounts disclosed for major types of investments? [A&AG, pages 25 and 75]	_____	_____	_____
4. Are investments expected to be held until maturity carried at amortized cost? [A&AG, page 21]	_____	_____	_____
5. Are investments not expected to be held until maturity and mutual fund investments carried at lower of cost or market? [A&AG, pages 21 and 22]	_____	_____	_____
6. Are pledged securities disclosed? [A&AG, page 25]	_____	_____	_____
7. Is trade date, rather than settlement date, used to record the purchase and sale of investment securities? [A&AG, page 21]	_____	_____	_____
8. Are premiums or discounts disclosed and amortized or accreted over a period from purchase date to maturity date using the interest method?	_____	_____	_____

	Yes	No	N/A
[A&AG, pages 22—23]			
9. If material, are short-term repurchase agreements classified separately? [A&AG, page 25]	_____	_____	_____
10. Is the following end of period information about securities purchased under agreements to resell disclosed:			
a. A description of the securities underlying the agreements?	_____	_____	_____
b. The cost of the agreements, including accrued interest?	_____	_____	_____
c. The market value of the securities underlying any agreement if less than the cost of that agreement?	_____	_____	_____
d. The maturity of the agreements?	_____	_____	_____
e. The dollar amount of agreements to resell the same securities?	_____	_____	_____
f. The dollar amount of agreements to resell substantially identical securities?	_____	_____	_____
g. The dollar amount of assets at risk under agreements outstanding? [SOP 86-1, par. 31]	_____	_____	_____
11. Is the following additional information about securities purchased under agreements to resell disclosed:			
a. The maximum amount of outstanding agreements at any month-end during the period?	_____	_____	_____
b. The average amount of outstanding agreements for the period?	_____	_____	_____
c. A statement of whether the securities underlying the agreements were under the credit union's control? [SOP 86-1, par. 31]	_____	_____	_____
<b>E. Mortgage Loans and Mortgage-Backed Securities</b>			
1. For securities held for investment:			
a. Are mortgage loans and mortgage-backed securities held for investment reported separately in the statement of financial condition?	_____	_____	_____
b. Is the market value disclosed in the statement of financial condition or in the notes? [SOP 86-1, par. 31]	_____	_____	_____
2. For securities held for sale:			
a. Are mortgage loans and mortgage-backed securities held for sale reported separately in the statement of financial condition? [SFAS 65, par. 28 (AC Mo4.129)]	_____	_____	_____
b. Are the mortgage loans and mortgage-backed securities reported at the lower of cost or market value? [SFAS 65, par. 4 (AC Mo4.105)]	_____	_____	_____
(1) Is the method used in determining lower of cost or market value disclosed (i.e. individual v. aggregate method)? [SFAS 65, par. 29 (AC Mo4.130)]	_____	_____	_____
c. If the right to service mortgage loans was acquired, is the following information disclosed:			
(1) The amount capitalized during the period in acquiring the right to service?	_____	_____	_____
(2) The method of amortizing the capitalized amount?	_____	_____	_____
(3) The amount of amortization for the period? [SFAS 65, par. 30 (AC Mo4.131)]	_____	_____	_____
<b>F. Real Estate Acquired in Settlement of Loans</b>			
1. If material, is real estate acquired in settlement of loans shown separately on the statement of financial condition?	_____	_____	_____

	Yes	No	N/A
2. Is such real estate stated at lower of fair value at acquisition date or net realizable value?	_____	_____	_____
3. If appropriate, is activity in the allowance for loss account disclosed? [SFAS 15, par. 28 (AC D22.124)]	_____	_____	_____
<b>G. Accrued Interest Receivable</b>			
● Is accrued interest receivable presented in the caption "Other Assets" or as a separate category of assets? [A&AG, page 38]	_____	_____	_____
<b>H. Property and Equipment</b>			
1. Is property shown on the statement of financial condition net of accumulated depreciation? [A&AG, page 50]	_____	_____	_____
2. Is carrying basis disclosed? [A&AG, pages 50 and 75]	_____	_____	_____
3. Are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b)]	_____	_____	_____
4. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
5. Are material commitments for property expenditures disclosed? [A&AG, page 50]	_____	_____	_____
6. For property being constructed, is the amount of capitalized interest disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
<b>I. Investment in Central Liquidity Facility</b>			
1. If material, is the investment in Central Liquidity Facility separately disclosed?	_____	_____	_____
2. Is Investment in Central Liquidity Facility stated at cost? [A&AG, page 72]	_____	_____	_____
<b>J. Other Assets</b>			
1. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired from a combination initiated after September 30, 1982:			
a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired? [SFAS 72, par. 4 (AC I60.131)]	_____	_____	_____
b. Is the interest method used as the amortization method?	_____	_____	_____
c. Is the interest method applied to outstanding balances of interest-bearing assets? [SFAS 72, par. 5 (AC I60.133)]	_____	_____	_____
d. Are method and period of amortization disclosed? [APB 17, par. 30 (AC I60.111)]	_____	_____	_____
2. If individually material in amount, are the following assets presented separately under the caption "Other Assets":			
a. Property acquired in satisfaction of members' loan obligations?	_____	_____	_____
b. Accounts receivable?	_____	_____	_____
c. Prepaid expenses?	_____	_____	_____
d. Payroll deductions receivable?	_____	_____	_____
e. Investment in data service centers?	_____	_____	_____
f. Investment in service organizations?	_____	_____	_____
g. Monetary control reserve deposits?	_____	_____	_____



	Yes	No	N/A
h. Accrued income accounts? [A&AG, pages 48 and 50]	_____	_____	_____
<b>K. Savings Accounts</b>			
1. Are savings accounts unequivocally classified as liabilities on the statement of financial condition? (Note—The Emerging Issues Task Force of the FASB in Issue No. 89-3 stated that for a credit union to be in compliance with the AICPA Audit Guide, savings accounts must be unequivocally shown on the face of the statement of financial condition as liabilities, the savings accounts must be presented as the first item in the liabilities and equity section or include the savings accounts within a caption subtotal for total liabilities.)	_____	_____	_____
2. Are savings accounts summarized by type and by maturity in notes to financial statements? [A&AG, pages 54 and 77]	_____	_____	_____
<b>L. Borrowed Funds</b>			
1. Are types of borrowed funds disclosed on the statement of financial condition or in a note to financial statements?	_____	_____	_____
2. Do notes to financial statements disclose:			
a. Interest rates?	_____	_____	_____
b. Due dates?	_____	_____	_____
c. Pledged collateral?	_____	_____	_____
d. Compensating balance agreements?	_____	_____	_____
e. Significant restrictive loan agreement covenants?	_____	_____	_____
f. Five-year maturity schedule as required by SFAS 47, paragraph 10b (AC C32.105)? [A&AG, pages 59, 60, 77 and 78]	_____	_____	_____
3. Is the amount of debt considered extinguished because of "in-substance defeasance" disclosed so long as that debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	_____	_____	_____
<b>M. Securities Sold Under Agreements to Repurchase</b>			
1. Is the following end of period information disclosed:			
a. A description of the securities underlying the agreements?	_____	_____	_____
b. The book value, including accrued interest, of the securities underlying the agreements?	_____	_____	_____
c. The market value of the securities underlying the agreements?	_____	_____	_____
d. The maturity of the agreements?	_____	_____	_____
e. The weighted-average interest rate of the agreements?	_____	_____	_____
f. The dollar amount of agreements to repurchase the same securities?	_____	_____	_____
g. The dollar amount of agreements to repurchase substantially identical securities?	_____	_____	_____
h. The dollar amount of assets at risk under agreements outstanding? [SOP 86-1, par. 31]	_____	_____	_____
2. Is the following additional information disclosed:			
a. The maximum amount of outstanding agreements at any month-end during the period?	_____	_____	_____
b. The average amount of outstanding agreements for the period?	_____	_____	_____
c. A statement of whether the securities underlying the agreements were under the credit union's control? [SOP 86-1, par.31]	_____	_____	_____

	Yes	No	N/A
<b>N. Other Liabilities</b>			
1. For loans transferred with recourse which are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.109)]	_____	_____	_____
2. For employee compensated absences:			
a. If conditions for accrual are met, is liability for compensated absences accrued?	_____	_____	_____
b. If liability for compensated absences is not accrued because amount of liability cannot be reasonably estimated, is this fact disclosed? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably determined? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
4. If individually material, are the following liabilities stated separately in the statement of financial condition or related notes:			
a. Accounts payable?	_____	_____	_____
b. Accrued interest (dividend) payable?	_____	_____	_____
c. Accrued wages?	_____	_____	_____
d. Accrued payroll taxes?	_____	_____	_____
e. Accrued audit and supervisory agency fees?	_____	_____	_____
f. Accrued pension costs?	_____	_____	_____
g. Accrued data processing charges?	_____	_____	_____
h. Liability for traveler's checks and money orders sold?	_____	_____	_____
i. Liability to the Federal Reserve Bank for savings bonds sold?	_____	_____	_____
j. Advance payments by borrowers for taxes and insurance?	_____	_____	_____
k. Other accrued expenses?	_____	_____	_____
l. Suspense accounts (items recorded and held subject to clarification and transfer to the proper account, such as unapplied loan payments and savings deposits)? [A&AG, page 61]	_____	_____	_____
<b>O. Retained Earnings</b>			
1. Are retained earnings shown separately on the statement of financial condition? [A&AG, pages 64 and 72]	_____	_____	_____
2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120); A&AG, pages 64 and 78]	_____	_____	_____
3. If significant restrictions exist, does the caption for retained earnings indicate that retained earnings are "substantially restricted"? [A&AG, pages 64 and 72]	_____	_____	_____
4. Are any appropriations of retained earnings for loss contingencies and general reserves clearly identified and included in retained earnings? [SFAS 5, par. 15 (AC C59.117); A&AG, pages 64 and 74]	_____	_____	_____
<b>Statement of Income</b>			
<b>A. Interest on Loans</b>			
1. Is interest on loans shown separately on the statement of income? [A&AG, pages 66 and 73]	_____	_____	_____
2. Is the revenue recognition basis disclosed? [A&AG, page 75]	_____	_____	_____

	Yes	No	N/A
3. For amortization of net deferred loan origination and/or loan commitment fees and costs which are being recognized as an adjustment of yield:			
a. Is such amortization reported as interest income? [SFAS 91, par. 22 (AC L20.121)]	_____	_____	_____
b. Except as specified in SFAS 91, paragraph 20 [AC L20.119], is the interest method used as the method of amortization? [SFAS 91, par. 18 (AC L20.117)]	_____	_____	_____
<b>B. Loan Fees</b>			
● Is amortization of commitment fees being amortized on the straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income? [SFAS 91, par. 22 (AC L20.121)]	_____	_____	_____
<b>C. Interest on Investments</b>			
● Is the amount for investment income shown separately on the statement of operations? [A&AG, pages 66 and 73]	_____	_____	_____
<b>D. Interest (Dividends) on Savings Accounts</b>			
● Is the amount shown separately on the statement of income? [A&AG, pages 66 and 73]	_____	_____	_____
<b>E. Interest on Borrowings</b>			
1. Is the amount shown separately on the statement of income? [A&AG, pages 66 and 73]	_____	_____	_____
2. Is interest relating to dollar reverse repurchase agreements reported as an expense? [A&AG, page 25]	_____	_____	_____
3. Is the amount of capitalized interest disclosed in the footnotes? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
<b>F. Provision for Loan Losses</b>			
● Is provision shown separately on the statement of income? [A&AG, pages 66 and 73]	_____	_____	_____
<b>G. General and Administrative Expenses</b>			
1. Salaries:			
● For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)]	_____	_____	_____
2. Employee Benefits:			
a. Is the amount of net periodic pension costs and its components disclosed? [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____
b. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]	_____	_____	_____
3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20—34, 39—53 and 77? <sup>1</sup> [SFAS 87, pars. 20—34, 39—53 and 77 (AC P16.114—.128, .133—.138 and .141—.149)]	_____	_____	_____
4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3—5 and 9—11? [SFAS 88, pars. 3—5 and 9—11 (AC P16.172, .177—.179 and .181)]	_____	_____	_____
5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12—14?	_____	_____	_____

<sup>1</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.

	Yes	No	N/A
[SFAS 88, pars. 6 and 12—14 (AC P16.173 and .182—.184)]			
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7—8? [SFAS 88, pars. 7—8 (AC P16.174—.175)]			
6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]			
7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9—10, 12—13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9—10, 12—13 and 15 (AC P16.177, .179, .182—.183 and .185)]			
8. Operating Leases:			
● Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed? [SFAS 13, par. 16c (AC L10.112c)]			
9. Depreciation:			
● Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]			
<b>H. Other Income (Expense)</b>			
1. Securities gains (losses)			
a. Are gains (losses) from sales of investment securities shown separately on the statement of income? [A&AG, pages 25 and 73]			
b. Is the basis for determining gains (losses) disclosed? [A&AG, page 75]			
2. Gains (losses) on property sales:			
● Are gains (losses) on property sales shown separately on the statement of income? [A&AG, page 73]			
3. Gains (losses) on pension plan settlements or curtailments or termination benefits			
● Are such gains (losses) disclosed? [SFAS 88, par. 17 (AC P16.187)]			
4. For marketable equity securities are the following disclosed for each period for which an income statement is presented:			
a. Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]			
b. For entities with certain specialized accounting practices, 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)]			
d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income? [SFAS 12, par. 12c (AC I89.106c)]			
5. For investments in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties?			

	Yes	No	N/A
[APB 18, par. 19a (AC I82.109a)]			
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]			
c. Are income taxes of the investor'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)]			
<b>I. Extraordinary Items</b>			
1. 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)]			
2. Are extraordinary items segregated and shown following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]			
3. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]			
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]			
5. 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):			
a. Reported separately on the statement of income?			
b. 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 I25.505)]			
<b>J. Other</b>			
● Are transfers to and from accounts properly designated as appropriated retained earnings excluded from the determination of net income? [APB 9, par. 28 (AC C08.101)]			
<b>Statement of Changes in Retained Earnings</b>			
A. Are changes in retained earnings disclosed? [APB 12, par. 10 (AC C08.102); A&AG, page 74]			
B. For a correction of an error are the following disclosed in the period in which the error was discovered and corrected:			
1. Nature of the error in previously issued financial statements?			
2. Effect of its correction on income before extraordinary items and net income? [APB 20, par. 37 (AC A35.105)]			
<b>Statement of Cash Flows</b>			
A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)]			
B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27—28 (AC C25.125—.126)]			
1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows?			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SFAS 102, par. 8 (AC C25.122A)]			
2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows?	_____	_____	_____
[SFAS 102, par. 9 (AC C25.122B)]			
C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
1. Interest received on loans?	_____	_____	_____
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to suppliers and employees?	_____	_____	_____
5. Payments to governments for duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities?	_____	_____	_____
[SFAS 95, pars. 22—23 (AC C25.120—.121)]			
D. Are the net amounts of cash receipts and cash payments reported for:			
1. Deposits placed with other financial institutions and withdrawals of deposits?	_____	_____	_____
2. Time deposits accepted and repayments of deposits?	_____	_____	_____
3. Loans made to customers and principal collections of loans?	_____	_____	_____
[SFAS 104, par. 7a, (AC C25.111A)]			
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from collections or sales of loans?	_____	_____	_____
2. Receipts from sales of property?	_____	_____	_____
3. Loans to members?	_____	_____	_____
4. Payments to acquire property?	_____	_____	_____
[SFAS 95, pars. 16—17 (AC C25.114—.115)]			
F. Are cash receipts and cash payments from financing activities shown separately on statement of cash flows?	_____	_____	_____
[SFAS 95, par. 31 (AC C25.129)]			
G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt?	_____	_____	_____
2. Repayments of amounts borrowed?	_____	_____	_____
[SFAS 95, pars. 19—20 (AC C25.117—.118)]			
H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows?	_____	_____	_____
[SFAS 95, par. 25 (AC C25.123)]			
I. Does statement of cash flows explain effect of cash flows by showing change in cash and cash equivalents?	_____	_____	_____
[SFAS 95, par. 7 (AC C25.105)]			
J. Is policy for defining what is a cash equivalent disclosed?	_____	_____	_____
[SFAS 95, par. 10 (AC C25.108)]			
K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule?	_____	_____	_____
[SFAS 95, par. 29—30 (AC C25.127—.128)]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
L. Are noncash investing and financing activities summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	<u>          </u>	<u>          </u>	<u>          </u>

---

[The next page is 10,401.]

# FSP Section 10,400

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of references:

SAS = Statement on Auditing Standards

AU = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited

A&AG = Audit and Accounting Guide, *Audits of Credit Unions*

.03 Checklist Questionnaire

	Yes	No	N/A
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 58, par. 46 (AU 508.46); SAS 26, pars. 15—17 (AU 504.15—.17)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
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) (AU 504.09)]	_____	_____	_____
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 auditor's report include appropriate language with respect to the following:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
b. Departure from a promulgated accounting principle which could lead to a misleading financial statement? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____
d. There is substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 13 (AU 341.13)]	_____	_____	_____
e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
f. Opinion on prior-period financial statements different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
g. Predecessor auditor's report reissued?	_____	_____	_____



	Yes	No	N/A
[SAS 58, pars. 80—82 (AU 508.80—.82)]			
<b>h. Required supplemental information has:</b>			
(1) Been omitted?	_____	_____	_____
(2) Presentation of information departs materially from FASB guidelines?	_____	_____	_____
(3) The auditor is unable to complete prescribed procedures?	_____	_____	_____
(4) The auditor has substantial doubts that the information conforms to FASB guidelines? [SAS 52 (AU 551.15)]	_____	_____	_____
<b>i. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements?</b> [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
<b>j. A matter regarding the financial statements that should be emphasized?</b> [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
<b>k. Report on one basic financial statement and there are no scope limitations?</b> [SAS 58, par. 48 (AU 508.48)]	_____	_____	_____
<b>l. Reports on comparative financial statements?</b> [SAS 58, pars. 74—75 (AU 508.74—.75)]	_____	_____	_____
<b>m. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, disclaimer, or include an explanatory paragraph on one or more financial statements for one or more periods?</b> [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	_____	_____	_____
<b>n. Comparative financial statements with an opinion different from the opinion previously expressed?</b> [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
<b>o. Comparative financial statements when predecessor auditor's report not presented?</b> [SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
<b>p. Audited and unaudited financial statements in comparative form?</b> [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
<b>q. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods?</b> [SAS 58, par. 8, fn. 7 (AU 508.08 fn. 7)]	_____	_____	_____
<b>5. Has a qualified opinion or disclaimer of opinion been expressed because of scope limitations such as, but not limited to, those listed below:</b>			
<b>a. Client's refusal to provide written representations?</b> [SAS 19, pars. 11—12 (AU 333.11—.12)]	_____	_____	_____
<b>b. Limitations on scope of lawyer's response?</b> [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
<b>c. Unresolved matters involving specialists?</b> [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
<b>d. Illegal acts by clients—unable to determine associated amounts or whether an act is illegal?</b> [SAS 54, (AU 317)]	_____	_____	_____
<b>e. Alternative procedures are not practicable for confirmation requests returned undelivered by postal authorities?</b> [A&AG, pages 55—56]	_____	_____	_____
<b>6. Has a qualified opinion or disclaimer of opinion been expressed if:</b>			
<b>a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit?</b> [SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40—48 (AU 508.40—.48)]	_____	_____	_____
<b>7. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:</b>			

**Auditors' Reports Checklist**

**10,403**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. An uncertainty is not adequately disclosed in the financial statements? [SAS 58, par. 20 (AU 508.20)]	_____	_____	_____
b. The accounting principles used cause the financial statements to be materially misstated? [SAS 58, par. 21 (AU 508.21)]	_____	_____	_____
c. Unreasonable accounting estimates cause the financial statements to be misstated? [SAS 58, par. 22 (AU 508.22)]	_____	_____	_____
d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]	_____	_____	_____
e. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
f. Financial statements reflect regulatory practices that differ from GAAP and the resulting difference is material in amount? [SAS 1, sec. 544.02 (AU 544.02); A&AG, page 16]	_____	_____	_____
g. Client representations about related party transactions? [SAS 45, par. 12 (AU 334.12)]	_____	_____	_____
h. There is no evidence to support carrying amount of investment securities and an allowance to write down to market has not been established? [A&AG, page 27]	_____	_____	_____
i. Clients' voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
8. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
9. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion? [SAS 58, par. 70 (AU 508.70)]	_____	_____	_____
a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed? [SAS 58, par. 71 (AU 508.71)]	_____	_____	_____
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, 40, 51, 68 and 71 (AU 508.39, .40, .51, .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 auditor's report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Regulated companies? [SAS 1, sec. 544.02—.04 (AU 544.02—.04); SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
c. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____

	Yes	No	N/A
d. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
e. Client's refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
f. Limitations on scope of lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—14)]	_____	_____	_____
g. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
h. Scope limitation concerning errors or irregularities? [SAS 53, pars. 26—27 (AU 316.26—27)]	_____	_____	_____
i. Illegal acts by clients? [SAS 54 (AU 317)]	_____	_____	_____
j. Segment information? [SAS 21 (AU 435)]	_____	_____	_____
k. Entity's continued existence? [SAS 59, pars. 12—16 (AU 341.12—16)]	_____	_____	_____
l. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
m. 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 which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13—15)]	_____	_____	_____
n. Client's voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
12. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]	_____	_____	_____
13. For special reports, have the provisions of SAS 35 and SAS 62 been complied with for the following:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
b. Specified elements, accounts or items of a financial statement? [SAS 62, pars. 11—14 (AU 623.11—.14); SAS 35 (AU 622)]	_____	_____	_____
c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—21 (AU 623.19—.21)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 22—26 (AU 623.22—.26)]	_____	_____	_____
14. If information is to accompany the basic financial statements and auditor's report 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 additional 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 whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____

	Yes	No	N/A
15. If an auditor-submitted document with accompanying information is co-existing with a document that includes just the basic financial statements and the auditor's report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination 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 558.08—.11)]	_____	_____	_____
18. If a report on internal accounting control is to be issued (material weaknesses in internal accounting control ("reportable condition") that come to the auditor's attention must be communicated, preferably in writing, to the audit committee or the board of directors) [SAS 60, (AU 325.04)] is the appropriate form used for:			
a. A report for the restricted use of management, specified regulatory agencies, or other specified third parties based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47—53 (AU 642.47—.53)]	_____	_____	_____
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed-upon matters? [SAS 60, pars. 12—19 (AU 325.12—.19)]	_____	_____	_____
c. A report on all or part of an entity's system for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	_____	_____	_____
19. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]	_____	_____	_____
20. If reporting on selected financial data that is included in a client-prepared document that contains audited financial statements that are derived from audited financial statements, does the auditor's report indicate the following:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which the auditor is reporting?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
21. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]			
<hr/>			

# FSP Section 10,500

## *Illustrative Report of the Independent Auditor and Illustrative Credit Union Financial Statements*

(The following illustrates the auditor's standard report and one form of currently acceptable financial statements. Other forms of financial statements may be acceptable. More or less detail should appear in the financial statements or in the notes, depending on the circumstances. The CPA should be guided by existing auditing standards concerning the report.)

.01

### **Independent Auditor's Report**

To the Board of Directors  
Sample Credit Union  
Sometown, U.S.A.

We have audited the accompanying statements of financial condition of Sample Credit Union as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Credit Union at December 31, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature ]

[City ]

[Date ]

## Sample Credit Union

## Statements of Financial Condition

December 31, 19X2 and 19X1

(in thousands)

	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
Loans to members, net of allowance for loan losses .....	\$44,800	\$40,900
Cash and cash equivalents .....	700	800
Investments .....	5,000	7,000
Accrued interest receivable .....	100	70
Property and equipment .....	1,050	900
Central Liquidity Facility stock, at cost .....	250	250
NCUSIF deposit .....	10	10
Other assets .....	40	30
<b>Total assets</b> .....	<u>\$51,950</u>	<u>\$49,960</u>
<b>Liabilities and Equity</b>		
Savings accounts .....	\$42,600	\$42,460
Borrowed funds .....	5,000	4,000
Accrued and other liabilities .....	800	500
<b>Total liabilities</b> .....	<u>48,400</u>	<u>46,960</u>
Commitments and contingent liabilities		
Retained earnings, substantially restricted .....	3,550	3,000
<b>Total liabilities and equity</b> .....	<u>\$51,950</u>	<u>\$49,960</u>

.03

Sample Credit Union

Statements of Income

Years Ended December 31, 19X2 and 19X1

(in thousands)

	<u>19X2</u>	<u>19X1</u>
Interest income .....		
Interest and fees on loans .....	\$4,300	\$3,450
Interest on investments .....	500	350
	<u>4,800</u>	<u>3,800</u>
Interest expense		
Savings accounts .....	2,500	2,400
Borrowed funds .....	300	200
	<u>2,800</u>	<u>2,600</u>
Net interest income .....	2,000	1,200
Provision for loan losses .....	100	20
Net interest income after provision for loan losses .....	<u>1,900</u>	<u>1,180</u>
Operating expense		
General and administrative		
Compensation and benefits .....	700	580
Occupancy .....	200	150
Other .....	500	260
	<u>1,400</u>	<u>990</u>
Operating income .....	500	190
Other income (expense)		
Securities gains .....	70	250
Loss on sale of property and equipment .....	(20)	—
Net income .....	<u>\$ 550</u>	<u>\$ 440</u>

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



## Sample Credit Union

**Statements of Retained Earnings**  
**Years Ended December 31, 19X2 and 19X1**  
**(in thousands)**

	<i>Appropriated</i>		<i>Unappropriated</i>	<i>Total</i>
	<i>Statutory</i>	<i>Other</i>		
Balance, January 1, 19X1 .....	\$1,680	\$500	\$ 380	\$2,560
Transfers, net .....	180	—	(180)	—
Net income .....	—	—	440	440
Balance, December 31, 19X1 .....	1,860	500	640	3,000
Transfers, net .....	140	—	(140)	—
Net income .....	—	—	550	550
Balance, December 31, 19X2 .....	<u>\$2,000</u>	<u>\$500</u>	<u>\$1,050</u>	<u>\$3,550</u>

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

.05

Sample Credit Union

Statements of Cash Flows

For the Years Ended December 31, 19X2 and 19X1

(in thousands)

	<u>19X2</u>	<u>19X1</u>
Cash flows from operating activities		
Interest and fees on loans .....	\$ 4,300	\$ 3,450
Interest on investments .....	470	350
Interest paid .....	(800)	(720)
Cash paid to employees and suppliers .....	(1,050)	(940)
Net cash provided by operating activities .....	<u>2,920</u>	<u>2,140</u>
Cash flows from financing activities		
Net increase in savings accounts .....	(1,860)	(2,870)
New borrowed funds .....	4,000	3,000
Repayment on borrowed funds .....	(3,000)	(800)
Net cash provided by financing activities .....	<u>(860)</u>	<u>(670)</u>
Cash flows from investing activities		
Proceeds from investment securities sold .....	8,000	9,351
Purchase of investment securities .....	(5,930)	(6,718)
Net loans made to members .....	(4,000)	(4,043)
Proceeds from the sale of property and equipment .....	70	—
Expenditures for property and equipment .....	(290)	(130)
Other .....	(10)	20
Net cash provided by investing activities .....	<u>(2,160)</u>	<u>(1,520)</u>
Net (decrease) in cash and cash equivalents .....	(100)	(50)
Cash and cash equivalents at beginning of year .....	800	850
Cash and cash equivalents at end of year .....	<u>\$ 700</u>	<u>\$ 800</u>

**Reconciliation of Net Income to Net Cash Provided by Operating Activities**

(in thousands)

	<u>19X2</u>	<u>19X1</u>
Net income . . . . .	\$ 550	\$ 440
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization . . . . .	50	50
Provision for possible loan losses . . . . .	100	20
Gain on sales of securities . . . . .	(70)	(250)
Loss on sale of property and equipment . . . . .	20	—
Increase on accrued interest receivable . . . . .	(30)	(20)
Increase in accrued expenses . . . . .	300	100
Interest credited to savings accounts . . . . .	2,000	1,800
	<u>\$ 2,920</u>	<u>\$ 2,140</u>

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

.06

## Sample Credit Union

## Notes to Financial Statements

December 31, 19X2 and 19X1

## SIGNIFICANT ACCOUNTING POLICIES

**Cash Equivalents.** Cash equivalents of \$XXX and \$XXX at December 31, 19X2 and 19X1, respectively, consist of federal funds sold and certificates of deposit. For purposes of the statement of cash flows, the credit union considers all highly liquid investment securities with maturities of 3 months or less to be cash equivalents.

**Investments.** Investment securities are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income on investments. Management intends to hold such investments to maturity. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

**Loans to members and allowance for loan losses.** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions, and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

**Property and equipment.** Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

**Pension plan.** The credit union has a noncontributory pension plan covering substantially all employees. The credit union's policy is to fund accrued pension costs.

**Savings Accounts Interest (Dividends).** Rates are set by the board of directors, based on an evaluation of current and future market conditions.

**Retained Earnings.** The Sample Credit Union is required by regulation to maintain a statutory reserve. The reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interests (dividend). Other appropriated retained earnings represent a restriction on the payment of interest (dividend) as established by the board of directors. The Sample Credit Union is exempt, by statute, from federal and state income taxes.

**Investments**

The carrying value and approximate market value of investments are as follows (in thousands):

	December 31			
	19X2		19X1	
	Carrying Value	Market Value	Carrying Value	Market Value
U.S. government and agency obligations .....	\$4,000	\$3,000	\$5,500	\$5,000
Common trust funds .....	400	400	1,000	1,000
Time deposits .....	400	400	500	500
Loans to other credit unions .....	200	200	—	—
	<u>\$5,000</u>	<u>\$4,000</u>	<u>\$7,000</u>	<u>\$6,500</u>

**Loans to Members**

The composition of loans to members is as follows (in thousands):

	December 31	
	19X2	19X1
Automobile .....	\$22,500	\$21,000
Mortgage .....	7,400	6,400
Unsecured .....	6,000	5,000
Lines of credit .....	5,700	4,800
Share secured loans .....	1,500	1,300
Education .....	1,000	1,700
Other .....	1,200	1,000
	<u>45,300</u>	<u>41,200</u>
Less		
Undisbursed portion of loans .....	300	200
Allowance for possible loan losses .....	200	100
	<u>\$44,800</u>	<u>\$40,900</u>

A summary of loans by maturity as of December 31, 19X2, is as follows (in thousands):

Maturity within one year .....	\$18,000
One to five years .....	19,500
Over five years .....	7,500
	<u>\$45,000</u>

A summary of the changes in the allowance for loan losses is as follows (in thousands):

	December 31	
	19X2	19X1
Balance, beginning of year .....	\$100	\$70
Provision charged to operations .....	100	20
Loans charged off .....	(10)	(15)
Recoveries .....	10	25
Balance, end of year .....	<u>\$200</u>	<u>\$100</u>

Loans on which the accrual of interest has been discontinued or reduced amounted to \$300 and \$100 at December 31, 19X2 and 19X1, respectively. If interest on those loans had been accrued, such income would have approximated \$10 and \$4 for 19X2 and 19X1, respectively. Interest income on those loans, which is recorded only when received, amounted to \$3 and \$1 for 19X2 and 19X1, respectively.

**Property and Equipment**

Property and equipment is summarized as follows (in thousands):

	<i>December 31</i>	
	<u>19X2</u>	<u>19X1</u>
Land .....	\$ 100	\$ 100
Building .....	650	650
Furniture and fixtures .....	200	150
Office equipment .....	300	150
	<u>1,250</u>	<u>1,050</u>
Accumulated depreciation .....	(200)	(150)
	<u>\$1,050</u>	<u>\$ 900</u>

**Savings Accounts**

A summary of savings accounts is as follows (in thousands):

	<i>December 31</i>	
	<u>19X2</u>	<u>19X1</u>
Share drafts .....	\$3,500	\$3,750
Regular savings .....	19,500	20,500
Money market accounts .....	12,500	10,000
Savings certificates .....	7,100	8,210
	<u>\$42,600</u>	<u>\$42,460</u>

A summary of savings accounts by maturity as of December 31, 19X2, is as follows (in thousands):

No contractual maturity .....	\$23,000
Maturity within one year .....	14,000
One to two years .....	5,600
	<u>\$42,600</u>

**Borrowed Funds**

Borrowed funds are as follows (in thousands):

	<i>December 31</i>	
	<u>19X2</u>	<u>19X1</u>
Central Liquidity Facility, 15% due 19X3, secured .....	\$1,000	\$ —
Dollar Credit Union, 11% unsecured notes, due 19X3 .....	2,250	—
First Trust Bank, 8.25—8.75% notes, due 19X2 .....	—	1,500
Reverse repurchase agreements, 10%, secured by U.S. government obligations, due 19X3 .....	750	—
Promissory notes, interest at 7.5%, due 19X3 and 19X2 .....	1,000	2,500
	<u>\$5,000</u>	<u>\$4,000</u>

Information concerning borrowings under fixed-coupon dollar reverse repurchase agreements is summarized as follows:

	<u>19X2</u>	<u>19X3</u>
Average balance during the year . . . . .	\$xxx	\$xxx
Average interest rate during the year . . . . .	x%	x%
Maximum month-end balance during the year . . . . .	xxx	xxx

**Commitments and Contingent Liabilities**

Outstanding mortgage loan commitments at December 31, 19X2, total approximately \$600. These commitments are not reflected in the financial statements.

The credit union is a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of Sample Credit Union.

At December 31, 19X2, the credit union was obligated under noncancelable operating leases for office space and equipment. Certain leases contain escalation clauses providing for increased rentals based primarily on increases in real estate taxes. Rent expense under operating leases was \$xxx and \$xxx for the years ended December 31, 19X2 and 19X1, respectively.

The minimum rental payments under the terms of the leases at December 31, 19X2 are as follows:

<u>December 31</u>	<u>Amount</u>
19X3 . . . . .	\$xxx
19X4 . . . . .	xxx
19X5 . . . . .	xxx
19X6 . . . . .	xxx
19X7 . . . . .	xxx
19X8 and thereafter . . . . .	xxx
	<u>\$xxx</u>

**Pension Plan**

Effective as of January 1, 19X1, the credit union adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the credit union's 19X1 net income by \$50.

A summary of the plan's funding status and the amounts recognized in the statement of financial condition (in thousands) follows:

	<u>19X2</u>	<u>19X1</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$90 in 19X2 and \$87 in 19X1 . . . . .	\$ 97	\$ 96
Projected benefit obligation for service rendered to date . . . . .	113	110
Plan assets at fair value, primarily listed stocks and U.S. government securities . . . . .	153	140
Plan assets in excess of benefit obligation . . . . .	40	30
Unrecorded net loss (gain) from past experience different from that assumed and effects of changes in assumptions . . . . .	(11)	10
Unrecognized net assets at January 1, 19X0, being recognized over 10 years . . . . .	10	11
Prepaid pension cost . . . . .	<u>\$ 39</u>	<u>\$ 51</u>

A summary of the components of income follows:

	<u>19X2</u>	<u>19X1</u>
Service cost-benefits earned during the year .....	\$ 349	\$ 350
Interest cost on projected benefit obligation .....	938	950
Actual return on plan assets .....	(2,274)	(2,261)
Net asset gain deferred for later recognition .....	1,062	1,072
Amortization of unrecognized net asset .....	(33)	(59)
Net periodic pension income .....	<u>\$ 42</u>	<u>\$ 52</u>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 5% and 4.5%, respectively. The expected long-term rate of return on assets was 8%.

In 19X2 and 19X1, \$5 and \$7, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the company recognized gains of \$2 and \$1 in 19X2 and 19X1, respectively.





# **FSP Section 11,000**

## **OTHER COMPREHENSIVE BASES OF ACCOUNTING**

**.01** Sections 11,400, 11,600 and 11,700 include illustrative accountants' reports, financial statement formats, and a limited number of illustrative notes for uncomplicated non-public entities that prepare their financial statements on a comprehensive basis of accounting other than generally accepted accounting principles (referred to as an "other comprehensive basis of accounting," or OCBOA).

**.02** Various formats of financial statement presentations are in use; nevertheless, inclusion of only certain formats in this section in no way means that they are preferable. In addition, these illustrative formats and notes may become of limited use if any complexity is encountered in a particular entity's transactions because the illustrations deal with relatively uncomplicated entities. Readers are urged to refer directly to authoritative pronouncements when appropriate.

**.03** Illustrative financial statement formats are often helpful in developing a consistent style within a firm. However, no set of illustrative financial statements can cover all the situations that are likely to be encountered in practice because the circumstances of engagements vary widely. The nature of an entity will affect the format and classifications of the financial statements. This section includes different formats and classifications to demonstrate some of the possible variations.

**.04** Readers should consider other sources of illustrative financial presentations, such as those in authoritative pronouncements, AICPA audit and accounting guides, and library collections of published financial reports.

---

[The next page is 11,101.]

## FSP Section 11,100

# ***General Comments on Illustrative Financial Statements—Other Comprehensive Bases of Accounting***

.01 This section includes illustrative accountants' reports, financial statement formats, and notes on disclosure of accounting policies for entities whose financial statements are prepared on a comprehensive basis of accounting other than generally accepted accounting principles (OCBOA). Additional notes to financial statements that may be appropriate would be comparable with those required under generally accepted accounting principles (GAAP). In practice, some accountants include the statement of cash flows—cash basis or income tax basis among financial statements prepared on comprehensive bases of accounting other than GAAP. Although not required by authoritative pronouncements, a statement of cash flows may be useful to the user of financial statements prepared on a comprehensive basis of accounting other than GAAP. A recommendation of this statement by the practitioner should be based on the specific facts and circumstances of each case. Such statements of cash flows would be comparable with the illustrations in the *Financial Statement Preparation Manual* (FSP), section 2700.

.02 The AICPA Auditing Standards Board has issued Statement on Auditing Standards (SAS No. 62, *Special Reports*) (among other things) to provide practitioners with guidance when expressing an opinion in connection with financial statements prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. The SAS has changed generally accepted auditing standards in the following ways:

- Prescribing a new special report form that parallels the form of the new auditor's standard report in SAS No. 58, *Reports on Audited Financial Statements*.
- Requiring the auditor's special report to state that the financial statements were prepared in conformity with a comprehensive basis of accounting other than GAAP.
- Clarifying that there is no requirement to describe in the auditor's special report how the presentation differs from presentation in conformity with GAAP.
- Clarifying requirements for issuing a special purpose report on special or incomplete OCBOA presentations.
- Restricting the distribution of reports on financial presentations prepared to comply with a basis of accounting prescribed in a contract or regulatory provision that result in (1) presentations that are not in conformity with GAAP or an other comprehensive basis of accounting or (2) incomplete GAAP or OCBOA presentations (except when the auditor's report and related financial presentation are to be filed with a regulatory agency and included in a document that is distributed to the general public).

.03 SAS No. 62 [(AICPA, *Professional Standards*, vol. 1, AU section 623) which supersedes previous guidance in SAS No. 14, *Special Reports* (AICPA, *Professional Standards*, vol. 1, AU section 621)], addresses the following matters concerning financial statements prepared in accordance with a comprehensive basis of accounting other than GAAP:

- Descriptions of each basis that constitutes a comprehensive basis of accounting other than GAAP [SAS No. 62, paragraph 4 (AICPA, *Professional Standards*, vol. 1, AU section 623.04)]
- Suitable titles for financial statements prepared on a comprehensive basis of accounting other than GAAP [SAS No. 62, paragraph 7 (AICPA, *Professional Standards*, vol. 1, AU section 623.07)]

- Reporting by auditors on financial statements prepared in accordance with a comprehensive basis of accounting other than GAAP [SAS No. 62, paragraph 5 (AICPA, *Professional Standards*, vol. 1, AU section 623.05)]

.04 The description of the cash receipts and disbursements basis in SAS No. 62, paragraph 4c (AICPA, *Professional Standards*, vol. 1, AU section 623.04c), includes the following phrase:

... modifications of the cash basis having substantial support, such as recording depreciation on fixed assets or accruing income taxes.

That phrase leads to the question of which modifications have "substantial support." The reply cannot be a simple reference to an authoritative source because the cash basis of accounting and modifications of the cash basis are not formalized in accounting literature as is the accrual basis of accounting. Modifications have evolved through common usage and practice. Ordinarily, a modification would have substantial support (a) if the method is equivalent to the accrual basis of accounting for the particular item and (b) if the method is not illogical (recording revenue on the accrual basis and recording purchases and other costs on the cash basis would be illogical). If modifications to the cash basis of accounting do not have substantial support, the accountant should include an explanatory paragraph and modify the recommended language of the applicable standard report.

.05 If the modifications are so extensive that the cash basis statements are, in the accountant's judgment, tantamount to financial statements on the accrual basis, the statements should be considered to be on the accrual basis. The accountant should use the applicable standard form of report, modified as appropriate because of departures from generally accepted accounting principles.<sup>1</sup> For example, financial statements that are presented in conformity with generally accepted accounting principles—with the exception that material leases are not capitalized [Statement of Financial Accounting Standards No. 13 (FASB Current Text, section L10)]—are not considered to be cash basis financial statements.

.06 When financial statements (or specified elements, accounts, or items thereof) have been prepared in conformity with generally accepted accounting principles in prior years, and the entity changes its method of presentation in the current year by preparing its financial statements in conformity with an other comprehensive basis of accounting, the auditor need not follow the reporting guidance in subparagraph 31a of SAS No. 62 concerning reporting a lack of consistency. However, in an audit engagement, the auditor may wish to add an explanatory paragraph to the report to highlight (1) a difference in the basis of presentation from that used in prior years or (2) that another report has been issued on the entity's financial statements prepared in conformity with another basis of presentation (for example, when cash basis financial statements are issued in addition to GAAP financial statements).

.07 These two concepts are illustrated in an example of a report on comparative financial statements in section 11,700.11.

---

[The next page is 11,201.]

---

<sup>1</sup> See SAS No. 58, paragraphs 49 through 54 (AICPA, *Professional Standards*, vol. 1, AU section 508.49—54) and Statement on Standards for Accounting and Review Services (SSARS) 1, paragraphs 39 through 41 (AICPA, *Professional Standards*, vol. 2, AR section 100.39—41).

# FSP Section 11,200

## *Description and Explanation of Bases Illustrated*

### Overview

.01 SAS No. 62, paragraph 4 (AICPA, *Professional Standards*, vol. 1, AU section 623.04), describes several common comprehensive bases of accounting other than generally accepted accounting principles, as follows:

- a. A basis of accounting that the reporting entity uses to comply with the requirements or financial reporting provisions of a government regulatory agency to whose jurisdiction the entity is subject. (An example is the basis of accounting that insurance companies use pursuant to the rules of a state insurance commission)
- b. A basis of accounting that the reporting entity uses or expects to use to file its income tax return for the period covered by the financial statements
- c. The cash receipts and disbursements basis of accounting and modifications of the cash basis having substantial support, such as recording depreciation on fixed assets or accruing income taxes
- d. A definite set of criteria having substantial support that is applied to all material items appearing in financial statements, such as the price-level basis of accounting

.02 Unless the financial statements meet one of the above bases, the auditor should use the standard form of report [see SAS No. 58, *Reports on Audited Financial Statements*, paragraph 8 (AICPA, *Professional Standards*, vol. 1 AU section 508)] modified as appropriate because of a departure from GAAP.

.03 This booklet includes illustrations of the cash and income tax bases of accounting.

### Cash Basis

.04 The cash basis of accounting consists of recording transactions on the basis of cash receipts and disbursements with the results that (a) certain revenue and the related assets are recognized when received rather than when earned and that (b) certain expenses are recognized when paid rather than when the obligation is incurred. The cash basis is usually accompanied by certain modifications that have substantial support, such as capitalizing fixed assets, recognizing debt arising from cash transactions, recording depreciation on fixed assets, and accruing income taxes on cash basis income. When accompanied by these modifications the basis is often described as the *modified cash basis*.

.05 Examples of entities that may use this cash basis include professional service organizations and individuals such as certified public accountants, physicians, and attorneys.

.06 The cash basis encompasses the presentation of a summary of cash receipts and disbursements. In this form of presentation, cash receipts from sales, debt, contributions, and so forth, and disbursements for debt repayment, expenses, and the purchase of fixed assets are summarized to show the change in the cash balance for a period. [See section 11,400.16]

.07 Examples of some entities that may use this limited form of cash basis accounting are estates, trusts, civic ventures, and student activity funds.

### Tax Basis

.08 Entities that use the tax basis of accounting are typically either profit-oriented enterprises (such as small, closely held retail and manufacturing companies) for which conversion to GAAP would be costly or partnerships (such as tax shelters) whose partnership agreements require the use of the tax basis of accounting.

---

[The next page is 11,301.]

# FSP Section 11,300

## *Recommended Measurement and Disclosure Guidelines—Cash Basis*

### General Comments

.01 The measurement and disclosure guidelines for financial statements presented on the cash basis of accounting are set forth in this section.

### Measurement Guidelines

.02 Under the cash basis of accounting, the financial statements generally reflect assets, liabilities, income, and expenses arising from cash transactions, as well as certain accruals and amortizations that have substantial support.

.03 Adjusting one element of the financial statements without adjusting related items may be illogical. (For example, presenting sales on the accrual basis and purchases on the cash basis is illogical. Sales and purchases should be presented on the same basis because of their interrelationship.)

### Disclosure Guidelines

#### General

.04 Each financial statement should include prominent disclosure that it is prepared on the cash basis of accounting. Each page of the financial statements would be enhanced by including, where applicable, a reference to the notes to the financial statements, which are an integral part of the financial statements. One such reference would state that “the accompanying notes are an integral part of the financial statements.” Other wording may also be appropriate.

#### Significant Accounting Policies

.05 The notes, preferably the first note, to the financial statements should contain a “Summary of Significant Accounting Policies.” This note should describe the cash basis, including any accrual adjustments or modifications, and should disclose but need not quantify material differences between the cash basis and GAAP.

.06 Modifications or adjustments of the cash basis should have substantial support.

#### Accounting Changes

.07 The nature and effect on income of an accounting change should be disclosed in the period in which the change is made. Accounting changes consist of changes in methods and changes in accounting estimates.

#### Business Combinations

.08 In the period in which a business combination occurs, information disclosed should include the following:

- a. The names and brief descriptions of the acquired or combined companies
- b. Information about any adjustments made to the carrying bases of the assets and liabilities of any of the companies as a result of the combination, as well as the period for which the results of operations of the acquired or combined companies are included in the statement of revenues and expenses—cash basis
- c. The consideration given, including the number and type of any shares of stock issued

- d. Contingent payments, options, and commitments arising from the combination (specified in the related agreement)

#### **Related Party Transactions**

.09 The existence of related parties with which the reporting entity has participated in transactions that are material individually or in the aggregate, and the nature and amounts of the transactions should be disclosed.

#### **Pension Plans and Commitments and Contingencies**

.10 The existence and nature of a pension plan, and material commitments and contingencies should be disclosed.

#### **Subsequent Events**

.11 The nature and financial effects of material events and transactions that occurred subsequent to the balance sheet date and prior to the issuance of the financial statements should be disclosed.

#### **Assets and Liabilities**

.12 Information disclosed on assets and liabilities should include these items:

- a. Restricted cash, segregated from cash available for current operations (with a description of the nature of the restriction)
- b. The aggregate market value of marketable securities
- c. Accounts and notes receivable from officers, employees, and affiliates (presented separately with disclosure of the effective interest rate on notes receivable)
- d. The major classes of property, plant, and equipment; depreciation expense for the period; the method(s) used in computing depreciation; and the aggregate, accumulated depreciation (a lessor should make separate disclosure of leased property)
- e. For a lessee, a general description of leasing arrangements and future lease payments for the next five years
- f. Interest rates, maturities, and collateral of notes payable and other debt, including a five-year schedule of maturity

#### **Stockholders' Equity**

.13 The financial statements should disclose information on stockholders' equity as follows:

- a. For each class of stock, the number of shares authorized, issued, and outstanding; the par or stated value; and, in summary form, the pertinent rights and privileges of each outstanding class (if more than one class is outstanding)
- b. The existence of stock option and stock purchase plans
- c. Restrictions on the payment of dividends
- d. Changes for the period in the separate components of stockholders' equity

#### **Income and Expense**

.14 The financial statements should disclose the following information relating to income and expense:

- a. An explanation, where applicable, if income tax is not provided or if there is an unusual ratio of income tax to income before income taxes

- b.* The amount of tax credits
  - c.* The amount of unused net operating loss and tax credit carryovers, together with their expiration dates
  - d.* The nature and financial effects of material events or transactions that are unusual in nature or infrequent in occurrence
-

# FSP Section 11,400

## *Illustrative Financial Statements—Cash Basis*

### General Comments

.01 This section presents illustrative financial statements prepared on the cash basis. The titles used differ from those used for financial statements based on generally accepted accounting principles because both SAS No. 62 and SSARS 1 indicate that titles of financial statements prepared on another comprehensive basis of accounting should differ from those used for GAAP statements.

.02 A method of reporting under the cash basis limited to a statement of cash receipts and disbursements showing only the changes in the cash balances is presented in paragraphs .16 and .17.

[Illustrative financial statements are on the following pages.]



**Cash Basis—Financial Statements (a Corporation)**  
**.03 Statements of Assets and Liabilities—Cash Basis**  
**Y and Z Corporation**  
**Statements of Assets and Liabilities—Cash Basis**  
**December 31, 19X2 and 19X1**

	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$ X,XXX	\$ X,XXX
Due from officer (Note 2) * .....	—	X,XXX
<b>Total current assets</b> .....	<u>X,XXX</u>	<u>X,XXX</u>
<b>Property and equipment, at cost (Note 1)</b>		
Furniture .....	XX,XXX	XX,XXX
Office equipment .....	XX,XXX	XX,XXX
Leasehold improvements .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Less accumulated depreciation and amortization (Note 1)</b> .....	(X,XXX)	(X,XXX)
	<u>XX,XXX</u>	<u>XX,XXX</u>
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Loan payable to bank, current portion (Note 3) .....	\$ X,XXX	\$ X,XXX
Note payable to officer (Note 2) * .....	X,XXX	—
<b>Total current liabilities</b> .....	<u>X,XXX</u>	<u>X,XXX</u>
Loan payable to bank less current portion included above (Note 3) .....	X,XXX	X,XXX
	<u>X,XXX</u>	<u>X,XXX</u>
<b>Stockholders' Equity</b>		
Common stock, \$XXX par value, authorized XXX numbers of shares, issued and outstanding XXX shares .....	X,XXX	X,XXX
Additional paid-in capital .....	XX,XXX	XX,XXX
Retained earnings—cash basis .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

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

\* If the promissory notes are continuously renewed at the due date, the accounts should be classified out of the current asset or liability section.

**.04 Statements of Revenues and Expenses, and Retained Earnings—Cash Basis**

Y and Z Corporation  
 Statements of Revenues and Expenses,  
 and Retained Earnings—Cash Basis  
 For the Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
<b>Revenues</b>		
Operating revenues .....	\$ XX,XXX	\$ XX,XXX
Miscellaneous .....	X,XXX	X,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Expenses</b>		
Salaries and bonuses .....	XX,XXX	XX,XXX
Advertising .....	XX,XXX	XX,XXX
Rent (Note 5) .....	X,XXX	X,XXX
Depreciation and amortization (Note 1) .....	X,XXX	X,XXX
State and local income taxes paid .....	X,XXX	X,XXX
Federal income taxes paid (Notes 1 and 4) .....	XX,XXX	XX,XXX
Other expenses paid .....	X,XXX	X,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Excess of revenues over expenses .....	XX,XXX	XX,XXX
<b>Retained earnings—cash basis</b>		
Balance, beginning of year .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less cash dividends paid during the year .....	(XX,XXX)	(XX,XXX)
Balance, end of year .....	<u>\$ X,XXX</u>	<u>\$ X,XXX</u>

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

.05 Notes to Financial Statements—Cash Basis

Y and Z Corporation

Notes to Financial Statements—Cash Basis

**Note 1—Summary of Significant Accounting Policies**

● Principles of Accounting

The Company prepares its financial statements on the cash basis but includes depreciation and amortization of capitalized assets. Under this basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, accounts receivable due from customers, amounts due vendors and suppliers, and the unpaid portion of taxes at December 31, 19X2 and 19X1, are not included in the financial statements.

● Property and Equipment

If an expenditure results in an asset having an estimated useful life that extends beyond the year of acquisition, the expenditure is capitalized. Furniture, office equipment, and leasehold improvements are recorded at cost. Depreciation on furniture and office equipment is provided on the double declining-balance method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

● Income Taxes

Income taxes are recognized as an expense when paid. Income taxes incurred are determined on a cash receipts and disbursements method. Investment tax credits are accounted for as a reduction of federal income taxes in the period the benefit is realized.

**Note 2—Transactions With Related Parties**

At December 31, 19X1, Officer A owed \$X,XXX to the Company. This amount was repaid with interest at 10 percent per annum. During the current year, the Company borrowed \$X,XXX from Officer B in exchange for a promissory note due November 30, 19X3, bearing interest at 10 percent per annum.

**Note 3—Loan Payable to Bank**

This debt consisted of the following:

	<u>December 31, 19X2</u>	<u>December 31, 19X1</u>
Loan payable, bank		
Due in quarterly installments		
of \$X,XXX until December 31,		
19Y2, plus interest at XX% .....	\$XX,XXX	\$XX,XXX
Less current maturities .....	<u>(X,XXX)</u>	<u>(X,XXX)</u>
Long-term portion .....	<u>\$ X,XXX</u>	<u>\$ X,XXX</u>

Long-term debt matures in the next five years as follows:

19X3	\$X,XXX
19X4	X,XXX
19X5	X,XXX
19X6	X,XXX
19X7	X,XXX
	<u>\$X,XXX</u>

**Note 4—Income Taxes**

The Company benefited from investment tax credits of \$X,XXX in 19X2 and \$X,XXX in 19X1. At December 31, 19X2, investment tax credit carryforwards of \$XX,XXX are available to be applied against future taxable income. The amounts expire as follows:

<u>Expiration Year Ending</u>	<u>Investment Tax Credit Carryovers</u>
19X3	\$XX,XXX
19X4	\$XX,XXX
19X5	\$XX,XXX
19X6	\$XX,XXX
19X7	\$XX,XXX

**Note 5—Leases**

The Company leases office space and certain data processing and other equipment under leases for varying terms. At December 31, 19X2, the minimum rental payments under noncancellable leases with a term in excess of one year were as follows:

19X3	\$XX,XXX
19X4	\$XX,XXX
19X5	\$XX,XXX
19X6	\$XX,XXX
19X7	\$XX,XXX

**Note 6—Contingencies**

The Company is involved in litigation involving a claim for \$XX,XXX, which, in the opinion of the Company's legal counsel, is not expected to result in an award that would have a materially adverse effect on the Company's financial position.

The Internal Revenue Service has examined the Company's income tax returns through 19X0, or the period during which such returns could be examined has expired. No examinations were under way or completed during 19X2.

**Cash Basis—Financial Statements (a Partnership)**  
**.06 Statements of Assets and Liabilities—Cash Basis**  
 Alpha and Bravo, a Partnership  
 Statements of Assets and Liabilities—Cash Basis  
 December 31, 19X2 and 19X1

	19X2	19X1
<b>Assets</b>		
Current assets		
Cash .....	\$XX,XXX	\$XX,XXX
U.S. treasury bill, at cost which approximates market .....	XX,XXX	XX,XXX
Total current assets .....	XX,XXX	XX,XXX
<b>Property and equipment, at cost (Note 1)</b>		
Furniture and equipment .....	XX,XXX	XX,XXX
Law books .....	XX,XXX	XX,XXX
Leasehold improvements .....	XX,XXX	XX,XXX
	XX,XXX	XX,XXX
Less accumulated depreciation and amortization (Note 1) .....	(XX,XXX)	(XX,XXX)
	XX,XXX	XX,XXX
Total assets .....	\$XX,XXX	\$XX,XXX
<b>Liabilities and Partners' Capital</b>		
Current liabilities		
Current portion of note payable (Note 2) .....	\$XX,XXX	\$XX,XXX
Payroll taxes withheld and accrued .....	XX,XXX	XX,XXX
Client advances .....	XX,XXX	XX,XXX
Pension contribution payable .....	XX,XXX	XX,XXX
Total current liabilities .....	XX,XXX	XX,XXX
Note payable due April 30, 19X8, less current portion included above (Note 2) .....	XX,XXX	XX,XXX
Total liabilities .....	XX,XXX	XX,XXX
Partners' capital .....	XX,XXX	XX,XXX
Total liabilities and partners' capital .....	\$XX,XXX	\$XX,XXX

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

**.07 Statements of Revenues and Expenses—Cash Basis**

Alpha and Bravo, a Partnership  
 Statements of Revenues and Expenses—Cash Basis  
 For the Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
<b>Revenues</b>		
Professional fees .....	\$XXX,XXX	\$XXX,XXX
Interest .....	X,XXX	X,XXX
Other .....	X,XXX	X,XXX
Gain on involuntary conversion (Note 6) .....	—	X,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Expenses</b>		
<b>Salaries</b>		
Professional .....	XX,XXX	XX,XXX
Other .....	XX,XXX	XX,XXX
<b>Payroll taxes</b>		
Professional .....	XX,XXX	XX,XXX
Other .....	XX,XXX	XX,XXX
<b>Pension (Note 4)</b>		
Professional .....	X,XXX	X,XXX
Other .....	X,XXX	X,XXX
<b>Group insurance</b>		
Professional .....	XX,XXX	XX,XXX
Other .....	XX,XXX	XX,XXX
<b>Insurance—general</b> .....	XX,XXX	XX,XXX
<b>Outside professional services</b> .....	XX,XXX	XX,XXX
<b>Rent (Note 3)</b> .....	XX,XXX	XX,XXX
<b>Office supplies and expense</b> .....	XX,XXX	XX,XXX
<b>Telephone</b> .....	XX,XXX	XX,XXX
<b>Dues</b> .....	XX,XXX	XX,XXX
<b>Subscriptions and books</b> .....	XX,XXX	XX,XXX
<b>Travel and entertainment</b> .....	XX,XXX	XX,XXX
<b>Equipment rental</b> .....	XX,XXX	XX,XXX
<b>Maintenance and repairs</b> .....	XX,XXX	XX,XXX
<b>Depreciation and amortization (Note 1)</b> .....	XX,XXX	XX,XXX
<b>Use tax</b> .....	XX,XXX	XX,XXX
<b>Interest</b> .....	XX,XXX	XX,XXX
<b>Continuing legal education</b> .....	XX,XXX	XX,XXX
<b>Utilities</b> .....	XX,XXX	XX,XXX
<b>Miscellaneous</b> .....	XX,XXX	XX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
<b>Excess of revenues over expenses</b> .....	<u>\$XXX,XXX</u>	<u>\$XXX,XXX</u>

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

**.08 Statements of Changes in Partners' Capital—Cash Basis**

Alpha and Bravo, a Partnership  
 Statements of Changes in Partners' Capital—Cash Basis  
 For the Years Ended December 31, 19X2 and 19X1

	<u>Alan B. Alpha</u>	<u>Bertrand S. Bravo</u>	<u>Cynthia Q. Charlie</u>	<u>Total</u>
Balance, January 1, 19X1 .....	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
<b>19X1</b>				
Excess of revenues over expenses .....	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Decreases in equity</b>				
Withdrawals .....	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Contribution to pension fund * .....	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total decreases .....	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
Balance, December 31, 19X1 .....	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>19X2</b>				
Excess of revenues over expenses .....	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Decreases in equity</b>				
Withdrawals .....	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Contribution to pension fund* .....	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total decreases .....	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XX,XXX</u>
Balance, December 31, 19X2 .....	<u><u>\$XX,XXX</u></u>	<u><u>\$XX,XXX</u></u>	<u><u>\$XX,XXX</u></u>	<u><u>\$XX,XXX</u></u>

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

\* This represents one of the reporting alternatives available. Some partnerships may prefer to include partners' salaries and pension benefits among expenses for financial reporting purposes. The reporting classification of partners' salaries and pension benefits would be based on the specific facts and circumstances of each case. Where the facts and circumstances do not require inclusion in expenses for financial reporting purposes, some partnerships would combine partners' salaries and pension benefits with other withdrawals and reflect only one decrease in equity.

**.09 Notes to Financial Statements—Cash Basis**

Alpha and Bravo, a Partnership  
Notes to Financial Statements—Cash Basis

**Note 1—Summary of Significant Accounting Policies**

● Principles of Accounting

The Company prepares its financial statements on the cash basis but includes depreciation and amortization of capitalized assets, liabilities for payroll withholdings, and accrual of payroll taxes and pension plan contributions. Under this basis, revenues are recognized when collected rather than when earned, and expenses are generally recognized when paid rather than incurred. Consequently, the financial statements do not include accounts receivable due from clients, amounts due vendors and suppliers, and prepaid expenses and liabilities for accrued expenses other than those described above as of December 31, 19X2 and 19X1.

● Property and Equipment

If an expenditure results in an asset having an estimated useful life that extends beyond the year of acquisition, the expenditure is capitalized. Furniture, equipment, law books, and leasehold improvements are recorded at cost. Depreciation of furniture, equipment, and law books is provided on the double declining-balance method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

● Income Taxes

The Company is not subject to income taxes as a separate entity. Taxes on income of the partnership are determined by the individual circumstances of each partner and based on the individual income tax returns of the partners. Consequently, partnership excess of revenues over expenses is presented without a provision for taxes on income.

**Note 2—Note Payable**

Note payable consisted of the following:

	<u>December 31, 19X2</u>	<u>December 31, 19X1</u>
Note payable, bank		
Due in quarterly installments of \$X,XXX until April 30, 19X8, plus interest at XX% . . . . .	\$XX,XXX	\$XX,XXX
Less current maturities . . . . .	(XX,XXX)	(XX,XXX)
Long-term portion . . . . .	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

Long-term debt maturing in the next five years consists of the following:

19X3	\$XX,XXX
19X4	XX,XXX
19X5	XX,XXX
19X6	XX,XXX
19X7	XX,XXX
	<u>\$XX,XXX</u>



**Note 3—Leases**

The Company leases office space and certain data processing and other equipment under leases for varying terms. At December 31, 19X2, the minimum rental payments under noncancellable leases with a term in excess of one year were as follows:

19X3	\$XX,XXX
19X4	\$XX,XXX
19X5	\$XX,XXX
19X6	\$XX,XXX
19X7	\$XX,XXX

**Note 4—Pension Plan**

The Company maintains a defined benefit pension plan that covers substantially all employees. The pension plan expense was \$X,XXX in 19X2 and \$X,XXX in 19X1. The pension plan contribution was in accordance with the requirements of the pension plan trustee.

**Note 5—Contingencies**

The Company is involved in litigation involving a claim for \$XX,XXX, which, in the opinion of the Company's legal counsel, is not expected to result in an award that would have a materially adverse effect on the Company's financial position.

The Internal Revenue Service has examined the Company's income tax returns through 19X0, or the period during which such returns could be examined has expired. No examinations were under way or completed during 19X2.

**Note 6—Unusual Item**

Certain of the Company's assets were destroyed by fire on September 3, 19X1. The gain, recorded as a separate item in the statement of revenues and expenses—cash basis, represents the difference between the insurance proceeds received and the depreciated cost of the assets.

Cash Basis—Financial Statements (a Professional Corporation)

.10 Statements of Assets and Liabilities—Cash Basis

M, O and D, P.C.

Statements of Assets and Liabilities—Cash Basis

December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
Current assets		
Cash .....	\$XX,XXX	\$XX,XXX
U.S. treasury bill, at cost, which approximates market .....	XX,XXX	XX,XXX
Total current assets .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Equipment and leasehold improvements, at cost (Notes 1 and 3)		
Dental equipment .....	XXX,XXX	XXX,XXX
Office equipment .....	XX,XXX	XX,XXX
Leasehold improvements .....	XX,XXX	XX,XXX
	<u>XXX,XXX</u>	<u>XXX,XXX</u>
Less, accumulated depreciation and amortization .....	(X,XXX)	(X,XXX)
Net equipment and leasehold improvements .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Due from stockholder (Note 2) .....	X,XXX	X,XXX
Total assets .....	<u><u>\$XXX,XXX</u></u>	<u><u>\$XXX,XXX</u></u>
<b>Liabilities</b>		
Current liabilities		
Current portion of installment loan (Note 3) .....	\$XX,XXX	\$XX,XXX
Payroll taxes and withholdings .....	X,XXX	X,XXX
Accrued federal income taxes .....	X,XXX	X,XXX
Accrued profit sharing .....	X,XXX	X,XXX
Total current liabilities .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Installment loan, less current portion included above (Note 3) .....	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Stockholders' equity</b>		
Common stock \$10 par value; 1000 shares authorized; issued and outstanding 300 shares in 19X2, 200 shares in 19X1 .....	X,XXX	X,XXX
Additional paid-in capital .....	XX,XXX	XX,XXX
Retained earnings—cash basis .....	XX,XXX	XX,XXX
Total stockholders' equity .....	<u>XX,XXX</u>	<u>XX,XXX</u>
Total liabilities and stockholders' equity .....	<u><u>\$XXX,XXX</u></u>	<u><u>\$XXX,XXX</u></u>

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

**.11 Statements of Revenues and Expenses, and Retained Earnings—Cash Basis**

M, O and D, P.C.  
 Statements of Revenues and Expenses, and  
 Retained Earnings—Cash Basis  
 For Years Ended December 31, 19X2 and 19X1

	19X2	19X1
<b>Revenues</b>		
Fees .....	\$XXX,XXX	\$XXX,XXX
Interest income .....	X,XXX	X,XXX
	XXX,XXX	XXX,XXX
<b>Expenses</b>		
Dental supplies .....	X,XXX	X,XXX
Depreciation and amortization (Note 1) .....	X,XXX	X,XXX
Dues and licenses .....	XXX	XXX
Insurance .....	X,XXX	X,XXX
Interest .....	X,XXX	X,XXX
Laboratory fees .....	X,XXX	X,XXX
Maintenance and repairs—dental equipment .....	X,XXX	X,XXX
Maintenance and repairs—other .....	XXX	XXX
Medical reimbursement plan .....	X,XXX	X,XXX
Miscellaneous .....	X,XXX	X,XXX
Office supplies and expense .....	X,XXX	X,XXX
Pension (Note 6) .....	X,XXX	X,XXX
Profit sharing (Note 6) .....	X,XXX	X,XXX
Professional fees .....	X,XXX	X,XXX
Professional meetings and seminars .....	X,XXX	X,XXX
Rent (Note 5) .....	X,XXX	X,XXX
Salaries—officers .....	XXX,XXX	XXX,XXX
Salaries—other .....	XX,XXX	XX,XXX
Taxes—payroll .....	X,XXX	X,XXX
Taxes—other .....	X,XXX	X,XXX
Telephone .....	X,XXX	X,XXX
Travel .....	XXX	XXX
Utilities .....	X,XXX	X,XXX
	XXX,XXX	XXX,XXX
Excess of revenues over expenses before income taxes .....	X,XXX	X,XXX
Income taxes (Note 4) .....	X,XXX	X,XXX
Net earnings—cash basis .....	X,XXX	X,XXX
<b>Retained earnings—cash basis</b>		
Balance, beginning of year .....	XX,XXX	XX,XXX
Less cash dividends paid during the year .....	(X,XXX)	(X,XXX)
Balance, end of year .....	\$XX,XXX	\$XX,XXX

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

.12 Notes to Financial Statements—Cash Basis

M, O and D, P.C.

Notes to Financial Statements—Cash Basis

**Note 1—Summary of Significant Accounting Policies**

● Principles of Accounting

The Company prepares its financial statements on the cash basis but includes depreciation and amortization of capitalized assets, liabilities for payroll withholdings, and accruals of payroll taxes, profit sharing contributions, and income taxes payable. Under this basis, revenues are recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, accounts receivable due from patients, trade accounts payable, and accrued expenses other than those mentioned above are not included in the financial statements as of December 31, 19X2, and 19X1.

● Equipment and Leasehold Improvements

If an expenditure results in an asset having an estimated useful life that extends beyond the year of acquisition, the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset. Equipment and leasehold improvements are recorded at cost. Depreciation of equipment is provided on the double declining-balance method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

● Income Taxes

Investment tax credits are accounted for as a reduction of federal income taxes in the period the tax benefit is realized.

**Note 2—Transactions With Related Parties**

The amount due from the stockholder bears interest at 10 percent per annum and is due November 30, 19X4.

**Note 3—Installment Loan**

This loan consisted of the following:

	<u>December 31,</u> <u>19X2</u>	<u>December 31,</u> <u>19X1</u>
Loan payable, bank		
Due in quarterly installments of \$X,XXX until December 31, 19Y2, plus interest at XX%, collateralized by dental equipment . . . . .	\$XX,XXX	\$XX,XXX
Less current maturities . . . . .	( XX,XXX)	( XX,XXX)
Long-term portion . . . . .	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
Long-term debt maturing in the next five years consists of the following:		
19X3 . . . . .	\$XX,XXX	
19X4 . . . . .	XX,XXX	
19X5 . . . . .	XX,XXX	
19X6 . . . . .	XX,XXX	
19X7 . . . . .	<u>XX,XXX</u>	
	<u>\$XX,XXX</u>	

**Note 4—Income Taxes**

The Company benefited from investment tax credits of \$X,XXX in 19X2 and \$X,XXX in 19X1. At December 31, 19X2, investment tax credit carryforwards of \$XX,XXX are available to be applied against future taxable income. The amounts expire as follows:

<u>Expiration Year</u> <u>Ending</u>	<u>Investment Tax</u> <u>Credit Carryovers</u>
19X3 . . . . .	\$XX,XXX
19X4 . . . . .	\$XX,XXX
19X5 . . . . .	\$XX,XXX
19X6 . . . . .	\$XX,XXX
19X7 . . . . .	\$XX,XXX

**Note 5—Leases**

The Company leases office space and certain data processing and other equipment under leases for varying terms. At December 31, 19X2, the minimum rental payments under noncancellable leases with a term in excess of one year were as follows:

19X3 .....	\$XX,XXX
19X4 .....	\$XX,XXX
19X5 .....	\$XX,XXX
19X6 .....	\$XX,XXX
19X7 .....	\$XX,XXX

**Note 6—Pension Plans and Commitments**

The Company has a profit sharing plan that covers nonunion employees.

The Company maintains a defined-benefit pension plan that covers substantially all union employees. The pension plan expense was \$X,XXX in 19X2 and \$X,XXX in 19X1. The pension plan contribution was in accordance with the requirements of the pension plan trustee.

**Note 7—Contingencies**

The Company is involved in litigation involving a claim for \$XX,XXX, which, in the opinion of the Company's legal counsel, is not expected to result in an award that would have a materially adverse effect on the Company's financial position.

The Internal Revenue Service has examined the Company's income tax returns through 19X0, or the period during which such returns could be examined has expired. No examinations were under way or completed during 19X2.

**Cash Basis—Financial Statements (an S Corporation)**

**.13 Statements of Assets and Liabilities—Cash Basis**

S Incorporated  
 Statements of Assets and Liabilities—Cash Basis  
 December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$ X,XXX	\$ X,XXX
Due from officer (Note 2) .....	—	X,XXX
<b>Total current assets</b> .....	<u>X,XXX</u>	<u>X,XXX</u>
<b>Property and equipment, at cost (Notes 1 and 3)</b>		
Furniture .....	XX,XXX	XX,XXX
Office equipment .....	XX,XXX	XX,XXX
Leasehold improvements .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less, accumulated depreciation and amortization (Note 1) .....	( X,XXX)	( X,XXX)
<b>Total assets</b> .....	<u><u>\$XX,XXX</u></u>	<u><u>\$XX,XXX</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Note payable to bank (Note 3) .....	\$XX,XXX	\$XX,XXX
Accrued state and local income taxes (Note 1) .....	X,XXX	—
<b>Total current liabilities</b> .....	<u>X,XXX</u>	<u>X,XXX</u>
Note payable to bank, less current portion included above (Note 3) .....	<u>XX,XXX</u>	<u>XX,XXX</u>
	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Stockholders' equity</b>		
Common stock, \$XXX par value, authorized XXX number of shares, issued and outstanding XXX shares .....	X,XXX	X,XXX
Additional paid-in capital .....	XX,XXX	XX,XXX
Retained earnings—cash basis (Note 1) .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Total liabilities and stockholders' equity</b> .....	<u><u>\$XX,XXX</u></u>	<u><u>\$XX,XXX</u></u>

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

**.14 Statements of Revenues and Expenses, and Retained Earnings—Cash Basis**

S Incorporated  
 Statements of Revenues and Expenses,  
 and Retained Earnings—Cash Basis  
 For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
<b>Revenues</b>		
Operating revenue .....	\$XX,XXX	\$XX,XXX
Miscellaneous .....	X,XXX	X,XXX
	XX,XXX	XX,XXX
<b>Expenses</b>		
Salaries and bonuses .....	XX,XXX	XX,XXX
Advertising .....	XX,XXX	XX,XXX
Rent (Note 4) .....	X,XXX	X,XXX
Depreciation and amortization (Note 1) .....	X,XXX	X,XXX
Other .....	X,XXX	X,XXX
	XX,XXX	XX,XXX
Excess of revenues over expenses before provision for income taxes .....	XX,XXX	XX,XXX
Provision for state and local income taxes (Note 1) .....	X,XXX	X,XXX
Excess of revenues over expenses .....	XX,XXX	XX,XXX
<b>Retained earnings—cash basis (Note 1)</b>		
Balance, beginning of year .....	X,XXX	X,XXX
	XX,XXX	XX,XXX
Less dividends (Note 6) .....	( XX,XXX)	( XX,XXX)
Balance, end of year .....	\$ X,XXX	\$ X,XXX

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

.15 Notes to Financial Statements—Cash Basis

S Incorporated

Notes to Financial Statements—Cash Basis

**Note 1—Summary of Significant Accounting Policies**

● Principles of Accounting

The Company prepares its financial statements on the cash basis but includes depreciation and amortization of capitalized assets, and accrued liabilities for state and local income taxes payable. Under this basis, revenues are recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, commissions receivable, trade accounts payable, prepaid expenses, and certain accrued expenses at December 31, 19X2, and 19X1, are not included in the financial statements.

● Property and Equipment

If an expenditure results in an asset having an estimated useful life that extends beyond the year of acquisition, the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset. Property, equipment, and leasehold improvements are recorded at cost. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

● Income Taxes

The Company has elected by unanimous consent of its stockholders to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. [S Incorporated is allowed no net operating loss carryover or carryback as a deduction.\*] Instead, the stockholders are liable for individual federal income taxes on their respective shares of the Company's taxable income. [The stockholders include their respective shares of the Company's net operating loss in their individual income tax returns.]

**Note 2—Transactions With Related Parties**

At December 31, 19X1, Officer A owed \$X,XXX to the Company. This amount was repaid with interest at 10 percent per annum.

**Note 3—Note Payable to Bank**

This debt consisted of the following:

	<i>December 31, 19X2</i>	<i>December 31, 19X1</i>
Note payable, bank		
Due in quarterly installments of \$X,XXX until December 31, 19Y2, plus interest at XX%, collateralized by office equipment . . . . .	\$XX,XXX	\$XX,XXX
Less current maturities . . . . .	(XX,XXX)	(XX,XXX)
Long-term portion . . . . .	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

Long-term debt maturing in the next five years consists of the following:

19X3	\$XX,XXX
19X4	XX,XXX
19X5	XX,XXX
19X6	XX,XXX
19X7	XX,XXX
	<u>\$XX,XXX</u>

\* Additional illustrative language in the event of an operating loss.



**Note 4—Leases**

The Company leases office space and certain data processing and other equipment under leases for varying terms. At December 31, 19X2, the minimum rental payments under noncancellable leases with a term in excess of one year were as follows:

19X3	\$XX,XXX
19X4	\$XX,XXX
19X5	\$XX,XXX
19X6	\$XX,XXX
19X7	\$XX,XXX

**Note 5—Contingencies**

The Company is involved in litigation involving a claim for \$XX,XXX, which, in the opinion of the Company's legal counsel, is not expected to result in an award that would have a materially adverse effect on the Company's financial position.

The Internal Revenue Service has examined the Company's income tax returns through 19X0, or the period during which such returns could be examined has expired. No examinations were under way or completed during 19X2.

Under certain circumstances, the Company's election can be retroactively terminated by the Internal Revenue Service and the Company may be required to pay federal income taxes.

**Note 6—Dividends**

A dividend of \$XX,XXX was declared and paid on February 15, 19X2.\*

---

\* S Corporations often pay substantial dividends after the end of the year. A dividend declared before the end of the year generally would be recorded as a liability and shown separately in the statement of assets and liabilities. A dividend declared after the end of the year would be disclosed as a subsequent event in conformity with FASB Statement No. 5, paragraph 11 (*FASB Current Text*, sec. C59.112) and SAS No. 1, section 560.01-.09 (AICPA, *Professional Standards*, vol. 1, AU sec. 560.01-.09).

**Cash Basis—Financial Statement (Not-for-Profit)**

**.16 Statement of Cash Receipts and Disbursements**

ABC Charity—Dinner Fund  
Statement of Cash Receipts and Disbursements  
For the Year Ended December 31, 19X5

<b>Cash receipts</b>		
Contributions .....	\$XX,XXX	
Sales of raffle tickets .....	XX,XXX	
Advances from ABC Charity General Fund .....	X,XXX	
Interest on passbook savings accounts .....	XXX	
	<hr/>	
<b>Total cash receipts</b> .....		<b>\$XX,XXX</b>
<b>Cash disbursements</b>		
Food purchases .....	\$XX,XXX	
Refund of advances from ABC Charity General Fund .....	X,XXX	
Advertising .....	X,XXX	
Professional fees .....	X,XXX	
Postage .....	X,XXX	
Travel .....	X,XXX	
Telephone .....	X,XXX	
Rental (Note 2) .....	X,XXX	
Raffle prizes .....	X,XXX	
Contribution to (Name of Recipient) .....	XX,XXX	
	<hr/>	
<b>Total cash disbursements</b> .....		<b>XX,XXX</b>
<b>Excess of cash receipts over cash disbursements</b> .....		<b>XX,XXX</b>
Cash balance, January 1, 19X5 .....		<b>X,XXX</b>
Cash balance, December 31, 19X5 .....		<b>\$ X,XXX</b>
		<hr/>
<b>Cash balance as of December 31, 19X5, is accounted for as follows:</b>		
Demand deposit, Tenth National Bank .....		<b>\$ XXX</b>
Passbook deposit, Penny Savings Bank .....		<b>X,XXX</b>
<b>Total</b> .....		<b>\$ X,XXX</b>

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

**.17 Notes to Statement of Cash Receipts and Disbursements**

## ABC Charity—Dinner Fund

## Notes to Statement of Cash Receipts and Disbursements

**Note 1—Accounting Policies**

The ABC Charity—Dinner Fund financial statement presents cash receipts and cash disbursements in accordance with the resolution of April 1, 19XX, of the Board of Governors of ABC Charity. [Consequently, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.] \*

**Note 2—Leases**

The Fund leases office space and certain data processing and other equipment under leases for varying terms. At December 31, 19X5, the minimum rental payments under noncancellable leases with a term in excess of one year were as follows:

19X6	\$XX,XXX
19X7	\$XX,XXX
19X8	\$XX,XXX
19X9	\$XX,XXX
19Y0	\$XX,XXX

**Note 3—Commitments and Contingencies**

The Fund is involved in litigation involving a claim for \$XX,XXX, which, in the opinion of the Fund's legal counsel, is not expected to result in an award that would have a materially adverse effect on the Fund's financial position.

---

[The next page is 11,501.]

---

\* Some accountants omit this sentence from the above note because the related statement merely presents cash receipts and cash disbursements; does not include the terms "revenue" or "expense"; and does not purport to present financial position or results of operations.

# FSP Section 11,500

## *Recommended Measurement and Disclosure Guidelines—Income Tax Basis*

### **General Comments**

.01 The measurement and disclosure guidelines for material items in financial statements presented on the income tax basis of accounting are set forth in this section. Guidance is provided on the measurement of assets and related revenues as well as liabilities and related expenses that do not enter into taxable income.

### **Measurement Guidelines**

.02 The income tax basis of accounting is based upon the principles and rules for accounting for transactions under the federal income tax laws and regulations. Few new measurement guidelines need to be established because this method is based upon federal tax laws. This method covers a range of alternative bases from cash to full accrual, depending on the nature of the taxpayer, and in some circumstances, the taxpayer's elections. It is believed that this basis of accounting is useful to small, nonpublic entities who find that the cost of GAAP financial statements is not beneficial in relation to the needs of likely users. Most users of financial statements can be expected to recognize and understand the nature of the income tax basis.

### **Nontaxable Revenues**

.03 Under the federal income tax laws, receipts from some sources, such as interest on obligations of state and local governments and proceeds from life insurance policies, are excluded from revenue for income tax purposes. In presenting financial statements on the income tax basis, nontaxable revenues should be recognized when they are received or when they are accruable and should be reported in the statement of revenues and expenses—income tax basis.

### **Nondeductible Expenses**

.04 Costs incurred for some expense items, such as premiums paid on officers' life insurance policies, are not deductible for income tax purposes. In financial statements prepared on the income tax basis of accounting, nondeductible expenses should be reported and charged to expense in the period in which they are incurred. For example, charitable contributions in excess of IRS limitations (pass-through items in S Corporations), section 199 depreciation, and investment interest should be charged to expense in the year incurred. The amounts should be included in the statement of revenues and expenses—income tax basis in the appropriate expense category.

### **Additional Income Taxes for Prior Years**

.05 Additional income taxes for prior years may be assessed as the result of an examination by the Internal Revenue Service (IRS). Two alternative methods may be used to account for additional taxes for prior years:

- a. The amount may be charged to expense in the current period if there are no corresponding adjustments to the balance sheet for expenses capitalized or revenue recognized
- b. The amount may be treated as a prior period adjustment and charged to retained earnings.

Either method is considered acceptable in the preparation of financial statements on the income tax basis. The method used should be disclosed in the financial statements.

**Adjustments to Balance Sheet for IRS Changes**

.06 The IRS may disallow amounts charged to expense in prior years and require those amounts to be capitalized and amortized or may require recognition of previously unreported revenue. Such amounts, net of income tax adjustments, should be treated as prior period adjustments.

**Accounting Changes for Tax Purposes**

.07 For tax purposes, the effects of an accounting change may be recognized prospectively over a period of ten years. In income tax basis financial statements, the total effect should be recorded in the year of the change and amortized over the ten-year period.

**S Corporations**

.08 Income of an S Corporation is taxable to its shareholders; consequently, such a corporation may be required to maintain information on distinct classes of retained earnings. However, in financial statements prepared on the income tax basis, S Corporations should report retained earnings as a single amount and should report distributions to stockholders as dividends.

**Disclosure Guidelines****General**

.09 Each financial statement should include prominent disclosure that it is prepared on the income tax basis of accounting. Each page of the financial statements would be enhanced by including, where applicable, a reference to the notes to the financial statements, which are an integral part of the financial statements. One such reference would state that "the accompanying notes are an integral part of the financial statements." Other wording may also be appropriate.

**Significant Accounting Policies**

.10 The notes, preferably the first note, to the financial statements should contain a "Summary of Significant Accounting Policies." The note should disclose the following:

- a. Whether the basic method of accounting is cash or accrual
- b. The tax filing status of the entity (if other than a normal taxable corporation)
- c. That revenues and related assets and expenses and related obligations are recognized when they are reported or deducted for federal income tax purposes
- d. That nontaxable income and nondeductible expenses are included in the determination of net income
- e. The nature of any optional tax methods of accounting followed
- f. The nature of any important judgments or policies necessary for an understanding of the methods of recognizing revenue and allocating costs to current and future periods

This note need not repeat detailed information already presented on the face of the financial statements or elsewhere in the notes to the financial statements. The note should disclose but need not quantify material differences between the income tax basis and generally accepted accounting principles.

.11 Disclosures made in interim financial statements should include information on how inventories and costs of sales were determined. These disclosures also should indicate that deferrals and accruals have been provided only when they would have been provided at year-end and, thus, the statements should not be viewed as an indicator of results for the year.

**Accounting Changes**

.12 The nature and effect on income of an accounting change should be disclosed in the period in which the change is made. Accounting changes consist of changes in the methods of accounting and changes in accounting estimates.

**Business Combinations**

.13 In the period in which a business combination occurs, information disclosed should include the following:

- a. The names and brief descriptions of the acquired or combined companies
- b. Information about any adjustments made to the carrying basis of the assets and liabilities of any of the companies as a result of the combination and the period for which the results of operations of the acquired or combined companies are included in the statement of revenues and expenses—*income tax basis*.
- c. The consideration given, including the number and type of any shares of stock issued
- d. Contingent payments, options, and commitments arising from the combination and specified in the related agreement

**Related Party Transactions**

.14 The existence of related parties with which the reporting entity has participated in transactions that are material individually or in the aggregate, and the nature and amounts of the transactions should be disclosed.

**Pension Plans and Commitments and Contingencies**

.15 The existence and nature of a pension plan and material commitments and contingencies should be disclosed.

**Subsequent Events**

.16 The nature and financial effects of material events and transactions that are unusual in nature or are of infrequent occurrence that occurred subsequent to the balance sheet date and prior to the issuance of the financial statements should be disclosed.

**Assets and Liabilities**

.17 Information disclosed on assets and liabilities should include these items:

- a. Restricted cash, segregated from cash available for current operations (with a description of the nature of the restriction)
- b. The aggregate market value of marketable securities
- c. Accounts and notes receivable from officers, employees, and affiliates, (presented separately with disclosure of the effective interest rate on notes receivable)
- d. The method of determining inventory cost (for example, LIFO, FIFO)
- e. The major classes of property, plant, and equipment (including assets recorded under lease purchase agreements); depreciation expense for the period; the method(s) used in computing depreciation; and the aggregate accumulated depreciation (a lessor should make separate disclosure of leased property)
- f. For a lessee, a general description of leasing arrangements and future lease payments for the next five years

- g. Interest rates, maturities, and collateral of notes payable and other debt, including a five-year schedule of maturity**

**Stockholders' Equity**

**.18 The financial statements should disclose information on stockholders' equity as follows:**

- a. For each class of stock, the number of shares authorized, issued, and outstanding; the par or stated value; and, in summary form, the pertinent rights and privileges of each outstanding class (if more than one class is outstanding)**
- b. The existence of stock option and stock purchase plans**
- c. Restrictions on the payment of dividends**
- d. Changes for the period in the separate components of stockholders' equity**

**Income and Expense**

**.19 The financial statements should disclose the following information relating to income and expense:**

- a. An explanation, where applicable, if income tax is not provided or if there is an unusual relationship between income before income taxes and income taxes**
  - b. The amount of tax credits**
  - c. The amount of unused net operating loss and tax credit carryovers, together with their expiration dates**
  - d. The nature and financial effects of material events or transactions that are unusual in nature or are of infrequent occurrence**
-

# FSP Section 11,600

## *Illustrative Financial Statements—Income Tax Basis*

### **General Comments**

.01 This section presents illustrative financial statements prepared on the income tax basis. The titles used for the financial statements differ from those used for financial statements based on generally accepted accounting principles because both SAS No. 62 and SSARS 1 indicate that titles of financial statements prepared on another comprehensive basis of accounting should differ from those used for GAAP statements.

[Illustrative financial statements are on following pages.]



**.02 Statements of Assets and Liabilities—Income Tax Basis**

ABC Company  
**Statements of Assets and Liabilities—Income Tax Basis**  
 December 31, 19X2 and 19X1

	19X2	19X1
<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$ XX,XXX	\$ XX,XXX
Temporary investments in municipal securities, at cost plus accrued interest (market 19X2, \$XX,XXX, 19X1, \$XX,XXX) .....	XX,XXX	XX,XXX
Accounts receivable, less allowances for bad debts 19X2, \$X,XXX, 19X1, \$X,XXX (Notes 3 and 5) .....	XX,XXX	XX,XXX
Installment accounts receivable, net of deferred income 19X2, \$X,XXX, 19X1, \$X,XXX (Note 1) .....	XX,XXX	XX,XXX
Inventories at LIFO (Notes 1, 2, and 5) .....	XX,XXX	XX,XXX
Prepaid expenses .....	XX,XXX	XX,XXX
<b>Total current assets</b> .....	XX,XXX	XX,XXX
Advances to affiliate (Note 3) .....	XX,XXX	XX,XXX
Investment in affiliate, at cost (Note 1) .....	XX,XXX	XX,XXX
Property, plant, and equipment, at cost less accumulated depreciation and amortization 19X2, \$X,XXX, 19X1, \$X,XXX (Notes 1, 4, 5, and 8) .....	XX,XXX	XX,XXX
Cash surrender value of life insurance on officers (face amount \$XXX,XXX) .....	X,XXX	X,XXX
<b>Total assets</b> .....	\$XXX,XXX	\$XXX,XXX
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable .....	\$ XX,XXX	\$ XX,XXX
Construction loan payable (Note 1) .....	XX,XXX	XX,XXX
Current maturities of long-term debt .....	XX,XXX	XX,XXX
Accrued expenses .....	XX,XXX	XX,XXX
Income taxes payable (Notes 1, 6, and 8) .....	XX,XXX	XX,XXX
<b>Total current liabilities</b> .....	X,XXX	X,XXX
Long-term debt, less current maturities (Note 5) .....	XX,XXX	XX,XXX
<b>Stockholders' equity</b>		
Common stock, \$XX par value, authorized X,XXX shares, issued and outstanding XXX shares .....	X,XXX	X,XXX
Additional paid-in capital .....	XX,XXX	XX,XXX
Retained earnings— <b>income tax basis</b> .....	XX,XXX	XX,XXX
<b>Total stockholders' equity</b> .....	XX,XXX	XX,XXX
<b>Total liabilities and stockholders' equity</b> .....	\$XXX,XXX	\$XXX,XXX

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

**.03 Statements of Revenues and Expenses—Income Tax Basis**

ABC Company  
 Statements of Revenues and Expenses—Income Tax Basis  
 for the Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
<b>Revenues</b>		
Sales, less returns and allowances		
19X2, \$X,XXX, 19X1, \$X,XXX (Note 3) .....	\$XX,XXX	\$XX,XXX
Deferred income on installment sales .....	(X,XXX)	(X,XXX)
Deferred income recognized .....	X,XXX	X,XXX
Dividends received from affiliate .....	X,XXX	X,XXX
Interest .....	X,XXX	X,XXX
Gain on sale of building .....	X,XXX	X,XXX
Nontaxable interest .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
<b>Expenses (Notes 1 and 4)</b>		
Cost of sales .....	XX,XXX	XX,XXX
General and administrative .....	XX,XXX	XX,XXX
Selling .....	XX,XXX	XX,XXX
Premium on officers' life insurance .....	X,XXX	X,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Income before federal income taxes .....	XX,XXX	XX,XXX
Federal income taxes (Notes 1, 6, and 8) .....	XX,XXX	XX,XXX
Net income—income tax basis .....	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

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

**.04 Statements of Retained Earnings—Income Tax Basis**

ABC Company  
 Statements of Retained Earnings—Income Tax Basis  
 for the Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Balance, beginning of year .....	\$XX,XXX	\$XX,XXX
Net income .....	XX,XXX	XX,XXX
Less dividends .....	(XX,XXX)	(XX,XXX)
Balance, end of year .....	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

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

**.05 Notes to Financial Statements—Income Tax Basis**

## ABC Company

## Notes to Financial Statements—Income Tax Basis

**Note 1—Summary of Significant Accounting Policies****● Basis of Accounting**

The accompanying financial statements have been prepared on the accrual method of accounting used for federal income tax purposes. Consequently, as indicated below, certain revenues and expenses are recognized in the determination of income in different reporting periods than they would be if the financial statements were prepared in conformity with generally accepted accounting principles. Although income tax rules are used to determine the timing of the reporting of revenues and expenses, nontaxable revenues and nondeductible expenses are included in the determination of net income.

**● Installment Sales and Related Receivables**

Gross profit on certain installment sales is presented as deferred income in the balance sheet and recognized as income when collected. If the accompanying financial statements were prepared in conformity with generally accepted accounting principles, the gross profit would be recognized when the sale is made and deferred income taxes would be provided for the timing difference between recognition of income for financial reporting purposes and determination of income taxes.

**● Inventories**

Inventories are generally stated at cost determined by the last-in, first-out (LIFO) method, which is not in excess of market.

**● Investment in L Corporation**

The Company's investment in 30 percent of the common stock of L Corporation is stated at cost. Dividends thereon are recognized as income when received. If the investment were presented in conformity with generally accepted accounting principles, it would also include the Company's share of the undistributed earnings of L Corporation since acquisition. The Company's share of the current earnings of L Corporation would be recognized as an increase of the investment and as income when earned by L Corporation. Deferred income taxes would be provided for the timing difference between recognition of income for financial reporting purposes and for determination of income taxes. Dividends received from L Corporation would be recognized as a reduction in the investment with related reduction of deferred taxes provided thereon.

**● Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost. Depreciation of property, plant, and equipment placed in service prior to January 1, 19X1, is provided on the double declining-balance method over the estimated useful lives of the assets. For property, plant, and equipment placed in service after December 31, 19X0, depreciation is based on an accelerated cost recovery system.

Interest on the construction loan to finance construction of the combined shopping center and headquarters facility in East Wherever is expensed as incurred. Real estate taxes on that property are also expensed as incurred. The accompanying financial statements would be modified in the following ways had they been prepared in conformity with generally accepted accounting principles. Interest costs and real estate taxes would be capitalized as part of the cost of the asset. Deferred income taxes would be provided thereon for the timing difference between the recognition of such costs as a component of depreciation provided over the estimated useful life of the asset and recognition as a deduction for determination of taxable income.

**● Net Income—Income Tax Basis**

In accordance with the Company's policy, net income—income tax basis includes nontaxable revenue and nondeductible expenses in addition to taxable revenues, deductible expenses, and income taxes.

(Other matters that would be disclosed in the Summary of Significant Accounting Policies include the accounting followed for matters such as involuntary conversions, severance awards, exchanges of similar property, and tax elections that have a material effect on the financial statements.)

**Note 2—Inventories**

Inventories at December 31, 19X2 and 19X1, consisted of the following:

	<u>19X2</u>	<u>19X1</u>
Raw materials .....	\$XX,XXX	\$XX,XXX
Work in process .....	XX,XXX	XX,XXX
Finished goods .....	XX,XXX	XX,XXX
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

**Note 3—Transactions With Related Parties**

Accounts receivable included \$X,XXX at December 31, 19X2, and \$X,XXX at December 31, 19X1, due from L Corporation, an affiliated company, and sales included \$X,XXX in 19X2 and \$X,XXX in 19X1 resulting from transactions with L Corporation.

Advances to affiliate consist of \$XX,XXX, advanced to L Corporation at an effective interest rate of XX percent.

**Note 4—Property, Plant, and Equipment**

Property, plant, and equipment consisted of the following:

	<u>December 31, 19X2</u>	<u>December 31, 19X1</u>
Land .....	\$XX,XXX	\$XX,XXX
Building .....	XX,XXX	XX,XXX
Equipment .....	XX,XXX	XX,XXX
Leasehold improvements .....	X,XXX	X,XXX
Construction in process .....	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less accumulated depreciation and amortization .....	(X,XXX)	(X,XXX)
	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

Depreciation expense was \$X,XXX in 19X2 and \$X,XXX in 19X1.

**Note 5—Long-Term Debt**

Long-term debt consisted of the following:

	<u>December 31, 19X2</u>	<u>December 31, 19X1</u>
Notes payable, bank		
Due in quarterly installments of \$X,XXX until December 31, 19Y2, plus interest at XX%, collateralized by receivables and inventory .....	\$XX,XXX	\$XX,XXX
Mortgage payable		
Due in quarterly payments of \$X,XXX until December 31, 19Z2, including interest at XX%, collateralized by land and building .	XX,XXX	XX,XXX
	<u>XX,XXX</u>	<u>XX,XXX</u>
Less current maturities .....	(XX,XXX)	(XX,XXX)
Long-term portion .....	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

Long-term debt maturing in the next five years consists of the following:

19X3	\$XX,XXX
19X4	XX,XXX
19X5	XX,XXX
19X6	XX,XXX
19X7	XX,XXX
	<u>\$XX,XXX</u>

**Note 6—Income Taxes**

The Company benefited from investment tax credits of \$X,XXX in 19X2 and \$X,XXX in 19X1. At December 31, 19X2, there are investment tax credit carryforwards of \$XX,XXX available to be applied against future taxable income. The amounts expire as follows:

<u>Expiration Year Ending</u>	<u>Investment Tax Credit Carryovers</u>
19X3	\$XX,XXX
19X4	\$XX,XXX
19X5	\$XX,XXX
19X6	\$XX,XXX
19X7	\$XX,XXX

**Note 7—Leases**

The Company leases office space and certain data processing and other equipment under leases for varying terms. At December 31, 19X2, the minimum rental payments under noncancellable leases with a term in excess of one year were as follows:

19X3	\$XX,XXX
19X4	\$XX,XXX
19X5	\$XX,XXX
19X6	\$XX,XXX
19X7	\$XX,XXX

**Note 8—Pension Plans and Commitments and Contingencies**

The Company has a commitment of \$XX,XXX for completion of a building.

The Company maintains a defined benefit pension plan that covers substantially all employees. The pension plan expense was \$X,XXX in 19X2 and \$X,XXX in 19X1. The pension plan contribution was in accordance with requirements of the pension plan trustee.

The Company is involved in litigation involving a claim for \$XX,XXX, which, in the opinion of the Company's legal counsel, is not expected to result in an award that would have a materially adverse effect on the Company's financial position.

The Internal Revenue Service has examined the Company's income tax returns through 19X0, or the period during which such returns could be examined has expired. No examinations were under way or completed during 19X2.

**Note 9—Subsequent Event**

In February 19X3, a fire at the Company's plant destroyed \$XX,XXX of inventory. The Company has filed a claim with its insurance carrier for the full amount of the loss.

---

[The next page is 11,701.]

# **FSP Section 11,700**

## ***Types of Accountants' Reports***

### **Overview**

.01 These examples illustrate various audit, review, and compilation reports on financial statements prepared on a comprehensive basis of accounting other than GAAP. It should be noted that the report qualifications applicable to financial statements prepared in accordance with GAAP also apply to OCBOA statements.

.02 Examples that are assembled from illustrative reporting language set forth in Statements on Auditing Standards and Statements on Standards for Accounting and Review Services include citation of the particular source and its location in the AICPA's *Professional Standards*.

[Illustrative reports are on following pages.]

## Audit Reports

### .03 Cash Basis Statements

#### Independent Auditor's Report

We have audited the accompanying statements of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of revenue collected and expenses paid for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note X, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19X2 and 19X1, and its revenue collected and expenses paid during the years then ended, on the basis of accounting described in Note X.

[Signature]

[Date]

[Source: SAS No. 62, paragraph 8 (AICPA, *Professional Standards*, vol. 1, AU section 623.08)]

### .04 Income Tax Basis Statement

#### Independent Auditor's Report

We have audited the accompanying statements of assets, liabilities, and capital—income tax basis of ABC Partnership as of December 31, 19X2 and 19X1, and the related statements of revenue and expenses—income tax basis and of changes in partners' capital accounts—income tax basis for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note X, these financial statements were prepared on the basis of accounting the Partnership uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and capital of ABC Partnership as of December 31, 19X2 and 19X1, and its revenue and expenses and changes in partners' capital accounts for the years then ended, on the basis of accounting described in Note X.

[Signature]

[Date]

[Source: SAS No. 62, paragraph 8 (AICPA, *Professional Standards*, vol. 1, AU section 623.08)]

## Review Reports\*

### .05 Cash Basis Statements

I (we) have reviewed the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the related statement of revenue collected and expenses paid for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the cash basis of accounting, as described in Note X.

### .06 Income Tax Basis Statements

I (we) have reviewed the accompanying statements of assets and liabilities—income tax basis of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of the revenues and expenses—income tax basis and retained earnings—income tax basis for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the accounting basis, as described in Note X.

---

\* When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the notes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. [Source: Accounting and Review Services Interpretation No. 12 of SSARS 1 (AICPA, *Professional Standards*, vol. 2, AR section 9100.41-.45)]



## Compilation Reports\*

### .07 Cash Basis Statements—Full Disclosure

I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the related statement of revenue collected and expenses paid for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: Accounting and Review Services Interpretation No. 12 of SSARS 1 (AICPA, *Professional Standards*, vol. 2, AR section 9100.45)]

### .08 Cash Basis Statements—Omission of Substantially All Disclosures

I (we) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the related statement of revenue collected and expenses paid for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. The financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting information in the form of financial statements that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the informative disclosures ordinarily included in financial statements. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, revenue, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

### .09 Income Tax Basis Statements—Full Disclosure

I (we) have compiled the accompanying statements of assets and liabilities—income tax basis of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of revenues and expenses—income tax basis for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

### .10 Income Tax Basis Statements—Omission of Substantially All Disclosures, With No Reference to Basis

I (we) have compiled the accompanying statements of assets and liabilities—income tax basis of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of revenues and expenses—income tax

---

\* When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the notes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. [Source: Accounting and Review Services Interpretation No. 12 of SSARS 1 (AICPA, *Professional Standards*, vol. 2, AR section 9100.41-.45)]

basis for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the Company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, revenue, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: Accounting and Review Services Interpretation No. 12 of SSARS 1 (AICPA, *Professional Standards*, vol. 2, AR section 9100.45)]

## Other Reports

### .11 Report for a Change From Generally Accepted Accounting Principles to An Other Comprehensive Basis of Accounting

#### Independent Auditor's Report

We have audited the accompanying statements of assets, liabilities, and capital—income tax basis of ABC Partnership as of December 31, 19X2 and 19X1, and the related statements of revenue and expenses—income tax basis and of changes in partners' capital accounts—income tax basis for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and stockholders' equity of ABC Partnership as of December 31, 19X2 and 19X1, and its revenue and expenses for the years then ended, on the basis of accounting described in Note X.

As discussed in Note X to the financial statements, in 19X2 the Partnership adopted the policy of preparing its financial statements on the accrual method of accounting used for Federal income tax purposes; consequently, buildings with an estimated economic useful life of thirty-five years are being amortized over fifteen years in accordance with an accelerated cost recovery system provided under the Internal Revenue Code, rather than over the estimated economic useful life of the buildings. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. The financial statements for 19X1 have been restated on the income tax basis—accrual method of accounting adopted in 19X2.

[Signature]

[Date]

---

Note: The above represents the concepts referred to in section 11,000.06-.07

**.12 Report on Statements of Cash Receipts and Disbursements****Independent Auditor's Report**

We have audited the statements of cash receipts and disbursements of ABC Association for the years ended December 31, 19X2 and 19X1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note X, the statements of cash receipts and disbursements are summaries of the cash activity of the Association and do not present transactions that would be included in financial statements of the Association presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles. Accordingly, the accompanying statements are not intended to present financial position or results of operations in conformity with generally accepted accounting principles.

In our opinion, the accompanying statements present fairly, in all material respects, the cash receipts and disbursements of ABC Association for the years ended December 31, 19X2 and 19X1, on the basis of accounting described in Note X.

[Signature]

[Date]

---

Note: This type of report would be used for the financial statement referred to in section 11,300.

**.13 Report on Financial Presentations That Are Incomplete OCBOA****Independent Auditor's Report**

We have audited the accompanying statement of net assets sold of ABC Company as of June 8, 19XX. This statement of net assets sold is the responsibility of ABC Company's management. Our responsibility is to express an opinion on the statement of net assets sold based on our audit.

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

The accompanying statement was prepared to present the net assets of ABC Company sold to XYZ Corporation pursuant to the purchase agreement described in Note X, and is not intended to be a complete presentation of ABC Company's assets and liabilities.

In our opinion, the accompanying statement of net assets sold presents fairly, in all material respects, the net assets sold of ABC Company as of June 8, 19XX pursuant to the purchase agreement referred to in Note X on the basis of accounting described in Note Y.

This report is intended solely for the information and use of the boards of directors and managements of ABC Company and XYZ Corporation and should not be used for any other purpose.

[Signature]

[Date]

[Source: SAS 62, paragraph 26 (AICPA, *Professional Standards*, vol. 1, AU section 623.26)]

---

# **FSP Section 12,000**

## **DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR AGRICULTURAL COOPERATIVES**

**.01** The checklists and illustrative financial statements included in this publication 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. 63, FASB Statement of Financial Accounting Standards No. 102, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2.
- 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 standard 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 examined.

**.02** 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.

---

[The next page is 12,101.]

# FSP Section 12,100

## *Introduction*

.01 There are two basic types of agricultural cooperatives—marketing and supply. Marketing cooperatives market the agricultural products produced by their patrons. Supply cooperatives are cooperatives that supply to their patrons goods and services, such as fertilizer and animal feed, used by the patrons to produce products.

.02 Most agricultural cooperatives are organized as corporations which may or may not issue capital stock. Agricultural cooperatives differ from other corporations in that the net earnings of cooperatives are allocated to patrons (entities which conduct business on a cooperative basis with the cooperative) based on the amount of business done between a cooperative and a patron. This manner of allocating income differs from that of a typical corporation for which the allocation is based on capital stock ownership.

.03 Similar to other corporations presenting financial statements in accordance with generally accepted accounting principles, the basic financial statements for agricultural cooperatives include a Balance Sheet, a Statement of Operations, a Statement of Retained Earnings (in the case of an agricultural cooperative, a Statement of Patrons' Equities), and a Statement of Cash Flows. Marketing cooperatives may also present a Statement of Amounts Due to Patrons.

.04 The equity section of the balance sheet of an agricultural cooperative differs from other corporations in that the principal equity component is retained allocations to patrons (cooperative earnings that are allocated to patrons but retained by the cooperative). Other accounts such as capital stock and unallocated nonpatronage income also may appear in the equity section.

---

[The next page is 12,201.]

# FSP Section 12,200

## *Disclosure Checklists—General*

**.01** Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and also may have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to 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 Industry Audit Guides. 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 references to the authoritative literature.

**.03** Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements,” and “in notes” (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Disclosure checklists generally are accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** 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.

---

[The next page is 12,301.]

# FSP Section 12,300

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

**.02 Explanation of references:**

SAS - Statement on Auditing Standards

(AU) - Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited

**.03 Checklist Questionnaire**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>1. Does the auditor's report include an appropriate:</b>			
a. Title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
b. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
c. Identification of financial statements audited? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
d. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46)]	_____	_____	_____
<b>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)]</b>	_____	_____	_____
<b>3. If an auditor's standard report is issued, does it conform to paragraph 8 of SAS 58 (AU 508.08)?</b>	_____	_____	_____
<b>4. Does the auditors' standard report include explanatory language if:</b>			
a. Opinion is based in part on report of other auditors?	_____	_____	_____
b. Financial statements contain a GAAP departure because following GAAP would make the financial statements misleading?	_____	_____	_____
c. There is an uncertainty concerning future events, the outcome of which is not susceptible to reasonable estimate at the date of the auditors' report?	_____	_____	_____
d. There is substantial doubt as to an entity's ability to continue as a going concern?	_____	_____	_____
e. There is lack of consistency?	_____	_____	_____
f. Auditor wishes to emphasize a matter regarding the financial statements?	_____	_____	_____
g. Opinion expressed in updated auditors' report is different from opinion previously expressed on prior period financial statements? [SAS 58, par. 11 (AU 508.11)]	_____	_____	_____
<b>5. If the auditors' opinion is based in part on report of other auditors:</b>			
a. Is reliance and extent of reliance disclosed in introductory paragraph of auditors' report?	_____	_____	_____
b. Is reference made in opinion paragraph of auditors' report to report of other auditors? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____



**12,302 Disclosure Checklist and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the financial statements contain a departure from GAAP because compliance with GAAP would make the financial statements misleading, does an explanatory paragraph of the auditors' report:			
a. Describe the departure?	_____	_____	_____
b. If practicable, describe the effects of the departure?	_____	_____	_____
c. Describe the reason why compliance with GAAP would make the financial statements misleading? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
7. If the financial statements are affected by an uncertainty as defined in paragraphs 23—26 of SAS 58, does an explanatory paragraph following the opinion paragraph of the auditors' report:			
a. Describe the uncertainty?	_____	_____	_____
b. Indicate that the outcome of the uncertainty cannot presently be determined? [SAS 58, pars. 31—33 (AU 508.31—.33)]	_____	_____	_____
8. If substantial doubt exists about an entity's ability to continue as a going concern, does an explanatory paragraph following the opinion paragraph of the auditors' report describe the uncertainty? [SAS 59, pars. 12—16 (AU 341.12—.16)]	_____	_____	_____
9. If the financial statements reflect a change in accounting principles or in the method of their application that has a material effect on comparability, does an explanatory paragraph following the opinion paragraph of the auditors' report:			
a. Identify the nature of the change?	_____	_____	_____
b. Refer to a note to the financial statements that discusses the change in detail? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
10. If an auditor wishes to emphasize a matter regarding the financial statements, is such explanatory information presented in a separate paragraph of the auditors' report? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
11. If the opinion expressed in an updated auditors' report is different from the opinion previously expressed on prior period financial statements, does an explanatory paragraph preceding the opinion paragraph disclose:			
a. The date of the auditors' previous report?	_____	_____	_____
b. The type of opinion previously expressed?	_____	_____	_____
c. The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
d. That the auditors' updated opinion on the financial statements of the prior period is different from the previous opinion on those statements? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
12. Has a qualified or adverse opinion been expressed because:			
a. Financial statements are materially misstated because of errors? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
b. Financial statements include a departure from GAAP relating to uncertainties? [SAS 58, pars. 19—22 (AU 508.19—.22)]	_____	_____	_____
c. Financial statements include a departure from GAAP relating to accounting changes? [SAS 58, pars. 59—66 (AU 508.59—.66)]	_____	_____	_____
d. Financial statements fail to disclose information required by GAAP? [SAS 58, par. 55 (AU 508.55)]	_____	_____	_____
e. Illegal acts are not properly accounted for or disclosed? [SAS 54, par. 18 (AU 317.18)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Client representations that related party transactions were consummated on an arm's-length basis are unsubstantiated by client? [SAS 45, par. 12 (AU 334.12)]	_____	_____	_____
<b>13. Has a qualified opinion or disclaimer of opinion been expressed because of:</b>			
a. Client's refusal to provide written representations? [SAS 19, pars. 11—12 (AU 333.11—.12)]	_____	_____	_____
b. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
c. Scope limitations mentioned in paragraph 42 of SAS 58? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
d. Unaudited information presented in notes to financial statements? [SAS 58, par. 45 (AU 508.45)]	_____	_____	_____
<b>14. Has a disclaimer of opinion been expressed because scope limitations precluded the auditor from evaluating whether an illegal act has occurred?</b> [SAS 54, par. 19 (AU 317.19)]	_____	_____	_____
<b>15. If a qualified opinion has been expressed because of a scope limitation:</b>			
a. Is the reason for the qualification described in an explanatory paragraph preceding the opinion paragraph of the auditors' report? [SAS 58, par. 39 (AU 508.39)]	_____	_____	_____
b. Is the reason for the qualification referred to in the scope and opinion paragraphs? [SAS 58, par. 43 (AU 508.43)]	_____	_____	_____
c. Does the opinion paragraph include appropriate qualifying language? [SAS 58, pars. 39 and 44 (AU 508.39 and .44)]	_____	_____	_____
<b>16. If a qualified opinion has been expressed because of a departure from GAAP:</b>			
a. Is the reason for the qualification disclosed in an explanatory paragraph preceding the opinion paragraph? [SAS 58, pars. 51—56 (AU 508.51—.56)]	_____	_____	_____
b. Does the opinion paragraph include appropriate qualifying language and refer to the explanatory paragraph? [SAS 58, pars. 51, 53, 56, and 58 (AU 508.51, .53, .56, and .58)]	_____	_____	_____
c. For GAAP departures other than inadequate disclosure, does the explanatory paragraph disclose effects of departure on financial statements or refer to such disclosure in notes to financial statements? [SAS 58, par. 52 (AU 508.52)]	_____	_____	_____
<b>17. If a disclaimer of opinion has been expressed, does a separate paragraph of the auditors' report indicate the reason for the disclaimer?</b> [SAS 58, pars. 70—72 (AU 508.70—.72)]	_____	_____	_____
<b>18. If an adverse opinion has been expressed:</b>			
a. Does an explanatory paragraph preceding the opinion paragraph of the auditors' report disclose the reason for the adverse opinion and the effect on the financial statements?	_____	_____	_____
b. Does the opinion paragraph refer to the explanatory paragraph? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
<b>19. Does the auditors' report include appropriate language with respect to the following:</b>			
a. Predecessor auditors' report reissued? [SAS 58, pars. 80—82 (AU 508.80—.82)]	_____	_____	_____
b. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04); SAS 58, par. 11i (AU 508.11i)]	_____	_____	_____
c. Report on one basic financial statement and there are no scope limitations?	_____	_____	_____

**12,304 Disclosure Checklist and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SAS 58, par. 48 (AU 508.48)]			
d. Unqualified opinion expressed on one but not all of the financial statements? [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	_____	_____	_____
e. Comparative financial statements when predecessor auditors' report not presented? [SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
f. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14—17 (AU 504.14—17)]	_____	_____	_____
20. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 14 (AU 623.14)]	_____	_____	_____
21. For special reports, have the provisions of SAS 62 and SAS 35 been complied with for the following:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 02—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. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—21 (AU 623.19—21)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditors' report? [SAS 62, pars. 22—33 (AU 623.22—33)]	_____	_____	_____
22. If information is to accompany the basic financial statements and auditors' report in an auditor-submitted document (long-form report):			
a. Is there a clear distinction between the client's representations and auditors' representations? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
b. Does the auditors' report on the accompanying information:			
(1) State that the examination 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 additional 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 examining the basic financial statements and whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6—11 (AU 551.06—11)]	_____	_____	_____
23. If an auditor-submitted document with accompanying information (long-form report) is co-existing with a document that includes only the basic financial statements and the auditors' report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination in the auditors' report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
24. If the document contains interim financial information, has the auditors' report been expanded if required? [SAS 36, pars. 24—30 (AU 722.24—30)]	_____	_____	_____
25. If a report on internal accounting control is to be issued			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[Material weaknesses in internal accounting control ("reportable condition") that come to the auditors' attention must be communicated, preferably in writing, to the audit committee or the board of directors] [SAS 60, (AU 325.04)] is the appropriate form used for:			
a. A report for the restricted use of management, specified regulatory agencies, or other specified third parties based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47—53 (AU 642.47—.53)]	_____	_____	_____
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed-upon matters? [SAS 60, pars. 12—19 (AU 325.12—.19)]	_____	_____	_____
c. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	_____	_____	_____
26. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditors' report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, footnote 6 (AU 552.07, footnote 6)]	_____	_____	_____
27. If reporting on selected financial data that is included in a client-prepared document that contains audited financial statements that are derived from audited financial statements, does the auditors' report indicate the following:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which the auditor is reporting?	_____	_____	_____
d. Whether, in the auditors' opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
28. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditors' report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____

[The next page is 12,401.]

# FSP Section 12,400

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 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 <sup>1</sup>
(AC) =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
(AU) =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1) of SAS cited
A&AG =	Audit and Accounting Guide, <i>Audits of Agricultural Producers and Agricultural Cooperatives</i>
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Notes to Financial Statements</b>			
● Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [FASB Statement of Concepts No. 1, par. 18]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity 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)]	_____	_____	_____
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)]	_____	_____	_____

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

**12,402 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Accounting Changes</b>			
1. For all changes in accounting principles are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, have such disclosures been made? [APB 20, pars. 19—21, 25 (AC A06.115—.118, .121); TB 87-1, pars. 1, 3—5, 17 (AC P50.501—.505)]	_____	_____	_____
3. For those changes in accounting principles requiring restatement of prior periods has effect of change on income before extraordinary items and net income been disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	_____	_____	_____
4. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 83, pars. 5—6 (AC A06.112)]	_____	_____	_____
5. For a change in accounting estimate affecting several future periods is effect of change on income before extraordinary items and on net income disclosed in year of change? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
6. 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?	_____	_____	_____
b. Effect of its correction on income before extraordinary items and net income? [APB 20, pars. 36—37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent 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)]	_____	_____	_____
<b>E. Related Party Transactions</b>			
1. Do disclosures include:			
a. The nature of the relationship(s) involved?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements 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 income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous?<br>[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)] | _____      | _____     | _____      |

**F. Lessee Leases**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. For capital leases, do disclosures include:  |       |       |       |
| a. Gross amount of assets recorded by major classes (according to nature or function) as of the date of each balance sheet presented?<br>[SFAS 13, par. 16a (AC L10.112a(1)—(4))]   | _____ | _____ | _____ |
| b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value?<br>[SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)—(4))] | _____ | _____ | _____ |
| c. The total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?<br>[SFAS 13, par. 16a (AC L10.112a(1)—(4))]   | _____ | _____ | _____ |
| d. Total contingent rentals actually incurred for each period for which an income statement is presented?<br>[SFAS 13, par. 16a (AC L10.112a(1)—(4)) amended 10/1/79 by SFAS 29, par. 12]   | _____ | _____ | _____ |
| e. Amount of amortization charged to expense or disclosure that amortization included in depreciation expense for each period for which an income statement is presented?<br>[SFAS 13, par. 16a (AC L10.112a(5))]   | _____ | _____ | _____ |
| 2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:  |       |       |       |
| a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?  | _____ | _____ | _____ |
| b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?<br>[SFAS 13, par. 16b (AC L10.112b)]   | _____ | _____ | _____ |
| 3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals?<br>[SFAS 13, par. 16c (AC L10.112c)]   | _____ | _____ | _____ |
| 4. Do disclosures include a general description of the lessee's leasing arrangements, including but not limited to:   |       |       |       |
| a. Basis for determining contingent rentals?  | _____ | _____ | _____ |
| b. Terms of any renewal or purchase options or escalation clauses?  | _____ | _____ | _____ |
| c. Restrictive covenants?<br>[SFAS 13, par. 16d (AC L10.112d)]; For amendments of SFAS 13 see SFASs 17, 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3 and 86-2]  | _____ | _____ | _____ |

**G. Contingencies and Commitments**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading?<br>[SFAS 5, par. 9 (AC C59.108)] | _____ | _____ | _____ |
| 2. For loss contingencies not accrued, do disclosures indicate:  |       |       |       |

**12,404 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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. Are the nature and amount of guarantees disclosed (for example, guarantees of indebtedness of others, or guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113)]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments such as those for capital expenditures, and for restrictive covenants in financing agreements? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
<b>H. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05—.07, .09 and 561.01—.09 (AU 560.05—.07, .09 and 561.01—.09)]	_____	_____	_____
<b>I. Pension Plans</b>			
[For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 [AC Pe5]]			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? Note: The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:	_____	_____	_____
a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)			
b. Amortization of the net gain or loss from earlier periods			
c. Amortization of unrecognized prior service cost			
d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].			
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 [AC P16.129—.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?	_____	_____	_____
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87 paragraph 41 [AC P16.135] [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
<b>2. If there is a defined contribution plan, do disclosures include:</b>			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If answer is yes, have disclosures required for a defined benefit plan been made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
<b>3. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:</b>			
a. A description of the nature of the event(s)	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>J. Postretirement Health Care and Life Insurance Benefits</b>			
<b>1. Do disclosures include:</b>			
a. A description of benefits and employee groups covered?	_____	_____	_____
b. A description of accounting and funding policies?	_____	_____	_____
c. The cost of benefits recognized during the period?	_____	_____	_____
d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____
<b>K. Futures Contracts</b>			
<b>1. If a futures contract is designated a hedge:</b>			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	_____	_____	_____
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	_____	_____	_____
<b>2. If the futures contract hedges an anticipated transaction:</b>			

**12,406 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. Are the significant characteristics and expected terms of the anticipated transaction identified?   | _____      | _____     | _____      |
| b. Is it probable that the anticipated transaction will occur?<br>[SFAS 80, par. 9 (AC F80.109)]   | _____      | _____     | _____      |
| 3. If a futures contract is accounted for as a hedge, does the disclosure include:   |            |           |            |
| a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?  | _____      | _____     | _____      |
| b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts?<br>[SFAS 80, par. 12 (AC F80.112)] | _____      | _____     | _____      |

**Balance Sheet**

**A. Cash**

- Is restricted cash appropriately segregated from cash available for current operations?  
[ARB 43, Ch. 3A, par. 6 (AC B05.107)]

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

**B. Marketable Equity Securities**

1. For each balance sheet presented, are aggregate cost and market value (each segregated between current and noncurrent portfolios when applicable) with identification of which is the carrying amount disclosed?  
[SFAS 12, par. 12a (AC I89.106a)]
2. For the latest balance sheet presented, are gross unrealized gains and gross unrealized losses (each segregated between current and noncurrent portfolios when applicable) disclosed?  
[SFAS 12, pars. 12b & 16a (AC I89.106b and .110a)]
3. Is the following information for each period for which an income statement is presented disclosed:
  - a. Net realized gain or loss included in determination of net income?
  - b. Basis on which cost was determined in computing realized gain or loss (e.g., average cost, FIFO)?
  - c. The change in valuation allowance(s) included in the equity section of the balance sheet during the period and when a classified balance sheet is presented, the amount of such change included in determination of net income?  
[SFAS 12, par. 12c (AC I89.106c)]
4. 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 in the notes?  
[SFAS 12, pars. 13 & 17 (AC I89.107 and .111); FASBI 11 (AC I89.115—.116); FASBI 13 (AC I89.120—.122)]
5. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure?  
[APB 12, par. 3 (AC V18.102)]

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

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

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

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

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

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

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

**C. Receivables**

1. Are accounts and notes receivable from officers or employees 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?

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

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

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Is amortization of discount or premium reported as interest in the income statement? [APB 21, par.16 (AC I69.109)]	_____	_____	_____
3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
4. 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 an income statement is presented?	_____	_____	_____
b. The balance of the receivables transferred that remain uncollected at the date of each balance sheet presented, if such information is available? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
<b>D. Inventories</b>			
1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	_____	_____	_____
2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	_____	_____	_____
3. Is the basis for stating inventory amount disclosed (e.g., lower of cost or market or net realizable value)? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]; SOP 85-3, par. 85]	_____	_____	_____
4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.120)]	_____	_____	_____
<b>E. Investments in Other Cooperatives</b>			
● Are such investments carried at cost adjusted for allocated equities and retains? [A&AG, page 59]	_____	_____	_____
<b>F. Property and Equipment</b>			
1. Are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b)]	_____	_____	_____
2. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
<b>G. Other Assets and Deferred Charges</b>			
1. For intangible assets, are method and period of amortization disclosed? [APB 17, pars. 27—31 (AC I60.108—.112)]	_____	_____	_____
2. Are debt issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
3. Are deferred tax assets appropriately classified? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
<b>H. Current Liabilities</b>			
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?	_____	_____	_____
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	_____	_____	_____

**12,408 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8—14 (AC B05.112—.116); FASBI 8 (AC B05.117 and .138—.139)]	_____	_____	_____
<b>I. Notes Payable and Other Debt</b>			
1. Are loan agreement conditions such as assets pledged as collateral, or covenants to reduce debt, maintain working capital, or restrict dividends disclosed? [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?	_____	_____	_____
c. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
4. If a short-term obligation is excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, 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)]	_____	_____	_____
<b>J. Other Liabilities and Deferred Credits</b>			
1. Are deferred tax liabilities appropriately classified? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
2. Are estimated losses from loss contingencies accrued if both “probable” as explained in SFAS 5 [AC C59] and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and .124—.127)]	_____	_____	_____
3. Are liabilities appropriately accrued and reported for employees’ compensation for future absences? [SFAS 43, pars. 6—7 (AC C44.104 and .108)]	_____	_____	_____
4. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102)]	_____	_____	_____
5. Has a liability (unfunded accrued pension cost) been recognized if net periodic pension cost recognized, pursuant to SFAS 87 [AC P16], exceeds amounts the employer has contributed to the plan? [SFAS 87, pars. 35 and 38 (AC P16.129 and .132)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the accumulated benefit obligation exceeds the fair value of the pension plan's assets, has the employer recognized, in the balance sheet, a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation? [SFAS 87, pars. 36 and 38 (AC P16.130 and .132)]	_____	_____	_____
7. Has an additional minimum liability been recognized in accordance with the provisions of SFAS 87, paragraph 36? [SFAS 87, pars. 36 and 38 (AC P16.130 and .132)]	_____	_____	_____
<b>K. Patrons' and Other Equity</b>			
1. If there is capital stock outstanding, is the following information disclosed for each class of stock:			
a. Number of shares authorized, issued, and outstanding?	_____	_____	_____
b. Par or stated value per share? [A&AG, page 102]	_____	_____	_____
2. If retained patronage allocations and per-unit retains are appropriately classified as equity, is the following information disclosed:			
a. Face value?	_____	_____	_____
b. Dividend rate?	_____	_____	_____
c. Negotiability?	_____	_____	_____
d. Subordination agreements?	_____	_____	_____
e. Any revolving or retirement plan? [A&AG, page 61]	_____	_____	_____
3. Are separate amounts presented for allocated equities (retained patronage allocations or per-unit retains) and for unallocated equities? [A&AG, page 102]	_____	_____	_____

**Statement of Operations**

**A. Revenue and Expenses**

1. Are separate amounts disclosed for sales, cost of sales (except in those instances where a cooperative does not assign an amount approximating market to unprocessed products received from patrons), and general and administrative expense? [A&AG, pages 90, 99 and 103; SOP 85-3, par. 85]	_____	_____	_____
2. Is the amount of interest cost expensed and capitalized disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
3. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, par. 6—8 (AC C38.101—.102)]	_____	_____	_____
4. Is the amount of net periodic pension cost and its components disclosed? [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____
5. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]	_____	_____	_____
6. Are gains (losses) on pension plan settlements or curtailments or termination benefits disclosed? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
7. Are depreciation expenses for the period(s) and method(s) of computing depreciation disclosed? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
8. Are material events or transactions that are either unusual in nature or of infrequent occurrence but not both:			
a. Reported as a separate component of net income?	_____	_____	_____
b. Described and their financial effects disclosed?	_____	_____	_____

**12,410 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[APB 30, par. 26 (AC I22.101)]			
<b>B. Income Taxes</b>			
1. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit exclusive of (f) below?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC I25.126)]	_____	_____	_____
2. Has the nature of significant reconciling items been disclosed? [SFAS 96, par. 28 (AC I25.127)]	_____	_____	_____
3. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [SFAS 96, par. 29 (AC I25.128)]	_____	_____	_____
<b>C. Extraordinary Items</b>			
1. 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)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. 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?	_____	_____	_____
c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, pars. 8—10 (AC I17.104 and D14.105—.107)]	_____	_____	_____
6. 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Statement of Patrons' and Other Equity</b>			
A. Are changes in allocated equities and unallocated equities presented separately? [A&AG, page 104]	_____	_____	_____
B. Are changes in other accounts comprising Patrons' and Other Equity presented separately? [A&AG, page 104]	_____	_____	_____
<b>Statement of Amounts Due Patrons</b>			
A. When presented by marketing cooperatives, does Statement include only current amounts due to patrons? [A&AG, pages 89 and 91]	_____	_____	_____
<b>Statement of Cash Flows</b>			
A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27—28 (AC C25.125—.126)]	_____	_____	_____
C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
1. Sales of receivables?	_____	_____	_____
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to suppliers and employees?	_____	_____	_____
5. Payments to governments for duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities? [SFAS 95, pars. 22—23 (AC C25.120—.121)]	_____	_____	_____
D. Are cash receipts and cash payments from investing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC 25.129)]	_____	_____	_____
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from sales of property or investments?	_____	_____	_____
2. Payments to acquire property or investments? [SFAS 95, pars. 16—17 (AC C25.114—.115)]	_____	_____	_____
F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt or capital stock?	_____	_____	_____
2. Repayments of amounts borrowed?	_____	_____	_____
3. Payments to acquire capital stock? [SFAS 95, pars. 19—20 (AC C25.117—.118)]	_____	_____	_____
H. Does statement of cash flows explain effect of cash flows by showing change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
I. Is policy for defining what is a cash equivalent disclosed?	_____	_____	_____

**12,412 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SFAS 95, par. 10 (AC C25.108)]			
J. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, pars. 29—30 (AC C25.127—.128)]	_____	_____	_____
K. Are noncash investing and financing activities summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

---



# FSP Section 12,500

## ILLUSTRATIVE FINANCIAL STATEMENTS

### .01 Central Supply Cooperative Balance Sheets

	<i>June 30</i>	
	<u>1988</u>	<u>1987</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 2,650,000	\$ 2,819,000
Accounts receivable, less allowance for doubtful accounts of \$750,000 and \$640,000 (Note 3) .....	6,573,000	6,298,000
Inventories (Notes 2 and 3) .....	15,520,000	14,686,000
Advances on grain purchases and margin deposits .....	1,240,000	1,610,000
Prepaid expenses and other current assets .....	1,195,000	1,306,000
<b>Total current assets</b> .....	<u>27,178,000</u>	<u>26,719,000</u>
<b>Investments and other assets</b>		
Investment in Midstate Marketing Cooperative .....	1,357,000	1,020,000
Investment in Bank for Cooperatives .....	1,274,000	1,160,000
Investment in Farm Fertilizers, Inc. ....	980,000	908,000
Other assets .....	126,000	192,000
	<u>3,737,000</u>	<u>3,280,000</u>
<b>Property, plant and equipment (Note 3)</b>		
Land and land improvements .....	1,248,000	1,736,000
Buildings and improvements .....	10,753,000	9,726,000
Machinery and equipment .....	20,154,000	17,622,000
Automobiles and trucks .....	1,197,000	1,173,000
	<u>33,352,000</u>	<u>30,257,000</u>
Less accumulated depreciation .....	(10,165,000)	(8,247,000)
Net property, plant and equipment .....	<u>23,187,000</u>	<u>22,010,000</u>
<b>Total assets</b> .....	<u>\$54,102,000</u>	<u>\$52,009,000</u>

**.01 Central Supply Cooperative Balance Sheets—Continued**

	<i>June 30</i>	
	<u>1988</u>	<u>1987</u>
<b>Liabilities and Patrons' Equities</b>		
<b>Current liabilities</b>		
Notes payable to bank (Note 3) .....	\$ 7,084,000	\$ 6,473,000
Accounts payable and accrued expenses .....	10,239,000	10,515,000
Salaries, wages, and related payroll taxes .....	2,230,000	1,985,000
Patronage refunds payable .....	874,000	619,000
Income taxes .....	755,000	530,000
Current portion of long-term debt .....	560,000	1,230,000
<b>Total current liabilities</b> .....	<u>21,742,000</u>	<u>21,352,000</u>
Deferred income taxes (Note 4) .....	1,527,000	1,354,000
Long-term debt (Note 3) .....	<u>8,978,000</u>	<u>10,208,000</u>
<b>Commitments and contingencies (Note 5)</b>		
<b>Patrons' equities</b>		
Preferred stock, 6% noncumulative, \$100 par value: Authorized, 100,000 shares <b>Issued and outstanding, 54,840     and 37,380 shares</b> .....	5,484,000	3,738,000
Common stock, voting, \$100 par value: Authorized, 25,000 shares <b>Issued and outstanding, 5,070 and 5,020 shares</b> .....	507,000	502,000
Allocated equities .....	13,650,000	13,632,000
Unallocated equities .....	2,214,000	1,223,000
<b>Total patrons' equities</b> .....	<u>21,855,000</u>	<u>19,095,000</u>
<b>Total liabilities and patrons' equities</b> .....	<u>\$54,102,000</u>	<u>\$52,009,000</u>

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

.02

**Central Supply Cooperative Statements of Operations**

	<i>Years Ended June 30</i>	
	<u>1988</u>	<u>1987</u>
Net Sales .....	<u>\$110,675,000</u>	<u>\$101,332,000</u>
Costs and expenses		
Costs of raw materials, operations, and distribution .....	98,509,000	91,589,000
General and administrative expense .....	3,149,000	2,913,000
Interest expense .....	2,785,000	2,610,000
	<u>104,443,000</u>	<u>97,112,000</u>
Margins before income taxes .....	6,232,000	4,220,000
Income taxes (Note 5) .....	650,000	545,000
Net margins .....	<u>\$ 5,582,000</u>	<u>\$ 3,675,000</u>
Net patronage margins to be distributed as follows:		
Cash .....	\$ 874,000	\$ 619,000
Preferred stock .....	1,746,000	1,238,000
Allocated equities .....	1,747,000	1,238,000
	<u>4,367,000</u>	<u>3,095,000</u>
Nonpatronage margins to unallocated equities .....	1,215,000	580,000
	<u>\$ 5,582,000</u>	<u>\$ 3,675,000</u>

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

**12,504 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

**.03 Central Supply Cooperative Statements of Patrons' Equities**

	<i>Allocated</i>			<i>Unallocated Margins</i>
	<i>Preferred Stock</i>	<i>Common Stock</i>	<i>Allocated Equities</i>	
Balance, June 30, 1986 .....	\$2,500,000	\$500,000	\$15,268,000	\$ 793,000
Patronage margins .....	1,238,000		1,238,000	
Refund of prior years' allocated equities .....			(2,874,000)	
Net nonpatronage margins .....				580,000
Preferred stock dividends .....				(150,000)
New memberships, net .....		2,000		
Balance, June 30, 1987 .....	<u>3,738,000</u>	<u>502,000</u>	<u>13,632,000</u>	<u>1,223,000</u>
Patronage margins .....	1,746,000		1,747,000	
Refund of prior years' allocated equities .....			(1,729,000)	
Nonpatronage margins .....				1,215,000
Preferred stock dividends .....				(224,000)
New memberships, net .....		5,000		
Balance, June 30, 1988 .....	<u><u>\$5,484,000</u></u>	<u><u>\$507,000</u></u>	<u><u>\$13,650,000</u></u>	<u><u>\$2,214,000</u></u>

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

.04

Central Supply Cooperative Statements of Cash Flows

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
<b>Cash flows from operating activities:</b>		
Net margins .....	\$ 5,582,000	\$ 3,675,000
<b>Noncash items included in net margins:</b>		
Depreciation and amortization .....	2,937,000	2,537,000
Deferred income tax expense .....	173,000	120,000
<b>Change in noncash current assets and liabilities:</b>		
Receivables .....	(275,000)	(56,000)
Inventories .....	(834,000)	129,000
Advances on grain purchases and margin deposits .....	370,000	(87,000)
Prepaid expenses and other current assets .....	110,000	(58,000)
Accounts payable and accrued expenses .....	(276,000)	89,000
Salaries, wages, and related payroll taxes .....	245,000	(146,000)
Income taxes .....	225,000	(60,000)
<b>Net cash provided by operating activities .....</b>	<b>8,258,000</b>	<b>6,143,000</b>
<b>Cash flows from investing activities:</b>		
Acquisitions of investments and other assets .....	(457,000)	(175,000)
Acquisitions of property, plant and equipment .....	(4,723,000)	(5,044,000)
Proceeds from sales of property, plant and equipment .....	609,000	4,078,000
<b>Net cash used in investing activities .....</b>	<b>(4,571,000)</b>	<b>(1,141,000)</b>
<b>Cash flows from financing activities:</b>		
Increase in notes payable to bank .....	611,000	157,000
Repayment of long-term debt .....	(1,900,000)	(1,175,000)
Patronage refunds and other equity paid in cash .....	(2,572,000)	(3,811,000)
Proceeds from issuance of common stock .....	5,000	2,000
<b>Net cash used in financing activities .....</b>	<b>(3,856,000)</b>	<b>(4,827,000)</b>
<b>Net change in cash and cash equivalents .....</b>	<b>(169,000)</b>	<b>175,000</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>2,819,000</b>	<b>2,644,000</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>\$ 2,650,000</b>	<b>\$ 2,819,000</b>
<b>Supplemental disclosure of cash flow data:</b>		
<b>Cash paid during the years for:</b>		
Interest (net of amounts capitalized) .....	\$ 2,919,000	\$ 2,733,000
Income taxes .....	715,000	428,000

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

**Central Supply Cooperative Notes to Financial Statements**

**Years Ended June 30, 1988 and 1987**

**1. Summary of Significant Accounting Policies**

*General.* Central Supply Cooperative is an agricultural cooperative association organized to provide a supply source for members and to market farm products delivered by members.

*Cash Equivalents.* The Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Inventories.* Grain inventories are carried at market. Realized and unrealized gains and losses on futures contracts are credited or charged to current costs of sales.

Sunflower-seed inventory is stated at the lower of cost or market, first-in, first-out method (FIFO). Realized and unrealized gains and losses on soybean-oil futures contracts used to hedge sunflower-seed inventories and unfilled sunflower-seed orders are deferred until the related inventories are sold, but are considered in lower-of-cost-or-market calculations.

The cooperative hedges its grain and sunflower-seed inventories and unfilled orders for these products to the extent considered practicable for minimizing risk from market price fluctuations. These inventories are not completely hedged, however, due in part to the absence of satisfactory hedging facilities for certain commodities and in part to the cooperative's appraisal of its exposure from expected price fluctuations.

Supplies and materials are stated at the lower of cost or market, first-in, first-out method (FIFO).

*Investments.* The investment in Midstate Marketing Cooperative (Midstate) represents equities allocated to the cooperative by Midstate as of Midstate's most recent fiscal year-end, plus an accrual to the cooperative's fiscal year-end for anticipated patronage allocations. The accrual is based on the cooperative's expected percentage (5 percent in both 1988 and 1987) of Midstate's total patronage applied to Midstate's interim operating results. Patronage refunds are credited to cost of raw materials, operations, and distribution.

The investment in the Bank for Cooperatives consists of class C stock at cost and the cooperative's share of the bank's allocated surplus. Any patronage refunds received from the bank are credited to interest expense.

The investment in the Bank for Cooperatives consists of class C stock at cost and the cooperative's share of the bank's allocated surplus. Any patronage refunds received from the bank are credited to interest expense.

The investment in Farm Fertilizers, Inc. (FFI), represents allocated equities for which notification has been received by the cooperative. The patronage earnings of FFI vary substantially from year to year, and FFI does not make interim operating results available to the cooperative. Accordingly, patronage allocations for which notification has not been received cannot be reasonably determined. Patronage refunds are credited to cost of raw materials, operations, and distribution.

*Property, plant, and equipment.* Property, plant, and equipment are stated at cost. Depreciation is computed principally by using the straight-line method over the estimated useful lives of the related depreciable assets. Expenditures for betterments and renewals that extend useful lives are capitalized. Gains and losses on retirements and disposals are included in net margins.

*Patrons' equities.* In accordance with its bylaws, the Cooperative allocates patronage margins to its patrons, as determined for income tax purposes, in cash, preferred stock, and certificates of equity in proportions determined by its board of directors.

New members are issued one share of common stock. At any time a member ceases to be active, such shares are redeemed at par value.

*Income taxes.* The Cooperative, as a nonexempt cooperative, is taxed on nonpatronage margins and any patronage margins not paid or allocated to patrons.

**2. Inventories**

A summary of inventories follows:

	June 30,	
	1988	1987
Grain . . . . .	\$ 8,211,000	\$ 8,105,000
Sunflower seed . . . . .	3,101,000	3,020,000
Supplies and materials . . . . .	4,208,000	3,561,000
Total . . . . .	<u>\$15,520,000</u>	<u>\$14,686,000</u>

Grain purchased from patrons is included as an element of cost of sales, based on the spot-market price of the grain at date of receipt. The value of grain received from patrons amounted to \$16,427,000 and \$15,845,000 for the years ended June 30, 1988 and 1987, respectively.

**3. Notes Payable to Bank and Long-Term Debt**

Notes payable to the bank consist of short-term loans from the Bank for Cooperatives. A summary of such borrowings during the years ended June 30, 1988 and 1987 follows:

	June 30,	
	1988	1987
Borrowings as of June 30 . . . . .	\$7,084,000	\$ 6,473,000
Average interest rate on year-end borrowings . . . . .	15.6%	14.7%
Average borrowings during the year . . . . .	\$8,562,000	\$ 7,679,000
Average interest rate on borrowings during the year . . . . .	14.9%	14.2%
Maximum borrowings during the year . . . . .	\$9,500,000	\$ 8,650,000

Long-term debt consists of the following:

	June 30,	
	1988	1987
Bank for Cooperatives, 12% due in varying installments through 1995 . . . . .	\$6,049,000	\$ 6,367,000
Commercial bank loans, at prime, 16% at June 30, 1988 and 14.5% at June 30, 1987 due in varying installments through 1994 . . . . .	3,489,000	5,071,000
	<u>9,538,000</u>	<u>11,438,000</u>
Less current maturities . . . . .	560,000	1,230,000
Total . . . . .	<u>\$8,978,000</u>	<u>\$10,208,000</u>

Aggregate annual principal payments applicable to long-term debt for the five years subsequent to June 30, 1988 are as follows:

**12,508 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

<u>Year Ending June 30,</u>	
1989 .....	\$ 560,000
1990 .....	601,000
1991 .....	892,000
1992 .....	1,802,000
1993 .....	2,186,000
Thereafter .....	3,497,000
Total .....	<u>\$9,538,000</u>

Inventories and accounts receivable are pledged as collateral under the short-term agreements with the Bank for Cooperatives. Property, plant, and equipment with book value of \$12 million, along with the investment in the Bank for Cooperatives, are pledged under the long-term agreements with the Bank for Cooperatives and a commercial bank. The long-term agreements require maintenance of \$5 million of working capital and agreement with the banks on revolvment of allocated equities and assumption of additional long-term debt. Additionally, the agreements require the cooperative to invest in class C stock of the Bank for Cooperatives in amounts determined by that bank.

**4. Income Taxes**

Income taxes consist of the following:

	<u>Years Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Currently payable		
Federal .....	\$365,000	\$305,000
State .....	112,000	95,000
Total currently payable .....	<u>477,000</u>	<u>400,000</u>
Deferred		
Federal .....	139,000	116,000
State .....	34,000	29,000
Total deferred .....	<u>173,000</u>	<u>145,000</u>
Total .....	<u>\$650,000</u>	<u>\$545,000</u>

A reconciliation of the statutory tax rate to the effective tax rate follows:

	<u>Years Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Statutory rate .....	34.0%	46.0%
Patronage refunds .....	(28.3)	(39.0)
State taxes, net of federal benefit .....	1.3	1.5
Other .....	3.4	4.4
Effective rate .....	<u>10.4%</u>	<u>12.9%</u>

Deferred taxes arise primarily from the use of accelerated depreciation methods for tax purposes.

**5. Commitment and Contingencies**

The Cooperative has signed agreements to purchase machinery and equipment costing approximately \$7 million to modernize its grain-handling facilities. These purchases are to be financed by additional long-term debt with the Bank for Cooperatives.



.06

**Midstate Marketing Cooperative Balance Sheets**

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 2,890,000	\$ 6,360,000
Accounts receivable, less allowance for doubtful accounts of \$500,000 and \$450,000 (Note 3) .....	13,120,000	9,600,000
Inventories (Notes 2 and 3) .....	35,050,000	30,980,000
Prepaid expenses and other current assets .....	1,170,000	1,370,000
<b>Total current assets .....</b>	<u>52,230,000</u>	<u>48,310,000</u>
<b>Investments and other assets</b>		
Investment in Bank for Cooperatives .....	6,200,000	5,340,000
Trademarks .....	1,600,000	2,000,000
Other assets .....	370,000	190,000
<b>Total investments and other assets .....</b>	<u>8,170,000</u>	<u>7,530,000</u>
<b>Property, plant, and equipment (Note 3)</b>		
Land .....	1,130,000	1,130,000
Buildings and improvements .....	10,970,000	10,860,000
Machines and equipment .....	25,280,000	19,760,000
<b>Total property, plant, and equipment .....</b>	<u>37,380,000</u>	<u>31,750,000</u>
<b>Less accumulated depreciation .....</b>	<u>(13,670,000)</u>	<u>(12,170,000)</u>
<b>Net property, plant, and equipment .....</b>	<u>23,710,000</u>	<u>19,580,000</u>
<b>Total assets .....</b>	<u>\$84,110,000</u>	<u>\$75,420,000</u>

**.06**

**Midstate Marketing Cooperative Balance Sheets—Continued**

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
<b>Liabilities and Patrons' Equities</b>		
<b>Current liabilities</b>		
Notes payable to bank (Note 3) . . . . .	\$ 17,480,000	\$ 16,950,000
Accounts payable and accrued expenses . . . . .	7,790,000	7,350,000
Salaries, wages, and related payroll taxes . . . . .	1,560,000	1,080,000
Due to patrons . . . . .	10,260,000	8,910,000
Income taxes . . . . .	310,000	130,000
Current portion of long-term debt . . . . .	2,890,000	2,890,000
<b>Total current liabilities</b> . . . . .	<u>40,290,000</u>	<u>37,310,000</u>
Deferred Income Taxes (Note 4) . . . . .	2,300,000	2,000,000
Long-term debt (Note 3) . . . . .	<u>13,210,000</u>	<u>16,100,000</u>
<b>Patrons' equities</b>		
Allocated equities . . . . .	26,360,000	19,710,000
Unallocated equities . . . . .	1,950,000	300,000
	<u>28,310,000</u>	<u>20,010,000</u>
<b>Total liabilities and patrons' equities</b> . . . . .	<u>\$ 84,110,000</u>	<u>\$ 75,420,000</u>

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

.07

**Midstate Marketing Cooperative Statements of Operations**

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
Net sales .....	<u>\$129,630,000</u>	<u>\$110,110,000</u>
Expenses		
Cost of sales (including proportionate share of assigned value of patrons' raw products received) .....	84,630,000	70,200,000
Selling, general, and administrative expense .....	19,380,000	18,900,000
Interest expense .....	<u>5,090,000</u>	<u>4,750,000</u>
Total expenses .....	<u>109,100,000</u>	<u>93,850,000</u>
Proceeds before income taxes .....	20,530,000	16,260,000
Income taxes (Note 4) .....	<u>1,250,000</u>	<u>900,000</u>
Net proceeds .....	<u>\$ 19,280,000</u>	<u>\$ 15,360,000</u>
Patronage .....	17,630,000	14,100,000
Nonpatronage .....	<u>1,650,000</u>	<u>1,260,000</u>
	<u>\$ 19,280,000</u>	<u>\$ 15,360,000</u>

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

The above Statements of Operations have been prepared on the basis of charging to cost of sales the estimated market value of unprocessed products received from patrons and stating inventories at lower of cost or market. Statements of Operations reflecting different accounting bases are presented on pages 97 and 99 of the Audit and Accounting Guide, *Audits of Agricultural Producers and Agricultural Cooperatives*. The Statements of Operations presented on page 97 of the Guide reflect no charges to cost of sales and inventories stated at net realizable value. The Statements of Operations presented on page 99 of the Guide reflect charges to cost of sales and inventories stated at net realizable value.

**12,512 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives**

**.08 Midstate Marketing Cooperative Statements of Amounts Due to Patrons**

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
Amounts due to patrons at beginning of year .....	\$ 8,910,000	\$ 9,070,000
Assigned value of patrons' raw products (approximates market at date of receipt) .....	<u>56,500,000</u>	<u>51,500,000</u>
Net patronage proceeds .....	<u>17,630,000</u>	<u>14,100,000</u>
<b>Total</b> .....	<u><b>83,040,000</b></u>	<u><b>74,670,000</b></u>
<b>Less:</b>		
Amounts paid to patrons in cash .....	58,830,000	53,240,000
Amounts retained as:		
Per-unit retains .....	5,650,000	5,250,000
Equity credits .....	<u>8,300,000</u>	<u>7,270,000</u>
<b>Total</b> .....	<u><b>72,780,000</b></u>	<u><b>65,760,000</b></u>
Amounts due to patrons at end of year .....	<u><b>\$10,260,000</b></u>	<u><b>\$ 8,910,000</b></u>

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

The above Statements of Amounts Due to Patrons have been prepared on the basis of charging to cost of sales the estimated market value of unprocessed products received from patrons and stating inventories at lower of cost or market. Statements of Amounts Due to Patrons reflecting different accounting bases are presented on pages 98 and 100 of the Audit and Accounting Guide, *Audits of Agricultural Producers and Agricultural Cooperatives*.

.09

Midstate Marketing Cooperative Statements of Patrons' Equities

	Allocated			Unallocated Equities (Deficit)
	Equity Credits	Per-Unit Retains	Total	
Balance, June 30, 1986 .....	\$ 8,730,000	\$ 5,210,000	\$13,940,000	\$ (960,000)
Patronage proceeds .....	7,270,000	—	7,270,000	—
Refund of prior years' allocated equities .....	(6,750,000)	—	(6,750,000)	—
Per-unit retains .....	—	5,250,000	5,250,000	—
Nonpatronage proceeds .....	—	—	—	1,260,000
Balance, June 30, 1987 .....	9,250,000	10,460,000	19,710,000	300,000
Patronage proceeds .....	8,300,000	—	8,300,000	—
Refund of prior years' allocated equities .....	(7,300,000)	—	(7,300,000)	—
Per-unit retains .....	—	5,650,000	5,650,000	—
Nonpatronage proceeds .....	—	—	—	1,650,000
Balance, June 30, 1988 .....	<u>\$10,250,000</u>	<u>\$16,110,000</u>	<u>\$26,360,000</u>	<u>\$ 1,950,000</u>

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

**.10 Midstate Marketing Cooperative Statements of Cash Flows**

*Years Ended June 30,*

	<u>1988</u>	<u>1987</u>
<b>Cash flows from operating activities</b>		
Net proceeds . . . . .	\$19,280,000	\$15,360,000
Adjustments to reconcile net proceeds to net cash provided by operating activities:		
Depreciation and amortization . . . . .	3,500,000	3,200,000
Deferred income taxes . . . . .	300,000	160,000
Change in noncash current assets and liabilities:		
Accounts receivable . . . . .	(3,520,000)	650,000
Inventories . . . . .	(4,070,000)	(1,100,000)
Prepaid expenses and other current assets . . . . .	200,000	(250,000)
Accounts payable and accrued expenses . . . . .	440,000	500,000
Salaries, wages, and related payroll taxes . . . . .	480,000	(220,000)
Income taxes . . . . .	180,000	80,000
Amounts due to patrons . . . . .	1,350,000	400,000
Net cash provided by operating activities . . . . .	18,140,000	18,780,000
<b>Cash flows from investing activities</b>		
Property, plant, and equipment additions . . . . .	(7,230,000)	(5,440,000)
Investments and other assets . . . . .	(1,040,000)	(520,000)
Net cash used by investing activities . . . . .	(8,270,000)	(5,960,000)
<b>Cash flows from financing activities</b>		
Repayment of long-term debt . . . . .	(2,890,000)	(2,890,000)
Increase in notes payable to bank . . . . .	530,000	1,000,000
Per-unit retains . . . . .	5,650,000	5,250,000
Patronage distributions . . . . .	(9,330,000)	(6,830,000)
Payment of prior years' retains . . . . .	(7,300,000)	(6,750,000)
Net cash used by financing activities . . . . .	(13,340,000)	(10,220,000)
Net change in cash and cash equivalents . . . . .	(3,470,000)	2,600,000
Cash and cash equivalents at beginning of year . . . . .	6,360,000	3,760,000
Cash and cash equivalents at end of year . . . . .	<u>\$ 2,890,000</u>	<u>\$ 6,360,000</u>
<b>Supplemental disclosure of cash flow data:</b>		
Cash paid during the years for:		
Interest (net of amounts capitalized) . . . . .	<u>\$ 5,500,000</u>	<u>\$ 5,250,000</u>
Income taxes . . . . .	<u>1,300,000</u>	<u>800,000</u>

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

.11

**Midstate Marketing Cooperative Notes to Financial Statements**

**Years Ended June 30, 1988 and 1987**

**1. Summary of Significant Accounting Policies**

*General.* Midstate Marketing Cooperative is an agricultural cooperative association operating on a pool basis, and it is organized for the purpose of processing and marketing fruits and vegetables delivered by its patrons. Deliveries from nonmember growers may also be accepted on a patronage or nonpatronage basis. Patrons are credited for the assigned amounts (as determined by the board of directors) of raw products delivered. Net proceeds or losses from patronage business are allocated to patrons on the basis of their participation in the total established value of the related pool.

Equity requirements, as determined by the board of directors, are retained from amounts due to patrons and credited to patrons' equity.

Unallocated equities arising from nonpatronage business and certain nonrecurring revenues and expenses, less income taxes, are not allocated to patrons.

*Cash equivalents.* All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

*Inventories.* The cooperative's inventories are stated at the lower of cost or market using the first-in, first-out method (FIFO). Raw products received from members are included as an element of cost at their assigned amounts.

*Investments.* The investment in the Bank for Cooperatives consists of class C stock at cost and the cooperative's share of the bank's allocated surplus. Patronage refunds are credited to interest expense.

*Trademarks.* Purchase costs of trademarks are capitalized and amortized over ten years.

*Property, plant, and equipment.* Property, plant, and equipment are stated at cost. Depreciation is computed principally by using the straight-line method over the estimated useful lives of the related depreciable assets. Expenditures for betterments and renewals that extend useful lives are capitalized. Gains and losses on retirements and disposals are included in net proceeds.

*Patrons' equities.* In accordance with its bylaws, the cooperative allocates patronage proceeds to patrons, as determined for income tax purposes, in cash and equity certificates in proportions determined by its board of directors.

*Income taxes.* The cooperative, as a nonexempt cooperative, is taxed on nonpatronage proceeds and any patronage proceeds not paid or allocated to patrons.

**2. Inventories**

A summary of inventories follows.

	<i>Years Ended June 30,</i>	
	<i>1988</i>	<i>1987</i>
Finished goods . . . . .	\$28,040,000	\$22,820,000
Goods in process . . . . .	4,320,000	5,560,000
Materials and supplies . . . . .	2,690,000	2,600,000
Total . . . . .	<u>\$35,050,000</u>	<u>\$30,980,000</u>

## 12,516 Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives

### 3. Notes Payable to Bank and Long-Term Debt

Notes payable to bank consist of short-term loans from the Bank for Cooperatives. Following is a summary of such borrowings during the years ended June 30, 1988 and 1987.

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
Borrowings as of June 30 .....	\$17,480,000	\$16,950,000
Average interest rate on year-end borrowings .....	17.5%	13%
Average borrowings during the year .....	\$19,500,000	\$16,500,000
Average interest rate on borrowings during the year .....	15.75%	14.5%
Maximum borrowings during the year .....	\$20,060,000	\$25,000,000

Long-term debt consists of notes payable to the Bank for Cooperatives, which bear interest at 12.5 percent. Payments are due in varying installments through 1994. Aggregate annual principal payments applicable to long-term debt for years subsequent to June 30, 1988 are as follows.

<u>Year Ending June 30,</u>	
1989 .....	\$ 2,890,000
1990 .....	2,890,000
1991 .....	2,890,000
1992 .....	2,890,000
1993 .....	2,270,000
Thereafter .....	2,270,000
Total .....	<u>\$16,100,000</u>

Essentially, all accounts receivable and inventories are pledged as collateral under the short-term agreement.

The long-term notes are secured by property, plant, and equipment with a net book value of \$18 million and by the investment in the Bank for Cooperatives.

The debt agreements with the Bank contain a number of restrictive covenants, including limitations on equipment purchases and prior approval of the Bank on revolvement of retained equities.

### 4. Income Taxes

The provision for income taxes consists of the following:

	<i>Years Ended June 30,</i>	
	<u>1988</u>	<u>1987</u>
Current		
Federal .....	\$ 790,000	\$ 470,000
State .....	160,000	100,000
Total .....	<u>950,000</u>	<u>570,000</u>
Deferred		
Federal .....	250,000	270,000
State .....	50,000	60,000
Total .....	<u>300,000</u>	<u>330,000</u>
Total .....	<u>\$ 1,250,000</u>	<u>\$ 900,000</u>

The income tax provision for each year is disproportionate to the expected statutory income tax expense, principally due to the deduction for distribution of patronage proceeds to patrons.

Deferred taxes arise from differences related primarily to the use of accelerated depreciation methods for tax purposes.



# **FSP Section 13,000**

## **DISCLOSURE SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEVELOPMENT STAGE ENTERPRISES**

**.01** The checklists and illustrative financial statements included in this booklet have been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklists and illustrative financial statements are to be used in conjunction with the "Disclosure Checklists and Illustrative Financial Statements for Corporations," and have been updated to include relevant FASB Statements and AICPA Statements of Position. The checklist 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 standard should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested, and to what extent the disclosure is relevant to the statements being examined.

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

---

[The next page is 13,101.]

# FSP Section 13,100

## INTRODUCTION

.01 The unprecedented growth in the U.S. economy has resulted in an increase in the number of companies in a development stage, as well as established operating companies<sup>1</sup> starting new businesses.

.02 A development stage enterprise is a company which devotes substantially all of its effort to establishing a new business and in which either planned principal operations have not commenced, or planned principal operations have commenced, but there has been no significant revenue.

.03 SFAS No. 7, *Accounting and Reporting by Development Stage Enterprises*, explains that devoting substantially all efforts to establishing a new business typically includes:

- financial planning
- raising capital
- exploring for or developing natural resources
- research and development
- establishing sources of supply
- acquiring property, plant, equipment, or other operating assets
- recruiting and training personnel
- developing markets
- starting up production

.04 Once the conditions in the second preceding paragraph are no longer met, the enterprise ceases to be in the development stage.

.05 The generally accepted accounting principles that apply to the financial statements of established operating companies also apply to the financial statements of development stage enterprises.

.06 SFAS No. 7 permits development stage enterprises to defer only those costs that established operating companies would be permitted to defer under GAAP. Likewise, development stage enterprises should charge to expense those costs that established operating companies would charge to expense. Statement of Financial Accounting Concepts No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, states that expenses are generally recognized when an entity's economic benefits are used up in delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations.

.07 Typically, significant research and development costs are incurred by development stage enterprises. SFAS No. 2, *Accounting for Research and Development Costs*, requires all entities (including development stage enterprises) to expense research and development costs as incurred.

---

[The next page is 13,201.]

---

<sup>1</sup> The following are excluded from consideration as a development stage enterprise:

- a. The expansion of an established operating company into a new line of business,
- b. The conduct of exploration and development activities by established operating companies in the extractive industries, and
- c. The development of properties by established operating companies in the real estate industry.

(Note: SFAS No. 7 applies to separate financial statements of a development stage subsidiary or other investee of established operating companies.)

# FSP Section 13,200

## *Disclosure Supplement and Illustrative Financial Statements for Development Stage Enterprises*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with the *Disclosure Checklists and Illustrative Financial Statements for Corporations*.

.02 Explanation of references:

- APB = Accounting Principles Board Opinion  
 SFAS = Statement of Financial Accounting Standards  
 (AC) = Reference to section number in *FASB Accounting Standards Current Text*  
 SOP = AICPA Statement of Position

.03 Checklist Questionnaire

### Financial Statements and Notes Checklist for Development Stage Enterprises

Note: This checklist is to be used in conjunction with *Financial Statement Preparation Manual* Section 2500, "Disclosure Checklists for Corporations."

#### General

##### Financial Statement Titles and Disclosure

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. Are the financial statements identified as those of a development stage enterprise (in the notes to the financial statements or parenthetically in each statement heading)?<br>[SFAS No. 7, paragraph 12] | _____      | _____     | _____      |
| 2. Do the financial statements include a description of the nature of the development stage activities in which the enterprise is engaged?<br>[SFAS No. 7, paragraph 12]                                     | _____      | _____     | _____      |

#### Balance Sheet

##### General

- |   |       |       |       |
|---|-------|-------|-------|
| ● Does the balance sheet presentation include the report of any <i>cumulative</i> <sup>1</sup> net losses with a descriptive caption such as "Deficit Accumulated During the Development Stage" in the stockholders' equity section?<br>[SFAS No. 7, paragraph 11 a.] | _____ | _____ | _____ |
|---|-------|-------|-------|

<sup>1</sup> Note that cumulative information from development stage enterprises' inception is part of the basic required information for the financial statements to be presented in accordance with GAAP. Generally, such information is presented in a column adjacent to the financial statements for the period(s) of the engagement.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Statement of Operations</b>			
<b>General</b>			
1. Does the income statement report amounts of revenue and expenses for each period covered and, in addition, <i>cumulative</i> <sup>2</sup> amounts from the enterprise's inception? [SFAS No. 7, paragraph 11 b.]	_____	_____	_____
2. If a formerly dormant enterprise was reactivated to undertake development stage activities, has disclosure of cumulative amounts of revenue and expenses been reported from inception of the development stage? [SFAS No. 7, paragraph 11, footnote 7]	_____	_____	_____
<b>Statement of Stockholders' Equity</b>			
● Does the statement of stockholders' equity report <i>from the enterprise's inception</i> : <sup>3</sup>			
a. The date and number of shares of stock, warrants, rights, or other equity securities issued for cash and for other consideration for each issuance?	_____	_____	_____
b. The dollar amounts (per share or other equity unit and in total) assigned to the consideration received for shares of stock, warrants, rights, or other equity securities for each issuance? [Were dollar amounts assigned to any noncash consideration received?]	_____	_____	_____
c. The nature of the noncash consideration and the basis for assigning amounts for each issuance involving noncash consideration? [SFAS No. 7, paragraph 11 d.]	_____	_____	_____
<b>Statement of Cash Flows</b>			
<b>General</b>			
● Does the cash flows statement report cash flows from operating, investing, and financing activities for each period for which an income statement is presented and, in addition, <i>cumulative</i> <sup>4</sup> amounts from the enterprise's inception? [SFAS No. 7, paragraph 11 c., as amended by SFAS No. 95]	_____	_____	_____

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

# **FSP Section 13,300**

## ***Illustrative Financial Statements***

.01

### **Illustrative Independent Auditor's Report**

**(Unqualified Opinion)**

#### **Independent Auditor's Report**

We have audited the accompanying balance sheets of DSE, Inc. (a development stage enterprise) as of December 31, 19X7 and 19X6, and the related statements of operations, shareholders' equity (deficiency) and cash flows for the years then ended and for the period from July 1, 19X1 (inception) to December 31, 19X7. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DSE, Inc. (a development stage enterprise) as of December 31, 19X7 and 19X6, and the results of its operations and its cash flows for the years then ended and for the period from July 1, 19X1 (inception) to December 31, 19X7 in conformity with generally accepted accounting principles.

[Signature]

[Date]

.02

**Illustrative Balance Sheets**  
**DSE, Inc.**  
**(A Development Stage Enterprise)**  
**Balance Sheets**  
**December 31, 19X7 and 19X6**

	December 31	
	19X7	19X6
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents .....	\$ XXX,XXX	\$ XXX,XXX
Certificates of deposit .....	XXX,XXX	XXX,XXX
Investments in United States Treasury Securities .....	X,XXX,XXX	X,XXX,XXX
Accrued interest receivable .....	XX,XXX	XXX,XXX
Prepaid expenses and other current assets .....	XX,XXX	XXX,XXX
Total Current Assets .....	X,XXX,XXX	X,XXX,XXX
<b>Property, Plant and Equipment</b>		
Furniture and fixtures .....	XXX,XXX	XXX,XXX
Equipment .....	X,XXX,XXX	XXX,XXX
Leasehold improvements .....	XXX,XXX	XXX,XXX
	X,XXX,XXX	XXX,XXX
Accumulated depreciation and amortization .....	(X,XXX,XXX)	(XXX,XXX)
	XXX,XXX	XXX,XXX
<b>Other Assets</b>		
Investments in United States Treasury Notes .....	X,XXX,XXX	XXX,XXX
Patent rights, net of accumulated amortization of \$XX,XXX in 19X7 and \$XX,XXX in 19X6 .....	XX,XXX	XX,XXX
	X,XXX,XXX	XXX,XXX
	\$ X,XXX,XXX	\$ X,XXX,XXX
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable .....	\$ XXX,XXX	\$ XXX,XXX
Accrued expenses .....	XX,XXX	XX,XXX
Accrued salaries .....	XX,XXX	XX,XXX
Total Current Liabilities .....	XXX,XXX	XXX,XXX
Deferred Compensation .....	XXX,XXX	XXX,XXX
<b>Shareholders' Equity</b>		
<b>Common Stock</b>		
Class A, \$.XX par value—authorized XX,XXX,XXX shares; issued and outstanding X,XXX,XXX shares in 19X7 and X,XXX,XXX shares in 19X6 .....	XXX,XXX	XXX,XXX
Class B, \$.XX par value—authorized X,XXX,XXX shares; issued and outstanding X,XXX,XXX shares in 19X7 and X,XXX,XXX shares in 19X6 .....	XXX,XXX	XXX,XXX
Additional paid-in capital .....	XX,XXX,XXX	XX,XXX,XXX
Deficit accumulated during the development stage .....	(X,XXX,XXX)	(X,XXX,XXX)
	X,XXX,XXX	X,XXX,XXX
	\$ X,XXX,XXX	\$ X,XXX,XXX

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

.03

**Illustrative Statements of Operations**  
**DSE, Inc.**  
**(A Development Stage Enterprise)**  
**Statements of Operations**

Years Ended December 31, 19X7 and 19X6, and the Period from July 1, 19X1 (Inception) to December 31, 19X7

	Year Ended December 31		Period From July 1, 19X1 (Inception) Through December 31, 19X7
	19X7	19X6	
Interest Income .....	\$ XXX,XXX	\$ XXX,XXX	\$ X,XXX,XXX
<b>Expenses</b>			
Salaries, benefits, and payroll taxes .....	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX
Research fees and clinical trials .....	XXX,XXX	XXX,XXX	X,XXX,XXX
Research supplies .....	XXX,XXX	XXX,XXX	X,XXX,XXX
Depreciation and amortization .....	XXX,XXX	XXX,XXX	X,XXX,XXX
Legal and professional .....	XXX,XXX	XXX,XXX	X,XXX,XXX
Rent .....	XXX,XXX	XXX,XXX	XXX,XXX
Shareholder and public relations .....	XXX,XXX	XXX,XXX	XXX,XXX
Scientific advisory and consulting .....	XXX,XXX	XX,XXX	XXX,XXX
Equipment leasing .....	XXX,XXX	XXX,XXX	XXX,XXX
Repairs and maintenance .....	XX,XXX	XX,XXX	XXX,XXX
Travel and entertainment .....	XX,XXX	XX,XXX	XXX,XXX
Taxes and licenses .....	XX,XXX	XX,XXX	XXX,XXX
Insurance .....	XX,XXX	XX,XXX	XXX,XXX
Recruiting and relocation .....	XX,XXX	XX,XXX	XXX,XXX
Telephone .....	XX,XXX	XX,XXX	XX,XXX
Directors' fees .....	XX,XXX	XX,XXX	XX,XXX
Office supplies .....	XX,XXX	XX,XXX	XX,XXX
General and administrative .....	XX,XXX	XX,XXX	XX,XXX
Utilities .....	XX,XXX	XX,XXX	XX,XXX
Postage and courier .....	XX,XXX	XX,XXX	XX,XXX
	<u>X,XXX,XXX</u>	<u>X,XXX,XXX</u>	<u>XX,XXX,XXX</u>
Net Loss .....	<u>\$ (X,XXX,XXX)</u>	<u>\$ (X,XXX,XXX)</u>	<u>\$ (X,XXX,XXX)</u>
Loss per Common Share .....	<u>\$ (.XX)</u>	<u>\$ (.XX)</u>	<u>\$ (.XX)</u>

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

.04

## Illustrative Statements of Shareholders' Equity

DSE, Inc.

(A Development Stage Enterprise)

## Statements of Shareholders' Equity

Years Ended December 31, 19X7 and 19X6, and the Period from July 1, 19X1 (Inception) to December 31, 19X7

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage
	Class A	Class B		
<b>Balances at July 1, 19X1 (Inception)</b>				
July 5, 19X1—Sale of XXX,XXX shares of Class A Common Stock—\$.XXXX per share .....	\$ XXX,XXX			
July 5, 19X1—Issuance of X,XXX,XXX shares of Class B Common Stock for patent rights .....		\$ X		
August 17, 19X1—Sale of XXX,XXX shares of Class A Common Stock—\$.XXXX per share .....	XXX,XXX			
October 15, 19X1—Private placement of X,XXX,XXX shares of Class A Common Stock— \$.XXXX per share .....	X,XXX,XXX			
October 15, 19X1—Issuance of XXX,XXX shares of Class A Common Stock for financial services .....	XXX,XXX			
Costs relating to the sale of Class A Common Stock .....	(XX,XXX)			
Net loss for the period .....				\$ (XX,XXX)
<b>Balances at December 31, 19X1</b> .....	X,XXX,XXXX	X	—	(XX,XXX)
Net loss for the year .....				(XXX,XXX)
<b>Balances at December 31, 19X2</b> .....	X,XXX,XXX	X	—	(XXX,XXX)
May 10, 19X3—Exchange of XX,XXX shares of Class B Common Stock for XX,XXX shares of Class A Common Stock .....	XX,XXX	X		
September 1, 19X3—Sale of XX,XXX shares of Class A Common Stock to outside director under Stock Option Agreement—\$.XXXX per share .....	XX,XXX			
Net loss for the year .....				(XXX,XXX)
<b>Balances at December 31, 19X3</b> .....	X,XXX,XXX	X	—	(X,XXX,XXX)
January 17, 19X4—Sale of X,XXX,XXX shares of Class A Common Stock in Initial Public Offering—\$.XX per share .....	\$XX,XXX,XXX			
January 26, 19X4—Sale to underwriter of warrants to purchase XXX,XXX shares of Class A Common Stock .....			\$ XXX	
February 29, 19X4—Sale of X,XXX shares of Class A Common Stock to outside director under Stock Option Agreement—\$.XXXX per share .....	X,XXX			
Costs relating to sale of Class A Common Stock in Initial Public Offering .....	(XXX,XXX)			
September 30, 19X4—Sale of XX,XXX shares of Class A Common Stock to outside director under Stock Option Agreement—\$.XXXX per share .....	XX,XXX			
December 7, 19X4—Change in par value of Class A and Class B Common Stock from no par value to \$.XX par value .....	(XX,XXX,XXX)	XXX,XXX	XX,XXX,XXX	
Net loss for the year .....				\$ (XXX,XXX)
<b>Balances at December 31, 19X4</b> .....	XXX,XXX	XXX,XXX	XX,XXX,XXX	(X,XXX,XXX)

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



.04

Illustrative Statements of Shareholders' Equity—Continued

DSE, Inc.

(A Development Stage Enterprise)

Statements of Shareholders' Equity

Years Ended December 31, 19X7 and 19X6, and the Period from July 1, 19X1 (Inception) to December 31, 19X7

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage
	Class A	Class B		
July 24, 19X5—Exchange of XXX,XXX shares of Class B Common Stock for XXX,XXX shares of Class A Common Stock .....	X,XXX	(X,XXX)		
Net loss for the year .....				(X,XXX,XXX)
<b>Balances at December 31, 19X5 .....</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XX,XXX,XXX</b>	<b>(X,XXX,XXX)</b>
May 20, 19X6—Sale of XX shares of Class A Common Stock to employee under Incentive Stock Option Agreement—\$X,XXX per share .....	X		XX	
July 1 through December 31, 19X6 (various dates)—Sale of X,XXX shares of Class A Common Stock to employee under Incentive Stock Option Agreement—\$X,XXX per share .....	XX		X,XXX	
Net loss for the year .....				(X,XXX,XXX)
<b>Balances at December 31, 19X6 .....</b>	<b>XXX,XXX</b>	<b>XXX,XXX</b>	<b>XX,XXX,XXX</b>	<b>(X,XXX,XXX)</b>
January 15 through November 13, 19X7 (various dates)—Sale of X,XXX shares of Class A Common Stock to employee under Incentive Stock Option Agreement—\$X,XXX per share .....	XX		X,XXX	
February 27 through April 23, 19X7 (various dates)—Sale of XXX,XXX shares of Class A Common Stock to underwriter under terms of warrants—\$X,XX per share .....	XX,XXX		X,XXX,XXX	
Costs relating to sale of Class A Common Stock to underwriters .....			(XX,XXX)	
March 31, 19X7—Exchange of XXX,XXX shares of Class B Common Stock for XXX,XXX shares of Class A Common Stock .....	XX,XXX	(XX,XXX)		
December 21, 19X7—Grant of X,XXX shares of Class A Common Stock to employees as bonuses for 19X7 services .	XXX		XX,XXX	
Net loss for the year .....				(X,XXX,XXX)
<b>Balances at December 31, 19X7 .....</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>	<b>\$XX,XXX,XXX</b>	<b>\$ (X,XXX,XXX)</b>

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

.05

**Illustrative Statements of Cash Flows**  
**(Direct Method)**  
**DSE, Inc.**  
**(A Development Stage Enterprise)**

**Statements of Cash Flows**

**Years Ended December 31, 19X7 and 19X6, and the Period from July 1, 19X1 (Inception) to December 31, 19X7**

	<i>Year Ended December 31</i>		<i>Period From July 1, 19X1 (Inception) Through December 31, 19X7</i>
	<i>19X7</i>	<i>19X6</i>	
<b>Cash flows from operating activities:</b>			
Cash paid to suppliers and employees .....	\$ (X,XXX,XXX)	\$ (X,XXX,XXX)	\$ (X,XXX,XXX)
Interest received .....	XXX,XXX	XXX,XXX	XXX,XXX
Other cash payments .....	(XXX,XXX)	(XXX,XXX)	(XXX,XXX)
<b>Net Cash Used in Operating Activities .....</b>	<b>(X,XXX,XXX)</b>	<b>(X,XXX,XXX)</b>	<b>(X,XXX,XXX)</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale and maturities of investments .....	X,XXX,XXX	X,XXX,XXX	XX,XXX,XXX
Acquisition of investments .....	(X,XXX,XXX)	(XXX,XXX)	(XX,XXX,XXX)
Acquisition of property, plant and equipment .....	(XXX,XXX)	(XXX,XXX)	(X,XXX,XXX)
Patent rights and organization costs .....			(XX,XXX)
<b>Net Cash Provided by (Used in) Investing Activities .....</b>	<b>X,XXX,XXX</b>	<b>X,XXX,XXX</b>	<b>(X,XXX,XXX)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from common stock issues .....	X,XXX,XXX	X,XXX	XX,XXX,XXX
Costs of the sales of common stock .....	(XX,XXX)		(XXX,XXX)
<b>Net Cash Provided by Financing Activities .....</b>	<b>X,XXX,XXX</b>	<b>X,XXX</b>	<b>XX,XXX,XXX</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents .....</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>XXX,XXX</b>
<b>Cash and Cash Equivalents at Beginning of Year .....</b>	<b>XXX,XXX</b>	<b>XX,XXX</b>	<b>—</b>
<b>Cash and Cash Equivalents at End of Year .....</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>	<b>\$ XXX,XXX</b>

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

.05

**Illustrative Statements of Cash Flows—Continued  
(Direct Method)**

**DSE, Inc.**

**(A Development Stage Enterprise)**

**Statements of Cash Flows**

**Reconciliation of Net Loss to Net Cash**

**Used in Operating Activities**

**Years Ended December 31, 19X7 and 19X6, and the Period from July 1, 19X1 (Inception) to  
December 31, 19X7**

	<u>Year Ended December 31</u>		<u>Period From</u>
	<u>19X7</u>	<u>19X6</u>	<u>July 1, 19X1</u> <u>(Inception)</u> <u>Through</u> <u>December 31, 19X7</u>
Net loss .....	\$ (X,XXX,XXX)	\$ (X,XXX,XXX)	\$(X,XXX,XXX)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Grant of employee stock bonuses .....	XX,XXX		XX,XXX
Depreciation and amortization .....	XXX,XXX	XXX,XXX	X,XXX,XXX
Gain on disposal of fixed assets .....		(XX)	(XX)
Investment discount and premium amortization .....	XXX	(X,XXX)	(XX,XXX)
(Increase) decrease in interest earned but not received ..	XX,XXX	XXX,XXX	(XX,XXX)
(Increase) decrease in prepaid expenses and other current assets .....	XXX,XXX	(XXX,XXX)	(XX,XXX)
Increase (decrease) in accounts payable, accrued expenses, and accrued salaries .....	(XXX,XXX)	XXX,XXX	XXX,XXX
Deferred compensation .....	XX,XXX	XX,XXX	XXX,XXX
Total adjustments .....	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>X,XXX,XXX</u>
Net Cash Used in Operating Activities .....	(X,XXX,XXX)	(X,XXX,XXX)	(X,XXX,XXX)

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

[Editor's note—SFAS No. 95, *Statement of Cash Flows*, requires disclosure of information about all investing and financing activities of an enterprise (including a development stage enterprise) during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period. There were not any noncash investing and financing activities in this illustration.]

.06

**Illustrative Notes to Financial Statements****DSE, Inc.****(A Development Stage Enterprise)****Notes to Financial Statements****Note A—Organization and Significant Accounting Policies**

DSE Inc., (the Company) is a development stage enterprise which engages in the research and development of several technological findings in the field of immunology and cancer detection. The Company's activities are directed toward the development of these discoveries for commercial and technical use.

Property, plant and equipment is stated on the basis of cost. Furniture and equipment is depreciated using the straight-line method over five years. Leasehold improvements are amortized over the life of the lease.

Certain legal fees and other expenses have been capitalized as patent rights and are being amortized using the straight-line method over 17 years. The Company has capitalized only legal fees and other expenses related to patent rights acquired; all other such costs have been expensed as incurred.

For purposes of the statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Certificates of deposit and United States Treasury Securities are combined as investments in the statements of cash flows.

**Note B—Investments**

Investments consisted of the following at the dates indicated:

	<u>Face Value</u>	<u>Book Value</u>	<u>Market Value</u>
December 31, 19X7			
United States Treasury Bills .....	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX
United States Treasury Notes .....	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX
	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>
December 31, 19X6			
United States Treasury Bills .....	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX
United States Treasury Notes .....	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX
	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>	<u>\$X,XXX,XXX</u>

**Note C—Deferred Compensation**

The President of the Company has an employment contract with the Company that extends through December 31, 19X8. The terms of this employment contract provide for extensions through 20X5.

Effective September 1, 19X7, the base compensation under the contract was increased from \$XX,XXX to \$XXX,XXX per year. The contract provides for additional compensation of X% of income before income taxes (if any), not to exceed \$XX,XXX. In addition, the contract provides for deferred compensation of \$XX,XXX per year payable upon the President's termination of employment in monthly installments over 10 years or in one lump sum, at the option of the Company. The yearly credits to deferred compensation are adjusted by increases in the Consumer Price Index for All Urban Consumers. If the Company elects to pay the deferred compensation in installments, interest on the unpaid balance will be added to each installment payment computed at the prime rate in effect at the installment date. The President was 100% vested in the deferred compensation balance under the contract as of December 31, 19X7 and 19X6. Deferred compensation expense under the contract included in salaries, benefits, and payroll taxes was \$XX,XXX and \$XX,XXX for the years ended December 31, 19X7 and 19X6, respectively.

Effective March 1, 19X5, the Company entered into an employment contract with Dr. Alpha, Secretary of the Company and wife of Dr. Beta, President of the Company, to assume the duties of Vice President for Medical Affairs for the Company. This employment contract expires on March 31, 19Y0 and contains automatic renewal provisions for extensions through 20X5. The cancellation provision of this contract requires that a two-year written notice be given beginning after March 31, 19X8 if the Company elects to avoid automatic annual renewals.

The original contract specifies a base compensation of \$XXX,XXX per year, reduced by the amount of salary drawn in any month for services performed by Dr. Alpha for a local university. Effective September 1, 19X7, the contract was amended such that the base compensation paid to Dr. Alpha is no longer reduced by the amount of salary drawn in any month for services performed by Dr. Alpha for a local university. The contract also provides that XX% of annual compensation be credited to a deferred compensation account. The deferred compensation is payable at termination in monthly installments over a period not exceeding five years or in one lump sum, at the option of the Company. The deferred amount is adjusted semi-annually for the incremental interest which would have been earned at the United States Treasury Bill rate in effect the day following the credit date. If the Company elects to pay the deferred compensation in installments, interest on the unpaid balance will be added to each installment payment computed at the prime rate in effect at the installment date. Dr. Alpha was 100% vested in the deferred compensation balance under the contract as of December 31, 19X7 and 19X6. Deferred compensation expense under the contract included in salaries, benefits, and payroll taxes was \$XX,XXX and \$X,XXX for the years ended December 31, 19X7 and 19X6, respectively.

During 19X2, 19X3, and 19X5 through 19X7, the Company adopted deferred compensation agreements for certain key employees with benefits commencing at termination. Under the agreements, XX% of the employees' yearly compensation is deferred. The deferred amount is adjusted semi-annually for the incremental interest which would have been earned at the United States Treasury Bill rate in effect the day following the credit date. The deferred compensation vests in various proportions over a five-year period. Deferred compensation expense under these agreements totaled \$XX,XXX and \$X,XXX for the years ended December 31, 19X7 and 19X6, respectively. In April 19X6 and March 19X5, employees resigned for whom compensation had been deferred under such agreements. The employees were only partially vested in the deferred compensation and, accordingly, \$X,XXX in 19X6 and \$X,XXX in 19X5 (the nonvested amounts) were credited against expense.

Officers and employers were fully vested in \$XXX,XXX of the \$XXX,XXX deferred compensation liability at December 31, 19X7.

#### **Note D—Income Taxes**

The Company has no taxable income to date; therefore, no provisions for federal or state income taxes have been made. The deficit accumulated during the development stage is generally available to offset future taxable income. Investment tax credits (ITC) of approximately \$XX,XXX and research expenditure tax credits of approximately \$XXX,XXX are also available as of December 31, 19X7 to offset federal income taxes, if any, in future periods. The amount of ITC available at December 31, 19X7 is scheduled to be reduced by 35% in 19X8 and thereafter under the provisions of the Tax Reform Act of 1986. These carryovers and credits expire in 19Y6 through 20X2.

#### **Note E—Commitments**

The Company has an agreement with a local university, with which the President and the Secretary and Vice President for Medical Affairs of the Company are affiliated, to fund a chair in immunology. The Company is required to make annual payments of X% of net income (if any) into an endowment fund. The Company will be released from the agreement when the endowment fund reaches \$XXX,XXX. The university may release the Company from the agreement to fund such chair at any time.

The Company has operating leases for its offices and research facilities in New York and Washington, D.C., which expire in 19Y1 and 19X9, respectively. The Company also has operating leases for various items of equipment which expire in 19X9 and 19Y0.

## 13,310 Disclosure Supplement and Financial Statements for Development Stage Enterprises

Future minimum annual lease payments as of December 31, 19X7 consist of the following:

19X8 .....	\$ XXX,XXX
19X9 .....	XXX,XXX
19Y0 .....	XXX,XXX
19Y1 .....	XX,XXX
	<u>          </u>
	<u>\$X,XXX,XXX</u>

The Company has pledged \$XXX,XXX of its investments in United States Treasury Notes as collateral under terms of certain of the equipment leases at December 31, 19X7.

At the expiration of the initial lease term for office and research facility space in Washington, D.C., the Company has the option to renew the leases for an additional three-year period on terms similar to the initial leases.

In 19X6 and 19X7, the Company entered into agreements with several medical institutions under which the institutions have agreed to perform certain testing and data gathering procedures in connection with the clinical trial of DSE-Z (an experimental drug). Compensation to the institutions includes a down payment plus additional compensation dependent upon various factors including, but not limited to, enrollment of patients and receipt of the required specimens and data for each patient. Expenses related to the agreements totaled \$XXX,XXX in 19X7 and \$XX,XXX in 19X6 and are included in research fees and clinical trials. The agreements also contain clauses for additional compensation should the institutions provide specimens and data for more than the minimum number of patients specified in the agreements. The agreements are scheduled to expire in 19X8. As of December 31, 19X7, the total estimated remaining compensation to be paid, if the terms of the agreements are met, is approximately \$XXX,XXX. The Company makes payment and recognizes expense under these agreements as the terms of the agreements are met to the satisfaction of the Company.

### Note F—Short-Term Borrowings

The Company entered into a lending arrangement with a local bank during 19X5 whereby the bank provides the Company with short-term working capital loans on an "as needed" basis. The Company pledged United States Treasury Notes, and accrued interest thereon, held in safekeeping by the bank, as collateral on the borrowings. There were no such borrowings during 19X7. The highest month-end outstanding balance during 19X6 was \$XXX,XXX, and there were no borrowings outstanding at December 31, 19X6. Interest expense incurred on these borrowings totaled \$X,XXX in 19X6 and is included in general and administrative expenses.

### Note G—Rights to Purchase Stock

The DSE, Inc. 19X2 Incentive Stock Option Plan (the Plan) provides for grants of qualified options to officers and certain other key employees of the Company to purchase, in the aggregate, up to XX,XXX shares of the Company's Class A Common Stock. The options are exercisable after one year of employment in increments of XX% per year. The options expire five years and three months from the date of grant, or three months after an employee terminates his employment.

During 19X4, the Company granted rights to certain employees and an independent consultant to purchase the Company's Class A Common Stock under substantially the same terms as those granted under the Plan.

In 19X6, the Company granted options to certain employees to purchase a total of XX,XXX shares of the Company's Class A Common Stock. These options were granted under the Plan at \$X.XX per share for XX,XXX shares and \$XX.XXX per share for X,XXX shares.

The Company has limited the number of shares that may be issued under the Plan to XX,XXX shares.

Also in 19X6, the Company granted options to members of the Company's Board of Directors and Scientific Advisory Board to purchase a total of XX,XXX shares of the Company's Class A Common Stock. Of these options, XX,XXX were exercisable immediately and XX,XXX are exercisable ratably over a three-year period beginning with

the date of grant. The options were granted at \$XX.XXX per share. The options expire in three years and three months from date of grant, or three months after the individual ceases to be a member of either Board.

The following is a summary of transactions related to all options and rights to purchase stock for the two years ended December 31, 19X7:

	<u>Options</u>	<u>Weighted Average Option Price</u>	<u>Price Range of Options</u>
Outstanding at December 31, 19X5 .....	XX,XXX	\$ X.XX	\$ XXX-\$ X,XXX
Granted .....	XX,XXX	XX.XX	X,XXX- XX,XXX
Exercised .....	(X,XXX)	X.XX	XXX- X,XXX
Cancelled .....	<u>(XX,XXX)</u>	X.XX	XXX- X,XXX
Outstanding at December 31, 19X6 .....	XX,XXX	XX.XX	X,XXX- XX,XXX
Granted .....	—	—	—
Exercised .....	(X,XXX)	X.XX	X,XXX- X,XXX
Cancelled .....	<u>(XX,XXX)</u>	XX.XX	XX,XXX- XX,XXX
Outstanding at December 31, 19X7 .....	<u>XX,XXX</u>	\$XX.XX	\$ X,XXX-\$XX,XXX
Exercisable at December 31, 19X7 .....	<u>XX,XXX</u>		

**Note H—Stock Warrants**

In connection with the Company's initial public offering (in 19X4), the Company sold warrants to purchase XXX,XXX shares of the Company's Class A Common Stock to the underwriters for \$XXX. The warrants became exercisable on January 17, 19X5. The warrants were exercisable in whole or in part at \$X.XX per share and would expire on January 17, 19X9. On April 24, 19X6, the Company filed a Form S-1 with the Securities and Exchange Commission to register the XXX,XXX shares of the Company's Class A Common Stock and the registration statement was declared effective October 28, 19X6. Exercise of the warrants commenced on February 27, 19X7. As of April 23, 19X7, all XXX,XXX warrants had been exercised. Certain legal and other costs in the amount of \$XX,XXX were offset against the total proceeds received.

**Note I—Common Stock**

Class A and Class B Common Stock are identical in all respects except that Class A Common Stock is freely transferable and Class B Common Stock is not.

On December 18, 19X5, the Board of Directors authorized a two-for-one stock split to be effective February 14, 19X6. The Board also authorized an increase in the authorized shares of Common Stock to XX,XXX,XXX shares of Class A Common Stock and to X,XXX,XXX shares of Class B Common Stock and a change in the par value of both classes of Common Stock from \$.XX to \$.XX per share. The shareholders approved these actions on February 14, 19X6. All loss per share amounts, stock options, rights to purchase stock and stock warrants have been adjusted to give effect to the stock split.

The Company issued all outstanding shares of its Class B Common Stock to Omega, Inc., a Delaware Corporation controlled by the Company's President and his wife, who is Secretary and Vice President for Medical Affairs of the Company. In return, Omega granted the Company a sole and exclusive license to all rights in the discovery of and in all patent applications and patents pertaining to the immunomodulators developed by the Company's President. All Class B shares can be converted to Class A Shares at Omega's option. Upon conversion of a total of XXX,XXX Class B shares, the remaining Class B shares must be converted to Class A shares. As of December 31, 19X7, Omega has converted XXX,XXX shares of the Company's Class B Common Stock into XXX,XXX previously unissued shares of the Company's Class A Common Stock. All outstanding Class B shares will automatically be

**13,312 Disclosure Supplement and Financial Statements for Development Stage Enterprises**

converted to Class A shares on January 1, 19Y6, as approved by the majority of the Company's shareholders at its annual meeting on May 28, 19X7.

**Note J—Loss Per Common Share**

Loss per common share, including common share equivalents, is computed by dividing the net loss for the period by the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents are shares issuable on the exercise of stock options, rights to purchase stock and stock warrants (when dilutive), net of shares assumed to be purchased with the proceeds.

The weighted average number of common shares used in the loss per share computations is XX,XXX,XXX shares for the year ended December 31, 19X7; XX,XXX,XXX shares for the year ended December 31, 19X6; and X,XXX,XXX shares for the period from inception through December 31, 19X7.



.07

**Appendix A**

[Editor's note—The following auditor's report and financial statement disclosure is unrelated to the illustrative financial statements already presented. They are provided to illustrate an uncertainty involving a going concern which may often be encountered by development stage enterprises.]

**Illustrative Independent Auditor's Report  
(Going Concern)**

**Independent Auditor's Report**

We have audited the accompanying balance sheets of DSE, Inc. (a development stage enterprise) as of December 31, 19X7 and 19X6, and the related statements of operations, shareholders' equity (deficiency) and cash flows for the years then ended and for the period from July 1, 19X1 (inception) to December 31, 19X7. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DSE, Inc. (a development stage enterprise) as of December 31, 19X7 and 19X6, and the results of its operations and its cash flows for the years then ended and for the period from July 1, 19X1 (inception) to December 31, 19X7 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

[Signature]

[Date]

\* \* \*

**Note X—Uncertainty—Going Concern**

The Company's continued existence is dependent upon its ability to resolve its liquidity problems, principally by obtaining additional debt financing and equity capital. While pursuing additional debt and equity funding, the Company must continue to operate on limited cash flow generated internally. The Company has experienced a net loss from continuing operations for the quarter ended June 30, 19X7 of \$XXX,XXX (unaudited) compared to a net loss from continuing operations for the quarter ended June 30, 19X6 of \$X,XXX,XXX (unaudited).

The Company will have to minimize its requirements for working capital by trimming receivable levels and by continuing its cost reduction efforts. Working capital limitations continue to impinge on day-to-day operations, thus contributing to continued operating losses. The continued support and forbearance of its lenders will be required.

# **FSP Section 14,000**

## **DISCLOSURE CHECKLIST AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR PROSPECTIVE FINANCIAL STATEMENT ENGAGEMENTS**

**.01** The checklist and illustrative financial statements included in this book have been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist and illustrative financial statements have been updated to include FASB Statements through No. 102 and AICPA Statements of Position through No. 90-1. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should be considered.
- The checklist 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, statements on standards for accounting and review services, and statements on standards for attestation engagements.
- The checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standard should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested, and to what extent the disclosure is relevant to the statements being examined.

**.02** Users of the checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements. If you have further questions, call the AICPA Technical Hotline. The author wishes to acknowledge the assistance of his colleague, Michael A. Tursi, CPA, who served as a consultant on this project.

John Graves  
Director  
Technical Services

---

[The next page is 14,101.]

# FSP Section 14,100

## *Introduction*

### **General Comments on Prospective Financial Statements**

**.01** Prospective financial statements are prospective financial information that presents financial position, results of operations, and cash flows. They are either financial forecasts or financial projections including the summaries of significant assumptions and accounting policies.

**.02** A financial forecast is prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single-point estimate of forecasted results or as a range, where the responsible party selects key assumptions to form a range within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. When a forecast contains a range, the range is not selected in a biased or misleading manner (e.g., a range in which one end is significantly less expected than the other).

**.03** A financial projection is prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question such as "What would happen if . . .?" A financial projection is based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions. A projection may also contain a range.

**.04** Prospective financial information is of interest to a broad spectrum of parties, including management, present or potential owners of equity interests, credit grantors and other informed third parties, government agencies, and the public.

**.05** This Checklist was prepared to help accountants prepare and present prospective financial statements (financial forecasts and projections). It is also intended to help accountants report on such statements.

**.06** Prospective financial statements are based on assumptions regarding future events. The assumptions are based on a combination of available information and judgment in which both history and plans play a part.

**.07** Because no one can know the future and because prospective financial statements may be affected by many factors internal and external to the entity, judgment must be used to estimate when and how conditions are likely to change. These judgments may subsequently prove not to be representative of future conditions; thus, the ability to achieve expected results and the reliability of prospective financial statements can never be guaranteed.

**.08** Prospective financial information is less amenable to objective verification than historical data. When working with or using prospective information, it is essential to understand its inherent limitations.

### **Structure of the Checklist**

**.09** Although this Checklist covers both financial forecasts and projections, its primary focus is on forecasts because they more closely parallel historical financial statements. Financial forecasts provide a framework for prospective reporting from which principles for financial projections are derived. Thus, this Checklist first presents the principles relating to financial forecasts and then shows how those principles are modified for projections.

.10 The guidance on financial forecasts contained in this Checklist generally also applies to projections. Throughout this Checklist, in instances in which the guidance does not apply (partially or fully) to projections, the reader should refer to the corresponding underlined text and consider the modifications in conjunction with the preceding question(s).

## Relationship to Other Literature

.11 In October of 1985, the Auditing Standards Board issued a Statement on Standards for Accountants' Services on Prospective Financial Information entitled, *Financial Forecasts and Projections*. The AICPA *Guide for Prospective Financial Statements* incorporates the standards contained in that Statement. Accordingly, an accountant who complies with the Guide will also be in compliance with the Statement. This Checklist is derived from the Guide and contains corresponding references to it.

.12 Additionally, this Checklist derives guidance from two documents pertaining to prospective financial statements that were issued subsequent to the issuance of the Guide: Statement of Position No. 89-3, *Questions Concerning Accountants' Services on Prospective Financial Statements* (April 25, 1989), and Statement of Position No. 90-1, *Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations* (January 5, 1990).

.13 The Securities and Exchange Commission permits the publication of prospective financial information under certain conditions and has adopted the general policy of encouraging such publication. The SEC has indicated that companies that include prospective financial information in SEC filings or annual reports should meet certain broad standards and disclosure requirements. In addition, the SEC adopted a rule that essentially provides a safe harbor for statements made by or on behalf of companies that issue prospective information or by an accountant unless such statements were (a) made other than in good faith or (b) disclosed without a reasonable basis. [The SEC Policy on Projections, Guidelines for Disclosure of Projections of Future Economic Performance, and the Safe Harbor Rule for Projections appear in Appendices A through C of the Guide.]

.14 The Department of the Treasury has issued regulations on tax shelter opinions. The regulations provide that when an accountant provides a "tax shelter opinion," he should, when possible, provide an opinion whether or not it is more likely that an investor will prevail on the merits of each material tax issue and provide an overall evaluation of the extent to which the material tax benefits are likely to be realized in the aggregate. Those regulations indicate that when an accountant provides services on prospective financial statements included in tax shelter offering materials, he may be deemed to have issued a tax shelter opinion. [The Treasury Department's regulations in Circular 230 appear in Appendix D of the Guide.]

## General Comments on the Use of a Disclosure Checklist

.15 Although authoritative literature does not require the use of a disclosure checklist, many auditors and accountants find it helpful to use as a practice aid in the preparation of financial statements and reports. The format and content of a disclosure checklist often varies. Some firms have developed their own checklists for internal use and may have also developed 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 accountants other than their own members. Various commercial publishers include checklists in some of their publications.

.16 A disclosure checklist typically consists of a number of concise questions accompanied by references to the appropriate, existing authoritative literature. The extent of detail included in a checklist varies with the judgment of its authors regarding to what extent to refer to and to elaborate on the reference, without developing a checklist that is too long and unwieldy. Accordingly, a checklist may serve as a convenient memory aid, but it cannot be used as a substitute for direct reference to the existing authoritative literature.

.17 A checklist usually makes a provision for checking off or initialling each question to indicate that it has been answered. The format used in this Checklist provides for a "YES," "NO," and "N/A" (not applicable) response. [Remarks may be written in the margins or on a separate, cross-referenced memorandum.]

### **Caveats**

.18 Use of a checklist requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of particular engagements.

.19 A checklist is neither intended to be all-inclusive nor to present minimum requirements.

.20 Users need to modify a checklist for any pronouncements issued subsequent to those from which the checklist is derived.

.21 The terms "examine" and "examination" remain relevant to prospective financial statement engagements. Statement on Auditing Standards No. 58, *Reports on Audited Financial Statements*, does not apply to these engagements.

---

[The next page is 14,201.]

# FSP Section 14,200

## *Prospective Financial Statements' Checklist*

.01 This Checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 The following is an explanation of the references made:

GUD-PRO = AICPA *Prospective Financial Statements Guide*

SSAE = Statements on Standards for Attestation Engagements

(AT) = Reference to the AICPA *Professional Standards* (vol. 1) citing SSAE

SOP = Statement of Position

.03 Checklist Questionnaire

Yes      No      N/A

### I. Preparation and Presentation Guidelines

#### A. Preparation Guidelines

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Was the financial forecast prepared in good faith?  | _____ | _____ | _____ |
| 2. Was the financial forecast prepared with appropriate care by qualified personnel?   | _____ | _____ | _____ |
| 3. Was the financial forecast prepared using appropriate accounting principles?  | _____ | _____ | _____ |
| 4. Did the process used to develop the financial forecast provide for seeking out the best information that was reasonably available at the time?  | _____ | _____ | _____ |
| 5. Was the information used in preparing the financial forecast consistent with the plans of the entity?   | _____ | _____ | _____ |
| 6. Were key factors identified as a basis for the assumptions used?  | _____ | _____ | _____ |
| 7. Were the assumptions used in preparing the financial forecast appropriate?  | _____ | _____ | _____ |
| 8. Did the process used to develop the financial forecast provide the means to determine the relative effect of variations in the major underlying assumptions?                                  | _____ | _____ | _____ |
| 9. Did the process used to develop the financial forecast provide adequate documentation of both the financial forecast and the process used to develop it?                                      | _____ | _____ | _____ |
| 10. Did the process used to develop the financial forecast include, where appropriate, the regular comparison of the financial forecast with attained results?                                   | _____ | _____ | _____ |
| 11. Did the process used to prepare the financial forecast include adequate review and approval by the responsible party at the appropriate level of authority?<br>[GUD-PRO (1986), sec. 300.08] | _____ | _____ | _____ |

#### B. Presentation Guidelines

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Uses of a Financial Forecast   |       |       |       |
| a. If the forecast is for limited use, was it submitted only to those who have the opportunity to negotiate directly with the responsible party?<br>[GUD-PRO (1986), sec. 400.02]                     | _____ | _____ | _____ |
| b. For a projection, is the presentation one of limited use (restricted to those who do not have the opportunity to negotiate directly with the responsible party)?<br>[GUD-PRO (1986), sec. 400.02P] | _____ | _____ | _____ |
| c. In a partial presentation, has the partial presentation and report been restricted to third parties who will be negotiating directly with the responsible party?<br>[SOP 90-1, part II, par. 3]    | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. In a partial presentation, has the responsible party considered whether or not a presentation omitting one or more items required for prospective financial statements will adequately present the information based on its special purpose? [SOP 90-1, part II, par. 4]	_____	_____	_____
<b>2. Responsibility for Financial Forecasts</b>			
a. Did the responsible party consider whether or not it has a reasonably objective basis to present a financial forecast? [GUD-PRO (1986), sec. 400.04]	_____	_____	_____
(1) Did the responsible party consider whether or not sufficiently objective assumptions can be developed for each key factor?	_____	_____	_____
(2) In cases in which the nature of one or more assumptions is so subjective that the responsible party could have no reasonably objective basis to present a financial forecast, was it deemed inappropriate to present a forecast? [GUD-PRO (1986), sec. 400.04]	_____	_____	_____
(3) For a projection, are the hypothetical assumptions consistent with the purpose of the projection?	_____	_____	_____
(4) For a projection, did the responsible party consider that as the hypothetical assumptions increase in number or significance, it may not be appropriate to present a projection? [GUD-PRO (1986), sec. 400.04P]	_____	_____	_____
<b>3. Title</b>			
a. Does the title used for the financial forecast describe the nature of the presentation and include the word "forecast" or "forecasted"? [GUD-PRO (1986), sec. 400.05]	_____	_____	_____
b. For a projection, is the title descriptive of the presentation? [GUD-PRO (1986), sec. 400.05P]	_____	_____	_____
(1) Does it not imply that the presentation is a forecast?	_____	_____	_____
(2) Does it describe or refer to any significant hypothetical assumptions? [GUD-PRO (1986), sec. 400.05P]	_____	_____	_____
<b>4. Format</b>			
a. Is the financial forecast in the format of the historical financial statements that would be issued for the period(s) covered (if there is no agreement between the responsible party and the potential users specifying another format)?	_____	_____	_____
b. Does the financial forecast take the form of complete basic financial statements (whether or not the details of each statement are summarized or condensed, notes are included, but disclosing significant assumptions and accounting policies)? [GUD-PRO (1986), sec. 400.06]	_____	_____	_____
c. Is the financial forecast limited to the minimum items (listed below) that constitute a financial forecast? [GUD-PRO (1986), sec. 400.07]	_____	_____	_____
(1) Does it include (where such items would be presented for historical financial statements for the period(s)):			
(a) Sales or gross revenues?	_____	_____	_____
(b) Gross profit or cost of sales?	_____	_____	_____
(c) Unusual or infrequently occurring items?	_____	_____	_____
(d) Provision for income taxes?	_____	_____	_____
(e) Discontinued operations or extraordinary items?	_____	_____	_____
(f) Income from continuing operations?	_____	_____	_____
(g) Net income?	_____	_____	_____

	Yes	No	N/A
(h) Primary and fully diluted earnings per share?	_____	_____	_____
(i) Significant changes in financial position? <i>Editor's note</i> —This requirement may be met by presenting cash flows.	_____	_____	_____
(j) A description of what the responsible party intends the financial forecast to present, a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared, and a caveat that the forecasted results may not be achieved?	_____	_____	_____
(k) Summary of significant assumptions?	_____	_____	_____
(l) Summary of significant accounting policies? [GUD-PRO (1986), sec. 400.06]	_____	_____	_____
(2) Is any one of the disclosure items j, k, or l above omitted?	_____	_____	_____
(a) If so, is the accountant's report modified to reflect this deficiency? [GUD-PRO (1986), sec. 400.08]	_____	_____	_____
(3) If the presentation omits one or more of the applicable items (in (a) through (i) above) which cannot be derived from the information presented, did the accountant follow the guidance in SOP 90-1? [See sections on partial presentations.]	_____	_____	_____
d. Does each page of the financial forecast contain a statement that directs the reader to the summaries of significant assumptions and accounting policies? [GUD-PRO (1986), sec. 400.10]	_____	_____	_____
<b>5. Date</b>			
a. Is the completion date of the preparation of the financial forecast disclosed?	_____	_____	_____
b. Is the responsible party satisfied that the assumptions are appropriate as of the date of completion even though the underlying information may have been accumulated over a period of time? [GUD-PRO (1986), sec. 400.11]	_____	_____	_____
<b>6. Accounting Principles and Policies</b>			
a. Is the summary of significant accounting policies used in preparing the financial forecast disclosed? [GUD-PRO (1986), sec. 400.12]	_____	_____	_____
b. Was the financial forecast prepared on a basis consistent with the accounting principles expected to be used in the historical financial statements covering the prospective period? [GUD-PRO (1986), sec. 400.13]	_____	_____	_____
c. For a projection, if accounting principles other than those expected to be used in the historical financial statements are used (perhaps due to the special purpose of a presentation requiring such), is the use of the different accounting principles disclosed?	_____	_____	_____
(1) If deemed appropriate, are differences in financial position and results of operations arising from the use of different accounting principles reconciled and disclosed? [GUD-PRO (1986), sec. 400.13P]	_____	_____	_____
d. If the historical financial statements for the prospective period are expected to be prepared on a comprehensive basis of accounting other than generally accepted accounting principles, is the financial forecast prepared on that basis?	_____	_____	_____
(1) Is the specific required information adapted as appropriate for the basis of accounting used?	_____	_____	_____
(2) Is the basis used disclosed along with the fact that the disclosed basis is different from generally accepted accounting principles? [GUD-PRO (1986), sec. 400.14]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. If a different comprehensive basis of accounting is used for the financial forecast than is used for the historical financial statements for the prospective period, is the use of the different basis disclosed?	_____	_____	_____
(1) If deemed appropriate, are differences in results of operations and cash flows resulting from the use of the different basis reconciled in the forecast?	_____	_____	_____
(2) If a detailed reconciliation is not deemed useful (such as for certain tax shelters), is a general description of the differences resulting from the use of the different bases presented? [GUD-PRO (1986), sec. 400.15]	_____	_____	_____
f. If a financial forecast gives effect to a change in accounting principle from one used in prior-period historical financial statements, is the change reported in the financial forecast? [GUD-PRO (1986), sec. 400.16]	_____	_____	_____
<b>7. Materiality</b>			
a. Were the provisions of this section applied to all material items? [GUD-PRO (1986), sec. 400.17]	_____	_____	_____
<b>8. Presentation of Amounts</b>			
a. If the forecast contains a range, was the range not selected in a biased or misleading manner? [GUD-PRO (1986), sec. 400.18]	_____	_____	_____
b. If the forecast contains a range, is the range narrow enough to insure that the presentation is meaningful to users? [GUD-PRO (1986), sec. 400.19]	_____	_____	_____
c. If the financial forecast is supplemented by a financial projection (for the same period or for additional periods) are both the forecast and projection clearly labeled? [GUD-PRO (1986), sec. 400.20]	_____	_____	_____
d. If the presentation is other than a single-point estimate, is there a clear indication that the presentation does not necessarily represent the best or worst possible alternatives? [GUD-PRO (1986), sec. 400.21]	_____	_____	_____
<b>9. Assumptions</b>			
a. Were the significant assumptions disclosed? [GUD-PRO (1986), sec. 400.22]	_____	_____	_____
(1) Was the basis or rationale for the assumptions disclosed? [GUD-PRO (1986), sec. 400.23]	_____	_____	_____
b. Do the assumptions disclosed include:			
(1) Assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results (sensitive assumptions)?	_____	_____	_____
(2) Assumptions about anticipated conditions expected to be significantly different from current conditions which are not otherwise reasonably apparent?	_____	_____	_____
(3) Other matters deemed important to the prospective information or its interpretation? [GUD-PRO (1986), sec. 400.23]	_____	_____	_____
(4) For a projection, did the responsible party identify which assumptions in the projection are hypothetical?	_____	_____	_____
(5) For a projection, if the hypothetical assumptions are improbable, does the above disclosure so indicate? [GUD-PRO (1986, sec. 400.23P)]	_____	_____	_____

**Prospective Financial Statements' Checklist**

**14,205**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Does the presentation indicate which assumptions disclosed appeared particularly sensitive at the time of preparation? [GUD-PRO (1986), sec. 400.24]	_____	_____	_____
d. Has an introduction preceding the summary of assumptions been provided?	_____	_____	_____
(1) Does the introduction:			
(a) Describe what the responsible party intends the financial forecast to present?	_____	_____	_____
(b) Include a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared?	_____	_____	_____
(c) Include a caveat that the prospective results may not be attained? [GUD-PRO (1986), sec. 400.28]	_____	_____	_____
(2) For a projection, does the introduction clearly explain any special purpose and limitation of the usefulness of the prospective financial statements? [GUD-PRO (1986), sec. 400.29P]	_____	_____	_____
<b>10. Period to Be Covered</b>			
a. Did the responsible party consider the needs of the users and its ability to estimate prospective results in determining the period to be covered? [GUD-PRO (1986), sec. 400.32]	_____	_____	_____
b. In industries with a lengthy operating cycle or in situations where long-term results are necessary to evaluate the investment consequences involved and a forecast is presented, is the presentation deemed meaningful?	_____	_____	_____
c. In circumstances where it is impractical to present forecasts for enough future periods to demonstrate the long-term results, does the presentation include a description of the potential effects of such results? [GUD-PRO (1986), sec. 400.33]	_____	_____	_____
<b>11. Distinguishing From Historical Financial Statements</b>			
a. Is the financial forecast clearly labeled to preclude a reader from confusing it with historical financial statements? [GUD-PRO (1986), sec. 400.34]	_____	_____	_____
b. If prior-period information (such as historical results and financial forecasts from prior periods) is presented alongside the financial forecast to facilitate comparison, is the information clearly labeled and distinguished from the financial forecasts? [GUD-PRO (1986), sec. 400.35]	_____	_____	_____
<b>12. Correction and Updating of a Financial Forecast</b>			
a. If the responsible party discovers that an error was made in preparing the financial forecast, did it determine if any users are currently relying or are likely to rely on the forecast?	_____	_____	_____
(1) If so, did the responsible party consider whether or not it is necessary to withdraw the forecast?	_____	_____	_____
(2) If it is necessary to withdraw the forecast, did the responsible party make a reasonable effort to inform any such users that the forecast is no longer to be relied upon?	_____	_____	_____
(3) Where practical, did the responsible party issue a corrected forecast? [GUD-PRO (1986), sec. 400.37]	_____	_____	_____
b. In deciding whether or not to issue an updated financial forecast, did the responsible party consider whether or not users would expect prospective statements to be updated?	_____	_____	_____
(1) If the forecast is updated:			
(a) Was another analysis made of key assumptions?	_____	_____	_____
(b) Was a new financial forecast prepared?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(c) Were the reasons for updating the forecast described in a note to the updated presentation? [GUD-PRO (1986), sec. 400.38]	_____	_____	_____
(2) If the responsible party has decided that an updated forecast is appropriate but cannot be issued promptly, was appropriate disclosure made to persons currently relying or likely to rely on the forecast? [GUD-PRO (1986) sec. 400.40]	_____	_____	_____
(3) If the responsible party decides that the current forecast should no longer be used for any purpose but it is not appropriate to issue an updated forecast, was the decision and the reason for it disclosed to persons currently relying or likely to rely on the forecast? [GUD-PRO (1986), sec. 400.41]	_____	_____	_____
<b>C. Partial Presentations</b>			
1. If a partial presentation was prepared without preparing prospective financial statements, did the responsible party consider key factors affecting elements, accounts, or items of prospective financial statements that are interrelated with those presented?	_____	_____	_____
2. If information in the partial presentation was extracted from the prospective financial statements, have the effects of interrelationships among elements of the prospective financial statements been previously determined? [SOP 90-1, part II, par. 6]	_____	_____	_____
3. Do the titles of the partial presentations clearly describe whether the presentation is of forecasted or of projected information?	_____	_____	_____
4. Do the titles disclose the limited nature of the presentation and specifically not state that the presentation is a "financial forecast" or "financial projection?" [SOP 90-1, part II, par. 7] <i>Editor's note</i> —Examples of appropriate titles are "forecast of production capacity" and "projected operating income assuming a new plant facility."	_____	_____	_____
5. Does the presentation include the disclosure of the significant accounting policies relevant to the information presented and its intended purpose? [SOP 90-1, part II, par. 8]	_____	_____	_____
6. If a different basis of accounting is used for preparing the partial presentation than that expected to be used in preparing the historical financial statements covering the prospective period, were the resultant differences described (not necessarily quantified)? [SOP 90-1 part II, par. 9]	_____	_____	_____
7. Has the materiality concept been applied to the partial presentation taken as a whole? [SOP 90-1, part II, par. 10]	_____	_____	_____
8. Were the significant assumptions (similar to those for a full presentation) disclosed? [SOP 90-1, part II, par. 12]	_____	_____	_____
9. Does the introduction preceding the summary of assumptions for a partial presentation include a description of the purpose of the presentation and any limitations on the usefulness of the presentation? [SOP 90-1, part II, par. 14]	_____	_____	_____
10. Accountant's involvement with partial presentations			
a. Has the accountant who has been engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written partial presentation that is the responsibility of another party examined or applied agreed-upon procedures to the presentation?	_____	_____	_____
b. Did the accountant who compiled, examined, or applied agreed-upon procedures to a partial presentation perform the engagement in accordance with the guidance in part II of the AICPA SOP 90-1 (paragraphs 20 and 21)? [SOP 90-7, part II, par. 16]	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| c. Has the accountant considered whether or not it is appropriate to report on the partial presentation?<br>[SOP 90-1, part II, par. 18. See questions c & d in part II B of this checklist.]  | _____      | _____     | _____      |
| d. If the accountant was engaged to prepare a financial analysis of a potential project where the engagement includes obtaining the information, making appropriate assumptions, and assembling the presentation, was the analysis not characterized as forecasted or projected information? | _____      | _____     | _____      |
| e. Was the above analysis only prepared for general use if the responsible party reviews and adopts the assumptions and presentation?<br>[SOP 90-1, part II, par. 19 and footnote 14. See pars. 3 & 4 of SOP 90-1.]  | _____      | _____     | _____      |

**II. Procedures**

**A. Internal Use Only**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Are the accountant's procedures consistent with the nature of the engagement?<br>[SOP 90-1, part I, par. 3]   | _____ | _____ | _____ |
| 2. When providing other services on a financial forecast for internal use, did the accountant establish an understanding with the client regarding the services to be performed (preferably in writing) and specify in this understanding that the forecast and the report (if any) is not to be distributed to outside users?<br>[SOP 90-1, part I, par. 4] | _____ | _____ | _____ |

**B. Partial Presentations**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Did the accountant give appropriate consideration to whether or not key factors affecting elements, accounts, or items that are interrelated with those in the partial presentation he has been engaged to examine or compile have been considered (including key factors that may not necessarily be obvious from the partial presentation)? | _____ | _____ | _____ |
| 2. Did the accountant consider whether or not all significant assumptions have been disclosed?<br>[SOP 90-1, part II, par. 20]   | _____ | _____ | _____ |
| 3. Did the accountant accept an engagement to apply agreed-upon procedures to a partial presentation only if the specified users involved have participated in establishing the nature and scope of the engagement?  | _____ | _____ | _____ |
| 4. Did the accountant take responsibility for the adequacy of the procedures to be performed?  | _____ | _____ | _____ |
| 5. Was distribution of the report restricted to the specified users involved?  | _____ | _____ | _____ |
| 6. Did the presentation include a summary of significant assumptions?<br>[SOP 90-1, part II, par. 21]  | _____ | _____ | _____ |

**III. Reports**

**A. Reports on Compiled Prospective Financial Statements**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Does the accountant's standard report on a compilation of prospective financial statements include:  |       |       |       |
| a. An identification of the prospective financial statements presented by the responsible party?  | _____ | _____ | _____ |
| b. A statement that the accountant has compiled the prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants?                  | _____ | _____ | _____ |
| c. A statement that a compilation is limited in scope and does not enable the accountant to express an opinion or any other form of assurance on the prospective financial statements or the assumptions? | _____ | _____ | _____ |
| d. A caveat that the prospective results may not be achieved?   | _____ | _____ | _____ |
| e. A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?<br>[AT sec. 200.16]                                | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If the presentation is a projection, does the accountant's report include a separate paragraph describing the limitations on the usefulness of the presentation?	_____	_____	_____
3. If a range is presented, does the accountant's standard report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? [AT sec. 200.19]	_____	_____	_____
4. Was the date of completion of the accountant's compilation procedures used as the date of the report? [AT sec. 200.20]	_____	_____	_____
5. If the accountant has compiled prospective financial statements for an entity with respect to which he is not independent, did he specifically disclose his lack of independence (without describing the reason for the lack of independence) after the last paragraph of the standard compilation report? [AT sec. 200.21]	_____	_____	_____
6. If the historical financial statements that appear elsewhere in the document were summarized and presented with the prospective financial statements for comparative purposes, was a reference to the accountant's report on the historical financial statements made in the concluding sentence of the last paragraph? [AT sec. 200.22]	_____	_____	_____
7. If the accountant expands his report to emphasize a matter, was the information presented in a separate paragraph of the accountant's report?	_____	_____	_____
a. When emphasizing a matter, was the accountant careful not to give the impression that assurance is being expressed or the degree of responsibility was being expanded concerning such information? [AT sec. 200.23]	_____	_____	_____
8. Modifications of the standard compilation report			
a. If the accountant compiled prospective financial statements that contain presentation deficiencies or omit disclosures other than those relating to significant assumptions, is the deficiency or omission clearly indicated in the report (and not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such statements)? [AT sec. 200.24]	_____	_____	_____
b. If the prospective financial statements are presented on a comprehensive basis of accounting other than generally accepted accounting principles and do not include disclosure of the basis of accounting used, is the basis disclosed in the accountant's report? [AT sec. 200.25]	_____	_____	_____
<b>B. Reports on Examined Prospective Financial Statements</b>			
1. Does the accountant's standard report on an examination of prospective financial statements include:			
a. An identification of the prospective financial statements presented?	_____	_____	_____
b. A statement that the examination of the prospective financial statements was made in accordance with AICPA standards and a brief description of the nature of such an examination?	_____	_____	_____
c. The accountant's opinion that the prospective financial statements are presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions?	_____	_____	_____
d. A caveat that the prospective results may not be achieved?	_____	_____	_____
e. A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report? [AT sec. 200.31]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. In the examination of a projection, is the opinion regarding assumptions conditioned on the hypothetical assumptions? [AT sec. 200.33]	_____	_____	_____
a. Does the report include a separate paragraph that describes the limitations on the usefulness of the presentation? [AT sec. 200.34]	_____	_____	_____
3. If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range? [AT sec. 200.34]	_____	_____	_____
4. Is the date of completion of the accountant's examination procedures used as the date of the report? [AT sec. 200.35]	_____	_____	_____
5. Modifications to the accountant's opinion			
a. If, in the accountant's opinion, the prospective financial statements depart from AICPA presentation guidelines, was a qualified or adverse opinion issued?	_____	_____	_____
(1) If the presentation departs from the presentation guidelines because it fails to disclose assumptions that appear to be significant, was an adverse opinion issued?	_____	_____	_____
b. If the accountant believes that one or more significant assumptions do not provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions, was an adverse opinion issued?	_____	_____	_____
c. If the accountant's examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, was an opinion disclaimed and the scope limitation described in the report? [AT sec. 200.36]	_____	_____	_____
d. In a qualified opinion, did the accountant state all of the substantive reasons for modification of the opinion and describe the departure from AICPA presentation guidelines in a separate paragraph of the report?	_____	_____	_____
(1) Does the opinion include the words "except" or "exception" as the qualifying language?	_____	_____	_____
(2) Does the opinion paragraph refer to the separate explanatory paragraph? [AT sec. 200.37]	_____	_____	_____
e. If a measurement departure, an unreasonable assumption, or a limitation on the scope of the accountant's examination has led the accountant to conclude that an unqualified opinion cannot be issued, was an adverse opinion issued or a disclaimer of opinion made? [AT sec. 200.38]	_____	_____	_____
f. In an adverse opinion, did the accountant state all of the substantive reasons for the adverse opinion in a separate paragraph?	_____	_____	_____
(1) Does the opinion state that the presentation is not in conformity with presentation guidelines?	_____	_____	_____
(2) Does the opinion paragraph refer to the explanatory paragraph?	_____	_____	_____
(3) When applicable, does the opinion paragraph state that, in the accountant's opinion, the assumptions do not provide a reasonable basis for the prospective financial statements? [AT sec. 200.39]	_____	_____	_____
g. If the presentation, including the summary of significant assumptions, fails to disclose significant assumptions, did the accountant describe the assumptions in the report and issue an adverse opinion?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. If the presentation omits all disclosures of assumptions, was an examination not made?	_____	_____	_____
i. If a financial projection omits an identification of the hypothetical assumptions or a description of the limitations on the usefulness of the presentation, was an examination not made? [AT sec. 200.40]	_____	_____	_____
j. In a disclaimer of opinion, does the accountant's report indicate in a separate paragraph how the examination did not comply with standards for an examination?	_____	_____	_____
(1) Did the accountant state that the scope of the examination was not sufficient to enable him to express an opinion with respect to the presentation or the underlying assumptions?	_____	_____	_____
(2) Does the disclaimer of opinion paragraph include a direct reference to the explanatory paragraph? [AT sec. 200.41]	_____	_____	_____
(3) If there is a scope limitation and the accountant believes there are material departures from the presentation guidelines, are the departures described in the accountant's report? [AT sec. 200.42]	_____	_____	_____
6. Other modifications to the standard examination report			
a. If the accountant wishes to emphasize a matter regarding the prospective financial statements but intends to issue an unqualified opinion, are the information and comments he wishes to include presented in a separate paragraph of the report? [AT sec. 200.44]	_____	_____	_____
b. When the principal accountant decides to refer to the report of another accountant as a basis, in part, for his own opinion, did he disclose that fact in stating the scope of the examination and refer to the report of the other accountant in expressing his opinion? [AT sec. 200.45]	_____	_____	_____
c. If the prospective financial statements were included in a document that also contains historical financial statements and the accountant's report thereon (or if the historical financial statements that appear in the document were summarized and presented with the prospective financial statements for comparative purposes), was a reference to the accountant's report on the historical financial statements made in the concluding sentences of the last paragraph? [AT sec. 200.46]	_____	_____	_____
d. When the accountant's examination of prospective financial statements is part of a larger engagement (such as a feasibility study or a business acquisition study), was the report expanded to describe the entire engagement? [AT sec. 200.47]	_____	_____	_____
7. Reports on an Examination of a Financial Forecast Contained in a Public Offering Statement [Applies to financial forecasts only.]			
a. Procedures between the date of the accountant's report and effective date in 1933 Act filings.			
(1) Does the report on an examination of a financial forecast indicate that the accountant has no responsibility to update the report for events and circumstances occurring after the date of the report?	_____	_____	_____
(2) Does the accountant have a reasonable basis to consent to the use of his report in a 1933 Act registration statement as of the consent date? [GUD-PRO (1986), sec. 730.03]	_____	_____	_____
(3) Did the accountant perform procedures for the period from the date of his examination report up to the consent date as close to the effective date as is reasonable and practicable in the circumstances?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[GUD-PRO (1986), sec. 730.10]			
(a) Did the accountant read the latest available interim financial statements, operating reports, and any relevant prospective information such as budgets; consider the prospective results in relation to the actual results achieved in the interim period; and inquire whether or not the accounting principles used in the preparation of such information are consistent with the principles used in preparing the forecast?	_____	_____	_____
(b) Did the accountant read the entire prospectus and other pertinent portions of the registration statement and consider that information in relation to the prospective results and the summary of significant assumptions?	_____	_____	_____
(c) Did the accountant inquire of and obtain written representations from the responsible party, including those individuals responsible for matters significant to the financial forecasts, as to whether or not there are any events, plans, or expectations (whether or not reflected or disclosed in the registration statement) that, in its opinion, may require the forecast to be modified, or that should be disclosed in order that the forecast reflect the responsible party's judgment based on present circumstances of the expected conditions and its expected course of action?	_____	_____	_____
(d) Did the accountant read the available minutes of meetings of the board of directors and related committees (or make inquiries of meetings of which no minutes were taken)?	_____	_____	_____
(e) Did the accountant make such additional inquiries or perform such procedures as he considered necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures?	_____	_____	_____
[GUD-PRO (1986), sec. 730.04]			
(4) If the accountant believes that the forecast (including the summary of significant assumptions) should be revised as a result of the above procedures, did he request his client to revise its forecast and, if so engaged, examine the revised forecast?	_____	_____	_____
(5) If the client does not make appropriate revision to the forecast, did the accountant refuse to consent to the use of his report in the registration statement?	_____	_____	_____
[GUD-PRO (1986), sec. 730.05]			
<b>b. The accountant's consent</b>			
(1) Is the accountant's consent to the use of his report and to references to him in the offering material in writing?	_____	_____	_____
(2) Is the accountant's consent for a 1933 Act filing manually signed and dated?	_____	_____	_____
[GUD-PRO (1986), sec. 730.06]			
(3) Is the accountant's consent dated at or near the effective date of the registration statement?	_____	_____	_____
[GUD-PRO (1986), sec. 730.07]			
<b>c. Experts section of 1933 Act filings</b>			
(1) Is the experts section of the registration statement worded so that there is no implication that the forecast has been prepared by the accountant or that the forecast is not the direct responsibility of the responsible party?	_____	_____	_____
[GUD-PRO (1986), sec. 730.09]			
<b>d. Description of additional procedures and comfort letters</b>			
(1) Was no description of additional procedures or any form of assurance based on those procedures included in the report on the forecast or in any document that includes the report?	_____	_____	_____
(2) Was no such description or assurance contained in a letter to underwriters?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Reports on the Results of Applying Agreed-Upon Procedures</b>			
1. Does the accountant's report on the results of applying agreed-upon procedures:			
a. Indicate the prospective financial statements covered by the accountant's report?	_____	_____	_____
b. Indicate that the report is limited in use, intended solely for the specified users, and should not be used by others?	_____	_____	_____
c. Enumerate the procedures performed and refer to conformity with the arrangements made with the specified users?	_____	_____	_____
d. If the agreed-upon procedures are less than those performed in an examination, state that the work performed was less in scope than an examination of prospective financial statements in accordance with AICPA standards and disclaim an opinion on whether or not the presentation of the prospective financial statements is in conformity with AICPA presentation guidelines and on whether or not the underlying assumptions provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions?	_____	_____	_____
e. State the accountant's findings?	_____	_____	_____
f. Include a caveat that the prospective results may not be achieved?	_____	_____	_____
g. State that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report? [AT sec. 200.54]	_____	_____	_____
2. If the accountant so wishes, does the report state that he makes no representation about the sufficiency of the procedures for the specified users' purposes? [AT sec. 200.55]	_____	_____	_____
3. Did the accountant not express any form of negative assurance on the prospective financial statements taken as a whole? [AT sec. 200.56]	_____	_____	_____
<b>D. Reports on Tax Shelter Offering Documents     [Applies to financial forecasts only.]</b>			
1. If it is not clear whether or not the entity is a "tax shelter," did the accountant refer to IRS Regulation 10.33(c)(2)? [GUD-PRO (1986), sec. 510.02 (see also GUD-PRO (1986), Appendix D)]	_____	_____	_____
2. If the accountant was engaged to report on a projection for general use, did he withdraw from the engagement (unless the projection supplements a forecast)?	_____	_____	_____
3. If the accountant was engaged to apply agreed-upon procedures to a financial forecast, was his report on the results restricted to specified users? [GUD-PRO (1986), sec. 510.04]	_____	_____	_____
4. If, in the compilation of a forecast, the accountant relied on the opinion of another practitioner concerning material tax issues, does he have no reason to believe that the Circular 230 standards have not been complied with by the other practitioner? [GUD-PRO (1986), sec. 510.05]	_____	_____	_____
5. Does the tax shelter opinion include an overall evaluation as to whether the material benefits in the aggregate more likely than not will be realized? [GUD-PRO (1986), sec. 510.06]	_____	_____	_____
6. Does the accountant's report disclose any material tax issue not covered by or incorrectly opined upon in the other practitioner's opinion and set forth his own opinion with respect to each issue in a manner that satisfies the Circular 230 requirements?	_____	_____	_____
7. Has the accountant considered adding a reference to such tax opinion utilizing an emphasis-of-matter paragraph in the report? [GUD-PRO (1986), sec. 510.07]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If the accountant believes that the tax opinion rendered by another practitioner does not fully meet the Treasury standards, did he request the responsible party to secure a revised tax opinion or revise the forecast and its underlying assumptions, accordingly? [GUD-PRO (1986), sec. 510.08]	_____	_____	_____
9. If, in an examination engagement, the accountant is unable to satisfy himself about the tax assumptions, did he either render an adverse opinion or disclaim an opinion?	_____	_____	_____
10. If, in a compilation engagement, the accountant believes the tax assumptions to be obviously inappropriate, incomplete, or otherwise misleading, did he withdraw from the engagement? [GUD-PRO (1986), sec. 510.09]	_____	_____	_____
<b>E. Reports on Internal Use Only Prospective Financial Statements</b>			
<i>Editor's note</i> —An accountant can submit a computer-generated or manually prepared forecast to a client without reporting on it when the forecast is for internal use only. [SOP 90-1, part I, par. 5]			
1. If the accountant decides to issue a report and purports to have compiled, examined, or applied agreed-upon procedures to a financial forecast for internal use only in conformity with AICPA standards, did he follow the reporting guidance in sections 620, 720, or 820, respectively, in the Guide? [SOP 90-1, part I, par. 6. See sections IV A, B, and C of this Checklist.]	_____	_____	_____
<i>Editor's note</i> —If the accountant decides to issue a report on other services performed with respect to a forecast for internal use only, the report's form and content are flexible.			
2. If the accountant decides to issue a report on other services with respect to the forecast for internal use only, was the summary of significant assumptions included? [SOP 90-1, part I, par. 6]	_____	_____	_____
a. Is the report addressed to the responsible party? [SOP 90-1, part I, par. 6a]	_____	_____	_____
b. Does the report identify the statements being reported on? [SOP 90-1, part I, par. 6b]	_____	_____	_____
c. Are the character of the work performed and the degree of responsibility taken with respect to the forecast described in the report? [SOP 90-1, part I, par. 6c]	_____	_____	_____
d. Does the report include a caveat that the prospective results may not be achieved? [SOP 90-1, part I, par. 6d]	_____	_____	_____
e. Does the report indicate the restrictions as to the distribution of the financial forecast and report? [SOP 90-1, part I, par. 6e]	_____	_____	_____
f. Is the report dated as of the date of the completion of the procedures? [SOP 90-1, part I, par. 6f]	_____	_____	_____
g. For a projection (in addition to the above), did the report include a description of the limitations on the usefulness of the presentation? [SOP 90-1, part I, par. 6p]	_____	_____	_____
h. Where applicable, does the report:			
(1) Indicate if the accountant is not independent with respect to an entity on whose financial forecast he is providing services? [SOP 90-1, part I, par. 7a]	_____	_____	_____
(2) Describe omitted disclosures that come to his attention or state that there are omissions of disclosures required under the guidelines for presentation of a forecast? [SOP 90-1, part I, par. 7b]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
i. Did the accountant refuse to provide any assurance on a financial forecast of an entity with respect to which he is not independent? [SOP 90-1, part I, par. 7a]	_____	_____	_____
<b>F. Reports on Partial Presentations of Prospective Financial Statements</b>			
<b>1. General</b>			
a. Does the accountant's standard report on the partial presentation include:			
(1) An identification of the partial presentation reported on?	_____	_____	_____
(2) A caveat that the forecasted results may not be achieved?	_____	_____	_____
(3) A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?	_____	_____	_____
(4) A description of any limitations on the usefulness of the presentation? [SOP 90-1, part II, par. 22]	_____	_____	_____
<b>2. For an examination</b>			
a. Does the accountant's standard examination report include:			
(1) A statement that the examination of the partial presentation was made in accordance with AICPA standards and a brief description of the nature of such an examination?	_____	_____	_____
(2) For a forecast, the accountant's opinion that the partial presentation is presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast?	_____	_____	_____
(3) For a projection, the accountant's opinion that the partial presentation is presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the projection given the hypothetical assumptions? [SOP 90-1, part II, par. 22]	_____	_____	_____
<b>3. For an agreed-upon procedures engagement</b>			
a. Does the accountant's standard agreed-upon procedures report include:			
(1) A statement that the report is intended solely for the specified users and should not be used by others?	_____	_____	_____
(2) An enumeration of the procedures performed and a reference to conformity with the arrangements made with the specified users?	_____	_____	_____
(3) If the agreed-upon procedures are less than those performed in an examination, a statement that the work performed was less in scope than an examination of a partial presentation in accordance with AICPA standards?	_____	_____	_____
(4) For a forecast, a disclaimer of opinion on whether or not the presentation is in conformity with AICPA presentation guidelines and on whether or not the underlying assumptions provide a reasonable basis for the forecast?	_____	_____	_____
(5) For a projection, a disclaimer of opinion on whether or not the presentation is in conformity with AICPA presentation guidelines and on whether or not the underlying assumptions provide a reasonable basis for the projection given the hypothetical assumptions?	_____	_____	_____
(6) A statement of the accountant's findings? [SOP 90-1, part II, par. 22]	_____	_____	_____
<i>Editor's note</i> —The accountant may wish to state in his report that he makes no representation about the sufficiency of the procedures for the specified users' purposes.			
<b>4. For a compilation engagement</b>			
a. Does the accountant's standard compilation report include:			

**Prospective Financial Statements' Checklist**

**14,215**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) A statement that the accountant has compiled the partial presentation in accordance with guidelines established by the AICPA?	_____	_____	_____
(2) A statement that a compilation is limited in scope and does not enable the accountant to express an opinion or any other form of assurance on the partial presentation or the assumptions? [SOP 90-1, part II, par. 22]	_____	_____	_____

---

[The next page is 14,301.]

# FSP Section 14,300

## *Illustrative Reports*

### .01 Standard Compilation Report

Forecast (that does not contain a range) <sup>1</sup>

We have compiled the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants.<sup>2</sup>

A compilation is limited to presenting in the form of a forecast information that is the representation of management<sup>3</sup> and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[AT Sec. 200.17]

Projection (that does not contain a range)

We have compiled the accompanying projected balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants.<sup>4</sup>

The accompanying projection and this report were prepared for [*state special purpose, for example, "the DEF National Bank for the purpose of negotiating a loan to expand XYZ Company's plant,"*] and should not be used for any other purpose.

A compilation is limited to presenting in the form of a projection information that is the representation of management and does not include evaluation of the support for the assumptions underlying the projection. We have not examined the projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, even if [*describe hypothetical assumption, for example, "the loan is granted and the plant is expanded,"*] there will usually be differences between the projected and actual results, because events and circumstances frequently do

<sup>1</sup> The forms of reports provided in this section are appropriate whether the presentation is based on generally accepted accounting principles or on another comprehensive basis of accounting.

<sup>2</sup> When the presentation is summarized, this sentence might read "We have compiled the accompanying summarized forecast of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants."

<sup>3</sup> When the responsible party is other than management, the references to management in the standard reports provided in this section should be changed to refer to the party who assumes responsibility for the assumptions.

<sup>4</sup> When the presentation is summarized, this sentence might read "We have compiled the accompanying summarized projection of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants."

not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[AT Sec. 200.18]

**Separate Paragraph To Be Added When the Prospective Financial Statements (a forecast in this example) Contain a Range**

As described in the summary of significant assumptions, management of XYZ Company has elected to portray forecasted *[describe financial statement element or elements for which the expected results of one or more assumptions fall within a range, and identify the assumptions expected to fall within a range, for example, "revenue at the amounts of \$X,XXX and \$Y,YYY, which is predicated upon occupancy rates of XX percent and YY percent of available apartments,"]* rather than as a single point estimate. Accordingly, the accompanying forecast presents forecasted financial position, results of operations, and cash flows *[describe one or more assumptions expected to fall within a range, for example, "at such occupancy rates."]* However, there is no assurance that the actual results will fall within the range of *[describe one or more assumptions expected to fall within a range, for example, "occupancy rates"]* presented.

[AT Sec. 200.19]

**Sentence To Be Added (after last paragraph) When Not Independent of Entity<sup>5</sup>**

We are not independent with respect to XYZ Company.

[AT Sec. 200.21]

**Concluding Sentence of Last Paragraph When Prospective Financial Statements Are Included in a Document Containing Historical Financial Statements and the Accountant's Report Thereon<sup>6</sup> or Condensed Historical Financial Statements<sup>7</sup>**

The historical financial statements for the year ended December 31, 19XX, (from which the historical data are derived) and our report thereon are set forth on pages xx-xx of this document.

[AT Sec. 200.22]

---

<sup>5</sup> In making a judgment about whether he is independent, the accountant should be guided by the AICPA Code of Professional Conduct. Also, see the auditing interpretation "Applicability of Guidance on Reporting When Not Independent" (AU section 9504.19—22).

<sup>6</sup> The accountant's responsibility with respect to those historical financial statements upon which he is not engaged to perform a professional service is described in AU section 504, *Association With Financial Statements*, in the case of public entities, and Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements*, paragraphs 5 through 7 [AR section 100.05—07], in the case of nonpublic entities.

<sup>7</sup> AU section 552, *Reporting on Condensed Financial Statements and Selected Financial Data*, discusses the accountant's report where summarized financial statements are derived from audited statements that are not included in the same document.

**Modifications****Paragraph To Be Added When Prospective Financial Statements (a forecast in this example) Omit the Summary of Significant Accounting Policies**

Management has elected to omit the summary of significant accounting policies required by the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants. If the omitted disclosures were included in the forecast, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows for the forecast period. Accordingly, this forecast is not designed for those who are not informed about such matters.

[AT Sec. 200.26]

**.02 Standard Examination Report <sup>8</sup>****Forecast (that does not contain a range)**

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending.<sup>9</sup> Our examination was made in accordance with standards for an examination of a forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.32]

**Projection (that does not contain a range)**

We have examined the accompanying projected balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending.<sup>10</sup> Our examination was made in accordance with standards for an examination of a projection established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the projection.

The accompanying projection and this report were prepared for [*state special purpose, for example, "the DEF National Bank for the purpose of negotiating a loan to expand XYZ Company's plant,"*] and should not be used for any other purpose.

In our opinion, the accompanying projection is presented in conformity with guidelines for presentation of a projection established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection [*describe the hypothetical assumption, for example, "assuming the granting of the requested loan for the purpose of expanding XYZ Company's plant as described in the summary of significant assumptions"*]. However, even if [*describe hypothetical assumption, for example, "the loan is granted and the plant is expanded,"*] there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no

---

<sup>8</sup> The accountant's report need not comment on the consistency of the application of accounting principles as long as the presentation of any change in accounting principle is in conformity with AICPA presentation guidelines as detailed in the AICPA *Guide for Prospective Financial Statements*.

<sup>9</sup> When the presentation is summarized, this sentence might read "We have examined the accompanying summarized forecast of XYZ Company as of December 31, 19XX, and for the year then ending."

<sup>10</sup> When the presentation is summarized, this sentence might read "We have examined the accompanying summarized projection of XYZ Company as of December 31, 19XX, and for the year then ending."



responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.33]

Separate Paragraph to Be Added When the Prospective Financial Statements (a forecast in this example) Contain a Range

\* \* \*

As described in the summary of significant assumptions, management of XYZ Company has elected to portray forecasted *[describe financial statement element or elements for which the expected results of one or more assumptions fall within a range, and identify assumptions expected to fall within a range, for example, "revenue at the amounts of \$X,XXX and \$Y,YYY, which is predicated upon occupancy rates of XX percent and YY percent of available apartments,"]* rather than as a single point estimate. Accordingly, the accompanying forecast presents forecasted financial position, results of operations and cash flows *[describe one or more assumptions expected to fall within a range, for example, "at such occupancy rates."]* However, there is no assurance that the actual results will fall within the range of *[describe one or more assumptions expected to fall within a range, for example, "occupancy rates"]* presented.

[AT Sec. 200.34]

\* \* \*

## Modifications

### Qualified Opinion

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Our examination was made in accordance with standards for an examination of a forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

The forecast does not disclose reasons for the significant variation in the relationship between income tax expense and pretax accounting income as required by generally accepted accounting principles.

In our opinion, except for the omission of the disclosure of the reasons for the significant variation in the relationship between income tax expense and pretax accounting income as discussed in the preceding paragraph, the accompanying forecast is presented in conformity with guidelines for a presentation of a forecast established by the American Institute of Certified Public Accountants and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.37]

#### Adverse Opinion

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Our examination was made in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

As discussed under the caption "Sales" in the summary of significant forecast assumptions, the forecasted sales include, among other things, revenue from the Company's federal defense contracts continuing at the current level. The Company's present federal defense contracts will expire in March 19XX. No new contracts have been signed and no negotiations are under way for new federal defense contracts. Furthermore, the federal government has entered into contracts with another company to supply the items being manufactured under the Company's present contracts.

In our opinion, the accompanying forecast is not presented in conformity with guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants because management's assumptions, as discussed in the preceding paragraph, do not provide a reasonable basis for management's forecast. We have no responsibility to update this report for events or circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.39]

#### Disclaimer of Opinion

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Except as explained in the following paragraph, our examination was made in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

As discussed under the caption "Income From Investee" in the summary of significant forecast assumptions, the forecast includes income from an equity investee constituting 23 percent of forecasted net income, which is management's estimate of the Company's share of the investee's income to be accrued for 19XX. The investee has not prepared a forecast for the year ending December 31, 19XX, and we were therefore unable to obtain suitable support for this assumption.

Because, as described in the preceding paragraph, we were unable to evaluate management's assumption regarding income from an equity investee and other assumptions that depend thereon, we express no opinion with respect to the presentation of or the assumptions underlying the accompanying forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.41]

**Other Modifications**

**Emphasis of Matter**

[not illustrated]

**Evaluation Based, In Part, on a Report of Another Accountant**

[not illustrated]

**Comparative Historical Financial Information**

[see illustration on page 39]

**Reporting When the Examination is Part of a Larger Engagement (in this example, when an accountant chooses to expand his report on a financial feasibility study)**

**The Board of Directors**

**Example Hospital**

**Example, Texas**

We have prepared a financial feasibility study of Example Hospital's plans to expand and renovate its facilities. The study was undertaken to evaluate the ability of Example Hospital (the Hospital) to meet the Hospital's operating expenses, working capital needs, and other financial requirements, including the debt service requirements associated with the proposed \$25,000,000 [*legal title of bonds*] issue, at an assumed average annual interest rate of 10.0 percent during the five years ending December 31, 19X6.

The proposed capital improvements program (the Program) consists of a new two-level addition, which is to provide fifty additional medical-surgical beds, increasing the complement to 275 beds. In addition, various administrative and support service areas in the present facilities are to be remodeled. The Hospital administration anticipates that construction is to begin June 30, 19X2, and to be completed by December 31, 19X3.

The estimated total cost of the Program is approximately \$30,000,000. It is assumed that the \$25,000,000 of revenue bonds that the Example Hospital Finance Authority proposes to issue would be the primary source of funds for the Program. The responsibility for payment of debt service on the bonds is solely that of the Hospital. Other necessary funds to finance the program are assumed to be provided from the Hospital's funds, from a local fund drive, and from interest earned on funds held by the bond trustee during the construction period.

Our procedures included analysis of—

- Program history, objectives, timing financing.
- The future demand for the Hospital's services, including consideration of—
  - Economic and demographic characteristics of the Hospital's defined service area.
  - Locations, capacities, and competitive information pertaining to other existing and planned area hospitals.
  - Physician support for the Hospital and its programs.
  - Historical utilization levels.

- Planning agency applications and approvals.
- Construction and equipment costs, debt service requirements, and estimated financing costs.
- Staffing patterns and other operating considerations.
- Third-party reimbursement policy and history.
- Revenue/expense/volume relationships.

We also participated in gathering other information, assisted management in identifying and formulating its assumptions, and assembled the accompanying financial forecast based on those assumptions.

The accompanying financial forecast for the annual periods ending December 31, 19X2, through 19X6, is based on assumptions that were provided by or reviewed with and approved by management.

The financial forecast includes—

- Balance sheets.
- Statements of revenues and expenses.
- Statements of cash flows.
- Statements of changes in fund balance.

We have examined the financial forecast. Our examination was made in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

Legislation and regulations at all levels of government have affected and may continue to affect revenues and expenses of hospitals. The financial forecast is based on legislation and regulations currently in effect. If future legislation or regulations related to hospital operations are enacted, such legislation or regulations could have a material effect on future operations.

The interest rate, principal payments, Program costs, and other financing assumptions are described in the section entitled "Summary of Significant Forecast Assumptions and Rationale." If actual interest rates, principal payments, and funding requirements are different from those assumed, the amount of the bond issue and debt service requirements would need to be adjusted accordingly from those indicated in the forecast. If such interest rates, principal payments, and funding requirements are lower than those assumed, such adjustments would not adversely affect the forecast.

Our conclusions are presented below.

- In our opinion, the accompanying financial forecast is presented in conformity with guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants.
- In our opinion, the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

- The accompanying financial forecast indicates that sufficient funds could be generated to meet the Hospital's operating expenses, working capital needs, and other financial requirements, including the debt service requirements associated with the proposed \$25,000,000 bond issue, during the forecast periods. However, the achievement of any financial forecast is dependent on future events, the occurrence of which cannot be assured.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.48]

**.03 Agreed-Upon Procedures Report****Exhibit A**

Board of Directors—XYZ Corporation

Board of Directors—ABC Company

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the forecasted balance sheet, statements of income, retained earnings and cash flows of DEF Company, a subsidiary of ABC Company, as of December 31, 19XX, and for the year then ending. These procedures, which were specified by the Boards of Directors of XYZ Corporation and ABC Company, were performed solely to assist you in connection with the proposed sale of DEF Company to XYZ Corporation. It is understood that this report is solely for your information and should not be used by those who did not participate in determining the procedures.

- a. With respect to forecasted rental income, we compared the assumptions about expected demand for rental of the housing units to demand for similar housing units at similar rental prices in the city area in which DEF Company's housing units are located.
- b. We tested the forecast for mathematical accuracy.

Because the procedures described above do not constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that rental income should be adjusted or that the forecast is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.57]

**Exhibit B**

ABC Trustee

XYZ Company

At your request, we performed the agreed-upon procedures enumerated below with respect to the forecasted balance sheet, statements of income, retained earnings and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. These procedures, which were specified by ABC Trustee and XYZ Company, were performed solely to assist you, and this report is solely for your information and should not be used by those who did not participate in determining the procedures.

- a. We assisted the management of XYZ Company in assembling the prospective financial statements.
- b. We read the prospective financial statements for compliance in regard to format with the presentation guidelines established by the American Institute of Certified Public Accountants for presentation for a forecast.
- c. We tested the forecast for mathematical accuracy.

Because the procedures described above do not constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the format of the forecast should be modified or that the forecast is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.57]

#### Modifications

#### When the Summaries of Significant Assumptions and Accounting Policies Have Been Omitted

\* \* \*

The accompanying budgeted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the six months then ending, have not been compiled or examined by us, and, accordingly, we do not express an opinion or any other form of assurance on them.

Management has elected to omit the summaries of significant assumptions and accounting policies required under established guidelines for presentation of prospective financial statements. If the omitted summaries were included in the budgeted information, they might influence the user's conclusions about the company's budgeted information. Accordingly, this budgeted information is not designed for those who are not informed about such matters.

[AT Sec. 200.58]

\* \* \*

**.04 Internal Use Only***Compilation Report***Forecast**

To Mr. John Doe, President

XYZ Company

We have assembled, from information provided by management, the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows and summaries of significant assumptions and accounting policies of XYZ Company as of December 31, 19XX, and for the year then ending. (This financial forecast omits the summary of significant accounting policies.)<sup>11</sup> We have not compiled or examined the financial forecast and express no assurance of any kind on it. Further, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying forecast are restricted to internal use and may not be shown to any third party for any purpose.

[Date]

[SOP 90-1, part I, par. 8]

**Projection**

To Mr. John Doe, President

XYZ Company

We have assembled, from information provided by management, the accompanying projected balance sheet, statements of income, retained earnings, and cash flows and summaries of significant assumptions and accounting policies of XYZ Company as of December 31, 19XX, and for the year then ending. (This financial projection omits the summary of significant accounting policies.)<sup>12</sup> The accompanying projection and this report were prepared for [state special purpose, for example, "presentation to the Board of Directors of XYZ Company for its considerations as to whether to add a third operating shift"] and should not be used for any other purpose. We have not compiled or examined the financial projection and express no assurance of any kind on it. Further, even if [state hypothetical assumption, for example, "the third operating shift is added"] there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying projection are restricted to internal use and may not be shown to any third party for any purpose.

[Date]

[SOP 90-1, part I, par. 8P]

---

<sup>11</sup> This sentence would be included, if applicable.

<sup>12</sup> Ibid.



**.05 Partial Presentations***Compilation Report*<sup>13 14</sup>**Forecast**

We have compiled the accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of AAA Hotel for the year ending December 31, 19X1 (the forecasted statement) in accordance with standards established by the American Institute of Certified Public Accountants.

The accompanying forecasted statement presents, to the best of management's knowledge and belief, the net operating income before debt service, depreciation, and income taxes of AAA Hotel for the forecast period. It is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report were prepared for the ABC Bank for the purpose of negotiating a proposed construction loan to be used to finance expansion of the hotel and should not be used for any other purpose.

A compilation is limited to presenting forecasted information that is the representation of management and does not include evaluation of the support for the assumptions underlying such information. We have not examined the forecasted statement and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement or assumptions. Furthermore, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]

**Projection**

We have compiled the accompanying sales projection of XYZ Company for each of the three years in the period ending December 31, 19X1 in accordance with standards established by the American Institute of Certified Public Accountants.

The accompanying sales projection presents, to the best of management's knowledge and belief, the Company's expected sales during the projection period that would result if the Company achieved a 15 percent market share of the electric toaster market, as disclosed in items b and c of the summary of significant assumptions. The sales projection and this report were prepared for presentation to the Board of Directors of XYZ Company for its consideration of what sales would be if a 15 percent market share of the electric toaster market were attained and should not be used for any other purpose.

A compilation is limited to presenting projected information that is the representation of management and does not include evaluation of the support for the assumptions underlying such information. We have not examined the sales projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying sales projection or

---

<sup>13</sup> The accountant may wish to state in his report that he makes no representation about the sufficiency of the procedures for the specified users' purposes.

<sup>14</sup> These forms of reports are appropriate whether the presentation is based on generally accepted accounting principles or on another comprehensive basis of accounting.

assumptions. Furthermore, even if the Company attained the 15 percent market share of the electric toaster market, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]

### *Examination Report*

#### Forecast

We have examined the accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of the AAA Hotel for the year ending December 31, 19X1 (the forecasted statement). Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasted statement.

The accompanying forecasted statement presents, to the best of management's knowledge and belief, the expected net operating income before debt service, depreciation, and income taxes of AAA Hotel for the forecast period. It is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report were prepared for ABC Bank for the purpose of negotiating a proposed construction loan to be used to finance expansion of the hotel and should not be used for any other purpose.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecasted statement. However, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]

#### Projection

We have examined the accompanying sales projection of XYZ Company for each of the years in the three year period ending December 31, 19X1. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasted statement.

The accompanying sales projection presents, to the best of management's knowledge and belief, the Company's expected sales during the projection period that would result if the Company achieved a 15 percent market share of the electric toaster market, as disclosed in items b and c of the summary of significant assumptions. The sales projection and this report were prepared for presentation to the Board of Directors of XYZ Company for its

consideration of what sales would be if a 15 percent market share of the electric toaster market were attained and should not be used for any other purpose.

In our opinion, the sales projection referred to above is presented in conformity with the guidelines for a presentation of projected information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection of expected sales during the period assuming the Company were to achieve a 15 percent market share of the electric toaster market. However, even if the Company achieves a 15 percent market share, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]

### *Agreed-Upon Procedures Report*

#### Forecast

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the sales forecast of XYZ Company for the year ending December 31, 19X1. These procedures, which were specified by the Board of Directors of XYZ Company, were performed solely to assist you, and this report is solely for your information and should not be used by those who did not participate in determining the procedures.

- a. We assisted the management of XYZ Company in assembling the sales forecast.
- b. We read the sales forecast for compliance in regard to format with the AICPA guidelines for a partial presentation of forecasted information.
- c. We tested the sales forecast for mathematical accuracy.

Because the procedures described above do not constitute an examination of a presentation of prospective financial information in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the presentation is presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the format of the sales forecast should be modified or that the presentation is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the sales forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]

---

# FSP Section 14,400

## *Illustrative Prospective Financial Statements*

**.01 Editor's note**—This section illustrates prospective financial statements presented in conformity with the presentation guidelines in section 400 of the AICPA *Guide for Prospective Financial Statements* as amended by SOP 89-3 and SOP 90-1. The examples presented in this section were designed to illustrate forecasts and projections presented as full and minimum presentations, the use of different bases of accounting, the use of a range, and partial presentations. The unique features of each presentation are described below:

- a. Exhibits 1 and 2 are financial forecasts for a manufacturing or commercial entity. Although the preferable presentation of prospective financial statements ordinarily consists of a complete set of statements (similar to the entity's historical financial statements) as shown in Exhibit 1, a presentation may be limited to the applicable minimum items as shown in Exhibit 2.
- b. Exhibit 3 illustrates a financial forecast presented on the tax basis of accounting typically used for limited partnership ventures. Such ventures do not normally prepare financial statements on other than a tax basis and, accordingly, the minimum presentation items were adapted to coincide with a tax-basis presentation. This Exhibit also includes disclosure of the potential tax consequences if the property were to be sold at the end of the forecast period as an aid to users in evaluating long-term investment consequences, because the forecast does not extend to the period in which the property is expected to be sold.
- c. Exhibit 4 illustrates a financial forecast expressed in the form of a range representing two scenarios: one, a continued downturn in the economy, and the other, the beginning of recovery in the economy.
- d. Exhibit 5 depicts a financial projection. The example shown is a cash-flow projection that assumes the construction of an additional plant. Because of the hypothetical assumption (the construction of the plant), the presentation can be expected to be useful only to the responsible party and the party with whom the entity is dealing directly in regard to the construction or financing of the plant. This Exhibit also renders a reconciliation from net income using the accrual method of accounting (which is to be used to prepare the historical financial statements for the prospective period) to net increase (decrease) in cash as specified in section 400.15 of the Guide.
- e. Exhibits 6a and 6b illustrate partial presentations which are in conformity with the Guide, as amended by SOP 90-1 (although other formats could also be consistent with same). Exhibit 6a illustrates a sales forecast prepared for the purpose of negotiating a retail company's lease override provisions. Exhibit 6b illustrates a forecasted statement of net operating income before debt service and depreciation in connection with the contemplated construction of a new sports arena.

**.02** As previously stated, the illustrations presented are consistent with the guidance in section 400 of the Guide, as amended by SOP 89-3 and SOP 90-1, although other presentation formats could also be consistent. For instance, although all of the examples present the summary of significant assumptions and accounting policies after the presentation of prospective amounts, it would also be appropriate to present them first. Further, it may be appropriate to present them in a less formal manner than illustrated, such as computer printed output (indicating data and relationships) from "electronic spreadsheet" and general purpose financial modeling software, as long as the responsible party believes that the disclosures and assumptions can be understood by the users. The appropriateness of any format depends upon individual circumstances.

**.03** In each of the exhibits, the requirement in section 400 of the Guide to disclose significant changes in financial position is accomplished by presenting a statement of cash flows and its related note disclosures in accordance with SFAS No. 95, *Statement of Cash Flows*.

## EXHIBIT 1

## XYZ COMPANY, INC.

.04

## Forecasted Statement of Income and Retained Earnings

Year Ending December 31, 19X3

(in thousands except per-share amounts)

	<i>Forecasted</i>	<i>Comparative Historical Information</i>	
	<u>19X3</u>	<u>19X2</u>	<u>19X1</u>
Net sales .....	\$101,200	\$91,449	\$79,871
Cost of sales .....	77,500	70,140	60,463
Gross profit .....	23,700	21,309	19,408
Selling, general, and administrative expenses .....	15,100	13,143	11,014
Operating income .....	8,600	8,166	8,394
Other income (deductions):			
Miscellaneous .....	1,700	964	(308)
Interest expense .....	(2,400)	(1,914)	(1,943)
	(700)	(950)	(2,251)
Income before income taxes .....	7,900	7,216	6,143
Income taxes .....	3,400	3,267	2,929
Net income .....	4,500	3,949	3,214
Retained earnings at beginning of year .....	10,500	7,803	5,543
Dividend			
(per share 19X3: \$1.50; 19X2: \$1.35; 19X1: \$1.00) .....	(1,400)	(1,288)	(954)
Retained earnings at end of year .....	<u>\$ 13,600</u>	<u>\$10,464</u>	<u>\$ 7,803</u>
Earnings per share .....	<u>\$ 4.73</u>	<u>\$ 4.14</u>	<u>\$ 3.37</u>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

EXHIBIT 1—Continued

XYZ COMPANY, INC.

.05

Forecasted Statement of Cash Flows

Year Ending December 31, 19X3

(in thousands)

[not illustrated]

## EXHIBIT 1—Continued

## XYZ COMPANY, INC.

.06

## Forecasted Balance Sheet

December 31, 19X3

(in thousands)

	<i>Forecasted</i>	<i>Comparative</i>	
	<u>19X3</u>	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>			
<b>Current assets:</b>			
Cash .....	\$ 3,300	\$ 1,862	\$ 2,196
Accounts receivable (net) .....	14,900	12,438	11,008
Inventory .....	27,000	26,932	22,937
Other .....	3,500	1,813	1,463
<b>Total current assets</b> .....	<u>48,700</u>	<u>43,045</u>	<u>37,604</u>
Property, plant, and equipment .....	30,900	26,915	22,832
Less accumulated depreciation .....	17,300	14,912	11,314
<b>Net property, plant, and equipment</b> .....	<u>13,600</u>	<u>12,003</u>	<u>11,518</u>
Other assets .....	5,000	2,714	2,114
	<u><u>\$ 67,300</u></u>	<u><u>\$57,762</u></u>	<u><u>\$51,236</u></u>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities:</b>			
Notes payable to bank .....	\$ 4,600	\$ 3,100	\$ 3,000
Accounts payable and accrued expenses .....	12,300	11,193	9,497
Current installments of long-term debt .....	4,400	3,968	3,010
Other .....	900	925	114
<b>Total current liabilities</b> .....	<u>22,200</u>	<u>19,186</u>	<u>15,621</u>
Long-term debt, excluding current installments .....	20,100	16,700	16,400
<b>Stockholders' equity:</b>			
Capital stock .....	11,400	11,412	11,412
Retained earnings .....	13,600	10,464	7,803
<b>Total stockholders' equity</b> .....	<u>25,000</u>	<u>21,876</u>	<u>19,215</u>
	<u><u>\$ 67,300</u></u>	<u><u>\$57,762</u></u>	<u><u>\$51,236</u></u>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

[Exhibit 1 presents one format for prospective financial statements. However, a more summarized presentation may be given. Following is a summarized presentation that could be used in lieu of the preceding exhibit.]

EXHIBIT 2

XYZ COMPANY, INC.

.07

**Summarized Financial Forecast**  
**Year Ending December 31, 19X3**  
**(in thousands except per-share amounts)**

	<i>Forecasted</i> <u>19X3</u>	<i>Comparative</i> <i>Historical Information*</i>	
		<u>19X2</u>	<u>19X1</u>
Sales .....	\$101,200	\$91,449	\$79,871
Gross profit .....	23,700	21,309	19,408
Income tax expense .....	3,400	3,267	2,929
Net income .....	4,500	3,949	3,214
Earnings per share .....	4.73	4.14	3.37
Significant anticipated cash flows:			
Cash provided by operations .....	4,100	3,103	4,426
Net increase (decrease) in long-term borrowings .....	3,400	300	(300)
Dividend (per share 19X3: \$1.50; 19X2: \$1.35; 19X1: \$1.00) .....	1,400	1,288	954
Additions to plant and equipment .....	4,400	2,907	2,114
Increase (decrease) in cash .....	1,400	(334)	1,017

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

\* Comparative historical information is not part of the minimum presentation of Exhibit 1 or Exhibit 2.



## EXHIBIT 2—Continued

## XYZ COMPANY, INC.

**.06 Summary of Significant Forecast Assumptions and Accounting Policies****Year Ending December 31, 19X3**

This financial forecast presents, to the best of management's knowledge and belief, the Company's expected financial position, results of operations, and cash flows for the forecast period.<sup>1</sup> Accordingly, the forecast reflects its judgment as of February 17, 19X3, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. The comparative historical information for 19X1 and 19X2 is extracted from the Company's financial statements for those years. Those financial statements should be read for additional information.

**a. Summary of Significant Accounting Policies. (not illustrated)**

**b. Sales.** The overall market for the Company's products has grown over the past five years at an average rate of 2 percent above the actual increase in gross national product, and the Company's market share has remained steady at 14 to 16 percent. Based on a recent market study of demand for the Company's products, sales are forecasted to increase 11 percent from 19X2 (which is 2 percent above the Department of Commerce Bureau of Economic Analysis estimate of the rise in gross national product in the forecast period), with a market share of 15 percent and unit price increased to cover a significant portion of forecasted increases in cost of manufacturing.

**c. Cost of Sales**

**Materials.** Materials used by the Company are expected to be readily available, and the Company has generally used producer associations' estimates of prices in the forecast period to forecast material costs. The price for copper, a major raw material in the Company's products, recently has been disrupted by political events in certain principal producer countries. As a result, industry estimates of copper prices in the forecast period range from 15 to 30 percent above 19X2 prices. The Company expects to be able to assure sufficient supplies and estimates that the cost of copper will increase by 22 percent over 19X2. However, due to the uncertainties noted above, the realization of the forecast is particularly sensitive to the actual price increase. A variation of five percentage points in the actual increase above or below the assumed increase would affect forecasted net earnings by approximately \$485,000.

**Labor.** The Company's labor union contract, which covers substantially all manufacturing personnel, was negotiated in 19X2 for a three-year period. Labor costs are forecasted based upon the terms of that contract.

**d. Plant and Equipment and Depreciation Expense.** Forecasted additions to plant and equipment, \$4.4 million, comprise principally the regular periodic replacement of manufacturing plant and vehicles at suppliers' quoted estimated prices and do not involve a significant change in manufacturing capacity or processes. Depreciation is forecasted on an item-by-item basis.

**e. Selling, General, and Administrative Expenses.** The principal types of expense within this category are salaries, transportation costs, and sales promotion. Salaries are forecasted on an individual-by-individual basis, using expected salary rates in the forecast period. Transportation costs comprise principally the use of

---

<sup>1</sup> For the presentation illustrated in exhibit 2, this would read "... summary of the Company's expected results of operations and cash flows..."

contract carriers; volume is forecasted based upon the sales and inventory forecasts (including forecasts by sales outlet), and rates are forecasted to rise by 16 percent over 19X2, based upon trucking industry forecasts. Sales promotion costs are expected to increase by approximately 14 percent above the level of 19X2 in order to meet increased competition and maintain market share. The level of other expenses is expected to remain the same as in 19X2, adjusted for expected increases in line with the consumer price index (assumed to rise 9 percent on the mean of *[several widely used estimates]*).

- f. **Miscellaneous Income.** The forecast assumes royalty income of \$950,000 will be received based on an agreement under which the Company is to receive a minimum of \$950,000 for the first 10,000,000 units produced under its patented die casting process and \$.05/unit above that level. Management believes it is unlikely that production will exceed 10,000,000 units. The balance of miscellaneous income is assumed to come from investment of excess cash and other sources.
- g. **Bank Borrowings and Interest Expenses.** The forecast assumes that the Company will obtain an extension of existing short-term lines of credit at terms comparable to those in effect in 19X2 (2 percent over prime rate). The Company used the arithmetic mean of *[three widely used estimates]* of bank prime rate during the forecast period (ranging from 12 percent to 14 percent) to estimate prime rate at 13 percent. However, because of recent volatility in the financial markets, short-term interest rates have been very unstable, ranging from 12 percent to 17 percent during 19X2.

The Company has forecasted additional long-term borrowings of \$6 million and has entered into preliminary negotiations with its bankers for this financing. The borrowings are principally to fund purchases of plant and equipment and additions to other long-term assets and will be secured by such additions. Based upon the preliminary negotiations, the Company has assumed that the additional long-term financing will bear interest at 14 percent.

- h. **Income Taxes.** The provision for income taxes is computed using the statutory rates in effect during 19X2, which are not expected to change, and assuming investment tax credit on qualifying investments at rates in effect in 19X2.
- i. **Dividend.** The Company's normal dividend policy is to pay out the previous year's dividend increased to the extent of at least one-third of any increase in profits over the previous year, provided the board of directors considers that the Company's cash and working capital position will not be adversely affected. The dividend has been forecasted at \$1.50 per share, assuming an increased payout over 19X2 of one-third of the excess of forecasted net earnings for the year ending December 31, 19X3, above those of 19X2.

## EXHIBIT 3

## DEF ASSOCIATES, LTD.

(A Limited Partnership)

**.09 Statement of Forecasted Taxable Income (Loss) Eight Years Ending December 31, 19X8**

	<u>Reference</u>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	<u>19X6</u>	<u>19X7</u>	<u>19X8</u>
Rental income .....	d	\$ —	\$ 105,000	\$ 378,000	\$ 438,165	\$ 468,837	\$ 501,655	\$ 536,771	\$ 574,345
<b>Expenses</b>									
Preoccupancy rental and advertising expenses ..	e	7,000	33,800	—	—	—	—	—	—
Operating expenses .....	f	—	46,216	133,596	144,426	149,947	155,854	162,175	168,938
Mortgage interest .....	h	—	83,950	172,003	185,500	183,000	180,000	176,800	173,310
Amortization of construction period interest and taxes .....	e	1,765	22,865	22,865	22,865	22,865	22,865	22,865	22,865
Depreciation .....	g	—	41,898	100,556	100,556	100,556	100,556	100,556	100,556
<b>Total expenses .....</b>		<b>8,765</b>	<b>228,729</b>	<b>429,020</b>	<b>453,347</b>	<b>456,368</b>	<b>459,275</b>	<b>462,396</b>	<b>465,669</b>
<b>Taxable income (loss) for year .....</b>		<b>(8,765)</b>	<b>(123,729)</b>	<b>(51,020)</b>	<b>(15,182)</b>	<b>12,469</b>	<b>42,380</b>	<b>74,375</b>	<b>108,676</b>
Percentage of interest of limited partners .....	c	95%	95%	95%	95%	95%	95%	95%	95%
Limited partners' share of taxable income (loss) ....		<u>\$(8,327)</u>	<u>\$(117,543)</u>	<u>\$(48,469)</u>	<u>\$(14,423)</u>	<u>\$ 11,846</u>	<u>\$ 40,261</u>	<u>\$ 70,656</u>	<u>\$ 103,242</u>
Cumulative .....		<u>\$(8,327)</u>	<u>\$(125,870)</u>	<u>\$(174,339)</u>	<u>\$(188,762)</u>	<u>\$(176,916)</u>	<u>\$(136,655)</u>	<u>\$(65,655)</u>	<u>\$ 37,243</u>

EXHIBIT 3—Continued

DEF ASSOCIATES, LTD.

(A Limited Partnership)

.10 Statement of Forecasted Sources and Uses of Cash Eight Years Ending December 31, 19X8

	<i>Reference</i>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	<u>19X6</u>	<u>19X7</u>	<u>19X8</u>
<b>Sources of cash</b>									
Investment of general partner . . . . .		\$20,000	\$ 30,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Investment by limited partners . . . . .	b	500,000	—	—	—	—	—	—	—
Outside financing . . . . .	h	129,000	1,421,000	—	—	—	—	—	—
		<u>649,000</u>	<u>1,451,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Cash from operations</b>									
Taxable income (loss) . . . . .		(8,765)	(123,729)	(51,020)	(15,182)	12,469	42,380	74,375	108,676
<b>Add:</b>									
Amortization of construction period interest and taxes . . . . .	e	1,765	22,865	22,865	22,865	22,865	22,865	22,865	22,865
Depreciation . . . . .	g	—	41,898	100,556	100,556	100,556	100,556	100,556	100,556
Cash from operations . . . . .		<u>(7,000)</u>	<u>(58,966)</u>	<u>72,401</u>	<u>108,239</u>	<u>135,890</u>	<u>165,801</u>	<u>197,796</u>	<u>232,097</u>
<b>Total sources</b> . . . . .		<u>642,000</u>	<u>1,392,034</u>	<u>72,401</u>	<u>108,239</u>	<u>135,890</u>	<u>165,801</u>	<u>197,796</u>	<u>232,097</u>
<b>Uses of cash</b>									
Syndication costs . . . . .		21,500	—	—	—	—	—	—	—
Construction costs . . . . .		587,850	1,192,150	30,000	—	—	—	—	—
Construction period interest and taxes . . . . .	e	17,650	211,000	—	—	—	—	—	—
Repayment of mortgage principal . . . . .	h	—	—	14,862	18,355	20,888	23,771	27,055	30,588
Distributions to limited partners . . . . .	c	—	—	24,474	89,884	115,002	142,030	128,610	—
Initial return . . . . .		—	—	—	—	—	—	27,386	130,981
After initial return . . . . .		—	—	—	—	—	—	14,745	70,528
Distributions to general partner . . . . .	c	—	—	—	—	—	—	—	—
<b>Total uses</b> . . . . .		<u>627,000</u>	<u>1,403,150</u>	<u>69,336</u>	<u>108,239</u>	<u>135,890</u>	<u>165,801</u>	<u>197,796</u>	<u>232,097</u>
<b>Change in cash</b> . . . . .		15,000	(11,116)	3,065	—	—	—	—	—
Cash balance, beginning of year . . . . .		—	15,000	3,884	6,949	6,949	6,949	6,949	6,949
Cash balance, end of year . . . . .		<u>\$15,000</u>	<u>\$ 3,884</u>	<u>\$ 6,949</u>	<u>\$ 6,949</u>	<u>\$ 6,949</u>	<u>\$ 6,949</u>	<u>\$ 6,949</u>	<u>\$ 6,949</u>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

## EXHIBIT 3—Continued

## DEF ASSOCIATES, LTD.

(A Limited Partnership)

**.11 Forecasted Statement of Allocation of Limited Partner Interest Per \$5,000 Unit and Presentation of Tax Effects Assuming a 50% Tax Bracket**

Eight Years Ending December 31, 19X8

	<u>Reference</u>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	<u>19X6</u>	<u>19X7</u>	<u>19X8</u>
Limited partner investment per unit . . . . .	b	\$ 5,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Share of taxable income (loss) . . . . .	c	\$ (83)	\$(1,175)	\$ (485)	\$ (144)	\$ 118	\$ 403	\$ 707	\$ 1,032
Assumed tax bracket . . . . .	i	50%	50%	50%	50%	50%	50%	50%	50%
Tax benefit (cost) . . . . .		42	588	242	72	(59)	(201)	(353)	(516)
Cash distributions . . . . .	c	—	—	245	899	1,150	1,420	1,560	1,310
Total tax benefits and cash distributions . . . . .		\$ 42	\$ 588	\$ 487	\$ 971	\$ 1,091	\$ 1,219	\$ 1,207	\$ 794
Cumulative cash flow . . . . .		\$(4,958)	\$(4,370)	\$(3,883)	\$(2,912)	\$(1,821)	\$ (602)	\$ 605	\$ 1,399
Cumulative taxable income (loss) . . . . .		\$ (83)	\$(1,258)	\$(1,743)	\$(1,887)	\$(1,769)	\$(1,366)	(659)	373

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

## EXHIBIT 3—Continued

## DEF ASSOCIATES, LTD.

**.12 Summary of Significant Forecast Assumptions and Accounting Policies****Eight Years Ending December 31, 19X8**

This financial forecast presents, to the best of management's knowledge and belief, the Partnership's expected results of operations and sources and uses of cash for the forecast period presented on the tax basis of accounting. Accordingly, the forecast reflects its judgment as of June 30, 19X1, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

The body of tax law is in a continuous state of change. Accordingly, there could be developments, statutory or otherwise, that would alter the forecast. Because transactions are susceptible to varying interpretations under income tax law, rulings, and regulations, the Internal Revenue Service may not concur with the determinations of the factual issues and the interpretations of existing law, rulings, and regulations that served as the basis for the assumptions used by management to prepare the forecast. Such differences might alter the forecast. (See other comments on this subject on pages aa-bb of this offering memorandum.)

- a. **Summary of Significant Accounting Policies.** (not illustrated)
- b. **Description of the Project.** The proposed development, DEF Gardens, is a seventy-unit apartment complex to be constructed on an eight-and-one-quarter acre residentially zoned parcel of land in Phoenix, Arizona, to be leased from the General Partner (see note f). Construction of the development is anticipated to begin on July 15, 19X1, and be completed by August 1, 19X2, (see note e). Equity financing is proposed to be obtained from the sale of 100 limited partnership units at \$5,000 per unit in July 19X1. The proceeds from the sale, together with anticipated bank financing, are expected to provide the necessary funding requirements for the project (see note h).
- c. **Allocation of Income, Losses, and Cash Distributions.** The Partnership Agreement provides that the limited partners (as a group) are to (1) share in 95 percent of the Partnership's net income or loss, and (2) receive 100 percent of all cash distributions from operations until such time as the limited partners have received back their original investments. Thereafter, all distributions are to be allocated 65 percent to the limited partners (as a group) and 35 percent to the General Partner, including distributions, if any, on the refinancing, sale, or disposition of the partnership properties. Cash available for distributions will be reserved to the extent necessary to provide for normal operating needs. The initial cash distribution is forecasted to occur in 19X3 and annually thereafter.

Income or losses of the Partnership for a year are allocable to the partners pro rata to the portions of the year in which the respective partners were members of the Partnership. The forecast of the allocation of the net loss to be sustained for the year 19X2 is based on the assumption that all limited partners will acquire their interest in the partnership as of July 1, 19X1.

- d. **Rental Income.** Rental income is based upon the General Partner's estimates that the apartment building will be available for occupancy on or before August 1, 19X2, and the number of units occupied, average rent per unit, and percentage occupancy will be as follows.

## Prospective Financial Statements

	8/1/X2 to 12/31/X2	19X3	19X4	19X5	19X6	19X7	19X8
Average number of units occupied .....	40	60	65	65	65	65	65
Average monthly rental per unit .....	\$525	\$525	\$562	\$601	\$643	\$688	\$735
Average percentage .....	57%	86%	93%	93%	93%	93%	93%

The average monthly rental per unit is forecasted to increase 7 percent per year from 19X4 through 19X8 based upon the most recent experience in the area. Occupancy percentage is based upon the General Partner's consideration of demand for the forecast period and is consistent with percentages currently obtained in similar apartment complexes managed by the General Partner. For each 30-day period subsequent to August 2, 19X2, that occupancy is delayed, if any, rental income for 19X2 will be reduced by approximately \$21,000.

- e. **Construction Period Expenses.** Expenses expected to be incurred during the construction period (July 15, 19X1, to August 1, 19X2) consist of the following:

	19X1	19X2
Interest on construction loan .....	\$16,900	\$203,000
Real estate taxes .....	750	8,000
Amortizable over 10 years .....	\$17,650	\$ 211,00
Rental and advertising expenses .....	\$ 7,000	\$ 33,800

Such expenses are based upon the General Partner's most recent experience in similar apartment complexes in the area. Interest on the construction loan and real estate taxes incurred during the construction period will be amortized on a straight-line basis over ten years, in accordance with IRS regulations. For each thirty-day period subsequent to August 2, 19X2, that construction continues, construction period expenses for 19X2 (primarily interest) will increase by approximately \$25,000.

- f. **Operating Expenses.** Annual expenses for the operating of the Partnership's property are based on the General Partner's experience in similar apartment complexes. Operating expenses include salaries for the apartment manager, repairs and maintenance, cleaning, insurance, real estate taxes, and utilities. They also include a management fee of \$10,000 per year to the General Partner and lease payments to the General Partner of \$4,630 per month for the use of the land on which the apartment complex is to be constructed. The initial fixed term of the lease is for twenty-five years with an option to renew for an additional twenty-five years.
- g. **Construction Costs and Depreciation.** The forecasted construction costs are based on a fixed-price contract with the general contractor. The total estimated cost of constructing the project is \$1,810,000, excluding capitalized construction period interest and taxes. Depreciation is computed using the straight-line method based on an Accelerated Cost Recovery System (ACRS) useful life of eighteen years.
- h. **Financing Arrangements.** Construction of the seventy-unit apartment project and construction period expenses are to be financed by a \$1,550,000 construction loan and capital contributions of \$500,000 by the limited partners and \$50,000 by the General Partner. It is anticipated that the loan will bear interest at an annual interest rate of 14 percent. Upon completion of construction, a permanent thirty-year nonrecourse mortgage loan will become effective at an anticipated annual interest rate of 13 percent, payable interest only for one year and principal amortization and interest payments thereafter. For each .25 percent variance in the actual interest rates obtained, the dollar amount of interest expense, and the resulting taxable income or loss will vary by approximately \$2,000 in 19X2 and \$4,000 in 19X3 through 19X8.

- i. **Tax Matters.** The Partnership is relying on an opinion from its legal counsel (included on pages xx-yy of this offering memorandum) that it is more likely than not that the investors will prevail on the merits of each material tax issue and that the material tax benefits in the aggregate are likely to be realized.

State and local income taxes are not provided for in this forecast. Each partner may be liable for state and local income taxes on his portion of the Partnership's profits and should consult his personal tax advisor in this regard.

- j. **Analysis of the Tax Effect and Cash Flow on the Sale of the Property at the End of the Forecast Period.** The following table illustrates the effect on limited partners of a hypothetical sale of the apartment complex at December 31, 19X8, given two different hypothetical sales prices, and the subsequent liquidation of the partnership. This table is presented for analysis purposes only because it is not expected that the property will be sold at that date or for those hypothetical amounts. These illustrations are based on the following:

1. Column A is based on the hypothetical assumption that the property will be sold (or foreclosed) for the balance of the mortgage at December 31, 19X8.
2. Column B is based on the hypothetical assumption that the property will be sold for \$500,000 net cash (the limited partners' original capital contributions) subject to the existing mortgage.
3. These illustrations do not reflect the effect of (a) capital losses from other transactions or (b) the alternative minimum tax in the year of sale, if any, since these factors would be dependent upon each individual partner's tax situation.



## EXHIBIT 3—Continued

## DEF ASSOCIATES, LTD.

.13

## Effect on Limited Partners of Hypothetical Sale of Property

December 31, 19X8

	A	B
	<u>Sale for Existing Mortgage Balance</u>	<u>Sale for Existing Mortgage Balance and Original Capital Contribution</u>
Gross sales price .....	\$1,414,481	\$1,914,481
Less mortgage balance .....	(1,414,481)	(1,414,481)
Proceeds available for distribution .....	—	500,000
Limited partners' share of proceeds .....	65%	65%
Total distribution .....	<u>\$ —</u>	<u>\$ 325,000</u>
Distribution per \$5,000 unit .....	<u>\$ —</u>	<u>\$ 3,250</u>
Limited partners' share of long-term capital gain on sale and dissolution:		
Cumulative taxable gains .....	\$ (37,246)	\$ (37,246)
Write-off of unamortized construction period interest and taxes	63,489	63,489
Cash distributions:		
Annual amounts .....	658,366	658,366
Remaining working capital .....	4,517	4,517
From sale .....	—	325,000
	<u>689,126</u>	<u>1,014,126</u>
Less original capital contribution .....	500,000	500,000
Gain from sale and liquidation .....	<u>\$ 189,126</u>	<u>\$ 514,126</u>
Long-term capital gain per \$5,000 unit .....	<u>\$ 1,891</u>	<u>\$ 5,141</u>
Tax on long-term capital gain (per unit) assuming 50% tax bracket (20%) ...	<u>\$ 378</u>	<u>\$ 1,028</u>
Net after tax cash flow (deficiency) per unit from sale and dissolution .....	\$ (378)	\$ 2,222
Net after tax operating cash flow per unit .....	6,399	6,399
Remaining working capital distribution per unit .....	45	45
Tax savings from write-off of unamortized construction period interest and taxes per unit .....	317	317
After tax return on \$5,000 investment per unit .....	<u>\$ 6,383</u>	<u>\$ 8,983</u>

EXHIBIT 4

JMK COMPANY, INC.

.14

**Consolidated Statements of Income and Retained Earnings**

**For Years Ending December 31, 19X8 (forecasted)**

**and December 31, 19X7 and 19X6 (historical)**

**(in thousands except per-share amounts)**

	<i>Forecasted 19X8</i>		<i>Comparative Historical Information</i>	
	<i>Economy Begins Recovery</i>	<i>Continued Downturn in the Economy</i>	<i>19X7</i>	<i>19X6</i>
Net sales .....	\$639,000	\$599,000	\$619,008	\$628,273
Costs and expenses:				
Costs of sales .....	510,00	488,500	490,091	487,607
Selling and advertising .....	31,420	32,060	31,324	28,775
General and administrative .....	33,600	33,500	31,255	27,752
Interest .....	1,700	1,650	2,818	2,839
Other (net) .....	1,030	1,030	(161)	352
Total .....	<u>577,750</u>	<u>556,740</u>	<u>555,327</u>	<u>547,325</u>
Income before income taxes .....	61,250	42,260	63,681	80,948
Income taxes .....	27,125	18,390	28,287	39,256
Net income .....	34,125	23,870	35,394	41,692
Retained earnings beginning of year .....	237,698	237,698	215,966	186,374
Cash dividends .....	16,758	15,613	13,662	12,100
Retained earnings end of year .....	<u>\$255,065</u>	<u>\$245,955</u>	<u>\$237,698</u>	<u>\$215,966</u>
Net income per common share .....	<u>\$ 3.50</u>	<u>\$ 2.45</u>	<u>\$ 3.63</u>	<u>\$ 4.27</u>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

**EXHIBIT 4—Continued**

**JMK COMPANY, INC.**

**.15**

**Consolidated Statements of Cash Flows  
For Years Ending December 31, 19X8 (forecasted)  
and December 31, 19X7 and 19X6 (historical)  
(in thousands)  
[not illustrated]**

**EXHIBIT 4—Continued****JMK COMPANY, INC.****.16 Summary of Significant Forecast Assumptions and Accounting Policies****For the Year Ending December 31, 19X8**

This financial forecast presents, to the best of management's knowledge and belief, the Company's expected consolidated statements of income and retained earnings and cash flows for the forecast period assuming either a recovery in the economy or a continued downturn in the economy. Accordingly, the forecast reflects its judgment as of January 31, 19X8, the date of this forecast, of the expected conditions and its expected course of action under each scenario. The assumptions disclosed herein are those that management believes are significant to the forecast. Management reasonably expects, to the best of its knowledge and belief, that the level of economic activity will be within the range shown; however, there can be no assurance that it will. Further, even if the level of economic activity is within the range shown, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material, and the actual results may be outside the ranges presented.

- a. **Summary of Significant Accounting Policies.** (not illustrated)
- b. **Sales.** The sales of the Company have been closely related to the level of activity in the economy. Economists are currently divided in their forecasts of overall economic activity for 19X8. Consequently, management has prepared its forecast in the form of alternative scenarios: one, representing a continued downturn in the economy based on a 2 percent decrease in real GNP for the forecast period, and the other, a beginning of economic recovery based on a 2 percent increase in real GNP for the period. It is anticipated that much of the differences between the two scenarios would be concentrated in the automotive sector of the Company's business.
- c. **Cost of Sales.** The forecast assumes that management is able to maintain tight controls over manufacturing costs and inventory levels. If the downturn in the economy continues, management plans to continue substantial reduction in inventory levels. However, if the economy recovers, the Company will begin rebuilding the level of inventories.
- d. **Selling and Advertising.** The forecast assumes that cost control measures will allow the Company to maintain selling costs at a relatively constant level. The Company plans to spend more on promotional campaigns if the economic downturn persists.
- e. **General and Administrative Expense.** The forecast anticipates a \$1.7 million increase in the level of general and administrative expense due primarily to the development of new computer-based information systems to better control the Company's performance.
- f. **Income Taxes.** The provision for income taxes is computed using the rates currently in effect for 19X8.
- g. **Long-Term Debt.** The Company anticipates a modest reduction in long-term debt if the decline in the economy persists. However, if the economy turns around, the Company expects to increase long-term debt at an interest rate of 1 point above prime.
- h. **Dividend.** The Company's policy is to pay out a predetermined portion of net income, and the forecasted dividend assumes continuation of that policy.

## EXHIBIT 5

## ABC COMPANY, INC.

**.17 Statement of Projected Results of Operations and Cash Flows Assuming Construction of an Additional Plant**

For the Five Years Ending December 31, 19X7

(in thousands except per-share amounts)

	Year Ending December 31				
	19X3	19X4	19X5	19X6	19X7
Net sales .....	\$101,200	\$112,300	\$142,000	\$156,200	\$173,400
Cost of sales .....	77,500	86,100	109,300	120,100	133,300
Gross profit .....	23,700	26,200	32,700	36,100	40,100
Selling, general, and administrative expenses .....	15,100	16,500	19,500	21,400	23,400
Operating income .....	8,600	9,700	13,200	14,700	16,700
Other income (deductions):					
Miscellaneous .....	1,700	1,200	1,000	1,300	1,800
Interest expense .....	(2,400)	(3,500)	(3,400)	(3,200)	(3,000)
	(700)	(2,300)	(2,400)	(1,900)	(1,200)
Income before taxes .....	7,900	7,400	10,800	12,800	15,500
Income taxes .....	3,400	2,800	4,700	5,500	6,700
Net income .....	4,500	4,600	6,100	7,300	8,800
Add noncash expenses:					
Depreciation and amortization .....	2,800	2,800	3,400	3,500	3,500
Deferred taxes .....	500	450	550	600	650
	7,800	7,850	10,050	11,400	12,950
Add (deduct):					
Loan proceeds for additional plant facility .....	8,500	1,500	—	—	—
Increase in excess of receivables and other assets over payables .....	(1,000)	(1,000)	(2,000)	(3,000)	(3,500)
Cash requirements for building costs .....	(8,200)	(1,800)	—	—	—
Other additions to plant and equipment .....	(3,400)	(2,200)	(2,200)	(2,200)	(2,200)
Cash requirements for repayment of debt .....	(2,600)	(2,600)	(3,700)	(3,500)	(3,500)
Dividends .....	(1,400)	(1,400)	(1,900)	(2,200)	(2,700)
Increase (decrease) in cash .....	(300)	350	250	500	1,050
Cash beginning of year .....	3,300	3,000	3,350	3,600	4,100
Cash end of year .....	\$ 3,000	\$ 3,350	\$ 3,600	\$ 4,100	\$ 5,150
Earnings per share .....	\$ 4.80	\$ 4.92	\$ 6.51	\$ 7.79	\$ 9.39
Dividends per share .....	\$ 1.50	\$ 1.50	\$ 2.03	\$ 2.35	\$ 2.88

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

## EXHIBIT 5—Continued

## ABC COMPANY, INC.

**.18 Summary of Significant Assumptions Employed in Preparation of the Statement of Projected Results of Operations and Cash Flows Assuming Construction of an Additional Plant****For the Five Years Ending December 31, 19X7**

This financial projection of operations and cash flow assuming construction of an additional plant present, to the best of management's knowledge and belief, the expected results of operations and cash flows for the projection period if a plant were constructed to increase production capacity by approximately 20 percent. Accordingly, the projection reflects its judgment as of October 24, 19X2, the date of this projection, of the expected conditions and its expected course of action if such a plant were constructed. The presentation is designed to provide information for potential bank financing of the construction of the additional plant and cannot be considered to be a presentation of expected future results. Accordingly, this projection may not be useful for other purposes. The assumptions disclosed herein are those that management believes are significant to the projection; however, management has not decided that it will construct such a plant. Even if the plant were constructed, there will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

- a. **Summary of Significant Accounting Policies.** (not illustrated)
- b. **Hypothetical Assumption—Increase in Production Capacity by Construction of a New Plant.** The projection is based on the assumption that production capacity will be increased by approximately 20 percent by the construction of a 160,000 square foot production facility in Richmond, Virginia.

Construction on the new plant is projected to begin in February 19X3 and be completed by June 30, 19X4, at a total cost of \$10,000,000 including construction-period interest of \$1,300,000. Production cost estimates and the projected completion date have been estimated based on competitive bids received.

The decision to proceed with the project and awarding of contracts will depend on the completion of financing arrangements.

- c. **Sales.** The overall market for the Company's products has grown over the past five years at an average rate of 2 percent above the actual increase in gross national product, and the Company's market share has remained steady at 14 to 16 percent. Based upon a recent market study of demand for the Company's products, sales are projected to increase 11 percent per annum from 19X2 to 19X4 (which is consistent with a rate 2 percent above the Department of Commerce Bureau of Economic Analysis' estimate of the rise in gross national product in the projection period), with a market share of 15 percent and unit prices increased to cover projected increases in cost of manufacturing. Based upon the study, an additional 15 percent increase in sales is projected to occur beginning in 19X5 and will be met by the added capacity resulting from the plant expansion.

d. **Cost of Sales**

**Materials.** Materials used by the Company are expected to be readily available, and the Company has generally used producer associations' estimates of prices in the projection period to project material costs. The Company expects to be able to assure a sufficient supply of materials and estimates that the cost of materials will increase by 12 percent per annum.

**Labor.** The Company's labor union contract, which covers substantially all manufacturing personnel, will be subject to renegotiation in 19X6. Labor costs until that time are projected based on the existing contract. For 19X7, labor costs, including fringe benefits, are projected to increase 19 percent per year above the 19X6 level.

The outcome of the projection is particularly sensitive to variances in such labor costs. For each percentage point variance from the projected increase, net income and cash will vary by approximately \$380,000.

- e. **Plant and Equipment and Depreciation Expense.** Projected additions to plant and equipment, other than the assumed plant expansion, are principally the regular periodic replacement of manufacturing plant and vehicles at suppliers' quoted estimated prices and do not involve any significant changes in manufacturing capacity or processes. Depreciation is projected on an item-by-item basis. Depreciation on the new facility is projected on a straight-line basis over twenty years.
- f. **Selling, General, and Administrative Expense.** The principal types of expense within this category are salaries, transportation costs, and sales promotion. Salaries are projected on an individual-by-individual basis, using expected salary rates in the projection period. Transportation costs are principally for contract carriers; volume is projected based upon the sales and inventory projections, and rates are forecasted to rise by 16 percent per year based upon trucking industry forecasts. Sales promotion costs are expected to increase in line with the consumer price index, as is the level of other expenses.
- g. **Bank Borrowing and Interest Expense.** The projection assumes that the Company will obtain an extension of existing short-term lines of credit at terms comparable to those in effect in 19X2 (2 percent over prime rate). The Company used the arithmetic mean of [three widely used estimates] of bank prime rate during the projection period (ranging from 12 percent to 14 percent) to estimate prime rate at 13 percent. The Company projects additional long-term borrowing of \$10 million to finance the planned plant expansion (including \$1,300,000 of construction-period capitalized interest) and has entered into preliminary negotiations with its bankers for this financing. Based upon the preliminary negotiations, the Company has assumed that the additional long-term financing will bear interest at 14 percent.
- h. **Miscellaneous Income.** The projection assumes that royalty income of \$950,000 will be received annually based on an agreement under which the Company is to receive a minimum of \$950,000 for the first 10,000,000 units produced under its patented die casting process and \$.05/unit above that level. Management believes it is unlikely that production will exceed 10,000,000 units in any of the projection periods.
- i. **Income Taxes.** The provision for income taxes is computed using the statutory rates in effect during 19X2, which are not expected to change. The Company anticipates that it will take investment tax credits on the machinery and equipment to be installed in the new plant when the plant is placed in service in 19X4.
- j. **Dividend.** The Company's normal dividend policy is to pay out the previous year's dividend increased to the extent of at least one-third of any increase in profits over the previous year, provided the board of directors considers that the Company's cash and working-capital position will not be adversely affected.

## EXHIBIT 6a

## ABC RETAIL COMPANY

.19

**Statement of Forecasted Sales**  
**for the Five Years Ending December 31, 19X5 \***

	<i>Years Ending December 31,</i>				
	<i>19X1</i>	<i>19X2</i>	<i>19X3</i>	<i>19X4</i>	<i>19X5</i>
Forecasted Sales	<u>\$629,000</u>	<u>\$692,000</u>	<u>\$761,000</u>	<u>\$837,000</u>	<u>\$ 921,000</u>

This sales forecast presents, to the best of management's knowledge and belief, expected sales during the forecast period. Accordingly, the sales forecast reflects its judgment as of (date), the date of this forecast, of the expected conditions and its expected course of action. The sales forecast is designed to present the Company's sales for the purpose of negotiating its lease override provisions and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the sales forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The Company's sales are forecasted at a ten percent increase over the prior year for each of the five years forecasted. This sales forecast is based upon an expected average rate of overall increase in market demand for the Company's products (sporting goods equipment) of three percent per year. During the past five years, market demand for sporting goods equipment has increased approximately four percent per year and the Company expects this rate of industry growth to remain steady throughout the forecast period. The sales forecast is also based upon an expected increase in the Company's market share in its geographical selling region to 23 percent in 19X5, which represents a six to seven percent increase in market share over the forecast period. The Company's market share during the past three years has increased one to two percentage points each year and the Company expects this rate of increase to continue during the forecast period. The sales forecast is also based upon an expected four to five percent increase in the rate of inflation for each of the next five years. The Company expects that it will be able to increase the prices of its products to cover increased costs due to inflation without adversely affecting its sales.

The Company plans to maintain its advertising and marketing programs at current levels and has retail-floor space available to provide for the increase in the number of products it expects to sell.

---

\* The summary of significant accounting policies is not illustrated.



## EXHIBIT 6b

## MARS ARENA

.20

## Forecasted Statement of Net Operating Income Before

## Debt Service and Depreciation

Two Years Ending December 31, 19X2

(in thousands)

	<u>Reference</u>	<u>19X1</u>	<u>19X2</u>
Operating revenues .....	C	<u>\$2,700</u>	<u>\$2,600</u>
Operating expenses			
Salaries and wages .....	D	1,050	1,100
Office and general .....	E	700	650
Utilities .....	F	500	510
Operations and maintenance .....	G	<u>150</u>	<u>160</u>
Total operating expenses .....		<u>2,400</u>	<u>2,420</u>
Net operating income before debt service and depreciation .....		<u>\$ 300</u>	<u>\$ 180</u>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

EXHIBIT 6b—Continued

MARS ARENA

.21 Summary of Significant Forecast Assumptions and Accounting Policies

Two Years Ending December 31, 19X2

The accompanying forecasted statement presents, to the best of management’s knowledge and belief, MARS Arena’s expected net operating income before debt service and depreciation for the two year period ending December 31, 19X2. Accordingly, the forecasted statement reflects management’s judgment as of August 19, 19X0, the date of this forecasted statement, of the expected conditions and its expected course of action. This presentation is intended for use by the City of MARS in connection with the contemplated construction of the new arena and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecasted statement. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The forecasted statement does not include expenses related to debt service and depreciation, or disclosure of changes in financial position. Accordingly, it is not intended to be a forecast of financial position, results of operations, or cash flows.

A. Description of the Project

The City of MARS plans to build a new 10,000 seat arena at the southeast intersection of Maxwell Road and Rugby Road to replace their existing 8,000 seat arena (the City’s existing arena). MARS Arena will have 3,000 available parking spaces.

B. Summary of Significant Accounting Policies

[not illustrated]

C. Operating Revenues

There are four basic types of events forecasted to generate income: sporting events, family shows (for example, circuses and ice shows), concerts, and exhibitions. The significant sources of revenue for each type of event include arena rental, parking fees, food and beverage concessions, novelty and souvenir income, and advertising. Attendance during the initial year of operations is forecasted to be greater than the second year based on the “bonus” a new arena can enjoy as patrons come to see the new facility as well as to see the event. A summary of operating revenue by type of event follows.

<u>Year 1</u>	<u>Event Days</u>	<u>Average Attendance</u>	<u>Total Attendance</u>	<u>Total Revenue</u>
Sporting events .....	70	4,000	280,000	\$ 860,000
Family shows .....	45	4,500	202,500	515,000
Concerts .....	30	8,500	255,000	1,025,000
Exhibitions .....	25	2,500	62,500	180,000
Advertising .....				120,000
Totals .....	<u>170</u>		<u>800,000</u>	<u>\$2,700,000</u>

<u>Year 2</u>	<u>Event Days</u>	<u>Average Attendance</u>	<u>Total Attendance</u>	<u>Total Revenue</u>
Sporting events .....	70	3,900	273,000	\$ 835,000
Family shows .....	45	4,300	193,500	490,000
Concerts .....	30	8,200	46,000	990,000
Exhibitions .....	25	2,200	55,500	160,000
Advertising .....				125,000
Totals .....	<u>170</u>		<u>767,500</u>	<u>\$2,600,000</u>

The bases for the significant income assumptions are discussed below.

#### **Arena Rental**

Management estimates that the new arena could schedule approximately 170 event days in a representative year consisting of 70 sporting events, 45 family shows, 30 concerts, and 25 exhibitions. Event days were forecasted based on discussions with users (such as, sporting teams and event sponsors) and market research and analysis performed by an independent consultant. Also, the City of MARS recently obtained a commitment from the local minor league hockey team to play their home games in MARS Arena.

MARS Arena will be rented out on the basis of a percentage of the dollars generated by ticket sales (called a "percentage of gross receipts") or a fixed rent (called a "flat rate"). The percentage of gross gate receipts accruing to the facility are based on current average percentages retained by the City's existing arena. These percentages range from 10 to 50 percent depending on the type of event. Management expects ticket prices to increase between 5 and 15 percent over prices at the City's existing arena, depending on the type of event, as a result of the new modernized facility. Ticket prices forecasted for each type of event have been compared with those received by other facilities for similar events. Flat rate rentals are usually negotiated by users who do not charge an admission price or have a series of events. The flat rate rental for MARS Arena is forecasted to be between \$1,000 and \$4,000 and is based on an analysis of rates charged by other comparable arenas for the types of events forecasted. Management does not anticipate an increase in ticket prices or flat rate rentals during the second year of operations.

#### **Parking Fees**

Management will operate and maintain the parking facility and, accordingly, all revenues accrue to MARS Arena. Consistent with experience at the City's existing arena, management estimates that 75 percent of all patrons will arrive by car for each event. The forecasted information assumes each car will carry 2.7 persons and average parking rates will be \$3.50 per car.

#### **Food and Beverage Concessions**

Management has negotiated a contract with ABC Company to supply and manage the food and beverage concessions. Concession income is forecasted to be 30 percent of gross concession revenue generated at each event, based on the contractual agreement with ABC Company. MARS Arena will provide all equipment and personnel necessary to operate the concessions. Patron's forecasted average expenditure per type of event ranges from \$0.75 to \$3.00 and is based on an analysis of data for comparable events and facilities, including the City's existing arena.

#### **Novelty and Souvenir Income**

Similar to food and beverage concessions, management has negotiated a contract with ABC Company to supply and manage the novelty and souvenir concessions. Novelty and souvenir income is forecasted to be 30 percent of gross novelty revenue based on the contractual agreement. MARS Arena will provide all equipment and personnel necessary to operate the novelty and souvenir stands. Patron's forecasted average expenditure per type of events ranges from \$0.00 to \$5.25 and is based on an analysis of data for comparable events and facilities.

**Advertising**

Advertising income will be generated primarily from signage on the interior and exterior of MARS Arena. Revenues included in the forecasted information are based on the signage capacity of MARS Arena, contract negotiations to date, and advertising revenues at the City's existing arena.

**D. Salaries and Wages**

The forecasted information assumes that management will make maximum use of full-time staff rather than subcontract out services, such as facility management and security. Personnel requirements are based on staffing organizations at similar sports arenas and public assembly facilities. Pay for hourly workers is based on local wage levels and wage rates being paid to employees of the City's existing arena. Wage levels are expected to increase approximately 4 percent in the second year.

Salaries are forecasted on an individual by individual basis using expected salary rates during the forecast period. Part-time salaries and wages are assumed to be event-related expenses and passed through to tenants, except for 15 percent, which is absorbed by MARS Arena.

**E. Office and General Expenses**

Office and general expenses consist of insurance, advertising, fees for services, and other office and general expenses. Insurance expense is based on costs at the City's existing arena and a review of insurance coverage proposals that include estimates of general liability, fire, workers' compensation, auto-business, liquor liability and boiler-machinery coverage. Advertising expenses are based on costs incurred by the City's existing arena, the number and type of forecasted events, and expected price increases from advertising agencies. Advertising expenses are expected to be higher in the first year of operations in order to promote the new facility. Fees for services include, but are not limited to, consulting fees, legal fees, and accounting and auditing fees. These fees are estimated based on expenses of the City's existing arena and plans by management to engage consultants to assist in starting up operations. Other office and general expenses are based on experience at comparable facilities and on costs incurred by the City's existing arena.

**F. Utilities**

Utility costs have been estimated by the project team architects and engineers. Utilities expense includes fuel and gas, electricity, water, and sewer costs.

**G. Operations and Maintenance Expense**

Operations and maintenance expense was estimated based on the requirements of facilities similar in construction and design, age, and intended use.

---

# **FSP Section 15,000**

## **DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR FINANCE COMPANIES**

**.01** 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 non-authoritative 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. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. 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 standard should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being examined.

**.02** 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. The author wishes to acknowledge the assistance of his colleague, Steven Moliterno, CPA, who served as consultant on this project.

John Graves  
Director  
Technical Information Division

---

[The next page is 15,101.]

# FSP Section 15,100

## Introduction

**.01** Finance companies provide lending and financing services to consumers and business enterprises. The provisions of the AICPA Industry Audit Guide apply to independent and captive financing activities. It does not apply to banks, savings and loan associations, credit unions, or insurance companies because those entities are covered by other industry audit guides. However, the Finance Companies Audit Guide does apply to finance company subsidiaries of such entities.

**.02** Numerous state and federal statutes affect finance companies' operations. Some statutes apply only to specific types of activities. Regulations affecting finance companies generally are limited to matters such as loan amounts, repayment terms, interest rates, and collateral; they generally do not deal with financial accounting and reporting.

**.03** Common accounting and reporting by finance companies include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP. Some finance companies may report certain immaterial revenue and expense items on a cash or modified cash basis.
  - Finance companies usually prepare a non-classified balance sheet.
  - The income statement may be reported on a "net interest income" basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)
  - Alternately, the income statement may emphasize interest revenues with interest expense included with other operating expenses.
  - The provision for loans losses usually is reported as a deduction from net interest income, where the net interest income format is used.
  - The recognition of interest income on finance receivables should be based on the interest method. The use of the Rule of 78's, the combination method and the cash method is no longer considered acceptable.
  - Inclusion of interest as a holding cost in determining the carrying amount of repossessed collateral expected to be held for more than a brief period is acceptable.
  - GAAP applicable to business entities in general apply to finance companies.
- 

[The next page is 15,201.]

# FSP Section 15,200

## *Disclosure Checklists—General*

**.01** Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of 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 which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to 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 Industry Audit Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

**.03** Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements” and “in notes” (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** 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.

---

[The next page is 15,301.]

# FSP Section 15,300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

**.02 Explanation of references:**

ARB =	Accounting Research Bulletin
APB =	Accounting Principles Board Opinion
SFAS =	Statement of Financial Accounting Standards
SAS =	Statement of Auditing Standards
FASBI =	Financial Accounting Standards Board Interpretation
TB =	Technical Bulletin issued by the staff of the FASB <sup>1</sup>
(AC) =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
(AU) =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1) of SAS cited
IAG =	Industry Audit Guide, <i>Audits of Finance Companies</i>
SOP =	AICPA Statement of Position

**.03 Checklist Questionnaire**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Titles and References</b>			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes saying that they are an integral part of the financial statement presentation? [(AU 411.04 and AU 431.02)]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity 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. 7 (AC I25.506)]	_____	_____	_____
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)]	_____	_____	_____
<b>C. Accounting Changes</b>			

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. For all changes in accounting principles, are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income?	_____	_____	_____
d. Effect on related per share amounts? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—21, 25 (AC A06.115—.118 and .121)]	_____	_____	_____
3. For changes in the method of accounting for post-retirement life insurance and health care benefits, are appropriate disclosures made? [TB 87-1, par. 4 (AC P50.503)]	_____	_____	_____
4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	_____	_____	_____
5. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10—11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5—6 (AC A06.112)]	_____	_____	_____
6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:			
a. Effect on income before extraordinary items and on net income?	_____	_____	_____
b. Effect on related per share amounts? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
7. 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?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income (and related per share amounts)? [APB 20, pars. 36—37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]	_____	_____	_____
8. If interim financial data and disclosures are not separately reported for the fourth quarter, and an accounting change is made during the fourth quarter, is disclosure made in the year of change of:			
a. The effect on the interim periods?	_____	_____	_____
b. Cumulative effect? [APB 28, par. 31. SFAS 3, par. 14 (AC I73.147)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
<b>E. Business Combinations</b>			
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[APB 16, pars. 45—48 (AC B50.104—.107)]			
a. Has the required accounting method been applied? [APB 16, pars. 50—62 (AC B50.109—.121)]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 63—65 (AC B50.122—.124)]	_____	_____	_____
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66—94; SFAS 96 pars. 23 and 205c (AC B50.125—.147A and .159—.163); SFAS 38 (AC B50.148—.150 and .166); FASBI 9, pars. 4—7 (AC B50.155—.157)]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 95—96 (AC B50.164—.165)]	_____	_____	_____
c. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]	_____	_____	_____
3. If significant, has the amount of net operating loss or tax credit carry-forwards for which any tax benefits will be applied to reduce goodwill and other noncurrent assets (of an acquired enterprise) been disclosed separately? [SFAS 96, par. 29 (AC I25.128 and .187)]	_____	_____	_____
4. If financial statements for prior years are restated, have all purchase business combinations that were consummated in those prior years been remeasured in accordance with the requirements of SFAS 96? [SFAS 96, par. 35]	_____	_____	_____
<b>F. Consolidations</b>			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]	_____	_____	_____
c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18-20 (AC I89.112—.114); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
2. Are the accounts of majority owned subsidiaries consolidated? [SFAS 94, par. 13 (AC C51.103)]	_____	_____	_____
3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed? [SFAS 12, par. 20 (AC I89.114)]	_____	_____	_____
4. If summarized information about the assets, liabilities, and results of operations (or separate statements) of unconsolidated majority-owned subsidiaries was disclosed in the financial statement for fiscal years 1986 and 1987, is that information disclosed in the current year's consolidated financial statements or notes?	_____	_____	_____
<b>G. Related Party Transactions and Economic Dependency</b>			
1. For related party transactions do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements 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 income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
e. If part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
f. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____
2. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9 (AC S20.103)]	_____	_____	_____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
<b>H. Financial Instruments</b>			
1. Does the entity have a financial instrument that is:			
a. Cash in banks or on hand, or	_____	_____	_____
b. Evidence of an ownership interest in an entity, or	_____	_____	_____
c. A contract that both:			
(1) Imposes on one entity a contractual obligation (liability)			
(i) To deliver cash or 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)]	_____	_____	_____
2. For financial instruments with off-balance risk, (except for certain insurance, investment or pension contracts, purchase or lease obligations, or foreign currency contracts) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument: <sup>1</sup>			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____

<sup>1</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____
3. For financial instruments with off-balance sheet risk, (except as noted above in H.2.) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
4. Were disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties, (except for certain insurance and investment contracts, purchase and pension obligations) included the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
<b>I. Foreign Currency</b>			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____
2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SFAS 52, par. 32 (AC F60.142)]			
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. Has disclosure of principal amounts of spot and forward exchange contracts been considered? [SFAS 80 (AC F80)]	_____	_____	_____
<b>J. Contingencies and Commitments</b>			
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. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80)]	_____	_____	_____
<b>K. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); (APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09)]	_____	_____	_____
<b>L. Pension Plans—[For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe35)]</b>			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? Note: The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:	_____	_____	_____
(1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Amortization of the net gain or loss from earlier periods	_____	_____	_____
(3) Amortization of unrecognized prior service cost	_____	_____	_____
(4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—.130) (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?	_____	_____	_____
f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87 paragraph 41 [AC P16.135] [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
g. If more than one defined benefit plan exists:			
(1) Have the required disclosures above been aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If answer is yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 (AC C59) been applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
<b>M. Postretirement Health Care and Life Insurance Benefits</b>			
1. Do disclosures include:			
a. Description of benefits and employee groups covered?	_____	_____	_____
b. Description of accounting and funding policies?	_____	_____	_____
c. Cost of benefits recognized during the period?	_____	_____	_____
d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____
<b>N. Futures Contracts</b>			
1. If a futures contract is designated a hedge:			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	_____	_____	_____
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	_____	_____	_____
2. If the futures contract hedges an anticipated transaction:			
a. Are the significant characteristics and expected terms of the anticipated transaction identified?	_____	_____	_____
b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)]	_____	_____	_____
3. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
<b>O. Other Matters</b>			
1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24 (AC S20.109—.110); SFAS 30 (AC S20.145); and TBs 79-4, 79-5 and 79-8 (AC S20.501—.507)]	_____	_____	_____





	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If material in relation to total receivables has the amount of participations been disclosed?	_____	_____	_____
c. If participations are, in substance, other than a prorata sharing of risk, have they been accounted for as a liability on the balance sheet? [IAG, page 64]	_____	_____	_____
6. Are unearned premiums and unpaid claims on certain credit life and credit accident and health insurance policies deducted from finance receivables on the face of the consolidated balance sheet?	_____	_____	_____
a. Alternatively, the balance sheet may present only the net finance receivables if the notes to the financial statements contain sufficient disclosure of unearned premiums and unpaid claims and the allowance for losses? [IAG, page 74]	_____	_____	_____
7. Are related party transactions such as loans to officers, directors and employees (and loans to organizations with which such individuals are affiliated) disclosed? [IAG, pages 23 and 43]	_____	_____	_____
8. For receivables involved in troubled debt restructurings, are the following disclosed by major category of loans as of each balance sheet presented:			
a. Aggregate recorded investment?	_____	_____	_____
b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?	_____	_____	_____
c. Amount of interest income included in net income?	_____	_____	_____
d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans? [SFAS 15, pars. 40—41 (AC D22.136—.137); TBs 79-6 and 79-7 (AC D22.501—.505)]	_____	_____	_____
9. For loans sold with recourse:			
a. Was a sale recognized only if:			
(1) The transferor surrenders control of future economic benefits,	_____	_____	_____
(2) The obligation under recourse provisions can be reasonably estimated, and	_____	_____	_____
(3) the transferee cannot require the transferor to repurchase the receivable, except pursuant to the recourse provisions?	_____	_____	_____
b. If one or more of the conditions in (a) above were not met, was the transaction recorded as a financing? [IAG, page 21]	_____	_____	_____
10. For loans sold with recourse, are the following disclosures made:			
a. For each period for which an income statement is presented, the amount of proceeds?	_____	_____	_____
b. At date of each balance sheet presented, balance of sold receivables that remains uncollected? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
11. Are receivables acquired under a portfolio purchase agreement accounted for as assets owned by the purchasing finance company and not considered collateral for loans made to the seller? [IAG, page 6]	_____	_____	_____
12. If the collectibility of interest or principal is not probable, has the accrual of interest income or amortization of discount and the amortization of deferred net fees or costs been suspended?	_____	_____	_____
a. When interest income has been suspended, has the potential uncollectibility of previously accrued interest amounts been taken into consideration in the computation of the allowance for losses?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Is the accrual of interest resumed when future collectibility of the loan and accrued interest becomes probable? [ <i>LAG</i> , pages 14 and 15]	_____	_____	_____
13. Under advance factoring arrangements, are the advances to clients applied against amounts owed clients for the purchase of clients' receivables and not recorded as finance receivables?	_____	_____	_____
a. Are factoring overadvances recorded as loans receivable and segregated from customer receivables purchased under factoring arrangements? [ <i>LAG</i> , page 18]	_____	_____	_____
<b>D. Lease Finance Receivables</b>			
1. Do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [ <i>SFAS</i> 13, par. 23u ( <i>AC L10.119a</i> )]	_____	_____	_____
2. Are leasing arrangements described? [ <i>SFAS</i> 13, par. 23c ( <i>AC L10.119c</i> ); For amendments of <i>SFAS</i> 13 see <i>SFASs</i> 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see <i>FASBIs</i> 19, 21, 23, 24, 26 and 27; for technical bulletins see <i>TBs</i> 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]	_____	_____	_____
3. Are leveraged leases appropriately accounted for and reported? [ <i>SFAS</i> 13, pars. 41—47 ( <i>AC L10.143—149</i> )]	_____	_____	_____
<b>E. Allowance for Credit Losses</b>			
1. Is the allowance shown on the balance sheet as a deduction from loan and lease finance receivables? [ <i>APB</i> 12, par. 3 ( <i>AC V18.102</i> )]	_____	_____	_____
2. Is the allowance for credit losses adequate to cover estimated losses in the receivable portfolio? [ <i>LAG</i> , page 12]	_____	_____	_____
3. When the accrual of interest income has been suspended, is accrued interest not reversed and the potential uncollectibility taken into consideration in the computation of the allowance for losses? [ <i>LAG</i> , pages 14 and 15]	_____	_____	_____
4. Does the allowance for losses adequately reflect conditions such as the amount of delinquent receivables and the number of days they are past due; local, national, and international economic trends; credit policies and procedures; and the mix of receivables? [ <i>LAG</i> , page 13]	_____	_____	_____
5. Do the notes to the financial statement report all of the charges in the allowance for credit losses?	_____	_____	_____
<b>F. Premises and Equipment</b>			
1. If material, are the balances of major classes of depreciable assets disclosed? [ <i>APB</i> 12, par. 5b ( <i>AC D40.105b</i> )]	_____	_____	_____
2. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [ <i>APB</i> 12, par. 5c ( <i>AC D40.105c</i> )]	_____	_____	_____
3. Is the amount of capitalized interest disclosed? [ <i>SFAS</i> 34, par. 21 ( <i>AC I67.118</i> )]	_____	_____	_____
4. Is property not used in operations, such as repossessed collateral, excluded?	_____	_____	_____

<b>G. Other Assets</b>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Are overnight investments recorded as assets in the balance sheet? [IAG, page 59]	_____	_____	_____
2. For investments in common stock accounted for by the equity method, are appropriate disclosures made? [APB 18, par. 20 (AC 182.110)]	_____	_____	_____
3. Are investments in life insurance reported at amounts which can be realized as of the balance sheet date? [TB 85-4, par. 2 (AC 150.508)]	_____	_____	_____
4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired:			
a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired? [SFAS 72, par. 4 (AC 160.131)]	_____	_____	_____
b. Is the interest method used as the amortization method? [SFAS 72, par. 5 (AC 160.133)]	_____	_____	_____
c. Are method and period of amortization disclosed? [APB 17, par. 30 (AC 160.111)]	_____	_____	_____
5. For repossessed assets acquired in liquidation of receivables, are borrowers' accounts credited for the unpaid loan balance or the fair value of the repossessed properties, whichever is lower?	_____	_____	_____
a. Are borrower accounts credited for proceeds from cancellation of insurance, rebates of unearned finance income, and amounts transferred from dealer reserves with any remaining deficiency charged to the allowance for losses?	_____	_____	_____
b. Is a gain recorded where the proceeds from the sale of repossessed properties exceed the unpaid loan balance and are not required to be refunded? [IAG, pages 19 and 20]	_____	_____	_____
6. Are repossessed assets carried at cost (determined on the lower of the unpaid loan balance or fair value of the repossessed asset), and classified as other assets?	_____	_____	_____
a. Is the carrying value periodically evaluated for recoverability?	_____	_____	_____
b. If further write-downs are required, are the write-downs classified as other expense and not as a reduction of the allowance for credit losses?	_____	_____	_____
c. Is a separate allowance for loss maintained based on net realizable value?	_____	_____	_____
d. Are the costs of capital improvements incurred in readying repossessed assets for sale that increase their value added to the carrying amount of the repossessed property?	_____	_____	_____
e. Has the difference between the carrying amount of repossessed assets and the selling price been recognized as a gain or loss and not included in the allowance for losses? [IAG, page 20]	_____	_____	_____
7. Are insurance policy acquisition costs deferred and amortized to income over the terms of the policies by the same method used to account for insurance premium income?	_____	_____	_____
a. Are deferred costs associated with payment of commissions and other intercompany items eliminated in consolidation? [IAG, page 72]	_____	_____	_____
<b>H. Income Taxes (Assumes the adoption of FASB 96)</b>			
1. Have deferred tax assets been recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years:			
a. To reduce a current deferred tax liability?	_____	_____	_____
b. To reduce taxes paid in the current or a prior year? [SFAS 96, par. 17e (AU 125.116e)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Have deferred tax assets or liabilities been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)]	_____	_____	_____
3. Have deferred tax assets or liabilities attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
4. Have the types of temporary differences that give rise to significant portions of a deferred tax asset or liability been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
5. Is the amount of a deferred tax asset or liability the net deferred tax consequence of:			
a. Temporary differences that will result in net taxable or deductible amounts during the next year?	_____	_____	_____
b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?	_____	_____	_____
c. Temporary differences for which there is no related identifiable asset or liability for financial reporting [SFAS 96, par. 12 (AC I25.111)] whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
6. Have deferred tax liabilities been recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par. 17f—h (AC I25.116f—h)]	_____	_____	_____
7. For undistributed earnings of subsidiaries and/or corporate joint ventures, for which a deferred tax liability is not recognized, do the disclosures include:			
a. A description of the types of temporary differences?	_____	_____	_____
b. The type of events that would cause the temporary differences to become taxable?	_____	_____	_____
c. The cumulative amount of each type of temporary difference?	_____	_____	_____
d. The amount of the unrecognized deferred tax liability for unremitted earnings and the amount of withholding taxes that would be payable upon remittance of the earnings? [SFAS 96, par. 25 (AC I25.124)]	_____	_____	_____
<b>I. Other Liabilities</b>			
1. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 (AC C59) and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and .124—.127)]	_____	_____	_____
2. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
4. For loans transferred with recourse which are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.109)]	_____	_____	_____
5. Are "Dealer Reserves" (the unpaid portion of the finance charges) and "Dealer Holdbacks" classified as liabilities? [IAG, page 3]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are unpaid claims for property insurance and that portion of level term insurance and credit accident and health insurance (where the finance company will not receive the proceeds of such claims) presented as liabilities rather than as a reduction of finance receivables? [IAG, page 74]	_____	_____	_____
<b>J. Long-Term Debt</b>			
1. Are the major components of debt disclosed on the face of the balance sheet or in the notes?	_____	_____	_____
a. Is there disclosure of the aggregate amount of maturities and sinking fund requirements for all long-term borrowings and redeemable preferred stock for each of the five years following the balance sheet date? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
b. Is information disclosed on liquidation preferences, participation rights and interest rates?	_____	_____	_____
c. Are the various types of subordination, bank borrowings and commercial paper separately disclosed?	_____	_____	_____
d. Are the components of debt that matures in more than one year disclosed?	_____	_____	_____
e. Is the existence of bank lines of credit and their relevant terms and amounts disclosed?	_____	_____	_____
f. Is debt classified on the balance sheet as subordinated and senior rather than as short-term and long-term? [IAG, page 60]	_____	_____	_____
2. Are conversion features appropriately accounted for and disclosed? [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
4. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
5. Has debt, as required, been considered extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to the debt under any guarantee?	_____	_____	_____
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A)]	_____	_____	_____
6. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:			
a. A general description of the transaction?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	_____	_____	_____
7. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20—21 (AC D14.103—.104); TB 80-1, pars. 3—4 (AC D14.503—.504); SFAS 84, par. 5 (AC D14.101)]	_____	_____	_____
b. Identified as a separate or extraordinary item? [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
8. Do disclosures for extinguishments of debt described in 6 above include:			
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment?	_____	_____	_____
c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
<b>K. Lessee Leases</b>			
1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate, and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)—(4))]	_____	_____	_____
c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)—(4)) amended 10/1/79 by SFAS 29, par. 12]	_____	_____	_____
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13 see SFASs 17, 22, 23, 27, 28, 29, 76, 77, 91, 94, 96, and 98; for interpretations see FASBIs 19, 21, 23, 24, 26, and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2, and 88-1]	_____	_____	_____
<b>L. Capital Stock</b>			
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 12, par. 10 (AC C08.102)]	_____	_____	_____
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 and pertinent dates, sinking fund requirements, or unusual voting rights? [APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. 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 presented? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	_____	_____	_____
5. For preferred stock, do disclosures include:			
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?	_____	_____	_____
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 (AC C16.102)]	_____	_____	_____
6. For stock option and stock purchase plans, do disclosures include:			
a. The number of shares under option?	_____	_____	_____
b. The option price?	_____	_____	_____
c. The number of shares as to which options are exercisable?	_____	_____	_____
d. For shares exercised, the number of shares exercised and option price? [APB 43, Ch. 13B, par. 15 (AC C47.123); 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)]	_____	_____	_____
<b>M. Retained Earnings</b>			
1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120), IAG, page 95]	_____	_____	_____
2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
<b>N. Other Stockholders' Equity Accounts</b>			
1. Are cumulative translation adjustments separately disclosed? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [TB 85-6, par. 3 (AC C23.501—.503)]	_____	_____	_____
3. Is the valuation allowance for marketable equity securities separately disclosed? [SFAS 12, par. 11 (AC I89.104)]	_____	_____	_____



Yes      No      N/A

**Income Statement**

**A. Interest Income**

1. For interest income from loans:

a. Do the financial statements disclose interest and finance charges earned separately from other kinds of income, such as insurance premiums?

\_\_\_\_\_

(1) Does the summary of significant accounting policies disclose the method of income recognition used?

\_\_\_\_\_

(2) Does the summary of significant accounting policies disclose the method of suspending and resuming accruals of income on delinquent loans and policies for charging off uncollectible loans?

\_\_\_\_\_

(3) If the charge-off policy is based on a specific period, is that period disclosed?

\_\_\_\_\_

[IAG, page 22]

b. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield, reported as interest income?

\_\_\_\_\_

[SFAS 91, par. 22 (AC L20.121)]

2. Is the interest (actuarial) method used to account for interest income?

\_\_\_\_\_

a. Is interest on fixed-rate installment loans measured and accrued over the lives of the loans to produce constant rates of interest (yields) when applied to the outstanding loan balance at any time in the lives of the loans?

\_\_\_\_\_

b. If other computational methods are used, do they clearly produce results that reasonably approximate the interest (actuarial) method?

\_\_\_\_\_

[IAG, page 14]

3. If the collectibility of interest or principal is not probable, have the accrual of interest income or amortization of discount and the amortization of deferred net fees or costs been suspended?

\_\_\_\_\_

a. Is the accrual of interest resumed when future collectibility of the loan and accrued interest becomes probable?

\_\_\_\_\_

[IAG, page 14 and 15]

4. Are loan origination fees, direct loan origination costs and purchase premiums and discounts on loans deferred?

\_\_\_\_\_

a. Are they amortized to income as an adjustment of yield?

\_\_\_\_\_

[IAG, page 16]

5. For interest income from investment securities:

a. Is the interest method used to record amortization and accretion?

\_\_\_\_\_

[IAG, page 32]

6. Are revenues from insurance provided to finance customers presented as part of revenues from the finance business?

\_\_\_\_\_

a. Alternately, if a net interest income presentation is used, are the revenues from captive insurance activities presented separately below net interest income?

\_\_\_\_\_

[IAG, page 75]

7. Except as specified in SFAS 91, paragraph 20 [AC L20.119] is the interest method used as the method of amortization?

\_\_\_\_\_

[SFAS 91, par. 18 (AC L20.117)]

8. For interest-bearing and discount loans, is interest income measured and recognized in a manner that reflects the economic substance of the underlying transaction?

\_\_\_\_\_

[IAG, page 13]

9. Are all loan commitment fees deferred except for retrospectively determined fees?

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Are commitment fees, where the likelihood that the commitment will be exercised is remote, recognized on a straight line basis over the commitment period?	_____	_____	_____
b. Are other commitment fees recognized as a yield adjustment over the life of the loan?	_____	_____	_____
c. If a commitment expires unexercised, is the commitment fee recognized in income upon expiration? [IAG, page 16]	_____	_____	_____
10. Are delinquency fees recognized in income when chargeable if collectibility is reasonably estimable? [IAG, page 16]	_____	_____	_____
11. Are prepayment penalties recognized in income only when the loan is prepaid? [IAG, page 17]	_____	_____	_____
12. Is the difference between rebate calculations and accrual of interest income recognized in income when loans are prepaid or renewed? [IAG, page 17]	_____	_____	_____
13. Are factoring commissions recognized in income over the periods in which service is rendered? [IAG, page 17]	_____	_____	_____
14. Is insurance premium income recognized in accordance with Statement 60 (AC In6)?	_____	_____	_____
a. Have insurance policies issued in connection with consumer lending been considered to represent short-duration contracts with the premiums recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided?	_____	_____	_____
b. Are level term credit life insurance premiums recognized as revenue on a straight-line basis?	_____	_____	_____
c. Are decreasing term credit life insurance premiums recognized as revenue using the interest method?	_____	_____	_____
d. Are credit accident and health insurance premiums recognized in income in reasonable relationship to anticipated claims (i.e., an amount that falls between the straight-line method and the insurance-in-force method)?	_____	_____	_____
e. Are property and liability insurance premiums recognized on a straight-line basis unless the amount of coverage declines on a predetermined schedule? [IAG, pages 70 and 71]	_____	_____	_____
<b>B. Other Income</b>			
1. Are gains/losses on pension plan settlements or curtailments or termination benefits disclosed? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
2. For marketable equity securities are the following disclosed for each period for which an income statement is presented:			
a. Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
b. For entities with certain specialized accounting practices, 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)]	_____	_____	_____
d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
3. For investments in common stock accounted for by the equity method:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)]	_____	_____	_____
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]	_____	_____	_____
c. Are income taxes of the investor'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)]	_____	_____	_____
<b>C. Other Expenses</b>			
1. Salaries:			
a. If there is a compensatory stock issuance plan:			
(1) Is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]	_____	_____	_____
(2) Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)]	_____	_____	_____
2. Employee Benefits:			
a. Is the amount of net periodic pension costs and their components disclosed? [SFAS 87, par. 54b (AC P16.150b)]	_____	_____	_____
b. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]	_____	_____	_____
3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20-34, 39-53 and 77? <sup>1</sup> [SFAS 87, pars. 20—34, 39—53 and 77 (AC P16.114—.128, .133—.138 and .141—.149)]	_____	_____	_____
4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3-5 and 9-11? [SFAS 88, pars. 3—5 and 9—11 (AC P16.172, .177—.179 and .181)]	_____	_____	_____
5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12-14? [SFAS 88, pars. 6 and 12—14 (AC P16.173 and .182—.184)]	_____	_____	_____
a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7-8? [SFAS 88, pars. 7—8 (AC P16.174—.175)]	_____	_____	_____
6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____
7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9—10, 12—13 and 15 (AC P16.177, .179, .182—.183 and .185)]	_____	_____	_____
8. If there is a compensatory stock issuance plan:			
a. Is compensation expense accrued in the proper periods?	_____	_____	_____

<sup>1</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]			
b. Are deferred income taxes recorded to recognize timing differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
c. Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
9. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—8 (AC C38.101—.102)]	_____	_____	_____
10. Provision for Losses:			
a. Is the provision for credit losses presented separately as an expense item in the income statement? [IAG, page 22]	_____	_____	_____
11. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
12. Operating Leases:			
a. Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
13. Has the allowance for loan losses been established through a charge to the provision for loan losses in the period when it is probable that an asset has been impaired and the amount can be reasonably estimated? [IAG, page 12]	_____	_____	_____
14. Is the discount or premium on debt being amortized to interest expense over the life of the debt, using the interest method? [APB 12, pars. 16—17 (AC I69.108); APB 21, pars. 15—16 (AC I69.108—.109); IAG, page 59]	_____	_____	_____
15. Is interest income on overnight investments combined with interest expense in the income statement and not shown separately?			
a. If material, is such interest income disclosed in a note to the financial statements? [IAG, page 59]	_____	_____	_____
16. Are insurance commissions received from independent insurers deferred and systematically amortized to income over the life of the related insurance contract?			
a. Is the method of amortization consistent with the method of premium income recognition for that type of policy?	_____	_____	_____
b. Is the income from experience-related or retrospective commission arrangements accrued over the insurance risk period?	_____	_____	_____
c. Are commissions paid to a finance company by an insurance subsidiary eliminated in consolidation? [IAG, page 73]	_____	_____	_____
17. Are the financial statements of insurance subsidiaries prepared for submission to regulatory authorities adjusted to conform to GAAP before they are consolidated with the financial statements of the parent company? [IAG, page 72]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Income Taxes</b>			
1. If an entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners, has that fact and the fact that the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities been disclosed? [SFAS 96, par. 24 (AC I25.123)]	_____	_____	_____
2. Has the amount of income tax expense or benefit been allocated to:			
a. Continuing operations?	_____	_____	_____
b. Discontinued operations?	_____	_____	_____
c. Extraordinary items?	_____	_____	_____
d. Cumulative effect of accounting changes?	_____	_____	_____
e. Prior period adjustments?	_____	_____	_____
f. Gains and losses included in comprehensive income but excluded from net income?	_____	_____	_____
g. Capital transactions? [SFAS 96, par. 26 (AC I25.125)]	_____	_____	_____
3. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit exclusive of (f) below?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC I25.126)]	_____	_____	_____
4. Do disclosures regarding income tax expense attributable to continuing operations include:			
a. A reconciliation (using percentages or dollar amounts) to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?	_____	_____	_____
b. The estimated amount and the nature of each significant item? [SFAS 96, par. 28 (AC I25.127)]	_____	_____	_____
5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [APB 2, par. 16, SFAS 96, par. 29 (AC I25.128 and .187)]	_____	_____	_____
6. Do the disclosures for investment tax credits include the method followed (flow-through or deferral) and the amounts involved? [APB 4, par. 11 (AC I25.186)]	_____	_____	_____
7. If part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:			
a. The amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented? [SFAS 96, par. 30 (AC I25.129)]	_____	_____	_____
8. For the earliest year restated or for the year SFAS 96 is first adopted if no prior year is restated, has the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, Accounting Changes, except for any effects of the type required by SFAS 96 to be excluded from net income? [SFAS 96, par. 33]	_____	_____	_____
9. When initially presented, have the financial statements for the year SFAS 96 is first adopted disclosed the following:			
a. The effect of adopting SFAS 96 on income from continuing operations, on income before extraordinary items, and on net income for the year of adoption if restated financial statements for the prior year are not presented?	_____	_____	_____
b. The effect of any restatement on any income from continuing operations, on income before extraordinary items, and on net income for each year presented? [SFAS 96, par. 34]	_____	_____	_____
<b>E. Discontinued Operations</b>			
1. Are operations of a segment that has been discontinued or are the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)]	_____	_____	_____
4. For the period encompassing the measurement date, do notes to financial statements disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information required? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
<b>F. Extraordinary Items</b>			
1. 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)]	_____	_____	_____
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
5. 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):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. 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 I25.505)]	_____	_____	_____
6. 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?	_____	_____	_____
c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)]	_____	_____	_____
<b>G. Other</b>			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____
2. Is earnings per share information presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation? [APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c and .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128—.131 and .169—.176); FASBI 38, par. 7 (AC E09.130A); and SFAS 85, par. 3 (AC E09.123A)]	_____	_____	_____
3. For segment reporting, is the insurance business relating to finance customers included in the finance business segment? [IAG, page 75]	_____	_____	_____
<b>Statement of Changes in Stockholders' Equity</b>			
A. Are changes in separate component accounts of stockholders' equity disclosed?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[APB 12, par. 10 (AC C08.102)]			
B. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
C. Are prior period adjustments limited to:			
1. Correction of an error(s) in financial statements of prior periods? [SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
2. Adjustments resulting from realization of income tax benefits of preacquisition operating loss or tax credit carryforwards of purchased subsidiaries? [SFAS 96, par. 23 (AC I25.122)]	_____	_____	_____
D. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
E. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:			
1. Nature of the error in previously issued financial statements?	_____	_____	_____
2. 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)]	_____	_____	_____

**Statement of Cash Flows**

A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27—28 (AC C25.125—.126)]	_____	_____	_____
1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)]	_____	_____	_____
2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)]	_____	_____	_____
C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
1. Interest received on loans?	_____	_____	_____
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to suppliers and employees?	_____	_____	_____
5. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities? [SFAS 95, pars. 22—23 (AC C25.120—.121)]	_____	_____	_____
D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from collections or sales of loans?	_____	_____	_____
2. Receipts from sales of property or investments?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Loans to other entities?	_____	_____	_____
4. Payments to acquire property or investments? [SFAS 95, pars. 16—17 (AC C25.114—.115)]	_____	_____	_____
F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt or capital stock?	_____	_____	_____
2. Repayment of amounts borrowed?	_____	_____	_____
3. Dividend payments to shareholders?	_____	_____	_____
4. Acquisition of treasury stock? [SFAS 95, pars. 19—20 (AC C25.117—.118)]	_____	_____	_____
H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
I. Does statement of cash flows explain the effect of cash flows by showing change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
J. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, par. 29—30 (AC C25.127—.128)]	_____	_____	_____
L. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
M. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____

[The next page is 15,401.]

# FSP Section 15,400

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of references:

- SAS - Statement of 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
- IAG - Industry Audit Guide, *Audits of Finance Companies*

.03 Checklist Questionnaire

	<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 58, par. 46 (AU 508.46); SAS 26, pars. 15—17 (AU 504.15—.17)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 26, par. 9 (AU 504.09)]	_____	_____	_____
a. For a public entity? [SAS 26, pars. 8—10 (AU 504.08—.10)]	_____	_____	_____
b. For a nonpublic entity? [SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
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 auditor's report include appropriate language with respect to the following:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
b. Departure from a promulgated accounting principle which could lead to a misleading financial statement? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. There is substantial doubt about the entity's ability to continue as a going concern? [SAS 59, par. 13 (AU 341.13)]	_____	_____	_____
e. There has been a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
f. Opinion on prior-period financial statements different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
g. Predecessor auditor's report reissued? [SAS 58, pars. 80—82 (AU 508.80—.82)]	_____	_____	_____
h. Selected quarterly financial data required by the SEC has been omitted or has not been reviewed? [SAS 36, par. 29 (AU 722.29)]	_____	_____	_____
i. Required supplemental information has:			
(1) Been omitted?	_____	_____	_____
(2) Presentation of information departs materially from FASB guidelines?	_____	_____	_____
(3) The auditor is unable to complete prescribed procedures?	_____	_____	_____
(4) The auditor has substantial doubts that the information conforms to FASB guidelines? [SAS 52 (AU 551.15)]	_____	_____	_____
j. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
k. A matter regarding the financial statement that should be emphasized? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
l. Report on one basic financial statement and there are no scope limitations? [SAS 58, par. 48 (AU 508.48)]	_____	_____	_____
m. Reports on comparative financial statements? [SAS 58, pars. 74—75 (AU 508.74—.75)]	_____	_____	_____
n. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, a disclaimer, or an explanatory paragraph on one or more financial statements for one or more periods? [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	_____	_____	_____
o. Comparative financial statements with an opinion different from the opinion previously expressed? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
p. Comparative financial statements when predecessor auditor's report not presented? [SAS 58, par. 83 (AU 508.83)]	_____	_____	_____
q. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
r. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods? [SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)]	_____	_____	_____
5. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? [SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40—48 (AU 508.40—.48)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. An uncertainty is not adequately disclosed in the financial statements? [SAS 58, par. 20 (AU 508.20)]	_____	_____	_____
b. The accounting principles used cause the financial statements to be materially misstated? [SAS 58, par. 21 (AU 508.21)]	_____	_____	_____
c. Unreasonable accounting estimates that cause the financial statements to be misstated? [SAS 58, par. 22 (AU 508.22)]	_____	_____	_____
d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]	_____	_____	_____
e. Client representations about related party transactions? [SAS 45, par. 12 (AU 334.12)]	_____	_____	_____
f. Clients' voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
7. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
8. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion? [SAS 58, par. 70 (AU 508.70)]	_____	_____	_____
a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed? [SAS 58, par. 71 (AU 508.71)]	_____	_____	_____
9. 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, 40, 51, 68 and 71 (AU 508.39, .40, .51, .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)]	_____	_____	_____
10. Does the auditor's report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Regulated companies? [SAS 1, sec. 544.02—.04 (AU 544.02—.04); SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
c. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____
d. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
e. Client's refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Limitations on scope of lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
g. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
h. Scope limitation concerning errors or irregularities? [SAS 53, pars. 26—27 (AU 316.26—.27)]	_____	_____	_____
i. Illegal acts by clients? [SAS 54 (AU 317)]	_____	_____	_____
j. Segment information? [SAS 21 (AU 435)]	_____	_____	_____
k. Entity's continued existence? [SAS 59, pars. 12—16 (AU 341.12—.16)]	_____	_____	_____
l. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
m. 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 which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, section 410 (AU 9410.13—.15)]	_____	_____	_____
n. Client's voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]	_____	_____	_____
11. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]	_____	_____	_____
12. For special reports, have the provisions of SAS 35 and SAS 62 been complied with for the following:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
b. Specified elements, accounts or items of a financial statement? [SAS 62, pars. 11—14 (AU 623.11—.14); SAS 35 (AU 622)]	_____	_____	_____
c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19—21 (AU 623.19—.21)]	_____	_____	_____
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 22—26 (AU 623.22—.26)]	_____	_____	_____
13. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document:			
a. Is there a clear distinction between the client's representation 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 additional 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 examining the basic financial statements and whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
14. If an auditor-submitted document with accompanying information is coexisting with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [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 examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
15. 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)]	_____	_____	_____
16. 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 558.08—.11)]	_____	_____	_____
17. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, has the auditor's report been appropriately modified if:			
a. Required supplementary information is omitted?	_____	_____	_____
b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?	_____	_____	_____
c. The auditor is unable to complete the procedures prescribed by SAS 52? [SAS 52, par. 2 (AU 558.08)]	_____	_____	_____
18. If a report on internal accounting control is to be issued [material weaknesses in internal accounting controls ("reportable conditions")] that have come to the auditor's attention which must be communicated, preferably in writing, to the audit committee or board of directors as required by SAS 60 (AU 325) is the appropriate form used for:			
a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specific period of time? [SAS 30, pars. 37—46 (AU 642.37—.46)]	_____	_____	_____
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed upon matters? [SAS 60, pars. 12—19 (AU 325.12—.19)]	_____	_____	_____
c. Report on all or part of an entity's system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies' preestablished criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	_____	_____	_____
19. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The date of the report on the complete financial statements?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The type of opinion expressed?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 5 (AU 552.05)]	_____	_____	_____
20. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]	_____	_____	_____
21. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	_____	_____	_____
b. The type of opinion expressed?	_____	_____	_____
c. The specific data on which the auditor is reporting?	_____	_____	_____
d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____
22. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	_____	_____	_____

# FSP Section 15,500

## *Illustrative Finance Company Financial Statements*

.01 The following report and set of financial statements illustrates one form of currently acceptable practice and, as indicated, does not include all disclosures required under generally accepted accounting principles. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statement or in the notes, depending on the circumstances.

.02 The banking industry has adopted an income statement format that emphasizes presentation of net interest income. Because of the similarity between many banking activities and finance company activities, the AICPA Finance Companies Guide Special Committee believes that such a presentation is of increasing relevance for the finance industry. Therefore, the illustrative financial statements in this appendix include two alternative income statement formats, the first of which emphasizes a net interest income presentation.

.03 Nevertheless, certain factors may limit the usefulness of the net interest income presentation. An income statement that does not emphasize net interest income may be more appropriate for companies that engage primarily or solely in factoring operations or that otherwise derive a substantial portion of their income from commissions for services rather than from interest earned on loans. Additionally, the scope of what is to be included in net interest income needs to be considered. For example, as not done in the illustrative financial statements, a finance company may include credit insurance premiums and insurance claims expenses on affiliated credit insurance business in the display of net interest income to recognize the integral nature of lending and credit insurance activities. In addition, all or a portion of investment income may be included in the display of net interest income.

.04 FASB Statement No. 95, *Statement of Cash Flows*, requires a statement of cash flows as part of a full set of financial statements for all business enterprises, in place of a statement of changes in financial position.

.05 Both the direct and indirect methods of presenting a statement of cash flows are illustrated in this section.



**.06****Independent Auditor's Report**

To the Board of Directors and Stockholders  
XYZ Finance Corporation  
Anytowne, U.S.A.

We have audited the accompanying consolidated balance sheets of XYZ Finance Corporation and subsidiaries as of December 31, 19X8 and 19X7, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XYZ Finance Corporation and subsidiaries at December 31, 19X8 and 19X7, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.  
January 15, 19X9

## XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.07

## Balance Sheets

December 31, 19X8 and 19X7

(in thousands except share and per share amounts)

	19X8	19X7
<b>Assets</b>		
Finance receivables, net .....	\$333,649	\$272,166
Investments in securities .....	32,760	30,838
Cash .....	6,015	4,907
Property and equipment .....	4,689	3,830
Other .....	11,628	9,577
<b>Total assets</b> .....	<u>\$388,741</u>	<u>\$321,318</u>
<b>Liabilities</b>		
Senior debt .....	\$163,064	\$113,723
Senior subordinated debt .....	84,204	74,572
Junior subordinated debt .....	31,400	30,500
Accounts payable and accrued liabilities .....	15,727	13,866
Credit balances of factoring clients .....	4,120	3,112
Deferred income taxes .....	3,972	3,469
<b>Total liabilities</b> .....	<u>302,487</u>	<u>239,242</u>
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; 4,269,000 shares authorized and outstanding . . . .	4,269	4,269
Additional paid-in capital .....	18,945	18,945
Net unrealized depreciation of marketable equity securities .....	(626)	(278)
Retained earnings .....	63,666	59,140
<b>Total shareholders' equity</b> .....	<u>86,254</u>	<u>82,076</u>
<b>Total liabilities and shareholders' equity</b> .....	<u>\$388,741</u>	<u>\$321,318</u>

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

## XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.08

## Statements of Income and Retained Earnings: Format 1

Years Ended December 31, 19X8 and 19X7

(in thousands except share and per share amounts)

	<u>19X8</u>	<u>19X7</u>
Interest income		
Interest and fee income .....	\$55,510	\$47,302
Interest expense .....	(18,825)	(16,283)
Interest income before provision for credit losses .....	<u>36,685</u>	<u>31,019</u>
Provision for credit losses .....	(4,284)	(3,623)
Net interest income .....	32,401	27,396
Insurance premiums and other income .....	13,040	11,650
Other expenses		
Salaries and fringe benefits .....	(10,546)	(8,987)
Other operating expenses .....	(13,227)	(11,565)
Policyholders' benefits .....	(6,644)	(5,600)
Income before income taxes .....	<u>15,024</u>	<u>12,894</u>
Income taxes .....	(7,211)	(6,189)
Net income .....	7,813	6,705
Retained earnings, beginning of year .....	59,140	55,551
Dividends .....	(3,287)	(3,116)
Retained earnings, end of year .....	<u>\$63,666</u>	<u>\$59,140</u>
Earnings per share .....	<u>\$ 1.83</u>	<u>\$ 1.57</u>
Dividends per share .....	<u>\$ 0.77</u>	<u>\$ 0.73</u>

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

**XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES**

.09

**Statements of Income and Retained Earnings: Format 2**

**Years Ended December 31, 19X8 and 19X7**

**(in thousands except share and per share amounts)**

	<u>19X8</u>	<u>19X7</u>
<b>Revenues</b>		
Interest and fee income .....	\$55,510	\$47,302
Insurance premiums and other income .....	13,040	11,650
<b>Total revenues</b> .....	<u>68,550</u>	<u>58,952</u>
<b>Expenses</b>		
Interest expense .....	18,825	16,283
Policyholders' benefits .....	6,644	5,600
Provision for credit losses .....	4,284	3,623
Salaries and fringe benefits .....	10,546	8,987
Other operating expenses .....	13,227	11,565
<b>Total expenses</b> .....	<u>53,526</u>	<u>46,058</u>
Income before income taxes .....	15,024	12,894
Income taxes .....	7,211	6,189
Net income .....	7,813	6,705
Retained earnings, beginning of year .....	59,140	55,551
Dividends .....	(3,287)	(3,116)
Retained earnings, end of year .....	<u>\$63,666</u>	<u>\$59,140</u>
Earnings per share .....	<u>\$ 1.83</u>	<u>\$ 1.57</u>
Dividends per share .....	<u>\$ 0.77</u>	<u>\$ 0.73</u>

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

## XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.10

## Statements of Cash Flows: Direct Method

Years Ended December 31, 19X8 and 19X7

(in thousands)

	<u>19X8</u>	<u>19X7</u>
<b>Cash flows from operating activities:</b>		
Interest and fees received .....	\$ 54,698	\$ 46,589
Interest paid .....	(18,275)	(15,897)
Cash payments for operating expenses .....	(21,912)	(18,686)
Income taxes paid .....	(5,242)	(4,565)
Insurance premiums received .....	12,790	11,498
Other .....	(2,611)	(1,937)
Net cash provided by operating activities .....	<u>19,448</u>	<u>17,002</u>
<b>Cash flows from investing activities:</b>		
Loans originated or purchased * .....	(190,304)	(136,571)
Loans repaid or sold * .....	118,705	83,750
Net investment in commercial paper .....	(346)	(555)
Securities purchased .....	(19,243)	(17,512)
Securities sold or matured * .....	17,471	16,639
Capital expenditures .....	(1,409)	(1,656)
Proceeds from sale of property and equipment .....	200	643
Net cash used in investing activities .....	<u>(74,926)</u>	<u>(55,262)</u>
<b>Cash flows from financing activities:</b>		
Net borrowings of commercial paper .....	16,939	10,215
Proceeds from issuance of other debt .....	71,000	50,000
Repayment of other debt .....	(28,066)	(18,215)
Proceeds from issuance of common stock .....	—	955
Dividends paid .....	(3,287)	(3,116)
Net cash provided by financing activities .....	<u>56,586</u>	<u>39,839</u>
Net increase in cash .....	1,108	1,579
Cash, beginning of year .....	4,907	3,328
Cash, end of year .....	<u>\$ 6,015</u>	<u>\$ 4,907</u>
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income .....	\$ 7,813	\$ 6,705
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Provision for credit losses on finance receivables .....	4,284	3,623
Policyholders' benefits .....	6,644	5,600
Depreciation .....	350	303
Deferred income taxes .....	503	473
Accounts payable and accrued liabilities .....	1,861	1,530
Accrued interest receivable .....	(812)	(713)
Gain on sale of securities .....	(152)	(183)
Other .....	(1,043)	(336)
Net cash provided by operating activities .....	<u>\$ 19,448</u>	<u>\$ 17,002</u>

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

\* If the amounts are significant, this caption may be separated into two line items.

## XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.11

## Statements of Cash Flows: Indirect Method

Years Ended December 31, 19X8 and 19X7

(in thousands)

	<u>19X8</u>	<u>19X7</u>
Cash flows from operating activities:		
Net income .....	\$ 7,813	\$ 6,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on finance receivables .....	4,284	3,623
Policyholders' benefits .....	6,644	5,600
Depreciation .....	350	303
Deferred income taxes .....	503	473
Accounts payable and accrued liabilities .....	1,861	1,530
Accrued interest receivable .....	(812)	(713)
Gain on sale of securities .....	(152)	(183)
Other .....	(1,043)	(336)
Net cash provided by operating activities .....	<u>19,448</u>	<u>17,002</u>
Cash flows from investing activities:		
Loans originated or purchased * .....	(190,304)	(136,571)
Loans repaid or sold * .....	118,705	83,750
Net investment in commercial paper .....	(346)	(555)
Securities purchased .....	(19,243)	(17,512)
Securities sold or matured * .....	17,471	16,639
Capital expenditures .....	(1,409)	(1,656)
Proceeds from sale of property and equipment .....	200	643
Net cash used in investing activities .....	<u>(74,926)</u>	<u>(55,262)</u>
Cash flows from financing activities:		
Net borrowings of commercial paper .....	16,939	10,215
Proceeds from issuance of other debt .....	71,000	50,000
Repayment of other debt .....	(28,066)	(18,215)
Proceeds from issuance of common stock .....	—	955
Dividends paid .....	(3,287)	(3,116)
Net cash provided by financing activities .....	<u>56,586</u>	<u>39,839</u>
Net increase in cash .....	1,108	1,579
Cash, beginning of year .....	4,907	3,328
Cash, end of year .....	<u>\$ 6,015</u>	<u>\$ 4,907</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest .....	\$ 18,275	\$ 15,897
Income taxes .....	\$ 5,242	\$ 4,565

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

\* If the amounts are significant, this caption may be separated into two line items.

## XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.12

### Notes to Financial Statements

#### A. Summary of Significant Accounting Policies

##### Basis of Consolidation

The consolidated financial statements include the accounts of XYZ Finance Corporation (the Company) and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

##### Income Recognition

Interest income from finance receivables is recognized using the interest (actuarial) method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for ninety days or more. The accrual is resumed when the loan becomes contractually current, and past-due interest income is recognized at that time. In addition, a detailed review of commercial loans will cause earlier suspension if collection is doubtful. Premiums and commissions for credit life insurance are recognized as revenue using the interest method. Premiums and commissions for credit accident and health insurance are recognized over the terms of the contracts based on the mean of the straight-line and interest methods.

##### Credit Losses

Provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing portfolio. The Company's charge-off policy is based on a loan-by-loan review for all receivables except consumer loans and factored receivables, which are charged off when they are 180 days and 90 days contractually past due, respectively.

##### Loan Origination Fees and Costs

Fees received and direct costs incurred for the origination of loans are deferred and amortized to interest income over the contractual lives of the loans using the interest method. Unamortized amounts are recognized in income at the time that loans are sold or paid in full.

##### Investments

Investments in marketable equity securities are carried at lower of aggregate market value and cost. Investments in bonds and notes are carried at amortized cost. The amount by which the aggregate cost of investments in marketable equity securities exceeds aggregate market value is reported as a deduction from equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in income.

#### B. Finance Receivables and Allowance for Credit Losses

Finance receivables as of December 31 consisted of the following (in thousands of dollars):

	19X8	19X7
Consumer		
Real estate secured .....	\$131,961	\$104,078
Other .....	119,135	97,857
Accrued interest .....	3,175	2,550
	254,271	204,485
Commercial		
Accounts receivable loans .....	32,002	27,440
Factored accounts Receivables .....	21,404	18,594

	19X8	19X7
Inventory loans to clients .....	2,965	2,876
Overadvances to clients .....	2,947	2,260
Floor plan loans .....	5,441	5,763
Other .....	29,962	23,620
Accrued interest .....	1,200	1,013
	<u>95,921</u>	<u>81,566</u>
Total finance receivables .....	350,192	286,051
Allowance for credit losses .....	(9,506)	(7,839)
Unearned credit insurance premiums and liabilities for policyholder benefits ...	(7,037)	(6,046)
Finance receivables, net .....	<u>\$333,649</u>	<u>\$272,166</u>

At December 31, 19X8, the accrual of interest income was suspended on \$4,086,000 and \$2,107,000 of consumer and commercial loans, respectively.

At December 31, 19X8, contractual maturities of finance receivables were as follows (in thousands of dollars):

	19X9	19X0	19X1	19X2	19X3	Thereafter	Total
Consumer Real estate secured .....	\$ 20,963	\$10,785	\$10,474	\$ 8,480	\$ 8,917	\$72,342	\$131,961
Other .....	51,325	29,374	20,164	9,507	2,423	6,342	119,135
Commercial Accounts receivable							
loans .....	32,002						32,002
Factored accounts .....	27,316						27,316
Floor plan loans .....	4,686	755					5,441
Other .....	6,140	8,243	5,192	4,934	5,453		29,962
Accrued interest .....	4,375						4,375
Total finance receivables .....	<u>\$146,807</u>	<u>\$49,157</u>	<u>\$35,830</u>	<u>\$22,921</u>	<u>\$16,793</u>	<u>\$78,684</u>	<u>\$350,192</u>

It is the Company's experience that a substantial portion of the consumer loan portfolio generally is renewed or repaid before contractual maturity dates. The above tabulation, therefore, is not to be regarded as a forecast of future cash collections. During the years ended December 31, 19X8 and 19X7, cash collections of principal amounts of consumer loans totaled \$57,670,000 and \$40,719,000, respectively, and the ratios of these cash collections to average principal balances were 25 percent and 29 percent, respectively.

Changes in the allowance for credit losses were as follows (in thousands of dollars):

	Consumer		Commercial				Total
	Real Estate Secured	Other	Accounts Receivable Loans	Factored Accounts	Floor Plan Loans	Other	
Balance as of							
December 31, 19X6 .....	\$ 762	\$3,885	\$628	\$556	\$112	\$620	\$6,563
Provision for credit losses .....	597	1,564	627	534	129	172	3,623
Loans charged off .....	(376)	(1,357)	(749)	(639)	(154)	(156)	(3,431)
Recoveries .....	58	490	225	192	46	73	1,084
Balance as of							
December 31, 19X7 .....	1,041	4,582	731	643	133	709	7,839
Provision for credit losses .....	651	2,090	664	583	121	175	4,284
Loans charged off .....	(448)	(1,601)	(808)	(710)	(147)	(178)	(3,892)
Recoveries .....	76	601	243	213	44	98	1,275
Balance as of							
December 31, 19X8 .....	<u>\$1,320</u>	<u>\$5,672</u>	<u>\$830</u>	<u>\$729</u>	<u>\$151</u>	<u>\$804</u>	<u>\$9,506</u>



**C. Investments in Securities**

Investments in securities as of December 31 were as follows (in thousands of dollars):

	19X8			19X7		
	Cost	Market	Carrying Amount	Cost	Market	Carrying Amount
<b>Marketable equity securities</b>						
Common stocks .....	\$10,454	\$ 9,523	\$ 9,523	\$ 9,429	\$ 8,382	\$ 8,382
Preferred stocks .....	5,897	6,202	6,202	5,551	6,320	6,320
<b>Total marketable equity securities .....</b>	<b>16,351</b>	<b>15,725</b>	<b>15,725</b>	<b>14,980</b>	<b>14,702</b>	<b>14,702</b>
<b>Other</b>						
Government bonds .....	6,552	6,128	6,552	6,267	5,832	6,267
Corporate bonds .....	4,586	4,271	4,586	4,318	4,017	4,318
Commercial paper .....	5,897	5,897	5,897	5,551	5,551	5,551
<b>Total other .....</b>	<b>17,035</b>	<b>16,296</b>	<b>17,035</b>	<b>16,136</b>	<b>15,400</b>	<b>16,136</b>
<b>Total investments in securities ...</b>	<b>\$33,386</b>	<b>\$32,021</b>	<b>\$32,760</b>	<b>\$31,116</b>	<b>\$30,102</b>	<b>\$30,838</b>

All but \$6,710,000 and \$3,801,000 of the above investments were held by insurance subsidiaries as of December 31, 19X8 and 19X7, respectively. As of December 31, 19X8, the marketable equity securities portfolio had gross unrealized gains of \$428,000 and gross unrealized losses of \$1,054,000. The gross unrealized losses have not been reduced for their tax effects. Sales of marketable equity securities resulted in net realized gains of \$152,000 and \$183,000 in 19X8 and 19X7, respectively.

**D. Debt**

Debt as of December 31 consisted of the following (in thousands of dollars):

	19X8	19X7
<b>Senior debt</b>		
Commercial paper .....	\$ 62,600	\$ 45,661
4% to 7% notes due 19X9-19X2 .....	73,866	47,570
7 1/2% notes due 19Y3-19Y7 .....	12,090	9,314
8% notes due 19Y2 .....	9,671	7,452
Variable interest rate notes due 19Y1 .....	4,837	3,726
<b>Total senior debt .....</b>	<b>163,064</b>	<b>113,723</b>
<b>Senior subordinated debt</b>		
6% notes due 19Y2 .....	40,000	40,000
7% notes due 19Y3 .....	34,572	34,572
8 1/2% notes due 19Y6-19Z0 .....	9,632	—
<b>Total senior subordinated debt .....</b>	<b>84,204</b>	<b>74,572</b>
<b>Junior subordinated debt</b>		
8% notes due 19Y2 .....	25,000	25,000
10 1/2% notes due 19Y3-19Y9 .....	6,400	5,500
<b>Total junior subordinated debt .....</b>	<b>31,400</b>	<b>30,500</b>
<b>Total subordinated debt .....</b>	<b>115,604</b>	<b>105,072</b>
<b>Total debt .....</b>	<b>\$278,668</b>	<b>\$218,795</b>

The Company maintains various bank credit agreements, primarily to support commercial paper borrowings. As of December 31, 19X8, these agreements included \$50,000,000 of formal credit lines and \$158,460,000 of revolving credit agreements. Credit lines are reviewed annually, and the revolving credit agreements consist of \$50,160,000 and \$108,300,000 expiring June 30, 19Y0, and September 30, 19Y2, respectively. As of December 31, 19X8, none of the credit lines or revolving credit agreements were in use. To support the availability of credit

agreements, the Company pays commitment fees or maintains compensating balances, or both. Borrowings under these lines generally are available at the prime rate. Compensating balance and annual commitment fee requirements as of December 31, 19X8 totaled \$742,000 and \$987,000, respectively.

Data on commercial paper were as follows (in thousands of dollars):

	<u>19X8</u>	<u>19X7</u>
Weighted average interest rate at year end .....	9.2%	8.7%
Maximum amount outstanding at any month end .....	\$62,600	\$48,735
Average borrowings .....	54,131	43,867
Weighted average interest rate during the year .....	<u>9.0%</u>	<u>8.5%</u>

Maturities as of December 31, 19X8, were as follows (in thousands of dollars):

	<u>19X9</u>	<u>19X0</u>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>There- after</u>	<u>Total</u>
Senior debt .....	\$81,100	\$18,500	\$22,337	\$29,037	\$ 2,400	\$ 9,690	\$163,064
Senior subordinated debt .....				40,000	34,572	6,632	84,204
Junior subordinated debt .....				25,000	1,000	5,400	31,400
Total debt .....	<u>\$81,100</u>	<u>\$18,500</u>	<u>\$22,337</u>	<u>\$94,037</u>	<u>\$37,972</u>	<u>\$24,722</u>	<u>\$278,668</u>

The loan agreements under which certain of the senior and subordinated debts were issued contain restrictions on the payment of dividends, the purchase of common stock, and the requirements for maintenance of certain financial ratios and other financial conditions. Under the most restrictive of the dividend payment provisions, approximately \$21,056,000 of consolidated retained earnings were free of such restrictions as of December 31, 19X8. Requirements for maintenance of certain financial ratios and other financial conditions have the effect of requiring maintenance of consolidated shareholders' equity at certain minimum amounts; as of December 31, 19X8, consolidated equity exceeded this minimum amount by approximately \$38,600,000.

Note: See appropriate FASB and AICPA pronouncements for additional guidance in presenting other information required by generally accepted accounting principles such as disclosures about insurance activities, segment data, lease commitments, employee benefit plans, and income taxes.

# **FSP Section 16,000**

## **CHECKLIST SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR INVESTMENT COMPANIES**

.01 The checklist and illustrative financial statements included in this section have been developed as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist and illustrative financial statements are to be used in conjunction with the “Disclosure Checklists and Illustrative Financial Statements for Corporations,” and have been updated to include relevant FASB Statements, Accounting Principles Board Opinions and AICPA Statements of Position. In addition, suggested guidance has been provided from various accounting textbooks where no specific authoritative literature exists. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. To determine the applicability of a pronouncement, its effective date should be considered.
- The checklist and illustrative financial statements are a “tool” and in no way represent official positions or pronouncements of the AICPA.
- The checklist and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

.02 Users of this checklist 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.

John Graves  
Director  
Technical Services

---

[The next page is 16,101.]

# FSP Section 16,100

## Introduction

.01 Investment companies generally are companies that pool shareholders' funds and invest the proceeds for the benefits of shareholders under the supervision of professional investment management. The investments generally are in securities that are intended to meet the investment objectives of the entity. The entity distributes the net income and realized net gains to its shareholders.

.02 The industry is subject to extensive governmental regulation by the Securities and Exchange Commission ("SEC"). The industry also is the subject of special tax treatment. The investment company industry usually is categorized by the type of security or the investment objective.

.03 There are many types of investment companies: management investment companies, unit investment trusts, collective trust funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies are further divided into many sub-classifications, the most predominant of which is open-end funds, also called mutual funds. There also are closed-end funds and Small Business Investment Companies.

.04 This checklist has been designed primarily for auditors of mutual funds and closed-end investment companies that register with the SEC under the Investment Company Act of 1940. However, this checklist generally would apply to all types of investment companies.

.05 Investment companies covered by this checklist are required to report their investment assets at value and have the following attributes (not applicable to real estate investment trusts):

- a. Investment activity—The primary activity is the investment in securities of non-affiliates or entities not under common management for current income, appreciation, or both.
- b. Unit ownership—Ownership in the investment company is evidenced by units of investments, such as shares of stock or partnership interests to which proportionate shares of net assets can be attributed.
- c. Pooling of funds—The funds of the owners are pooled to avail owners of professional investment management.
- d. Reporting entity—The investment company is the primary reporting entity.

.06 The major accounting and auditing literature and applicable regulations for investment companies are as follows:

- a. Audit and Accounting Guide—AICPA—Audits of Investment Companies (Third Edition, Revised)
- b. SOP 89-2—Reports on Audited Financial Statements of Investment Companies
- c. Article 6 of Regulation S-X of the Securities and Exchange Commission
- d. The Securities Act of 1933
- e. Investment Company Act of 1940

---

[The next page is 16,201.]

# FSP Section 16,200

## Checklist Questionnaire for Investment Companies

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with Section 2000 "Disclosure Checklist for Corporations".

.02 The form and content of the investment companies financial statements required in SEC filings are governed by Regulation S-X Article 6, which deals specifically with investment companies. (SBIC's are covered in article 5)

.03 Explanation of references:

ICG = AICPA Audit and Accounting Guide, Audits of Investment Companies

Reg S-K = Securities and Exchange Commission Regulation S-K

Reg S-X = Securities and Exchange Commission Regulation S-X

.04 Checklist Questionnaire

Yes      No      N/A

### General

#### A. Financial Statements Presented

1. Are the following financial statements presented:  
(ICG5.1)

a. Statement of assets and liabilities or a statement of net assets as of the close of the latest period?

(1) Does it include a detailed list of investment in securities?

(2) Covered call options written?

(3) Securities sold short?

(4) Other investments?

b. Statement of operations for the latest period?

c. Statement of changes in net assets for the latest two years?

d. Selected per share data and ratios for the latest five years?  
(ICG5.1)

#### B. Reporting Financial Position

1. Is a statement of net assets omitted because less than 95% of total assets is invested in securities of nonaffiliated issuers?  
(ICG5.5) (Reg. S-X)

2. If a statement of assets and liabilities is used, does it list assets and liabilities in sufficient detail, and an amount for net assets?  
(ICG5.6)

3. Does the statement of net assets present a detailed list of portfolio securities and a net amount for all other assets and liabilities?  
(ICG5.7)

### Statement of Assets and Liabilities

#### A. Assets

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>1. Investments</b>			
a. Are investments in securities the first item in the asset section? (ICG5.9)	_____	_____	_____
b. Are securities reported at value with acquisition cost shown parenthetically by major classification of securities? (ICG5.10)	_____	_____	_____
c. Are investments in foreign securities reported at value by converting their foreign currency value into U.S. dollars using current exchange rates? (ICG5.10)	_____	_____	_____
d. If a statement of assets and liabilities is used, are individual securities held by the fund listed in the statement or in an accompanying list by major classifications of the investments in the portfolio? (ICG5.10)	_____	_____	_____
e. Are significant investments in foreign securities disclosed and presented separately in a representative grouping? (ICG5.10)	_____	_____	_____
f. Are securities arranged in the most meaningful manner within each classification by industry or group with disclosure of the percentage of assets in each group? (ICG5.10)	_____	_____	_____
g. Does the portfolio listing indicate the number of shares or principal amount and value of each security issue? (ICG5.11)	_____	_____	_____
h. Are short-term investments summarized by issuers (other than money market mutual funds which should present in detail) disclosing their ranges of interest rates and maturity dates? (ICG5.11)	_____	_____	_____
i. Is specific disclosure made of investments in restricted securities non-income producing, affiliated companies and securities subject to call options? (ICG5.11)	_____	_____	_____
<b>2. Cash</b>			
a. Is cash on hand and demand deposits included under the general caption, cash?	_____	_____	_____
b. Are foreign currencies, if material, disclosed separately?	_____	_____	_____
c. Are time deposits and other funds subject to withdrawal presented separately with disclosure of applicable interest rates and maturity dates? (ICG5.12)	_____	_____	_____
<b>3. Receivables</b>			
a. Are the following receivables listed separately:			
(1) Dividends and interest?	_____	_____	_____
(2) Investment securities sold?	_____	_____	_____
(3) Capital stock sold?	_____	_____	_____
(4) Repurchase agreements including accrual interest? (ICG2.75)	_____	_____	_____
(5) Other accounts receivable such as receivables from related parties or expense reimbursements from affiliates? (ICG5.13)	_____	_____	_____
<b>4. Other Assets</b>			
a. Do other assets include items such as deferred organization expense, prepaid taxes, and furniture and fixtures with only significant items separately disclosed? (ICG5.14)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>B. Liabilities</b>			
<b>1. Accounts Payable</b>			
a. Have accounts payable been listed separately for investment securities purchased and for capital stock reacquired? (ICG5.16)	_____	_____	_____
b. Have call or put options written, future contracts sold, and securities sold short been disclosed? (ICG5.17)	_____	_____	_____
(1) Are call options written and securities sold short at the end of the period presented separately?	_____	_____	_____
(2) Does the information for covered call options include the number of shares subject to call for each option written, the value of each option, stock price and exercise date?	_____	_____	_____
(3) Does the information presented for other securities sold short, other options written and futures contracts sold include data about quantities, values and proceeds?	_____	_____	_____
<b>2. Taxes</b>			
a. Does the entity meet the provisions of subchapter M of the Internal Revenue Code and distribute all taxable income and realized gains? (ICG1.37)	_____	_____	_____
b. Are there any non-distributed realized taxable long-term gains for which election has been made to pay the federal income tax for their shareholders? (ICG1.37)	_____	_____	_____
c. Are state, local and foreign taxes, current and deferred, reported on the accrual basis? Are such taxes recorded on unrealized appreciation or depreciation of investments? (ICG1.38)	_____	_____	_____
d. If the entity does not qualify under Subchapter M of the Internal Revenue Code, has a provision for deferred federal taxes on unrealized appreciation or depreciation been recorded in addition to federal income taxes on net investment income and realized gains or losses? (ICG1.39)	_____	_____	_____
<b>3. Accrued Liabilities</b>			
a. Are accounts payable separately reported for securities purchased and reported stock reacquired?	_____	_____	_____
b. Are call options written, securities sold short and futures contracts sold presented separately including details such as quantities, values and proceeds? (ICG5.1)	_____	_____	_____
c. Are accrued liabilities disclosed including taxes, management fees, interest, compensation expenses, and other expenses with separate disclosure of related party amounts? (ICG5.18)	_____	_____	_____
d. Are notes payable to banks and to others and other funded debt reported separately with separate disclosure of related party amounts? (ICG5.19)	_____	_____	_____
e. Do other liabilities include amounts payable to affiliates for collateral on return of securities loaned, for deferred income, and for dividends? (ICG5.20)	_____	_____	_____
f. Are reverse repurchase agreements presented?	_____	_____	_____
<b>4. Net Assets</b>			
a. If not required to be disclosed separately in the statement of assets and liabilities, does the statement or notes disclose the following: (ICG5.21)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) Units of capital, including the title of each class, the number authorized and outstanding and the dollar amount?	_____	_____	_____
(2) Paid-in capital which includes the net proceeds received on sale of capital shares less the cost of reacquired shares, adjusted for amounts apportioned to the equalization accounts, if that accounting procedure is followed?	_____	_____	_____
(3) Undistributed investment income, which includes cumulative investment income or loss, equalization apportionments, if necessary, less dividends from net investment income (amounts at the end of the periods presented are normally disclosed in the statement of changes in net assets)?	_____	_____	_____
(4) Cumulative amounts of gains and losses realized from security transactions, net of actual or deemed dividends to shareholders?	_____	_____	_____
(5) Unrealized appreciation or depreciation of investments (value of securities owned at the end of the period compared to acquisition price less applicable deferred income taxes on unrealized appreciation)?	_____	_____	_____
b. As to tax-managed funds:			
(1) For tax-managed funds, have the undistributed investment income, realized gains and losses, and changes in unrealized appreciation or depreciation been combined? (ICG5.22)	_____	_____	_____
(2) Have current and accrued taxes been recorded? (ICG4.76)	_____	_____	_____
c. Has net asset value per share been disclosed? (ICG5.23)	_____	_____	_____

**Statement of Operations**

**A. Income**

1. Is dividend income recorded as of the ex-dividend date? (ICG5.25)	_____	_____	_____
2. Are dividends from affiliates and controlled companies reported and disclosed separately? (ICG5.25)	_____	_____	_____
3. Is interest income generally accrued on all debt securities? (ICG5.26)	_____	_____	_____
4. Has the interest received on bonds that were in default or that were delinquent in the payment of interest when acquired been accounted for as:			
a. Interest income for the amount earned from the date of acquisition through the current period, or	_____	_____	_____
b. A reduction in the cost of the investment in terms of the amount relative to arrearages at the date of the acquisition? (ICG2.108, ICG5.26)	_____	_____	_____
5. Has income from securities loaned and from miscellaneous sources been included as other income? (ICG5.27)	_____	_____	_____

**B. Expenses**

1. Are the following expenses reported separately: (ICG5.28)			
a. Investment advisory (management) fees (or compensation)?	_____	_____	_____
b. Shareholder service costs including fees and expenses for the transfer agent and distribution expenses?	_____	_____	_____
c. Dividend disbursing agent fees?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Custodian fees?	_____	_____	_____
e. Reports to shareholders?	_____	_____	_____
f. Federal income taxes?	_____	_____	_____
g. Other taxes?	_____	_____	_____
h. Interest?	_____	_____	_____
i. Dividends on securities sold short?	_____	_____	_____
j. Professional fees?	_____	_____	_____
k. Director's fees?	_____	_____	_____
l. Registration fees and expenses?	_____	_____	_____
2. Based on SEC requirements, are expenses that represent 5% or more of total expenses disclosed? (ICG5.28)	_____	_____	_____
3. Are amounts paid to affiliates or related parties disclosed in accordance with FASB Statement No. 57? Does the disclosure include the basis for determining management, advisory fees, and other amounts paid to related parties (including expense reimbursement)? (ICG5.29)	_____	_____	_____
4. Are sales and payments to affiliates under a 12b-1 distribution plan disclosed? (ICG5.29)	_____	_____	_____
5. Is the excess of investment income over total expenses shown as investment income-net? (ICG5.30)	_____	_____	_____
<b>C. Realized Gains or Losses on Investments</b>			
1. Are significant net realized gains or losses disclosed by major types of security transactions such as long transactions, short sale transactions, and covered call option transactions? (ICG5.31)	_____	_____	_____
2. Are net gains or losses from sales or other disposals reported net of brokerage commissions? (ICG5.31)	_____	_____	_____
3. Are income tax provisions charged against realized gains disclosed separately? (ICG5.31)	_____	_____	_____
4. Are gains arising from in-kind redemptions disclosed? (ICG5.31)	_____	_____	_____
5. Has disclosure been made of the proceeds from sales and the cost of securities bought separately for U.S. Government obligations and other than U.S. Government Securities? (ICG5.32)	_____	_____	_____
6. Has consideration been given to separate disclosures of the proceeds and costs pertaining to common stocks, preferred and bonds? (ICG5.32)	_____	_____	_____
7. For a money market fund, have net realized gains or losses (usually insignificant), been combined with interest income? (ICG5.32)	_____	_____	_____
<b>D. Changes in Unrealized Appreciation or Depreciation of Investments</b>			
1. Have changes in unrealized appreciation or depreciation of investments together with related disclosure of deferred taxes, if any, been reported in the statement of operations? (ICG5.33)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>E. Net Gain or Loss on Investments</b>			
1. Has the sum of realized and unrealized net gain or loss on investments been presented in the statement of operations as a net gain or loss on investments?	_____	_____	_____
2. Are the significant effects of futures or options trading activities, disclosed separately? (ICG5.34)	_____	_____	_____
<b>F. Net Increase or Decrease in Net Assets Resulting from Operations</b>			
1. Is the sum of investment income-net and net gain or loss on investment, shown as a net increase or decrease in net assets resulting from operations? (ICG5.35)	_____	_____	_____
<b>Statement of Changes in Net Assets</b>			
<b>A. Does the increase or decrease in net assets include the following categories:</b>			
1. Operations			
a. Net investment income or loss?	_____	_____	_____
b. Net realized gains and losses?	_____	_____	_____
c. Changes in unrealized gains or losses on investments?	_____	_____	_____
2. If equalization accounting is followed, is undistributed investment income included in the price of capital shares issued or reacquired?	_____	_____	_____
3. Distributions to shareholders			
a. Distribution from undistributed investment income?	_____	_____	_____
b. Distribution from undistributed realized gains from investment transaction.	_____	_____	_____
c. Distributions from other sources (e.g., return of capital)?	_____	_____	_____
d. Have per share amounts of distributions been included? (ICG5.37)	_____	_____	_____
B. Has disclosure of declared but undistributed amounts been disclosed in the notes? (ICG5.37)	_____	_____	_____
C. Have the following components of capital share transactions been disclosed on the face of this statement or in the notes as follows:			
1. The number and value of shares sold?	_____	_____	_____
2. The number and value of shares issued in reinvestment of distributions?	_____	_____	_____
3. The number and value of shares reacquired?	_____	_____	_____
4. The net change? (ICG5.37)	_____	_____	_____
D. Have net assets been disclosed at the beginning and end of the year including an indication (usually parenthetically) of undistributed investment income? (This amount should agree with the comparable amount in the statement of assets and liabilities) (ICG5.37)	_____	_____	_____
<b>Supplementary Information</b>			
A. Does the information include selected per share data and ratios for a period of at least five years? (ICG5.38)	_____	_____	_____
B. Are per share amounts presented based on a share outstanding throughout the period? (ICG5.38)	_____	_____	_____
C. Has the following per share information been presented: (ICG5.39)			
1. Investment income?	_____	_____	_____
2. Expenses?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Income taxes and interest on borrowed funds, if material?	_____	_____	_____
4. Per share investment income?	_____	_____	_____
5. Distributions from undistributed investment income, undistributed net realized gain through investment transactions, and from other sources?	_____	_____	_____
6. Realized and unrealized gains and losses per share that are balancing amounts necessary to reconcile the changes in net asset value per share with other per share information presented?	_____	_____	_____
7. The increase or decrease in net asset value per share?	_____	_____	_____
8. The net asset value at the beginning and end of each period? (ICG5.39)	_____	_____	_____
D. Are the ratios of investment income-net and expenses to average net assets presented? (ICG5.40)	_____	_____	_____
E. Have additional ratios such as turnover rates, number of shares outstanding at the end of each period and the total return or yield information for money market investment companies, been presented? (ICG5.40)	_____	_____	_____
F. Have the per share amounts of distributions from undistributed net investment income of municipal bond funds, been stated separately for amounts applicable to taxable and tax-exempt dividends? (ICG5.41)	_____	_____	_____

**Interim Financial Statements**

A. Is quarterly financial information complete and based upon GAAP in a manner that conforms to principles used in preparing annual financial statements? (ICG5.42)	_____	_____	_____
B. Does the statement of changes in net assets present information on the latest interim period and the preceding fiscal year? (ICG5.43)	_____	_____	_____
C. Has unaudited interim financial data been marked accordingly?	_____	_____	_____
D. Has data summarized in condensed form been labeled as unaudited?	_____	_____	_____
E. If the independent accountant has not performed an audit or review, but is identified in the interim report, has he or she insisted the reference be deleted or that a disclaimer of opinion be included? (ICG5.44)	_____	_____	_____

**SEC Compliance Disclosures Per Regulations S-X**

A. Has the total cost, for federal income tax purposes, of the portfolio been disclosed? (S-X Rule 12-2, Note 8)	_____	_____	_____
B. Have the additional disclosures been made as required by:			
1. S-X Rule 12-22 [note 2] pertaining to collateral for repurchase agreements?	_____	_____	_____
2. S-X Rule of 4-08(m) pertaining to carrying amounts of repurchase or reverse repurchase which exceed 10% of total assets?	_____	_____	_____
3. Disclosure of the average amount of borrowings outstanding during the period, the weighted average interest rate, and the maximum amount of debt outstanding during the period, according to rule 6—04.13(b), referring to rules 5.02.19(b) and 5.02.22(b), of S-X.	_____	_____	_____
4. The additional disclosure about restricted securities required by the SEC's Codification of Financial Reporting Policies, section 404, and rule 12-12 (note 6) of S-X.	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. S-X Rule 12-12 (note 8) dealing with gross unrealized appreciation for all securities in which there is an excess of value over tax cost and gross unrealized depreciation for all securities in which there is an excess of value over tax cost and gross unrealized depreciation for all securities in which there is an excess of tax cost over value, as well as net unrealized appreciation or depreciation.	_____	_____	_____
6. Disclosure of the elements of net assets as required in regulation 210.6—.04.16, 210.6—.04.17 and 210.6—.04.18 as part of the statement of assets and liabilities rather than in the notes to the financial statements.	_____	_____	_____
7. Disclosure of non-income producing securities as required by S-X rule 12-12 (note 5).	_____	_____	_____
C. Are additional disclosures made about restricted securities, in accordance with the SEC's Codification of Financial Reporting Policies, section 404 and rule 12-12 (Note 6)?	_____	_____	_____
D. Has the gross unrealized appreciation for all securities been disclosed in the following areas:			
1. Excess of value over tax cost?	_____	_____	_____
2. Gross unrealized depreciation for all securities in which there is an excess of tax cost over value?	_____	_____	_____
3. Net unrealized appreciation or depreciation for all securities in which there is an excess of tax cost over value?	_____	_____	_____
4. Aggregate cost of securities for federal income tax purposes?	_____	_____	_____
E. If a statement of net assets was presented in place of a statement of assets and liabilities, is 95% of the amount of the investment company's total assets represented by investments in securities of unaffiliated issuers (S-X article 6)?	_____	_____	_____

# **FSP Section 16,300**

## ***Illustrative Financial Statements***

**.01**

### **Independent Auditor's Report**

To the Shareholders and Board of Directors:  
XYZ Management Investment Company

We have audited the accompanying statement of assets and liabilities of XYZ Management Investment Company (or Statement of Net Assets), including the schedule of investments in securities, covered call options written, and securities sold short as of December 31, 19X4, the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the selected per share data and ratios for each of the five years in the period then ended. These financial statements and selected per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 19X4 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of XYZ Management Investment Company as of December 31, 19X4, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the selected per share data and ratios for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

[Signature]

[City]

[Date]

## XYZ Management Investment Company

.02

## Statement of Assets and Liabilities

December 31, 19X4

**Assets**

Investments in securities, at value—identified cost \$19,294 .....	\$21,721
Cash .....	199
Deposits with brokers for securities sold short .....	1,555
Receivables	
Dividends and interest .....	46
Investment securities sold .....	24
Capital stock sold .....	54
Other assets .....	26
Total assets .....	<u>23,625</u>

**Liabilities**

Covered call options written, at value—premiums received \$110 .....	230
Securities sold short at value—proceeds \$1,535 .....	1,673
Demand loan payable to bank (Note 5) .....	2,000
Payable upon return of securities loaned (Note 9) .....	620
Payables	
Investment securities purchased .....	52
Capital stock reacquired .....	8
Other .....	4
Accrued taxes .....	8
Distribution payable .....	168
Total liabilities .....	<u>4,763</u>

**Net Assets**

Net assets (equivalent to \$4.47 per share based on 4,216 shares of capital stock outstanding) (Note 6) .....	<u>\$18,862</u>
--	-----------------

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

Note: A statement of assets and liabilities is an alternative presentation to a statement of net assets. The reader should be aware, however, that SEC rules do not always consider the two statement formats to be alternative presentations. (ICG3.47)

XYZ Management Investment Company

.03

Schedule of Investments in Securities

December 31, 19X4

[Note: Securities may be arranged by industry groupings or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the company believes are most meaningful to users. The basis of the computation of percentages shown (which in this illustration is based on the ratio of the specific category of securities to the total portfolio owned) should be disclosed.]

	<u>Principal Amount or Shares</u>	<u>Value</u>
Common Stocks—54%		
Consumers' durable goods—5%		
Allied Manufacturing Corporation	25	\$ 620
Baker Industries, Inc.	15	150
Etc. (other common stocks)		316
Consumers' nondurable goods—2%		
Amalgamated Buggy Whips, Inc. (Note 2)	10	280
Etc. (Other common stocks)		155
Service industries—4%		
Service Company, Inc.	10	465
Etc. (Other common stocks)		404
Etc. (other industry groupings)—43%		9,351
Total common stocks (cost \$10,294)		<u>11,741</u>
Convertible bonds—25%		
American Retailing Inc.—5.5% debentures due 19XX	\$500	525
Etc. (other convertible bonds)		4,875
Total convertible securities (cost \$4,400)		<u>5,400</u>
U.S. government obligations—16%		
U.S. Treasury 6% notes due 20XX	\$500	490
Etc. (other long-term government obligations)		2,985
Total U.S. government obligations (cost \$3,500)		<u>3,475</u>
Short-term notes—3%		
Commercial Paper, Inc. due 2/5/X5	\$500	505
U.S. Treasury bills, due 1/20/X5	\$100	100
Total short-term notes (cost \$600)		<u>605</u>
Repurchase agreements collateralized by U.S. government obligations—2%		
Money Center Bank of Large City, 11% due 1/3/X5 (cost \$500)	\$500	500
Total 100% (cost \$19,294)		<u><u>\$21,721</u></u>

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

## XYZ Management Investment Company

.04

## Statement of Operations

Year Ended December 31, 19X4

**Investment income**

Income

Dividends

\$742

Interest

259

Total income

\$ 1,001

**Expenses**

Investment advisory fee (Note 8)

90

Interest

55

Professional fees (Note 8)

29

Custodian and transfer agent fees

12

Distribution expenses (Note 8)

4

State and local taxes other than income taxes

15

Directors' fees

12

Dividends on securities sold short

9

Total expenses

226

Investment income—net

775

**Realized and unrealized gain (loss) on investments (Note 7)**

Net realized gain on investments

1,089

Change in unrealized appreciation of investments for the year

(1,649)

Net loss on investments

(560)

Net increase in net assets resulting from operations

\$ 215

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



XYZ Management Investment Company

.05

Statement of Net Assets

December 31, 19X4

	<u>Shares or Principal Amount</u>	<u>Value</u>
<b>Assets</b>		
Investments in securities—115% of net assets		
[Note: Securities may be arranged by industry or other groupings (showing the percentage of total portfolio or of net assets invested in each grouping) that the company believes will be most meaningful to the user.]		
Common stocks—62%		
Consumers' durable goods—6%		
Allied Manufacturing Corporation	25	\$ 620
Baker Industries, Inc.	15	150
Etc. (other common stocks)		316
Consumers' nondurable goods—2%		
Amalgamated Buggy Whips, Inc. (Note 2)	10	280
Etc. (other common stocks)		155
Service industries—5%		
Service Company Inc.	10	465
Etc. (other common stocks)		404
Etc. (other industry groupings)—49%		9,351
Total common stocks (cost \$10,294)		<u>11,741</u>
Convertible bonds—29%		
American Retailing Inc.—5.5% debentures due 19XX	\$500	525
Etc. (other convertible bonds)		4,875
Total convertible bonds (cost \$4,400)		<u>5,400</u>
U.S. government obligations—18%		
U.S. Treasury—6% notes due 20XX	\$500	490
Etc. (other long-term obligations)		2,985
Total U.S. government obligations (cost \$3,500)		<u>3,475</u>
Short-term notes—3%		
Commercial Paper, Inc. due 2/5/X5	\$500	505
U.S. Treasury bills, 1/20/X5	\$100	100
Total short-term notes (cost \$600)		<u>605</u>
Repurchase agreement collateralized by U.S. government obligations—3%		
Money Center Bank of Large City—11% due 1/3/X5 (cost \$500)	\$500	500
Total investments in securities (cost \$19,294)		<u>21,721</u>
Other assets—10%		1,904
Total assets		<u><u>23,625</u></u>

## XYZ Management Investment Company

.05

## Statement of Net Assets—Continued

	<i>Shares or Principal Amount</i>	<i>Value</i>
<b>Liabilities</b>		
Demand loans payable to bank—10% (Note 5)		2,000
Securities sold short—9%		1,673
Other liabilities—6%		1,090
<b>Total liabilities</b>		<u>4,763</u>
<b>Net assets</b>		
Net assets (equivalent to \$4.47 per share based on 4,216 shares of capital stock outstanding) (Note 6)		<u>\$18,862</u>

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

**Note:** A statement of assets and liabilities is an alternative presentation to a statement of net assets. The reader should be aware, however, that SEC rules do not always consider the two statement formats to be alternative presentations. (ICG5.47)

XYZ Management Investment Company

.06

Statement of Changes in Net Assets  
Years Ended December 31, 19X4 and 19X3

	<u>19X4</u>	<u>19X3</u>
Increase (decrease) in net assets from operations		
Investment income—net . . . . .	\$ 755	\$ 492
Net realized gain on investments . . . . .	1,089	1,000
Change in unrealized appreciation . . . . .	(1,649)	1,551
Net increase in net assets resulting from operations . . . . .	<u>215</u>	<u>3,043</u>
Net equalization credits . . . . .	9	6
Distributions to shareholders from—		
Investment income—net . . . . .	(525)	(350)
Net realized gain on investments . . . . .	(1,350)	(1,066)
Capital share transactions . . . . .	<u>2,721</u>	<u>1,749</u>
Total increase . . . . .	1,070	3,382
Net assets		
Beginning of year . . . . .	<u>17,792</u>	<u>14,410</u>
End of year (including undistributed investment income of \$639,000 and \$380,000, respectively) . . . . .	<u>\$ 18,862</u>	<u>\$ 17,792</u>

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

XYZ Management Investment Company

.07

Covered Call Options Written

December 31, 19X4

<u>Common Stocks/Expiration Date/Exercise Price</u>	<u>Shares Subject to Call</u>	<u>Value</u>
Allied Manufacturing Corporation/July/25 .....	10	\$ 50
Allied Manufacturing Corporation/October/30.....	5	3
Etc. (other options written) .....		<u>177</u>
Total (premiums received \$110) (Note 3) .....		<u>\$230</u>

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

**XYZ Management Investment Company**

.08

**Securities Sold Short**

**December 31, 19X4**

<u>Common Stock</u>	<u>Shares</u>	<u>Value</u>
International Widgets, Inc. ....	40	\$ 425
Paper Airplane Corporation.....	25	265
Etc. (other common stocks) .....		983
Total (proceeds \$1,555).....		<u>\$1,673</u>

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

## XYZ Management Investment Company

.09

## Notes to Financial Statements

The following notes to the financial statements are illustrative only. In some circumstances, the information may be better presented within the financial statements; in other circumstances, information not required by regulation may not be sufficiently material to be disclosed.

**1. Significant Accounting Policies**

The Company is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company.

**Security valuation.** Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short positions and call options written, for which the last quoted asked price is used. Short-term notes are stated at amortized cost, which is equivalent to value. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the board of directors.

**Federal income taxes.** The Company's policy is to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no federal income tax provision is required.

**Equalization.** The Company uses the accounting practice of *equalization*, by which a portion of the proceeds from sales and costs of redemption of capital shares, equivalent on a per share basis to the amount of undistributed net investment income on the date of the transactions, is credited or charged to undistributed income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital shares.

**Distributions to shareholders.** Dividends to shareholders are recorded on the ex-dividend date.

**Other.** The Company follows industry practice and records security transactions on the trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

**2. Restricted Securities**

The investment in 10,000 shares of Amalgamated Buggy Whips, Inc. common stock, the sale of which is restricted, has been valued by the board of directors after considering certain pertinent factors, including the results of operations of Amalgamated since the date of purchase in 19X1 and the sales price of recent private placements in its common stock. There is no quoted market for Amalgamated shares.\*

**3. Covered Call Options Written**

As of December 31, 19X4, portfolio securities valued at \$1,908,000 were held in escrow by the custodian in connection with covered call options written by the Company.

**4. Distribution of Shareholders**

On January 3, 19X5, a distribution of \$0.20 aggregating \$840,000 was declared from net realized gains from investment transactions (including \$0.02 applicable to short-term gains that are taxable to shareholders as

\* If several restricted security investments are held, a general statement on the valuation methods may be given rather than individual descriptions.

ordinary income dividends) during 19X4. The dividend was paid on January 20, 19X5, to shareholders of record on January 10, 19X5.

As of December 31, 19X4, the Company had available for federal income tax purposes an unused capital loss carryover of approximately \$1,500,000, which will expire in 19X5.\*\*

**5. Bank Loans**

The Company has an unsecured \$3,000,000 bank line of credit; borrowings under this arrangement bear interest at 110 percent of the bank's prime rate. As of December 31, 19X4, the Company was paying interest at 11 percent per year on its outstanding borrowings. No compensating balances are required.

**6. Capital Share Transactions**

As of December 31, 19X4, there were 25,000,000 shares of \$0.50 par value capital stock authorized and capital paid-in aggregated \$15,184,000.

Transactions in capital stock were as follows:

	Shares		Amount	
	19X4	19X3	19X4	19X3
Shares sold	452,000	329,000	\$2,177,000	\$1,434,000
Shares issued in reinvestment of dividends	222,000	207,000	1,000,000	845,000
	674,000	536,000	3,177,000	2,279,000
Shares redeemed	104,000	121,000	456,000	530,000
Net income	570,000	415,000	\$2,721,000	\$1,749,000

**7. Investment Transactions**

Purchases and sales of investment securities (excluding short-term securities) were \$32,000,000 and \$23,300,000, respectively, for common stocks and bonds; purchases and sales of U.S. government obligations were \$3,300,000 and \$2,000,000. Net loss on investments for the year ended December 31, 19X4, was \$560,000. That amount represents the net decrease in value of investments held during the year. The components are as follows:

Long transactions	\$(501,000)
Short sale transaction	(75,000)
Covered call options written	16,000
	<u>\$(560,000)</u>

As of December 31, 19X4, the unrealized appreciation of securities was \$2,189,000; accumulated undistributed net realized gains on investment transactions totaled \$850,000.

**8. Investment Advisory Fees and Other Transactions with Affiliates**

The Company pays advisory fees for investment management and advisory services under a management agreement (Agreement) that provides for fees to be computed at an annual rate of 0.5 percent of the Company's average daily net assets. Certain officers and directors of the Company are also officers and directors of the investment adviser. The Agreement provides for an expense reimbursement from the investment adviser if the Company's total expenses, exclusive of taxes, interest on borrowings, dividends on securities sold short, brokerage commissions, and extraordinary expenses, exceed 1.5 percent of the Company's average daily net assets for any full fiscal year. An expense reimbursement was not required for either 19X4 or 19X3. An expense reimbursement of \$0.01 per share was required in 19X0.

\*\* This would be disclosed if the Company has an available capital loss carryover as of December 31, 19X4.

The investment adviser also received \$10,000 in 19X4 and \$15,000 in 19X3 from commissions earned on sales of XYZ Management Investment Company capital stock and \$5,000 in 19X4 and \$8,000 in 19X3 from brokerage fees on its executions of purchases and sales of portfolio investments.

During 19X4, the Company incurred legal fees of \$7,000 to Brown and Smith, counsel for the Company. John F. Smith, a partner of the firm, is a director of the Company. MNO Service Company, an affiliate of the investment adviser, received \$4,000 in expense reimbursements for shareholder-related distribution expenses undertaken pursuant to a shareholder-approved plan.

#### 9. Portfolio Securities Loaned

As of December 31, 19X4, the Company loaned common stocks having a value of approximately \$570,000 and received cash collateral of \$620,000 for the loan.

#### Supplementary Information—Selected Per Share Data and Ratios\*

	<u>19X4</u>	<u>19X3</u>	<u>19X2</u>	<u>19X1</u>	<u>19X0</u>
Per Share Data					
Investment income	\$ .27	\$ .30	\$ .24	\$ .20	\$ .18
Expenses	.06	.10	.05	.03	.03**
Investment income—net	.21	.20	.19	.17	.15
Distributions from investment income net	(.16)	(.16)	(.17)	(.17)	(.15)
Net realized and unrealized gain (loss) on securities	(.12)	.71	.52	(.42)	.48
Distributions from realized gains on securities	<u>(.34)</u>	<u>(.33)</u>	<u>(.24)</u>	<u>(.23)</u>	<u>(.20)</u>
Net increase/decrease in net asset value	(.41)	.42	.30	(.65)	.28
Net asset value:					
Beginning of year	<u>4.88</u>	<u>4.46</u>	<u>4.16</u>	<u>4.81</u>	<u>4.53</u>
End of year	<u>\$4.47</u>	<u>\$4.88</u>	<u>\$4.46</u>	<u>\$4.16</u>	<u>\$4.81</u>
Ratios					
Ratio of expenses to average net assets (%)	1.33	1.31	.99	.82	.84
Ratio of investment income—net to average net assets (%)	4.56	2.82	4.22	5.42	5.10

\* Selected data for a share of capital stock outstanding throughout the year.

\*\* See Note 8 of the notes to financial statements.

[Editor's note: Form N1-A requires disclosure of the portfolio turnover rate and number of shares at the end of each period in the condensed financial information. (ICG5.40)]



# **FSP Section 17,000**

## **DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED BENEFIT PENSION PLANS**

**.01** The checklists and accompanying 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. Users of these checklists should take into consideration the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- This checklists address accounting disclosures and auditing issues associated with defined benefit pension plans. The checklists include references to relevant Statements of Financial Accounting Standards, Statements on Auditing Standards, the Audit and Accounting Guide entitled, *Audits of Employee Benefit Plans* and other technical pronouncements as appropriate. The checklists have considered all technical pronouncements issued as of March 1990.
- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, and generally accepted auditing standards.
- 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 examined.

**.02** The author would like to thank the members of the 1989/1990 Employee Benefit Plans Committee for their assistance in developing these checklists.

**.03** 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.

---

[The next page is 17,101.]

# FSP Section 17,100

## Introduction

.01 The accounting and financial reporting requirements for private sector defined benefit pension plans are set forth in Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting for Defined Benefit Pension Plans*. Defined benefit pension plans which are subject to the Employee Retirement Income Security Act of 1974 (ERISA), must also comply with the provisions of SFAS No. 35 in order to be in conformity with generally accepted accounting principles.

.02 A defined benefit pension plan is designed primarily to provide income to the participants during retirement. The objective of the financial statements of the pension plan is to assess the plan's present and future ability to pay benefits when due.

.03 The nature, timing and extent of auditing procedures to be applied are a matter of professional judgment and will vary depending on the size, structure, and type of plan, and should consider the existing system of internal accounting control, as well as other factors. (Refer to the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* for additional guidance regarding the audits of defined benefit pension plans.)

## Description

.04 A defined benefit pension plan is one type of employee benefit plan. Plans vary not only by type (defined benefit pension plans, defined contribution plans, and health and welfare benefit plans) but also in operating and administrative characteristics. For example:

.05 A *defined contribution* plan requires an individual account to be maintained for each participant. The plan specifies the amount of the employer's contribution to the individual account, but not the amount of benefits to be paid. Benefits to be paid out of the plan are based on the amounts contributed by employers and/or employees, and the investment experience on the aggregate contributions. [The reporting requirements for defined contribution plans (which encompass profit-sharing plans, *money-purchase* plans and employee stock ownership plans (ESOPs)) are not addressed in this disclosure checklist.]

.06 A *defined benefit* pension plan is one that defines the method of determining the amount of pension benefits to be paid based on such factors as age, years of service and compensation levels. The employer's contributions to the pension plan are actuarially determined based on benefits that are estimated to be paid.

.07 A defined benefit plan may be a single-employer plan or a multiemployer plan. Single employer plans are established by the management of one employer and the employer is the plan sponsor. Multiemployer plans normally are negotiated and established pursuant to collective bargaining agreements between an associated group of employers or employees, such as in the case of unions. The plan is administered by a joint board of trustees composed of management and union representatives.

.08 Defined benefit pension plans may be classified as contributory or non-contributory. In contributory plans, contributions are required from both employers and participants (employees). In non-contributory plans, contributions are required from employers only.

.09 Pension plans may be self-funding, whereas the assets necessary to provide benefits are held in trust, or the plan may be insured and funded through insurance contracts. Split-funded plans are a combination of both.

.10 The Pension Benefit Guaranty Corporation (PBGC), which was created by ERISA, guarantees participants in defined benefit pension plans against the loss of certain pension benefits if the plan is terminated. The PBGC charges each defined benefit plan a premium per covered participant (currently between \$16 and \$50 per participant).

**ERISA**

.11 Generally, defined benefit pension plans are subject to the provisions of ERISA. ERISA has the power to terminate a plan under various circumstances. Employee benefit plans, subject to ERISA, are required to report certain information annually on Form 5500 Series (Form 5500 and 5500-C/R) to government agencies such as the Department of Labor (DOL), the PBGC and the Internal Revenue Service (IRS) and to provide summarized information regarding the plan to participants in the form of a summary annual report.

.12 ERISA established certain minimum standards for the participation, vesting, and funding requirements for pension plans of private enterprises. Under ERISA, the DOL and the IRS have the authority to issue regulations covering regulatory reporting and disclosure requirements, certain administrative responsibilities and enforcement powers.

.13 Pursuant to ERISA, defined benefit pension plans are required to maintain a funding standard account (FSA)<sup>1</sup>. This account is a memorandum account maintained for tax qualification purposes, and is not included in the financial statements. The FSA is used to determine if the plan is in compliance with the minimum funding standards set forth in ERISA. [A summary of the important provisions of ERISA can be found in Appendix A of the AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*.]

**Financial Reporting**

.14 SFAS No. 35 does not differentiate among plans based on size. The financial statements of all defined benefit pension plans should be prepared on the accrual basis, at fair value, and should consist of the following:

- (a) Statement of Net Assets Available for Benefits
- (b) Statement of Changes in Net Assets Available for Benefits for the Year then Ended
- (c) Statement of Accumulated Plan Benefits (can be presented in notes)
- (d) Statement of Changes in Accumulated Plan Benefits for the Year then Ended (can be presented in notes)

.15 ERISA plans with 100 or more participants must file an annual report on Form 5500 Series containing financial statements and notes, separate schedules, and an independent public accountant's report, an actuarial statement certified by an enrolled actuary and other information.

.16 ERISA requires defined benefit plan financial statements be presented in comparative form between the end of the current plan year and the end of the prior plan year.

.17 The alternative method of compliance requires defined benefit plan financial statements be presented in comparative form between the beginning and end of the current plan year.

.18 The IRS, DOL and PBGC have consolidated their reporting requirements into the Form 5500 Series to minimize the filing burden for plan administrators. The consolidated report is filed with the IRS.

.19 ERISA regulations permit a plan administrator to limit the scope of an auditor's examination with regard to the plan's investments. If the plan's investment information is prepared and certified by a bank or by an insurance carrier that is regulated and subject to periodic examination by a state or federal agency, the plan administrator may request the auditor to perform a *limited-scope* examination as compared to a *full-scope* audit examination.

**Note:** Limited-scope audits are currently being evaluated by the AICPA in response to a study by the DOL.

---

<sup>1</sup> ERISA Sections 301-306

## Authoritative Guidance

- SFAS No. 35, *Accounting and Reporting by Defined Benefit Pension Plans* (Effective for plan years beginning after December 15, 1980)
- SFAS No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale* (an amendment of SFAS No. 95) (Effective for financial statements issued after February 28, 1989)

Pursuant to SFAS No. 102, a statement of cash flows is generally not required for defined benefit pension plans covered by SFAS No. 35.

- SFAS No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk* (Effective for financial statements issued for fiscal years ending after June 15, 1990)

Financial instruments of a pension plan, subject to the accounting and reporting requirements of SFAS No. 35 are included in the scope of SFAS No. 105. Investments in allocated contracts with insurance companies, where the funds have been used to purchase annuities and are therefore excluded from plan assets, are examples of off-balance sheet financial instruments that fall under the scope of SFAS No. 105. (SFAS No. 105, par. 14, fn. 10)

- SOP-88-2, "Illustrative Auditor's Reports on Financial Statements of Employee Benefit Plans Comporting with Statement on Auditing Standards No. 58, Reports on Audited Financial Statements."
- Audit and Accounting Guide, *Audits of Employee Benefit Plans* (1988 edition)

.20 This guide is currently being updated and is expected to be issued during 1991.

---

[The next page is 17,201.]

# FSP Section 17,200

## *Disclosure Checklists—General*

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums.

.04 Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
  - The checklists are not all-inclusive and are not intended to present minimum requirements.
  - Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.
- 

[The next page is 17,301.]

# FSP Section 17,300

## Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and accordingly, the discussion on page 17,201 is incorporated herein by reference.

### .02 Explanation of references:

- SAS = Statement on Auditing Standards
- AU = Reference to section number in *AICPA Professional Standards* (Vol. 1)
- AAG = Audit and Accounting Guide—*Audits of Employee Benefit Plans* (1988)
- SOP 88-2 = Illustrative Auditor's Reports on Financial Statements of Employee Benefit Plans Comporting with Statement on Auditing Standards No. 58, *Reports on Audited Financial Statements*, (December 15, 1988)
- DOL = Department of Labor
- CFR = Code of Federal Regulations

### .03 Checklist Questionnaire

	<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 58, pars. 46 and 74 (AU 508.46 and .74)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
<i>Note:</i> DOL Regulations require the auditor's report to be dated and manually signed and to identify city and state where issued.			
2. If the auditor is not independent, has the appropriate disclaimer of opinion been expressed? [SAS 26 (AU 504.09)]	_____	_____	_____
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)]	_____	_____	_____
c. Comparative financial statements with differing opinions? [SAS 58, pars. 74—76 (AU 508.74—.76)]	_____	_____	_____
4. Does the auditor's report conform to SAS 58 and include appropriate language as set forth in Statement of Position 88-2, as follows:			
a. Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming <i>End-of-Year Benefit Information Date</i> ? [SOP 88-2, page 5]	_____	_____	_____
b. Supplemental Schedules Relating to ERISA and DOL Regulations? [SOP 88-2, page 9]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming <i>Beginning-of-Year Benefit Information Date</i> ? [SOP 88-2, page 6]	_____	_____	_____
d. Auditor's Report on Financial Statements Limited-Scope Audits Under DOL Regulations? [SOP 88-2, page 12] <i>Note:</i> SOP 88-2 includes additional auditor reports with respect to "financial statements of a trust" and also "inadequate procedures to value investments."	_____	_____	_____
5. Does the auditor's report include appropriate language with respect to any of the following situations:			
a. Part of the examination was made by other independent auditors and the principal auditor is indicating a division of responsibility for the examination in his report? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
b. Departure from a promulgated accounting principle when conformity would result in a misleading presentation? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
c. Updating of a previously issued opinion during the current period audit? [SAS 58, pars. 77—78 (AU 508.77—.78)]	_____	_____	_____
6. Has an explanatory paragraph 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. 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)]	_____	_____	_____
c. A matter regarding the financial statements that should be emphasized? [SAS 58, par. 37 (AU 508.37)] <i>Note 1:</i> Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his report. [AU 9420.65] <i>Note 2:</i> DOL Regulation 29 CFR section 2520 requires that the auditor separately identify any exceptions to his report that are the result of DOL Regulations. (See VII ERISA Reporting Requirements)	_____	_____	_____
7. Has a qualified opinion or disclaimer of opinion been expressed if scope limitations precluded the application of one or more auditing procedures considered necessary in the circumstances (e.g., the inability to ascertain the fair value of investments)? [SAS 58, pars. 40—45 (AU 508.40—.45)]	_____	_____	_____
8. Has a qualified opinion pursuant to DOL Regulations 29 CFR section 2520.103-8—limited scope exemption, been issued? [SOP 88-2, page 12]	_____	_____	_____
9. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. Departure from generally accepted accounting principles? [SAS 58, pars. 49—66 (AU 508.49—.66)]	_____	_____	_____
b. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____
c. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
d. Material errors or irregularities in the financial statements which have not been revised?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SAS 53, par. 26 (AU 316.26)]			
e. Illegal acts by clients? [SAS 54, par. 18 (AU 317.18)]	_____	_____	_____
f. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
g. Financial statements issued before the effective date of a Statement of Financial Accounting Standards (SFAS) when disclosure is not made of the effect of a restatement which will be required in the future as a result of the SFAS? [Interpretation 3 of SAS 1, section 410 (AU 9410.13—.15)]	_____	_____	_____
h. Plan's representations and disclosures about related-party transactions and parties-in-interest transactions cannot be substantiated? [SAS 45, par. 2 (AU 334.12); AAG, pars. 11.10i; A.31]	_____	_____	_____
10. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 68 and 71 (AU 508.39, .68, and .71)]	_____	_____	_____
11. Has the auditor's opinion been modified as deemed applicable; qualified opinion, disclaimer of opinion, or explanatory paragraph for the following:			
a. Conditions that precluded application of necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)]  <i>Note: 29 CFR section 2520.103-8 of the DOL's Rules and Regulations permit a "limitedscope" audit with respect to certain investments of the plan. Refer to page 17,504 of this checklist for an example of the auditor's report.</i>	_____	_____	_____
b. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
c. Limitations on scope of lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
12. If additional information not required under GAAP (e.g., supplemental schedules required by the DOL) is to accompany the basic financial statements and auditor's report in a document submitted by the auditor to the client, does the auditor's report:			
a. State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole? [SAS 29, par. 6 (AU 551.06a)]	_____	_____	_____
b. Specifically identify the accompanying information? [SAS 29, par. 6 (AU 551.06b)]	_____	_____	_____
c. State that the accompanying information is presented for purposes of complying with ERISA or DOL requirements and is not a required part of the basic financial statements? [SAS 29, par. 6 (AU 551.06c, fn. 3)]	_____	_____	_____
d. State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements or whether the auditor disclaims an opinion? [SAS 29, par. 6 (AU 551.06d)]	_____	_____	_____
e. Express an opinion on whether the accompanying information is fairly stated in relation to the basic financial statements? [SAS 29, par. 6 (AU 551.06d)]	_____	_____	_____
13. If the auditor has expressed a qualified opinion on the basic financial statements, has the effect of the modification been taken into consideration when reporting on the accompanying information? [SAS 29, par. 10 (AU 551.10 and .14)]	_____	_____	_____
14. Has the auditor considered the consistency of "other information" in documents (e.g., Form 5500) containing audited financial statements?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SAS 8, par. 4 (AU 550.04)]			
15. If an auditor-submitted document with accompanying information is co-existing with a document that includes just the basic financial statements and auditor's report: Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [SAS 29, par. 21 (AU 551.21)]	_____	_____	_____
16. If a separate report on internal control structure is to be issued, <sup>1</sup> is the appropriate form of report used for:			
a. A report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on documentation made as part of an audit of financial statements? [SAS 60, par. 10 (AU 325.10)]	_____	_____	_____
b. A report on all or part of an entity's internal control structure for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]	_____	_____	_____
c. Other special purpose reports on all or parts of the entity's internal control structure for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61)]	_____	_____	_____
17. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used? [SAS 62, pars. 3—6 (AU 623.03—.06)]	_____	_____	_____

[The next page is 17,401.]

<sup>1</sup> Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of directors or its audit committee. [SAS 60]

# FSP Section 17,400

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and accordingly, the discussion on page 17,201 is incorporated herein by reference.

.02 Explanation of references:

ARB =	Accounting Research Bulletin
APB =	Accounting Principles Board Opinion
SFAS =	Statement of Financial Accounting Standards
SAS =	Statement on Auditing Standards
AC =	Reference to section number in <i>FASB Accounting Standards Current Text</i>
AU =	Reference to section number in <i>AICPA Professional Standards (Vol. 1)</i>
ERISA =	Employee Retirement Income Security Act of 1974
DOL =	Department of Labor
PBGC =	Pension Benefit Guaranty Corporation
IRS =	Internal Revenue Service
AAG =	Audit and Accounting Guide— <i>Audits of Employee Benefit Plans (1988)</i>
SOP 88-2 =	Statement of Position— <i>Illustrative Auditor's Reports on Financial Statements of Employee Benefit Plans Comporting with Statement on Auditing Standards No. 58, Reports on Audited Financial Statements (Dec. 15, 1988)</i>
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. Notes to the Financial Statements</b>			
<b>A. General</b>			
Does each financial statement include a general reference to the notes indicating that the notes are an integral part of the financial statement presentation? [AU 431.02] [Suggested Practice]	_____	_____	_____
<b>B. Disclosure of Significant Accounting Policies in the Notes to Financial Statements</b>			
1. Is a description of all significant accounting policies of the pension plan presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. Does the disclosure of significant accounting policies include important judgments as to appropriateness of principles concerning the recognition of income? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere in the statements and notes, so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Does the disclosure of the plan's significant accounting policies include a description of the method(s) and assumptions used to determine the fair market value of investments and the reported value of contracts with insurance companies? [SFAS No. 35, par. 27a (AC Pe5.126)]	_____	_____	_____
5. Does the disclosure of significant accounting policies include a description of the method and assumptions (i.e., assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits? [SFAS No. 35, par. 27b (AC Pe5.126)]	_____	_____	_____
6. Are any deviations from GAAP adequately disclosed as an integral part of the financial statements?	_____	_____	_____
<b>C. Description of Pension Plan in the Notes to Financial Statements</b>			
1. Do the financial statements include a brief general description of the plan including a description of the vesting, allocation and benefit provisions and the disposition of forfeitures? [SFAS No. 35, par. 28a (AC Pe5.127)]	_____	_____	_____
2. For ERISA plans, does the plan description include a discussion of the priority order of participants' claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC (see note below)? [SFAS No. 35, par. 28c (AC Pe5.127)]	_____	_____	_____
3. Do the plan financial statements include information about the plan resources and how the stewardship responsibility has been discharged and other factors necessary for users and participants to understand the information provided? [SFAS No. 35, par. 5 (AC Pe5.104)]	_____	_____	_____
<b>D. Description of Pension Plan Amendments in the Notes to Financial Statements</b>			
1. Do the financial statements include a description of significant plan amendments, adopted during the year, as of the latest benefit information date? [SFAS No. 35, par. 28b (AC Pe5.127)]	_____	_____	_____
2. If significant amendments were adopted between the latest benefit information date and the plan's year end (when different), do the financial statements indicate whether or not the actuarial present value of accumulated plan benefits reflects those amendments? [SFAS No. 35, par. 28b (AC Pe5.127)]	_____	_____	_____
3. For ERISA plans, do the financial statements include a discussion of the application of the PBGC guaranty to any recently adopted plan amendments? [SFAS No. 35, par. 28c (AC Pe5.127)]	_____	_____	_____
<i>Note: If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosure required by paragraph 28c can be omitted provided that (1) a reference to the other source is made and (2) disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35, par. 28, fn. 16 for appropriate wording.</i>			
<b>E. Other Disclosures in the Notes to Financial Statements</b>			
1. Do the financial statements disclose the funding policy of the pension plan and any changes in such policy during the plan year? [SFAS No. 35, par. 28d (AC Pe5.127)]	_____	_____	_____
a. If significant costs of plan administration are being absorbed by the employer, is that fact disclosed? [SFAS No. 35, par. 28d, fn. 17 (AC Pe5.127)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions? [SFAS No. 35, par. 28d (AC Pe5.127)]	_____	_____	_____
c. For ERISA plans, does the disclosure include whether:			
(1) The minimum funding requirements of ERISA have been met?	_____	_____	_____
(2) If a minimum funding waiver has been granted by the IRS?	_____	_____	_____
(3) If a request for a waiver is pending before the IRS? [SFAS No. 35, par. 28d (AC Pe5.127)]	_____	_____	_____
d. Does the plan include a brief description of how contributions are determined pursuant to the actuarial cost method? [SFAS No. 35, par. 262 (AC Pe5.127)]	_____	_____	_____
e. Does the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information? [SFAS No. 35, par. 263 (AC Pe5.127)]	_____	_____	_____
2. Do the plan financial statements disclose the policy regarding the purchase of insurance contracts that are excluded from plan assets? [SFAS No. 35, par. 28e (AC Pe5.127)]	_____	_____	_____
3. Do the financial statements disclose the yearly dividend income that is related to excluded insurance contracts and how the dividends are reflected in the Statement of Changes in Net Assets Available for Benefits? [SFAS No. 35, par. 28e (AC Pe5.127)]	_____	_____	_____
4. Do the plan financial statements disclose significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organization? [See also section G, <i>Related Party Transactions</i> regarding parties-in-interest] [SFAS No. 35, par. 28h (AC Pe5.127)]	_____	_____	_____
5. Have individual investments and securities that represent five percent or more of the net assets available for benefits been separately identified in the footnotes or on the face of the financial statements? [SFAS No. 35, par. 28 (AC Pe5.127)]	_____	_____	_____
<b>F. Accounting Changes</b>			
1. For an accounting change, does disclosure in the period of change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable?	_____	_____	_____
c. Effect on earnings of the plan? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. Is correction of an error shown as a prior period adjustment with disclosure of the following in the period of correction:			
a. Nature of the error?	_____	_____	_____
b. Effect of its correction on investment income of the plan and the actuarial present value of accumulated plan benefits?	_____	_____	_____
c. Are the resulting effects on the change in net assets available for benefits of prior periods disclosed in the financial statements for the year in which the adjustments are made?	_____	_____	_____
d. If the financial statements are presented only for a single period, are the effects of the restatement on the balance of net assets available for benefits at the beginning of the period and on the change in net assets available for benefits of the immediately preceding period disclosed?	_____	_____	_____
e. If financial statements for more than one period are presented, are the effects disclosed for each period included in the statements? [APB 9, par. 18 and 26; APB 20, par. 37 (AC A35.105—.107)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If there have been any changes in accounting estimates:			
a. Are the effects of changes in accounting estimates accounted for either in (1) the period of change, if the change affects that period only, or (2) the period of change and future periods, if the change affects both? [APB 20, par. 31 (AC A06.130)]	_____	_____	_____
b. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
c. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
<b>G. Related Party Transactions</b>			
Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, A.19d]	_____	_____	_____
<i>Note:</i> ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee association whose members are covered by the plan, a person who owns 50% or more of such an employer or employee association, or relatives of a person described above. [AAG A.31, fn. 5; ERISA sections 3(14) and 406]			
<b>H. Contingencies and Commitments</b>			
1. Are the nature and amount of accrued loss contingencies disclosed? [SFAS No. 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 No. 5, par. 10 (AC C59.109 and .111)]	_____	_____	_____
3. Are gain contingencies disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS No. 5, par. 17 (AC C59.118)]	_____	_____	_____
4. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness) disclosed? [SFAS No. 5, par. 12 (AC C59.113)]	_____	_____	_____
<b>I. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet (i.e., abnormal disposal or purchase of investments since year end; changes in plan commitments or contingent liabilities)? [SFAS No. 5, par. 8 (AC C59.105) (AU 560.03—.04); AAG, par. 11.9d]	_____	_____	_____
2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed (i.e., amendments to plan and trust instruments and insurance contracts)? [SFAS No. 5, par. 11 (AC C59.112) (AU 560.05—.07)]	_____	_____	_____
3. Do the financial statements disclose any unusual or infrequent events or transactions occurring after the latest benefit information date but before the issuance of the financial statements that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [SFAS No. 35, par. 28i, (AC Pe5.127)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If the effects of any subsequent events are not quantified, are the reasons why they are not reasonably determinable disclosed? [SFAS No. 35, par. 28 (AC Pe5.127)]	_____	_____	_____
<b>J. Plan Terminations</b>			
If there is a present intention to terminate the plan, is this disclosed in the financial statements? [AAG, par. 2.20] [The auditor may also want to consider an explanatory paragraph in the opinion (SAS 59).]	_____	_____	_____
<b>K. Income Tax Status</b>			
Do the financial statements disclose the federal income tax status of the plan and whether a favorable letter of determination has not been obtained or maintained? [SFAS No. 35, par. 28f (AC Pe5.127)]	_____	_____	_____
<b>L. Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk</b> [SFAS No. 105]			
1. This statement is effective for financial statements issued for fiscal years ending after June 15, 1990. [SFAS No. 105, par. 22]	_____	_____	_____
2. When preparing comparative financial statements, in the year of transition only, these disclosures are not required for fiscal years ending before the effective date of this statement. [SFAS No. 105, par. 22]	_____	_____	_____
3. For subsequent fiscal years, the information required by SFAS No. 105 will be presented for each year for which a statement of financial position is presented. [SFAS No. 105, par. 22]	_____	_____	_____
4. If not otherwise disclosed, for financial instruments with off-balance sheet risk (e.g., participating contracts), has the following information been disclosed either in the body of the financial statements or in the notes:			
a. The contract amount and the nature and terms of the contract?	_____	_____	_____
b. The cash requirements of those contracts?	_____	_____	_____
c. The amount of accounting loss the entity (plan) would incur if any party to the financial instrument (contract) failed completely to perform according to the contract or if the amount due proved to be of no value to the entity? [SFAS No. 105, par. 18]	_____	_____	_____
5. Do the financial statements disclose all significant concentrations of credit risk arising from all financial instruments? [SFAS No. 105, par. 7 and 20; SFAS No. 35, par. 28g]	_____	_____	_____
<b>II. Financial Statements—General</b>			
<b>A. Do the annual financial statements of the plan include:</b>			
1. A "Statement of Net Assets Available for Benefits" as of the end of the plan year?	_____	_____	_____
2. A "Statement of Changes in the Net Assets Available for Benefits" during the year?	_____	_____	_____
3. A "Statement of Accumulated Plan Benefits" as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? [SFAS No. 35 recommends reporting as of the end of the plan year]	_____	_____	_____
4. A "Statement of the Year-to-Year Changes in the Actuarial Present Value of Accumulated Plan Benefits"?	_____	_____	_____
The information in (3) and (4) can be alternatively disclosed in the notes to the financial statements. [SFAS No. 35, par. 6 and 8 (AC Pe5.105 and .107)]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? [SFAS No. 35, par. 7 (AC Pe5.106)]	_____	_____	_____
C. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? [SFAS No. 35, par. 7 (AC Pe5.106)]	_____	_____	_____
D. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? [SFAS No. 35, par. 7 (AC Pe5.106), AAG par. 2.14]	_____	_____	_____
E. If comparative financial statements are presented in accordance with ARB 43:			
1. Are notes, explanations, and opinion qualifications that appeared on the statements for the preceding years repeated, or referred to in the comparative statements to the extent that they continue to be significant?	_____	_____	_____
2. Are exceptions to comparability disclosed? [ARB 43, Chapt. 2A (AC F43.101—103)]	_____	_____	_____
<b>III. Statement of Net Assets Available for Plan Benefits</b>			
<b>A. General</b>			
1. Is the accrual basis of accounting used in preparing the statement of net assets available for benefits? [SFAS No. 35, par. 9 (AC Pe5.108)]	_____	_____	_____
2. Is the information presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS No. 35, par. 9 (AC Pe5.108)]	_____	_____	_____
3. Have the purchases and sales of securities been recorded on a trade-date basis in accordance with the accrual basis of accounting? [SFAS No. 35, par. 9, fn. 3 (AC Pe5.108)]	_____	_____	_____
<i>Note: See SFAS No. 35, par. 9 fn. 3 for exceptions to the trade date vs. settlement date basis.</i>			
<b>B. Valuation and Classification of Investments</b>			
1. Are plan investments (whether equity or debt securities, real estate or other, except contracts with insurance companies) presented at their fair value at the reporting date? [SFAS No. 35, par. 11 (AC Pe5.110)]	_____	_____	_____
2. If significant, does the fair value of an investment include the brokerage commissions and other costs normally incurred in a sale? [SFAS No. 35, par. 11, fn. 5]	_____	_____	_____
3. Are the plan's investments presented in enough detail to identify the types of investments and the method of valuation? [SFAS No. 35, par. 13 (AC Pe5.112)]	_____	_____	_____
4. Is it disclosed whether the reported fair values of investments have been measured by quoted prices in an active market or by another method? [SFAS No. 35, par. 13 (AC Pe5.112)]	_____	_____	_____
5. Are the following investments reported as separate line items in the Statement of Net Assets Available for Benefits:			
a. Government securities?	_____	_____	_____
b. Short-term securities?	_____	_____	_____
c. Corporate bonds?	_____	_____	_____
d. Common stocks?	_____	_____	_____
e. Mortgages?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Real estate?	_____	_____	_____
g. Investments in bank common and commingled trust funds?	_____	_____	_____
h. Master trusts? [AAG, par. 2.10]	_____	_____	_____
6. Are assets used in the administration of the plan stated at cost less accumulated depreciation? [SFAS No. 35, par. 14 (AC Pe5.113); AAG, par. 2.6]	_____	_____	_____
7. Are investments and securities that represent 5% or more of the plan's net assets available for benefits, separately identified in the financial statements or notes, thereto? [SFAS No. 35, par. 28g (AC Pe5.127g); AAG, par. 2.20g]	_____	_____	_____
<b>C. Contracts with Insurance Companies</b>			
1. Are those contracts that are "unallocated" in nature included in the statement of net assets at their contract value as defined by ERISA and required by the instructions in the Form 5500 Series Report? [SFAS No. 35, par. 12 (AC Pe5.111); AAG, pars. 2.9 and 7.18]	_____	_____	_____
2. Have the following contracts with insurance companies been reported at contract value as a separate line item in the financial statements:			
a. Deposit administration contracts (DA)?	_____	_____	_____
b. Immediate participation guarantee contracts (IPG)? [SFAS No. 35, pars. 12 and 123—126; AAG, par. 2.10] <i>Note 1:</i> EITF Issue No. 89-1 addresses the following: (a) guaranteed investment contract negotiated with an insurance company (GIC), (b) bank investment contract (BICs) and (c) savings and loan investment contract (SLICs), however, a consensus has not been reached. <i>Note 2:</i> Plans funded solely with certain types of insurance contracts are not required under ERISA to prepare financial statements or engage an independent auditor. [AAG, par. 7.16, fn. 2; CFR 2520.104—44; and the instructions to Form 5500 Series Report]	_____	_____	_____
3. Are those contracts under which payments to the insurance company are "allocated" specifically to individual participants, excluded from plan assets? [SFAS No. 35, pars. 15(g) and 18(d); AAG, par. 2.9]	_____	_____	_____
<b>D. Contributions Receivable and Uncollectible Amounts</b>			
1. Are contributions receivable properly accrued as of the date of the financial statements, including but not limited to:			
(a) receivables from employer(s)?	_____	_____	_____
(b) receivables from participants? and	_____	_____	_____
(c) other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [SFAS No. 35, par. 10 (AC Pe5.109); AAG, par. 2.11]	_____	_____	_____
2. Do contributions receivable include an allowance for uncollectible amounts? [SFAS No. 35, par. 91 (AC Pe5.109); AAG, par. 2.11]	_____	_____	_____
3. Is the amount and method of determining employee contributions disclosed in the financial statements or notes thereto, and for ERISA plans, is their status with respect to minimum funding requirements disclosed? [SFAS No. 35, par. 15d (AC Pe5.114); AAG, par. 2.20d]	_____	_____	_____
4. Are employer contributions consistent with the report of the plan's actuary, and if applicable, does it meet the requirements of the funding standard account (FSA)? [AAG, par. 8.5]	_____	_____	_____
5. If there is a deficiency in the FSA at the end of the plan year, has the auditor considered whether a receivable from the employer company should be reflected in the plan's financial statements?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[ERISA sections 301 through 306]			
<b>E. Cash</b>			
1. If cash is held in trusts under a trust agreement or under an insurance contract, is this disclosed? [AAG, par. 11.1]	_____	_____	_____
2. Are restrictions on cash appropriately disclosed? [SFAS No. 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
<b>F. Liabilities</b>			
Have liabilities been deducted in arriving at net assets available for plan benefits? [AAG, par. 2.12]	_____	_____	_____
<b>IV. Statement of Changes in Net Assets Available for Plan Benefits</b>			
<b>A. General</b>			
1. Does the "statement of changes in net assets available for plan benefits" (or the notes to the financial statements) illustrate the net change (appreciation or depreciation) in the fair value (or estimated fair value) of each significant type of investment, segregated between investments whose fair values have been determined by quoted market prices and those whose fair values have been otherwise determined? [SFAS No. 35, par. 15 (AC Pe5.114)]	_____	_____	_____
2. At minimum, does the statement of changes in net assets available for plan benefits disclose the following?			
a. Other investment income (exclusive of changes in fair value)?	_____	_____	_____
b. Contributions from employers segregated between cash and noncash contributions?	_____	_____	_____
c. Contributions from participants?	_____	_____	_____
d. Contributions from other sources?	_____	_____	_____
e. Benefits paid to participants?	_____	_____	_____
f. Payments to insurance companies to purchase contracts that are excluded from plan assets?	_____	_____	_____
g. Administrative expenses?	_____	_____	_____
h. Transfers of assets to or from other plans? [SFAS No. 35, par. 15 (AC Pe5.114); AAG, par. 2.13]	_____	_____	_____
3. For each significant type of investment are realized and unrealized gains and losses on investments that were both bought and sold during the year included in the net change in fair value? [SFAS No. 35, par. 15, fn. 7 (AC Pe5.114)]	_____	_____	_____
4. Does the statement list other components of investment income, where applicable?			
a. Interest income?	_____	_____	_____
b. Dividends?	_____	_____	_____
c. Rents? [AAG, par. 7.35—.36]	_____	_____	_____
<b>B. Contributions</b>			
1. Are employer contributions segregated between cash and noncash contributions? [SFAS No. 35, par. 15c (AC Pe5.114)]	_____	_____	_____
2. Are noncash contributions recorded at fair value? [SFAS No. 35, par. 15c, fn. 8 (AC Pe5.114)]	_____	_____	_____
3. Are the nature of noncash contributions described, either parenthetically or in a footnote? [SFAS No. 35, par. 15c, fn. 8 (AC Pe5.114)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Are contributions from other sources (i.e., state subsidies or federal grants) separately identified in the financial statements or notes thereto? [SFAS No. 35, par. 15e (AC Pe5.114)]	_____	_____	_____
<b>C. Benefits Paid to Participants</b>			
Are benefits paid directly to participants, segregated from benefit payments to participants made by an insurance company in accordance with a contract that is excluded from plan assets? [SFAS No. 35, pars. 15f and 18d (AC Pe5.117); AAG, par. 4.23]	_____	_____	_____
<b>D. Transfer of Assets to or from Other Plans</b>			
If the transfer of assets to or from other plans is significant, are they disclosed in notes to the financial statements? [AAG, par. 2.13]	_____	_____	_____
<b>V. Statement of Accumulated Plan Benefits</b>			
<b>A. Total Actuarial Present Value of Accumulated Plan Benefits</b>			
1. Are the following line items (categories) disclosed as of the benefit information date:			
a. Vested benefits of participants currently receiving payments?	_____	_____	_____
b. Other vested benefits?	_____	_____	_____
c. Nonvested benefits? [SFAS No. 35, par. 22 (AC Pe5.121)]	_____	_____	_____
2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date? [SFAS No. 35, par. 22 (AC Pe5.121)]	_____	_____	_____
3. Have accumulated plan benefits been determined in accordance with SFAS No. 35, and the actuarial assumptions utilized disclosed in the notes to the financial statements? [SFAS No. 35, pars. 16—19 (AC Pe5.116)]	_____	_____	_____
4. Are the assumed rates of return used in calculating accumulated plan benefits determined in accordance with SFAS No. 35, and if not, is this disclosed in the financial statements? [SFAS No. 35, pars. 20 and 198 (AC Pe5.119(a))]	_____	_____	_____
<b>B. Accumulated Contributions of Active Employees</b>			
1. Are the amount of the present employees' accumulated contributions as of the benefit information date, including interest credited, disclosed? [SFAS No. 35, par. 22 (AC Pe5.121)]	_____	_____	_____
2. If interest has been credited on employers' contributions, is the rate disclosed? [SFAS No. 35, par. 22 (AC Pe5.121)]	_____	_____	_____
<b>VI. Statement of Changes in Accumulated Plan Benefits</b>			
<b>A. Changes in the Actuarial Present Value of Accumulated Plan Benefits at Beginning of Year to the Actuarial Present Value at End of Year</b>			
1. Are the significant factors affecting the year-to-year change in the actuarial present value of accumulated plan benefits disclosed either on the face of the statement of changes in accumulated plan benefits or the notes thereto? Minimum disclosure shall include:			
a. Changes in plan amendments?	_____	_____	_____
b. Changes in the plan document (e.g., as a result of a spinoff or merger)?	_____	_____	_____
c. Changes in actuarial assumptions? [SFAS No. 35, par. 25 (AC Pe5.124)]	_____	_____	_____
2. If any one factor is individually significant, is that factor separately disclosed? [SFAS No. 35, par. 25 (AC Pe5.124)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are the significant effects of other factors, such as (a) benefits accumulated, (b) the increase (for interest) as a result of the decrease in the discount period, and (c) benefits paid, also disclosed in the financial statements or notes, thereto? [SFAS No. 35, par. 25 (AC Pe5.124)]	_____	_____	_____
<b>B. Changes in Actuarial Assumptions</b>			
1. Are the effects of changes in actuarial assumptions accounted for in the year of change (or in the year of change and future years if the change affects both), and not by restating amounts reported in financial statements for prior years? [SFAS No. 35, par. 23 (AC Pe5.122)]	_____	_____	_____
2. For plans that measure the actuarial present value of accumulated plan benefits by insurance company rates pursuant to the approach described in paragraph 21 of SFAS No. 35, are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed? [SFAS No. 35, par. 25, fn. 11 (AC Pe5.124)]	_____	_____	_____
<b>C. Benefits Accumulated and Benefits Paid</b>			
1. Are the amounts of accumulated benefits, including actuarial experience gains or losses, disclosed in the financial statements? [SFAS No. 35, par. 25, fns. 12 and 13 (AC Pe5.124)]	_____	_____	_____
2. Are the amounts of benefits paid, including amounts paid by the pension plan to an insurance company, separately disclosed in the financial statements? [SFAS No. 35, par. 25 (AC Pe5.124)]	_____	_____	_____
3. If the minimum required disclosure is presented in <i>other</i> than a statement format, is the actuarial present value of accumulated plan benefits as of the preceding benefit information date also presented? [SFAS No. 35, pars. 25 and 26 (AC Pe5.124)]	_____	_____	_____
<p><i>Note:</i> The use of averages or other methods of approximation that are consistent with recommended actuarial practice are allowed, provided the results obtained are substantially the same as the results contemplated by SFAS No. 35. [SFAS No. 35, par. 29 (AC Pe5.128)]</p>			
<b>VII. ERISA Reporting Requirements</b>			
<b>A. FORM 5500 Series Report</b>			
1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with GAAP, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, Appendix A]	_____	_____	_____
2. Did the auditor review the DOL's regulations for subsequent changes to the reporting requirements in the Form 5500 Series Report? [SOP 88-2]	_____	_____	_____
<b>B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA</b>			
1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Sec. 2520.103-1(a)(2), do the disclosures in the financial statements include:			
a. A description of accounting principles and variances from Generally Accepted Accounting Principles?	_____	_____	_____
b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits?	_____	_____	_____
c. The funding policy and changes in the funding policy from the prior year?	_____	_____	_____
d. A description of material lease commitments, and other commitments and contingent liabilities?	_____	_____	_____

**Financial Statements and Notes Checklist**

**17,411**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. A description of any agreements and transactions with persons known to be parties-in-interest?	_____	_____	_____
f. A general description of priorities in the event of plan termination?	_____	_____	_____
g. Whether or not a tax ruling or determination letter has been obtained?	_____	_____	_____
h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG, Appendix A]	_____	_____	_____
2. For plans filing under both methods, is the following additional information included in the financial statements and covered by the auditor's report:			
a. Schedule of plan assets and liabilities by category at fair value and in comparative form?	_____	_____	_____
b. Information concerning plan income, expenses and changes in net assets during the plan year? [AAG, Appendix A]	_____	_____	_____
3. Pursuant to DOL regulations, are the following <i>separate schedules</i> included with the financial statements of the plan and covered by the auditor's report:			
a. Investment assets (one schedule of assets held at plan year-end and one schedule of certain assets acquired and disposed of within the plan year) showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held?	_____	_____	_____
b. Transactions with parties-in-interest?	_____	_____	_____
c. Loans or fixed income obligations which are in default or uncollectible?	_____	_____	_____
d. Leases in default or uncollectible?	_____	_____	_____
e. Reportable transactions, including all individual security transactions that exceed 5% of the fair value of plan assets at the beginning of the year [3% per ERISA Sec. 103(c)(5)]? [AAG, Appendix A]	_____	_____	_____
4. Pursuant to DOL regulations:			
a. Is the auditor's report dated and manually signed?	_____	_____	_____
b. Does it indicate the city and state where issued?	_____	_____	_____
c. Does it identify the statements and schedules covered? [AAG, Appendix A and 29 CFR 2520.103-2]	_____	_____	_____
5. Does the auditor's report:			
a. Disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for the their omission?	_____	_____	_____
b. State clearly the auditor's opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
c. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matter on the related financial statements?	_____	_____	_____
d. Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [DOL Regulations Sec. 29 CFR 2520]	_____	_____	_____

# FSP Section 17,500

## *Illustrative Financial Statements*

### .01 **Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date**

#### **Independent Auditor's Report**

Addressee:

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan (the Plan) as of December 31, 19X1 and December 31, 19X0, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 19X1 and December 31, 19X0, and the changes in its financial status for the years then ended, in conformity with generally accepted accounting principles.

---

[Signature of Firm ]

[City and State ]

[Date ]

**.02 Supplemental Schedules Relating to ERISA and DOL Regulations**

When the auditor's report covers additional information and the auditor has applied auditing procedures and is expressing an opinion on the additional information, a separate paragraph of the report might be worded as follows:

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of (*list the schedules to be included, e.g., "assets held for investment" as of December 31, 19X1*), are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**.03 Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date**

**Independent Auditor's Report**

Addressee:

We have audited the accompanying statements of net assets available for benefits of XYZ Pension Plan (the Plan) as of December 31, 19X1 and 19X0, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 19X0, and the related statement of accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 19X0, and changes in its financial status for the year then ended and information regarding net assets available for benefits and changes therein as of and for the year ended December 31, 19X1, in conformity with generally accepted accounting principles.

---

[Signature of Firm ]

[City and State ]

[Date ]

*Note:* This opinion is used if benefit information (the actuarial present value of accumulated plan benefits) is not available as of the reporting date. The reporting date is the date the information regarding the "net assets available for benefits" is presented.

**.04 Illustration of Auditor's Report on Financial Statements—Limited-Scope Audits Under DOL Regulations****Independent Auditor's Report**

Addressee:

We were engaged to audit the financial statements and accompanying schedules of XYZ Pension Plan (the Plan) as of December 31, 19X1 and for the year then ended. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 19X1 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 19X1 that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

---

[Signature of Firm]

[City and State]

[Date]



**ABC COMPANY PENSION PLAN**

.05

**Statement of Net Assets Available for Benefits**

[End-of-year benefit information date]

	<i>December 31</i>	
	<u>19X1</u>	<u>19X0</u>
<b>Assets</b>		
Investments at fair value		
United States government securities .....	\$ 350,000	\$ 270,000
Corporate bonds and debentures .....	3,500,000	3,670,000
Common stock		
ABC Company .....	690,000	880,000
Other .....	2,250,000	1,860,000
Mortgages .....	480,000	460,000
Common trust .....	270,000	240,000
	<u>7,540,000</u>	<u>7,380,000</u>
Deposit administration contract, unallocated, at contract value .....	1,000,000	890,000
<b>Total investments</b> .....	<u>8,540,000</u>	<u>8,270,000</u>
Receivables		
Employees' contributions .....	40,000	35,000
Employer's contributions .....	310,000	175,000
Accrued interest and dividends .....	77,000	76,000
<b>Total receivables</b> .....	<u>427,000</u>	<u>286,000</u>
Cash .....	200,000	90,000
<b>Total Assets</b> .....	<u>9,167,000</u>	<u>8,646,000</u>
<b>Liabilities</b>		
Accounts Payable		
Securities purchased .....	—	400,000
Other .....	70,000	60,000
Accrued expenses .....	85,000	40,000
<b>Total Liabilities</b> .....	<u>155,000</u>	<u>500,000</u>
<b>Net assets available for benefits</b> .....	<u>\$9,012,000</u>	<u>\$8,146,000</u>

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

## ABC COMPANY PENSION PLAN

## .06 Statement of Changes in Net Assets Available for Benefits

[End-of-year benefit information date]

	December 31	
	<u>19X1</u>	<u>19X0</u>
<b>Investment income</b>		
Net appreciation (depreciation) in fair value of investments .....	\$ 207,000	\$ (72,000)
Interest .....	345,000	320,000
Dividends .....	185,000	153,000
	<u>737,000</u>	<u>401,000</u>
Less investment expenses .....	(39,000)	(35,000)
	<u>698,000</u>	<u>366,000</u>
<b>Contributions</b>		
Employer .....	780,000	710,000
Employees .....	450,000	430,000
	<u>1,230,000</u>	<u>1,140,000</u>
<b>Total Additions</b> .....	<u>1,928,000</u>	<u>1,506,000</u>
Benefits paid directly to participants .....	740,000	561,000
Purchases of annuity contracts .....	257,000	185,000
Administrative expenses .....	65,000	58,000
<b>Total deductions</b> .....	<u>1,062,000</u>	<u>804,000</u>
Net increase .....	866,000	702,000
<b>Net assets available for benefits</b>		
Beginning of year .....	8,146,000	7,444,000
End of year .....	<u>\$9,012,000</u>	<u>\$8,146,000</u>

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

Note: Pursuant to SFAS No. 102, a statement of cash flows is not required for defined benefit pension plans covered by SFAS No. 35. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are *not* highly liquid).  
[SFAS 102, par. 5]

ABC COMPANY PENSION PLAN

.07

Statement of Accumulated Plan Benefits

[End-of-year benefit information date]

	<i>December 31</i>	
	<u>19X1</u>	<u>19X0</u>
<b>Actuarial present value of accumulated plan benefits</b>		
Vested benefits		
Participants currently receiving payments . . . . .	\$ 3,040,000	\$ 2,950,000
Other participants . . . . .	8,120,000	6,530,000
Subtotal . . . . .	<u>11,160,000</u>	<u>9,480,000</u>
Nonvested benefits . . . . .	2,720,000	2,400,000
<b>Total actuarial present value of accumulated plan benefits . . . . .</b>	<u><u>\$13,880,000</u></u>	<u><u>\$11,880,000</u></u>

.08

## Statement of Changes in Accumulated Plan Benefits

	<u>December 31</u>	
	<u>19X1</u>	<u>19X0</u>
<b>Actuarial present value of accumulated plan benefits at beginning of year</b> .....	<b>\$11,880,000</b>	<b>\$10,544,000</b>
Increase (decrease) during the year attributable to:		
Plan amendment .....	2,410,000	—
Change in actuarial assumptions .....	(1,050,500)	700,000
Benefits accumulated .....	895,000	636,000
Increase for interest due to the decrease in the discount period .....	742,500	—
Benefits paid .....	(997,000)	—
Net increase .....	<u>2,000,000</u>	<u>1,336,000</u>
<b>Actuarial present value of accumulated plan benefits at end of year</b> .....	<b><u>\$13,880,000</u></b>	<b><u>\$11,880,000</u></b>

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

Note: The information in these statements can alternatively be shown as schedules within the notes to the financial statements.

[SFAS 35, pars. 6 and 26]

**ABC COMPANY PENSION PLAN**

.09

**Notes to Financial Statements****A. Description of Plan**

The following is a brief description of the ABC Company Pension Plan (*Plan*). Participants should refer to the Plan agreement for more complete information.

1. **General.** The Plan is a defined benefit pension plan covering substantially all employees of ABC Company (*Company*). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (*ERISA*).
2. **Pension Benefits.** Employees with 10 or more years of service are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1½% of their final 5-year average annual compensation for each year of service. The Plan permits early retirement at ages 55-64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering 10 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the Company's contributions. Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement. For each employee electing a life annuity, payments will not be less than the greater of (a) the employee's accumulated contributions plus interest or (b) an annuity for five years.
3. **Death and Disability Benefits.** If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

**B. Summary of Accounting Policies**

The following are the significant accounting policies followed by the Plan:

1. **Valuation of Investments.** Investments are stated at fair market value using, where available, quoted market prices of a national securities exchange. As disclosed in Note (E), investments that have no quoted market price are stated at estimated fair value. Many factors are considered in determining fair market value. In general, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

The fair value of the participation units owned by the Plan in the common trust fund are based on quoted redemption values on the last day of the plan year.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

The Plan's deposit administration contract with the National Insurance Company (*National*) (Note F) is valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administration expenses charged by National. Funds under the insurance contract that have been allocated and applied to purchase annuities (i.e., National is obligated to pay the related pension benefits) are excluded from the Plan's assets.

2. *Actuarial Present Value of Accumulated Plan Benefits.* Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last five years of credited service.

The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the *valuation date*). Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 19X1 and December 31, 19X0 were (a) life expectancy of participants (the 19X1 Group Annuity Mortality Table was used), (b) retirement age assumptions (the assumed average retirement age was 60), and (c) investment return. The 19X1 and 19X0 valuations included assumed average rates of return of 8% and 6.25%, respectively, including a reduction of .2% to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

### C. Funding Policy

As a condition of participation, employees are required to contribute 3% of their salary to the Plan. Present employees' accumulated contributions at December 31, 19X1 and 19X0 were \$2,575,000 and \$2,325,000, respectively, including interest credited at an interest rate of 8.2% compounded annually. The Company's funding policy is to make annual contributions to the Plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5% for 19X1 and 19X0), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 19X2, the Company's contribution is expected to increase to approximately 6% to provide for the increase in benefits attributable to the Plan amendment effective July 1, 19X1 (Note G). The Company's contributions for 19X1 and 19X0 exceeded the minimum funding requirements of ERISA.

Although it has not expressed any intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

**D. Plan Termination \***

In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by ERISA and its related regulations, generally to provide the following benefits in the order indicated:

- a. Benefits attributable to employee contributions, taking into account those paid out before termination.
- b. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under plan provisions in effect at any time during the five years preceding plan termination.
- c. Other vested benefits insured by the Pension Benefit Guaranty Corporation (PBGC) up to the applicable limitations (discussed below).
- d. All other vested benefits (that is, vested benefits not insured by the PBGC).
- e. All nonvested benefits.
- f. Benefits to be provided via contracts under which National (Note F) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the Plan are insured by the PBGC if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling on the amount of an individual's monthly benefit that the PBGC guarantees. For plan terminations occurring during 19X1 and 19X0, that ceiling which is adjusted periodically was \$1,149 and \$1,159.09 per month, respectively. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the Plan amendment effective July 1, 19X1 (Note G) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the plan were to terminate before July 1, 19X2. After that date, the PBGC would guarantee 20% of any benefit improvements that resulted in benefits below the ceiling, with an additional 20% guaranteed each year the plan continued beyond July 1, 19X2. If the amount of the benefit increase below the ceiling is also less than \$100, \$20 of the increase (rather than 20%) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 19X6.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide those benefits and may also depend on the level of benefits guaranteed by the PBGC.

---

\* If material, provided this information is otherwise available to participants (e.g., employee handbook), this disclosure can be omitted, if (1) a reference to such source is made and (2) disclosure similar to that suggested in SFAS 35 is used. Refer to SFAS 35, par. 28, footnote 16.

**E. Investments Other Than Contract with Insurance Company**

Except for its deposit administration contract (Note F), the Plan's investments are held by a bank-administered trust fund. The following table presents the fair values of those investments. Investments that represent 5% or more of the Plan's net assets are separately identified as follows:

	<u>December 31, 19X1</u> <i>Fair Value</i>	<u>December 31, 19X0</u> <i>Fair Value</i>
<b>Investments at Fair Value as Determined by Quoted Market Price</b>		
United States government securities .....	\$ 350,000	\$ 270,000
Corporate bonds and debentures		
National Locomotive 7%, \$600,000 face amount, series C bonds due 19X5 .....	480,000	492,000
General Design Corp. 8½%, \$700,000 and \$350,000 face amount convertible debentures due 19X3 .....	520,000	250,000
Other .....	2,260,000	2,618,000
Common stocks .....		
ABC Company (25,000 shares) .....	690,000	880,000
Reliable Manufacturing Corp. (12,125 shares and 9,100 shares) .....	625,000	390,000
American Automotive, Inc. (5,800 shares and 6,800 shares) .....	475,000	510,000
Other .....	950,000	740,000
	<u>6,350,000</u>	<u>6,150,000</u>
<b>Investments at Estimated Fair Value</b>		
Corporate bonds and debentures .....	240,000	310,000
Common stocks .....	470,000	460,000
Mortgages .....	480,000	460,000
	<u>1,190,000</u>	<u>1,230,000</u>
	<u>\$7,540,000</u>	<u>\$7,380,000</u>

During 19X1 and 19X0, the Plan's investments (including gains and losses on investments bought and sold during the year) appreciated (depreciated) in value by \$207,000 and (\$72,000), respectively, as follows:

	<u>December 31, 19X1</u>	<u>December 31, 19X0</u>
<b>Net Appreciation (Depreciation) in Fair Value of Investments as Determined by Quoted Market Price</b>		
United States government securities .....	\$ (10,000)	\$ 8,000
Corporate bonds and debentures .....	(125,000)	50,000
Common stocks .....	228,000	(104,000)
Other .....	30,000	10,000
	<u>123,000</u>	<u>(36,000)</u>
<b>Net Appreciation (Depreciation) in Fair Value of Investments at Estimated Fair Value</b>		
Corporate bonds and debentures .....	(11,000)	9,000
Common stocks .....	100,000	(49,000)
Mortgages .....	(5,000)	4,000
	<u>84,000</u>	<u>(36,000)</u>
	<u>\$207,000</u>	<u>\$ (72,000)</u>



**F. Contract with Insurance Company**

In 19XX, the Company entered into a deposit administration contract with the National Insurance Company under which the Plan deposits a minimum of \$100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8%. The interest rate is guaranteed through 19X3 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the Plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis.

The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the Plan for the years ended December 31, 19X1 and 19X0 were \$25,000 and \$24,000, respectively. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

**G. Plan Amendment**

Effective July 1, 19X1, the Plan was amended to increase future annual pension benefits from 1 $\frac{1}{4}$ % to 1 $\frac{1}{2}$ % of final 5-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the Plan amendment, an increase in the actuarial present value of accumulated plan benefits of \$2,410,000, was accounted for in the year ended December 31, 19X1. The actuarial present value of accumulated plan benefits at December 31, 19X0 does not reflect the effect of that Plan amendment. The Plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 19X0 was an increase of approximately \$1,750,000, of which approximately \$1,300,000 represents an increase in vested benefits.

**H. Income Tax**

The Internal Revenue Service has ruled that the plan qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is, therefore, not subject to tax under present income tax law. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Pension Administrative Committee is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

---

# **FSP Section 18,000**

## **CHECKLIST SUPPLEMENT AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR AGRICULTURAL PRODUCERS**

.01 The checklist and illustrative financial statements included in this booklet have been developed as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist and illustrative financial statements are to be used in conjunction with the "Disclosure Checklists and Illustrative Financial Statements for Corporations," and have been updated to include relevant FASB Statements, Accounting Principles Board Opinions and AICPA Statements of Position. In addition, suggested guidance has been provided from various accounting textbooks where no specific authoritative literature exists. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. To determine the applicability of a pronouncement, its effective date should be considered.
- The checklist and illustrative financial statements are a "tool" and in no way represent official positions or pronouncements of the AICPA.
- The checklist and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

.02 Users of this checklist 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. The author wishes to acknowledge the assistance of his colleagues, Jack Shohet and Ray Whittington, who served as consultants on this project.

John Graves  
Director  
Technical Services

---

[The next page is 18,101.]

# **FSP Section 18,100**

## ***Introduction***

**.01 Agricultural producers are farmers and ranchers. The types of activities engaged in by agricultural producers include the following:**

**Growing wheat, milo, corn, and other grains**

**Growing soybeans, vegetables, sugar beets, and sugarcane**

**Growing citrus fruits, other fruits, grapes, berries, and nuts**

**Growing cotton and other vegetable fibers**

**Operating nurseries**

**Breeding and feeding cattle, hogs, and sheep, including wool production**

**Operating dairies**

**Raising fish and shellfish**

**Operating poultry and egg-production facilities**

**Breeding horses**

**Raising mink, chinchilla, and similar small animals**

**.02 The forms of business entity used by agricultural producers range from noncorporate family groups to publicly held multinational corporations.**

---

**[The next page is 18,201.]**

# FSP Section 18,200

## Checklist Supplement for Agricultural Producers

.01 This checklist has been developed as a nonauthoritative practice aid, and is to be used in conjunction with the "Disclosure Checklist for Corporations."

### .02 Explanation of References:

A & AG = Audit and Accounting Guide, *Audits of Agricultural Producers and Agricultural Cooperatives*

ARB = Accounting Research Bulletin

AC = Reference to section number in *FASB Accounting Standards Current Text*

### .03 Checklist Questionnaire

#### Financial Statements and Notes Checklist for Agricultural Producers

Note: This checklist is to be used in conjunction with the "Disclosure Checklist for Corporations."

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Forward Sales Contracts</b>			
1. If products are sold under forward sales contracts but the producer retains title:			
a. Are such products accounted for as inventory?	_____	_____	_____
b. If the sales price is determined at time of sale, was the sales price considered in determining the net realizable value of the products?	_____	_____	_____
c. If the sales price is to be determined at a date after the date of sale, was a price estimated at the balance sheet date to determine net realizable value? [A & AG, page 67]	_____	_____	_____
2. If products are sold under forward sales contracts and the producer does not retain title:			
a. Was the transaction recorded as a sale?	_____	_____	_____
b. If the sales price is to be determined at a date after the date of sale, was the sale recorded at estimated net realizable value at the balance sheet date?	_____	_____	_____
c. If there is a material difference between the estimated net realizable value at the balance sheet date and at the date of the auditor's report, has such a difference been disclosed? [A & AG, page 67]	_____	_____	_____
3. If conditions warrant, were losses recognized? [A & AG, page 68]	_____	_____	_____
<b>B. Forward Purchase Contracts</b>			
● Are material losses recognized and disclosed separately in the income statement? [ARB 43, Ch. 4, par. 17 (AC I 78.121); A & AG, page 68]	_____	_____	_____
<b>C. Futures Contracts</b>			
1. If a futures contract is designated a hedge:			

Yes      No      N/A

- a. Does the item to be hedged expose the enterprise to price (or interest rate) risk? \_\_\_\_\_
- b. Does the futures contract reduce the exposure to risk, and is it designated as a hedge?  
[SFAS 80, par. 4 (AC F80.104 and .404)] \_\_\_\_\_
- 2. If the futures contract hedges an anticipated transaction:
  - a. Are the significant characteristics and expected terms of the anticipated transaction identified? \_\_\_\_\_
  - b. Is it probable that the anticipated transaction will occur?  
[SFAS 80, par. 9 (AC F80.109)] \_\_\_\_\_
- 3. If a futures contract is accounted for as a hedge, does the disclosure include:
  - a. The nature of the assets, liabilities, firm commitments, or anticipated transactions hedged with futures contracts? \_\_\_\_\_
  - b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts?  
[SFAS 80, par. 12 (AC F80.112)] \_\_\_\_\_
- D. Transactions With Supply and Manufacturing Cooperatives**
  - 1. Were patronage refunds appropriately accrued? \_\_\_\_\_
  - 2. Were patronage refunds appropriately classified in the producer's financial statements?  
[A & AG, page 32] \_\_\_\_\_
- E. Transactions With Marketing Cooperatives**
  - 1. If title of products delivered to a cooperative has passed to the cooperative, has the producer recorded the transaction as a sale? \_\_\_\_\_
  - 2. Was the sale recorded at an appropriate amount? \_\_\_\_\_
  - 3. Are advances from a cooperative treated as a reduction of the receivable from the cooperative? \_\_\_\_\_
  - 4. Is the amount of current-year revenues that represent an adjustment of revenues from prior years disclosed? \_\_\_\_\_
  - 5. If title of products delivered to a cooperative has not passed to the cooperative, does the producer include the products in its inventories? \_\_\_\_\_
  - 6. If a producer is economically dependent on a cooperative for sale of all or a significant portion of its annual production, is the extent of such transactions disclosed?  
[A & AG, pages 33, 34] \_\_\_\_\_

**Balance Sheet**

**A. Inventories**

- 1. Are the following classified as part of inventories?
  - a. Growing crops? \_\_\_\_\_
  - b. Developing animals to be held for sale? \_\_\_\_\_
  - c. Harvested crops? \_\_\_\_\_
  - d. Livestock held for sale? \_\_\_\_\_
  - e. Secondary products, such as calves from dairy herds and wool from sheep?  
[A & AG, page 12] \_\_\_\_\_
- 2. Are growing crops and developing animals to be held for sale stated at lower of cost or market?  
[A & AG, page 12] \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are harvested crops and livestock held for sale stated at lower of cost or market or at sales price less estimated costs of disposal if all the following conditions exist?			
a. Market price is reliable, readily determinable, and realizable?	_____	_____	_____
b. Costs of disposal are relatively insignificant and predictable?	_____	_____	_____
c. Available for immediate delivery? [A & AG, page 12]	_____	_____	_____
4. Are costs of growing crops that benefit more than one crop year included in property and equipment and amortized over their useful lives? [A & AG, page 16]	_____	_____	_____
5. Are costs such as special tillage, chopping, or burning required after harvest of a crop to overcome a physical or noxious condition accrued as costs of the harvested crop? [A & AG, page 16]	_____	_____	_____
6. Are costs of growing grain or hay to feed livestock of producer accounted for as maintenance costs of the livestock? [A & AG, page 16]	_____	_____	_____
7. Was using a specialist under SAS No. 11 considered?	_____	_____	_____
<b>B. Investment in Cooperatives</b>			
1. Is the investment stated at cost, including allocated equities and retains?	_____	_____	_____
2. Was the investment reduced for allocated losses?	_____	_____	_____
3. Was the investment reduced if investor is unable to recover full carrying amount of investment? [A & AG, page 31]	_____	_____	_____
<b>C. Property</b>			
1. Are permanent land development costs (costs of initial land surveys, titles, initial clearing, and initial leveling) capitalized and not subject to depreciation?	_____	_____	_____
2. Are limited life development costs (water distribution systems, fencing, and drainage tile) capitalized and depreciated over the estimated useful life of the improvement? [A & AG, page 30]	_____	_____	_____
3. Are capitalized costs for the following classified as property and depreciated over their estimated life?			
a. Orchards and vineyards? [A & AG, page 20]	_____	_____	_____
b. Intermediate-life plants (artichokes, asparagus, bush berries, kiwifruit, alfalfa, and grazing grass)? [A & AG, page 21]	_____	_____	_____
c. Breeding animals? [A & AG, page 24]	_____	_____	_____
d. Production animals? [A & AG, page 26]	_____	_____	_____
4. Are the estimated useful lives of property items disclosed? [A & AG, page 21]	_____	_____	_____
5. For orchards and vineyards:			
a. Were cultural costs during the development period, including stakes and wires, grafting, and labor for pruning and forming, capitalized?	_____	_____	_____
b. Were net proceeds from sales of products before commercial production begins applied to the capitalized costs of the plants, trees, or vines?	_____	_____	_____
c. Were losses caused by abnormal events, such as unusual disease, frost, or flood, written off in the year of the loss?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Were replanting costs capitalized? [A & AG, page 19]	_____	_____	_____
6. For intermediate-life plants, were the following development period costs capitalized?			
a. Land preparation?	_____	_____	_____
b. Plants?	_____	_____	_____
c. Preparation of planting beds?	_____	_____	_____
d. Stakes and wires?	_____	_____	_____
e. Cultural care during the development period?	_____	_____	_____
f. Overhead? [A & AG, page 21]	_____	_____	_____
7. For breeding animals, were the following costs capitalized?			
a. Feed?	_____	_____	_____
b. Veterinary care?	_____	_____	_____
c. Medicines?	_____	_____	_____
d. Labor?	_____	_____	_____
e. Land and pasture rent?	_____	_____	_____
f. Depreciation of the herd and facilities? [A & AG, page 24]	_____	_____	_____
8. For breeding animals, were accumulated costs of animals lost through causes considered abnormal written off in the period of loss? [A & AG, page 24]	_____	_____	_____
9. For poultry operations, were the following costs capitalized?			
a. Cost of the birds?	_____	_____	_____
b. Materials and labor?	_____	_____	_____
c. Allocated indirect costs during prematurity period? [A & AG, page 26]	_____	_____	_____
10. Are capitalized costs of poultry operations less estimated salvage value of chickens amortized over the egg-laying period? [A & AG, page 26]	_____	_____	_____
<b>D. Other Assets</b>			
● Are costs allocated to milk-marketing rights accounted for in accordance with APB Opinion No. 17? [A & AG, page 26; APB 17, par. 30 (ACI 60.111)]	_____	_____	_____
<b>E. Current Liabilities</b>			
● Are federal agency loans collateralized by security interests in negotiable warehouse receipts classified as a current liability? [A & AG, page 35]	_____	_____	_____

**Statement of Income**

**A. Revenue and Expenses**

1. Are payments received from the government under income replacement and subsidy programs appropriately accounted for?	_____	_____	_____
2. Are payments received from the government under cost sharing programs appropriately accounted for? [A & AG, pages 35 and 36]	_____	_____	_____
3. Are costs to develop improved animal bloodlines or hybrid plants, trees, and vines expensed as incurred? [A & AG, page 31]	_____	_____	_____

# FSP Section 18,300

## *Illustrative Financial Statements*

.01

### **Illustrative Independent Auditor's Report**

We have audited the accompanying balance sheets of Grain and Cattle Producer, Inc. as of August 31, 1989 and 1988, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grain and Cattle Producer, Inc. as of August 31, 1989 and 1988, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature ]

[Date ]



## Grain and Cattle Producer, Inc.

.02

## Balance Sheets

	<i>August 31,</i>	
	<u>1989</u>	<u>1988</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$ 112,000	\$ 195,000
Receivables (Notes 1 and 2) .....	510,000	475,000
Inventories (Note 1)		
Feed and supplies .....	75,000	70,000
Grain .....	265,000	245,000
Cattle .....	410,000	445,000
Deposits and prepaid expenses .....	90,000	65,000
Total current assets .....	<u>1,462,000</u>	<u>1,495,000</u>
Investment (Note 1) .....	54,000	47,000
Property and equipment, net (Notes 1 and 3) .....	5,288,000	4,837,000
Total assets .....	<u>\$6,804,000</u>	<u>\$6,379,000</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Notes payable (Note 4) .....	200,000	200,000
Accounts payable and accrued expenses .....	224,000	199,000
Income taxes payable .....	23,000	68,000
Current maturities of long-term debt .....	250,000	200,000
Total current liabilities .....	<u>697,000</u>	<u>667,000</u>
Deferred income taxes (Note 5) .....	210,000	173,000
Long-term debt (Note 4) .....	3,020,000	2,925,000
Total liabilities .....	<u>3,927,000</u>	<u>3,765,000</u>
<b>Stockholders' equity</b>		
Common stock, \$100 par, authorized and issued 5,000 shares .....	500,000	500,000
Retained earnings .....	2,377,000	2,114,000
Total liabilities and stockholders' equity .....	<u>2,877,000</u>	<u>2,614,000</u>
Total liabilities and stockholders' equity .....	<u>\$6,804,000</u>	<u>\$6,379,000</u>

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

Grain and Cattle Producer, Inc.

.03

Statements of Income and Retained Earnings

	Years Ended August 31,	
	1989	1988
Revenue		
Grain .....	\$2,365,000	\$1,810,000
Cattle .....	1,110,000	1,378,000
Interest .....	15,000	17,000
Other .....	14,000	22,000
Total revenue .....	<u>3,504,000</u>	<u>3,227,000</u>
Cost and expenses		
Grain .....	1,395,000	1,090,000
Cattle .....	910,000	1,025,000
Interest expense .....	375,000	355,000
General and administrative expense .....	280,000	275,000
Total costs and expenses .....	<u>2,960,000</u>	<u>2,745,000</u>
Income before income taxes .....	<u>544,000</u>	<u>482,000</u>
Income taxes (Note 5)		
Current .....	214,000	189,000
Deferred .....	37,000	38,000
Total income taxes .....	<u>251,000</u>	<u>227,000</u>
Net income .....	293,000	255,000
Retained earnings, beginning of year .....	2,114,000	1,889,000
Dividends paid .....	(30,000)	(30,000)
Retained earnings, end of year .....	<u>\$2,377,000</u>	<u>\$2,114,000</u>
Income per share .....	<u>\$ 58.60</u>	<u>\$ 51.00</u>
Dividends per share .....	<u>\$ 6.00</u>	<u>\$ 6.00</u>

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

## Grain and Cattle Producer, Inc.

.04

## Statements of Cash Flows

	<i>Years Ended August 31,</i>	
	<u>1989</u>	<u>1988</u>
<b>Cash flows from operating activities:</b>		
Net income .....	\$ 293,000	\$ 255,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation .....	190,000	175,000
Deferred income taxes .....	37,000	38,000
Allocated retains—Central Supply Cooperative .....	(7,000)	(5,000)
Gain on sale of property and equipment .....	(6,000)	(2,000)
Change in assets and liabilities:		
Increase in receivables .....	(35,000)	(50,000)
Decrease (increase) in inventories .....	10,000	(70,000)
Increase in deposits and prepaid expenses .....	(25,000)	(15,000)
Increase in accounts payable and accrued expenses .....	25,000	50,000
Decrease in income taxes payable .....	(45,000)	(17,000)
Net cash provided by operating activities .....	<u>437,000</u>	<u>359,000</u>
<b>Cash flows from investing activities:</b>		
Sale of property and equipment .....	90,000	72,000
Additions to property and equipment .....	(725,000)	(210,000)
Net cash used by investing activities .....	(635,000)	(138,000)
<b>Cash flows from financing activities:</b>		
Repayment of notes payable .....	—	(50,000)
Increase in current maturities of long-term debt .....	50,000	—
Issuance of long-term debt .....	345,000	—
Repayment of long-term debt .....	(250,000)	(200,000)
Dividends .....	(30,000)	(30,000)
Net cash provided (used) by financing activities .....	<u>115,000</u>	<u>(280,000)</u>
Net decrease in cash .....	(83,000)	(59,000)
Cash at beginning of year .....	195,000	254,000
Cash at end of year .....	<u>\$ 112,000</u>	<u>\$ 195,000</u>
<b>Supplemental disclosure of cash flow data:</b>		
Cash paid during the years for:		
Interest (net of amounts capitalized) .....	<u>\$ 250,000</u>	<u>\$ 225,000</u>
Income taxes .....	<u>\$ 65,000</u>	<u>\$ 27,000</u>

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

**Grain and Cattle Producer, Inc.**

.05

**Notes to Financial Statements**

**Years Ended August 31, 1989 and 1988**

**1. Summary of Significant Accounting Policies**

**Receivables.** Receivables from cattle and grain sales are based on contracted prices. The company evaluates the collectibility of all receivables at year-end. Amounts considered uncollectible or doubtful of collection are written off when such determination is made.

**Inventories.** Cattle inventories are stated at the lower of cost (first-in, first-out method) or market. Costs of raised cattle include proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance to maturity. Purchased cattle are carried at purchase cost plus costs of maintenance to maturity.

**Harvested grain inventories** are stated at the lower of cost (first-in, first-out method) or market. Growing crops are valued at the lower of cost or estimated market.

The company hedges grain inventories and growing crops to the extent considered practicable for minimizing risks from market price fluctuations. Realized and unrealized gains and losses on futures contracts that qualify as hedges are deferred until the related inventories are sold. Those realized and unrealized gains and losses are considered in determining net realizable value for lower of cost or market calculations for related harvested and growing crops.

**Investment.** The investment in Central Supply Cooperative (Central) represents equities allocated to Grain and Cattle Producer, Inc. (the Company), by Central as of Central's most recent fiscal year-end, plus an accrual at the Company's fiscal year-end for anticipated patronage allocations. The accrual is based on the expected percentage (1 percent in both 1989 and 1988) of Central's total patronage applied to Central's interim operating results. Patronage refunds are credited to operating expenses.

**Property and equipment.** Property and equipment are stated at cost. Breeding animals are carried at purchase costs or inventory transfer amounts equal to the lower of accumulated animal maintenance costs or market. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis (see note 3). Renewals and betterments are charged to property accounts. Costs of maintenance and repairs that do not improve or extend asset lives are charged to expense.

**2. Receivables**

Receivables are composed of the following:

	<i>August 31,</i>	
	<u>1989</u>	<u>1988</u>
Note, secured, due January 1990, interest at 12% .....	\$ 90,000	
Receivables, grain and livestock sales .....	410,000	\$460,000
Other .....	10,000	15,000
	<u>\$510,000</u>	<u>\$475,000</u>

### 3. Property and Equipment

Property and Equipment are stated at cost. A summary of the Company's facilities is shown below.

	August 31,		Useful Lives
	1989	1988	
Land .....	\$3,678,000	\$3,214,000	
Buildings and land improvements .....	840,000	800,000	5-40 years
Machinery and equipment .....	560,000	515,000	3-15 years
Feedlot facilities .....	285,000	270,000	10-25 years
Breeding herd .....	1,025,000	978,000	8 years
	<u>6,388,000</u>	<u>5,777,000</u>	
Less accumulated depreciation .....	1,100,000	940,000	
Property and equipment, net .....	<u>\$5,288,000</u>	<u>\$4,837,000</u>	

Depreciation charged against income for the years ended August 31, 1989 and 1988, amounted to \$190,000 and \$175,000, respectively.

### 4. Long-Term Debt and Short-Term Borrowings

**Long-term debt.** The long-term debt, which is collateralized by real estate, outstanding as of August 31, 1989 and 1988, is summarized below.

	August 31,	
	1989	1988
Payable in annual principal installments of \$200,000 with final installment of \$125,000 in 1993; interest at 11% .....	\$2,925,000	\$3,125,000
Payable in annual principal installments of \$50,000 with final installment of \$45,000 in 1995; interest at 14.5% .....	345,000	
	<u>3,270,000</u>	<u>3,125,000</u>
Less amount due within one year .....	250,000	200,000
Balance, due after one year .....	<u>\$3,020,000</u>	<u>\$2,925,000</u>

Maturities of long-term debt for each of the five fiscal years subsequent to August 31, 1989, are as follows:

1990 .....	\$ 250,000
1991 .....	250,000
1992 .....	250,000
1993 .....	250,000
1994 .....	250,000
Total .....	<u>\$1,250,000</u>

The debt agreements contain a number of restrictive covenants on the payment of dividends including, among other things, a limit of 75 percent of the net earnings over \$100,000 per year.

**Short-term borrowings.** The Company had a short-term line of credit with First National Bank of up to \$300,000 in 1989 and \$250,000 in 1988. The average interest rates were 17 percent and 18 percent for the years ended August 31, 1989 and 1988, respectively.

**5. Income Taxes**

Following is a reconciliation of the income tax computed at the federal statutory rates and the income tax provision.

	<i>Years Ended August 31,</i>	
	<u>1989</u>	<u>1988</u>
Income tax at statutory rates .....	\$272,000	\$241,000
Decreases resulting from:		
Benefit from breeding-herd sales		
income taxed at capital gains rate .....	(5,000)	(4,000)
Investment tax credit .....	(10,000)	(6,000)
Other, net .....	(6,000)	(4,000)
Total income tax provision .....	<u>\$251,000</u>	<u>\$227,000</u>

Deferred income taxes have been provided to reflect the difference in timing of income and expense for accounting and income tax purposes. The sources of these differences and the related tax effect of each are summarized as follows.

	<i>Years Ended August 31,</i>	
	<u>1989</u>	<u>1988</u>
Valuation of breeding livestock .....	\$21,000	\$24,000
Valuation of inventories .....	16,000	14,000
	<u>\$37,000</u>	<u>\$38,000</u>

## **FSP Section 22,000**

# **CHECKLIST AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR PERSONAL FINANCIAL STATEMENT ENGAGEMENTS**

.01 The accounting and reporting checklist and illustrative financial statements in this section have been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Readers should be aware of the following:

- The accounting and reporting checklist and illustrative financial statements have been updated to include FASB Statements through No. 105 and AICPA Statements of Position through No. 90-4. The accounting and reporting checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should be considered.
- The accounting and reporting checklist 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 checklist and illustrative financial statements may not be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the accounting or reporting item is required or suggested, and to what extent the item is relevant to the standards in question.

.02 Users of this checklist are urged to refer directly to the existing, authoritative pronouncements when possible. If you have any questions, please call the AICPA Technical Hotline.

John Graves  
Director  
Technical Services

---

{The next page is 22,101.}

# FSP Section 22,100

## *Introduction*

### **General Comments on Personal Financial Statements**

.01 Personal financial statements are financial statements of an individual or a group of related individuals (a family unit). They are often prepared to formally organize and plan one's financial affairs in general. Specific applications include preparing personal financial statements for obtaining credit, income tax planning, retirement planning, gift and estate planning and for public disclosure purposes.

### **The Need for Guidance**

.02 As one of the results of the unprecedented growth in the economy over the past years, there are more users of personal financial statements. These users want information to rely on in decision-making in order to grant credit, to assess the financial activities of individuals, to assess the financial affairs of public officials and candidates for public office, and other similar purposes.

### **Relationship to Other Literature**

.03 In 1968, the AICPA first issued its industry audit guide entitled, *Audits of Personal Financial Statements*. The guide supported historical cost as the primary basis of measurement for personal financial statements. However, the increasing use of personal financial statements in practice resulted in a need to reassess that conclusion.

.04 In recognition of the intended use of personal financial statements, the AICPA issued Statement of Position 82-1, *Accounting and Reporting for Personal Financial Statements*, on October 1, 1982. Effective for statements dated June 30, 1983 and after, the SOP superseded the existing guide.

.05 Consequently, the AICPA issued a new guide in 1983 based on the SOP entitled, *Personal Financial Statements Guide*. The new guide and the SOP offers guidance on personal financial statements that use the estimated current values of assets and the estimated current amounts of liabilities as the basis for presentation.

.06 In addition, the SOP provides guidelines for determining the current values and disclosure requirements. The new guide offers illustrative financial statements and reports and considerations to be made at various levels of professional service.

### **Basic Financial Statements**

.07 Personal financial statements consist of a statement of financial condition. This is the basic personal financial statement. It presents the estimated current values of assets, the estimated current amounts of liabilities, the estimated income taxes on the difference between the estimated current value of assets and the estimated current amounts of liabilities and their tax bases, and the net worth of the individual(s) at a specified date.

.08 A statement of changes in net worth presents the major sources of increases and decreases in net worth. It presents the major sources of increases in net worth: income, increases in the estimated current values of assets, decreases in the estimated current amounts of liabilities, and decreases in the estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. It presents the major sources of decreases in net worth: expenses, decreases in the current estimated values of assets, increases in the estimated current amounts of liabilities, and increases in the estimated income taxes on the difference between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. One statement that combines income and other changes is desirable because of



the mix of business and personal items in personal financial statements. The statement of changes in net worth is optional.

.09 Usually, the presentation of comparative financial statements (that is, presentation of the current period and one or more prior periods) is desirable because it is more informative, but it is not required.

### **General Comments on the Use of a Checklist**

.10 Although authoritative literature does not require the use of a checklist, many auditors and accountants find it helpful to use as a practice aid in accounting and reporting. The format and content of a checklist often varies. Some accounting firms have developed their own checklists for internal use, and may have developed specialized checklists to meet the needs of their practices (such as checklists for clients in a particular industry or for clients that report to the SEC). Some state CPA societies have developed checklists for their membership that may be available to other practitioners as well. Various commercial publishers include checklists in some of their publications.

---

[The next page is 22,201.]

# FSP Section 22,200

## *Checklists—General*

**.01** Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of 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 which 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 checklist, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Emerging Issues Task Force proceedings. Some checklists also include references to FASB Interpretations, Industry Audit Guides and Emerging Issues Task Force proceedings. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to the highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

**.03** Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** 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.

---

[The next page is 22,301.]

# FSP Section 22,300

## Checklist for Personal Financial Statement Engagements

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of references:

GUD-PFS = AICPA Personal Financial Statements Guide (1983)

SOP 82-1 = AICPA Statement of Position 82-1, (October 1, 1982), effective for statements dated June 30, 1983 and after

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. Accounting</b>			
<b>A. The Methods of Presentation</b>			
1. Are assets and liabilities and changes in them recognized on the accrual basis? [SOP 82-1, par. 7]	_____	_____	_____
a. If not, are they on another comprehensive basis of accounting?	_____	_____	_____
2. Are assets and liabilities presented in order of liquidity and maturity (in an unclassified manner)? [SOP 82-1, par. 8]	_____	_____	_____
3. If the statements are prepared for one of a group of joint owners, do they include only the person's interest as a beneficial owner (as determined under the property laws of the state having jurisdiction)?	_____	_____	_____
a. If property is held in joint tenancy, as community property, or through a similar joint ownership arrangement and it is determined that the person's interest should be included among his assets, is there a proper allocation of the equity under the applicable state laws? [SOP 82-1, par. 9]	_____	_____	_____
4. Are business interests that constitute a large part of a person's total assets shown separately from other investments?	_____	_____	_____
a. Is the estimated current value of an investment in a separate entity shown in one amount if the entity is marketable as a going concern?	_____	_____	_____
b. Are assets and liabilities of the separate entity not combined with similar personal items? [SOP 82-1, par. 10]	_____	_____	_____
5. Are the estimated current values of assets and the estimated current amounts of liabilities of limited business activities not conducted as a separate business entity presented as separate amounts? [SOP 82-1, par. 11]	_____	_____	_____
<b>B. Guidelines for Determining the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities</b>			
<b>1. General</b>			
a. Are costs of disposal considered in determining estimated current values?	_____	_____	_____
b. Has judgment been exercised in determining estimated current values?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[SOP 82-1, par. 12]			
c. Are the methods used to determine current estimated values of assets and current estimated amounts of liabilities followed consistently from period to period (unless facts and circumstances dictate a change)?	_____	_____	_____
[SOP 82-1, par. 15]			
<b>2. Receivables</b>			
a. Are receivables presented at the discounted amounts of cash the person estimates will be collected (using appropriate interest rates at the financial statement date)?	_____	_____	_____
[SOP 82-1, par. 16]			
<b>3. Marketable Securities</b>			
a. Do marketable securities include both debt and equity securities for which market quotations are available?	_____	_____	_____
(1) Are the estimated current values of such securities their quoted market prices?	_____	_____	_____
(2) Are the estimated current values of securities traded on securities exchanges the closing prices on the financial statement date (valuation date) if they were traded on that date?	_____	_____	_____
(a) If the securities were not traded on that date, but published bid and asked prices were available, are the estimated current values within the range of those prices?	_____	_____	_____
[SOP 82-1, par. 17]			
b. For securities traded in the over-the-counter market, are the estimated current values (a) the mean of the bid prices, (b) the mean of the bid and asked prices or (c) the mean of the prices of a representative selection of broker-dealers quoting the securities?	_____	_____	_____
[SOP 82-1, par. 18]			
c. In determining the estimated current value and assessing the recent market price, was consideration made of:			
(1) A large block of stock perhaps not being salable at the price a small number of shares would?	_____	_____	_____
(2) A large minority interest being difficult to sell?	_____	_____	_____
(3) A controlling interest being proportionately more valuable than a minority interest?	_____	_____	_____
(4) Restrictions on the transfer of securities?	_____	_____	_____
[SOP 82-1, par. 19]			
<b>4. Options</b>			
a. If published prices are unavailable, are estimated current values determined on the basis of the values of the assets subject to option?	_____	_____	_____
b. Was consideration made of the exercise prices and length of the option periods?	_____	_____	_____
[SOP 82-1, par. 20]			
<b>5. Investment in Life Insurance</b>			
a. Is the estimated current value of an investment in life insurance the cash value of the policy less the amount of any loans against it?	_____	_____	_____
<b>6. Investments in Closely Held Businesses</b>			
a. Is only the net investment in the enterprise presented?			
(1) Is the net investment presented at its estimated current value at the financial statement date?	_____	_____	_____
b. Has judgment been exercised in determining the value?	_____	_____	_____
[SOP 82-1, par. 22]			
<b>7. Real Estate (Including Leaseholds)</b>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Are investments in real estate (including leaseholds) presented at their estimated current values? [SOP 82-1, par. 24]	_____	_____	_____
<b>8. Intangible Assets</b>			
a. Are intangible assets presented at the discounted amounts of projected cash receipts and payments arising from the planned use or sale of the assets (if both the amounts and timing can reasonably be estimated)?	_____	_____	_____
b. If no other information is available, is the cost of a purchased intangible asset used? [SOP 82-1, par. 25]	_____	_____	_____
<b>9. Future Interests and Similar Assets</b>			
a. Are all nonforfeitable rights to receive future sums that (a) are fixed or determinable in amount, (b) are not contingent on the holder's life or the occurrence of a particular event, and (c) do not require future performance presented as assets at their discounted amounts? [SOP 82-1, par. 26]	_____	_____	_____
<b>10. Payables and Other Liabilities</b>			
a. Are payables and other liabilities presented at the discounted amounts of cash to be paid?	_____	_____	_____
(1) Is the discount rate the rate implicit in the transaction in which the debt was incurred?	_____	_____	_____
b. If the debtor is able to discharge the debt currently at a lower amount, is the debt presented at the lower amount? [SOP 82-1, par. 27]	_____	_____	_____
<b>11. Noncancellable Commitments</b>			
a. Are all noncancellable commitments to pay future sums that (a) are fixed or determinable in amount, (b) are not contingent on another's life or the occurrence of a particular event, and (c) do not require future performance, presented as liabilities at their discounted amounts? [SOP 82-1, par. 28]	_____	_____	_____
<b>12. Income Taxes Payable</b>			
a. Does the liability for income taxes payable include unpaid income taxes for completed tax years and an estimated amount for taxes accrued for the elapsed portion of the current tax year to the financial statement date?	_____	_____	_____
b. Is the estimate based on the relationship of taxable income earned to date to total estimated taxable income for the year (net of taxes withheld or paid with estimated income tax returns)? [SOP 82-1, par. 29]	_____	_____	_____
<b>13. Estimated Income Taxes on the Differences Between the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases</b>			
a. Is a provision made for estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases?	_____	_____	_____
(1) Was consideration given to the negative tax bases of tax shelters, if any?	_____	_____	_____
(2) Was the provision computed as if the estimated current values of all assets had been realized and the estimated current amounts of all liabilities had been liquidated on the statement date?	_____	_____	_____
(3) Were applicable income tax laws and regulations used?	_____	_____	_____
(4) Was consideration given to recapture provisions and available carryovers?	_____	_____	_____
b. Are the estimated income taxes presented between liabilities and net worth in the statement of financial condition? [SOP 82-1, par. 30]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>II. Financial Statement Disclosures</b>			
A. Is (Are) the individual(s) covered by the financial statements clearly indicated?	_____	_____	_____
B. Is the fact that assets are presented at their estimated current values and liabilities at their estimated current amounts disclosed?	_____	_____	_____
C. Are the methods used in determining the estimated current values of major assets and the estimated current amounts of major liabilities disclosed?	_____	_____	_____
1. Are changes in the methods from one period to the next disclosed, if any?	_____	_____	_____
D. If assets included in the financial statements are held jointly by the person and by others, is the nature of the joint ownership disclosed?	_____	_____	_____
E. If the person's investment portfolio is material in relation to his other assets and is concentrated in one or a few companies or industries, are the names of the companies or industries disclosed?	_____	_____	_____
1. Are the estimated current values of the securities disclosed?	_____	_____	_____
F. If the person has a material investment in a closely held business, did he disclose:			
1. The name of the company?	_____	_____	_____
2. The percentage of ownership?	_____	_____	_____
3. The nature of the business?	_____	_____	_____
4. Summarized financial information about assets, liabilities, and results of operations for the most recent year based on the financial statements of the business (including information about the basis of presentation)?	_____	_____	_____
G. Are descriptions of intangible assets made?	_____	_____	_____
1. Are their estimated useful lives disclosed?	_____	_____	_____
H. Is the face amount of life insurance owned by the individual(s) disclosed?	_____	_____	_____
I. Are nonforfeitable rights (not having the characteristics of future interests or similar assets) disclosed?	_____	_____	_____
J. Tax Information			
1. Are the methods and assumptions used to compute the estimated income taxes on the difference between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases disclosed?	_____	_____	_____
2. Do the disclosures include a statement that the provision will probably differ from the amounts of income taxes that might eventually be paid because those amounts are determined by the timing and the method of disposal, realization, or liquidation and the tax laws and regulations in effect at the time?	_____	_____	_____
3. Are unused operating loss and capital loss carryforwards disclosed?	_____	_____	_____
4. Are other unused deductions and credits disclosed including their expiration dates, if applicable?	_____	_____	_____
5. Are the differences between the estimated current values of major assets and the estimated current amounts of major liabilities and their tax bases disclosed?	_____	_____	_____
K. Are maturities, interest rates, collateral, and other pertinent details relating to receivables and debt disclosed?	_____	_____	_____
L. Are noncancellable commitments (failing to have the characteristics of being fixed, not contingent, and not requiring future performance) disclosed? [SOP 82-1, par. 31]	_____	_____	_____

*Editor's note*—Generally accepted accounting principles other than the above may apply to personal financial statements. For example, SFAS No. 5, *Accounting for Contingencies*, and its related amendments and interpretations and SFAS No. 57, *Related Party Disclosures*, provide guidance on reporting contingencies and related-party transactions, respectively.

# FSP Section 22,400

## *Illustrative Financial Statements*

### ILLUSTRATIVE REPORTS

#### **.01 Compilation Report**

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.17]

#### **.02 Compilation Report—Statement of Financial Condition Only**

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [date], in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying statement of financial condition, and, accordingly, do not express an opinion or any other form of assurance on it.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.17]

#### **.03 Compilation Report—Omission of Substantially All Disclosures**

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.\*

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

James and Jane Person have elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial condition of James and Jane Person and changes in their net worth. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.21]

#### **.04 Compilation Report—GAAP Departure—Material Assets at Cost**

---

\* Note: When personal financial statements omit substantially all disclosures and do not disclose that the assets are presented at their estimated current values and that the liabilities are presented at their estimated current amounts, the accountant should include the following sentence at the end of the first paragraph of his report:

The financial statements are intended to present the assets of James and Jane Person at estimated current value and their liabilities at estimated current amounts.

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

As disclosed in Note X to the financial statements, generally accepted accounting principles require that assets be presented at their estimated current values and that liabilities be presented at their estimated current amounts. James and Jane Person have informed me (us) that their investment in ABC Company is stated in the accompanying financial statements at cost and that the effects of this departure from generally accepted accounting principles on their financial condition and the changes in their net worth have not been determined.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.40]

#### **.05 Compilation Report—Income Tax Basis**

I (we) have compiled the accompanying statement of assets and liabilities—income tax basis of James and Jane Person as of [date], and the related statement of changes in net assets—income tax basis for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: AICPA *Professional Standards*, vol. 2, sec. 9100.45]

#### **.06 Compilation Report—Financial Statements Included in a Prescribed Form**

I (we) have compiled the [identification of financial statements, including period covered and name of individual(s)] included in the accompanying prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.

My (our) compilation was limited to presenting in the form prescribed by [name of body] information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of [name of body], which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

[Source: AICPA *Professional Standards*, vol. 2, sec. 300.03]

#### **.07 Review Report**

I (we) have reviewed the accompanying statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James and Jane Person.



A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.35]

#### **.08 Review Report—Statement of Financial Condition Only**

I (we) have reviewed the accompanying statement of financial condition of James and Jane Person as of [date], in accordance with standards established by the American Institute of Certified Public Accountants. All information included in this financial statement is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying statement of financial condition in order for it to be in conformity with generally accepted accounting principles.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.35]

#### **.09 Review Report—GAAP Departure—Failure to Include a Provision for Estimated Income Taxes on the Differences Between the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases**

I (we) have reviewed the accompanying statement of financial condition of James Person as of [date], and the related statement of changes in net worth for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James Person.

A review of personal financial statements consists principally of inquiries of the individual whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Generally accepted accounting principles require that personal financial statements include a provision for estimated income taxes on the differences between the estimated current values of assets and estimated current amounts of liabilities and their tax bases. The accompanying financial statements do not include such a provision and the effect of this departure from generally accepted accounting principles has not been determined.

[Source: AICPA *Professional Standards*, vol. 2, sec. 100.40]

#### **.10 Review Report—Income Tax Basis**

I (we) have reviewed the accompanying statement of assets and liabilities—income tax basis of James and Jane Person as of [date], and the related statement of changes in net assets—income tax basis for the [period] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the historical cost basis of accounting described in Note X.

[Source: AICPA *Professional Standards*, vol. 2, sec. 9100.45]

## **.11 Auditor's Report**

### **Independent Auditor's Report**

[Addressee]

I (We) have audited the statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended. These financial statements are the responsibility of James and Jane Person. My (our) responsibility is to express an opinion on these financial statements based on my (our) audit.

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

In my (our) opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of James and Jane Person as of [date] and the changes in their net worth for the [period] then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SAS No. 58, par. 8]

## **.12 Auditor's Report—Statement of Financial Condition Only**

### **Independent Auditor's Report**

[Addressee]

I (We) have audited the statement of financial condition of James and Jane Person as of [date]. The financial statement is the responsibility of James and Jane Person. My (our) responsibility is to express an opinion on the financial statement based on my (our) audit.

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

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by James and Jane Person, as well as evaluating the overall financial statement presentation. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

In my (our) opinion, the financial statement referred to above presents fairly, in all material respects, the financial condition of James and Jane Person as of [date] in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SAS No. 58, par. 48]

### **.13 Auditor's Report—Departure from GAAP—Inappropriate Valuation Methods—Qualified Opinion**

#### **Independent Auditor's Report**

[Addressee]

I (We) have audited the statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended. These financial statements are the responsibility of James and Jane Person. My (our) responsibility is to express an opinion on these financial statements based on my (our) audit.

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

As discussed in Note X to the financial statements, assets amounting to \$XX,XXX (XX percent of total assets) as of [date] have been valued at estimated current value as determined by James Person. I (we) have reviewed the procedures applied by James Person in valuing the assets and have inspected the underlying documentation. In my (our) opinion, those procedures are not appropriate to determine the estimated current values of the assets in conformity with generally accepted accounting principles. The effects on the financial statements of not applying appropriate procedures to determine the estimated current values of the assets are not reasonably determinable.

In my (our) opinion, except for the effects on the financial statements of the valuation of assets determined by James Person, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial condition of James and Jane Person as of [date] and the changes in their net worth for the [period] then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SAS No. 58, par. 53]

### **.14 Auditor's Report—Departure from GAAP—Inappropriate Valuation Methods—Adverse Opinion**

#### **Independent Auditor's Report**

[Addressee]

I (We) have audited the statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended. These financial statements are the responsibility of James and Jane Person. My (our) responsibility is to express an opinion on these financial statements based on my (our) audit.

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

As discussed in Note X to the financial statements, assets amounting to \$XX,XXX (XX percent of total assets) as of [date] have been valued at estimated current value as determined by James Person. I (we) have reviewed the procedures applied by James Person in valuing the assets and have inspected the underlying documentation. In my (our) opinion, those procedures are not appropriate to determine the estimated current values of the assets in conformity with generally accepted accounting principles. It is not practicable to disclose the principal effects on the financial statements of not applying appropriate procedures to determine the estimated current values of the assets.

In my (our) opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial condition of James and Jane Person as of [date] and the changes in their net worth for the [period] then ended.

[Signature]

[Date]

[Source: SAS No. 58, par. 69]

## **.15 Auditor's Report—Scope Limitation—Inadequate Records**

### **Independent Auditor's Report**

[Addressee]

I (We) have audited the statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended. These financial statements are the responsibility of James and Jane Person. My (our) responsibility is to express an opinion on these financial statements based on my (our) audit.

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

James and Jane Person do not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for me (us) to extend my (our) auditing procedures sufficiently to determine that all of their assets and liabilities and the changes in their net worth are recorded in the financial statements referred to above.

In my (our) opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I (we) been able to determine that all assets and liabilities and changes in net worth were recorded in the financial statements, the financial statements referred to above present fairly, in all material respects, the financial condition of James and Jane Person as of [date], and the changes in their net worth for the [period] then ended, in conformity with generally accepted accounting principles.

[Signature]

[Date]

[Source: SAS No. 58, par. 44]

## **.16 Auditor's Report—Inadequate Records Preclude Opinion**

### **Independent Auditor's Report**

[Addressee]

I was (We were) engaged to audit the statement of financial condition of James and Jane Person as of [date], and the related statement of changes in net worth for the [period] then ended. These financial statements are the responsibility of James and Jane Person.

James and Jane Person do not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for me (us) to extend my (our) auditing procedures sufficiently to determine that all of their assets and liabilities and the changes in their net worth are recorded in the financial statements referred to above.

Because James and Jane Person do not maintain certain accounting records and supporting documentation, and because I was (we were) unable to apply adequate auditing procedures regarding the recording of transactions as noted in the preceding paragraph, the scope of my (our) work was not sufficient to enable me (us) to express, and I (we) do not express, an opinion on the financial statements referred to above.

[Signature]

[Date]

[Source: SAS No. 58, par. 72]

## **.17 Auditor's Report—Income Tax Basis Statements**

### **Independent Auditor's Report**

[Addressee]

We have audited the accompanying statement of assets and liabilities—income tax basis of James and Jane Person as of [date], and the related statement of receipts and disbursements—income tax basis for the [period] then ended. These financial statements are the responsibility of James and Jane Person. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note X, these financial statements were prepared on the basis of accounting the Persons use for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

[Source: SAS No. 62, par. 8 (AICPA, *Professional Standards*, vol. 1, AU section 623.08)]

## ILLUSTRATIVE FINANCIAL STATEMENTS

## James and Jane Person

.18

## Statements of Financial Condition

December 31, 19X3 and 19X2

	December 31,	
	19X3	19X2
<b>Assets</b>		
Cash .....	\$ 3,700	\$ 15,600
Bonus receivable .....	20,000	10,000
<b>Investments</b>		
Marketable securities (Note 2) .....	160,500	140,700
Stock options (Note 3) .....	28,000	24,000
Kenbruce Associates (Note 4) .....	48,000	42,000
Davekar Company, Inc. (Note 5) .....	550,000	475,000
Vested interest in deferred profit sharing plan .....	111,400	98,900
Remainder interest in testamentary trust (Note 6) .....	171,900	128,800
Cash value of life insurance (\$43,600 and \$42,900), less loans payable to insurance companies (\$38,100 and \$37,700) (Note 7) .....	5,500	5,200
Residence (Note 8) .....	190,000	180,000
Personal effects (excluding jewelry) (Note 9) .....	55,000	50,000
Jewelry (Note 9) .....	40,000	36,500
	<u>\$1,384,000</u>	<u>\$1,206,700</u>
<b>Liabilities</b>		
Income taxes—current year balance .....	\$ 8,800	\$ 400
Demand 10.5% note payable to bank .....	25,000	26,000
Mortgage payable (Note 10) .....	98,200	99,000
Contingent liabilities (Note 11) .....		
	<u>132,000</u>	<u>125,400</u>
Estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases (Note 12) .....	239,000	160,000
Net worth .....	<u>1,013,000</u>	<u>921,300</u>
	<u>\$1,384,000</u>	<u>\$1,206,700</u>

The notes to financial statements are an integral part of these statements.

## James and Jane Person

.19

## Statements of Changes in Net Worth

For the Years Ended December 31, 19X3 and 19X2

	Year ended December 31,	
	19X3	19X2
<b>Realized increases in net worth</b>		
Salary and bonus .....	\$ 95,000	\$ 85,000
Dividends and interest income .....	2,300	1,800
Distribution from limited partnership .....	5,000	4,000
Gains on sales of marketable securities .....	1,000	500
	<u>103,300</u>	<u>91,300</u>
<b>Realized decreases in net worth</b>		
Income taxes .....	26,000	22,000
Interest expense .....	13,000	14,000
Real estate taxes .....	4,000	3,000
Personal expenditures .....	36,700	32,500
	<u>79,700</u>	<u>71,500</u>
Net realized increase in net worth .....	<u>23,600</u>	<u>19,800</u>
<b>Unrealized increases in net worth</b>		
Marketable securities (net of realized gains on securities sold) .....	3,000	500
Stock options .....	4,000	500
Davekar Company, Inc. ....	75,000	25,000
Kenbruce Associates .....	6,000	
Deferred profit sharing plan .....	12,500	9,500
Remainder interest in testamentary trust .....	43,100	25,000
Jewelry .....	3,500	
	<u>147,100</u>	<u>60,500</u>
<b>Unrealized decrease in net worth</b>		
Estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases .....	79,000	22,000
Net unrealized increase in net worth .....	<u>68,100</u>	<u>38,500</u>
Net increase in net worth .....	91,700	58,300
Net worth at the beginning of year .....	921,300	863,000
Net worth at the end of year .....	<u>\$1,013,000</u>	<u>\$921,300</u>

The notes to financial statements are an integral part of these statements.



James and Jane Person

.20

Notes to Financial Statements

**Note 1.** The accompanying financial statements include the assets and liabilities of James and Jane Person. Assets are stated at their estimated current values, and liabilities at their estimated current amounts.

**Note 2.** The estimated current values of marketable securities are either (a) their quoted closing prices or (b) for securities not traded on the financial statement date, amounts that fall within the range of quoted bid and asked prices.

Marketable securities consist of the following:

	December 31, 19X3		December 31, 19X2	
	Number of shares or bonds	Estimated current values	Number of shares or bonds	Estimated current values
<b>Stocks</b>				
Jaiven Jewels, Inc. ....	1,500	\$ 98,813		
McRae Motors, Ltd. ....	800	11,000	600	\$ 4,750
Parker Sisters, Inc. ....	400	13,875	200	5,200
Rosenfield Rug Co. ....			1,200	96,000
Rubin Paint Company ....	300	9,750	100	2,875
Weiss Potato Chips, Inc. ....	200	20,337	300	25,075
		<u>153,775</u>		<u>133,900</u>
<b>Bonds</b>				
Jackson Van Lines, Ltd. (12% due 7/1/X9) ....	5	5,225	5	5,100
United Garvey, Inc. (7% due 11/15/X6) ....	2	1,500	2	1,700
		<u>6,725</u>		<u>6,800</u>
		<u>\$160,500</u>		<u>\$140,700</u>

**Note 3.** Jane Person owns options to acquire 4,000 shares of stock of Winner Corp. at an option price of \$5 per share. The option expires on June 30, 19X5. The estimated current value is its published selling price.

**Note 4.** The investment in Kenbruce Associates is an 8% interest in a real estate limited partnership. The estimated current value is determined by the projected annual cash receipts and payments capitalized at a 12% rate.

**Note 5.** James Person owns 50% of the common stock of Davekar Company, Inc., a retail mail order business. The estimated current value of the investment is determined by the provisions of a shareholders' agreement, which restricts the sale of the stock and, under certain conditions, requires the company to repurchase the stock based on a price equal to the book value of the net assets plus an agreed amount for goodwill. At December 31, 19X3, the agreed amount for goodwill was \$112,500, and at December 31, 19X2, it was \$100,000.

A condensed balance sheet of Davekar Company, Inc., prepared in conformity with generally accepted accounting principles, is summarized below:

	<i>December 31,</i>	
	<u>19X3</u>	<u>19X2</u>
<b>Current Assets</b>		
Plant, property, and equipment—net .....	\$3,147,000	\$2,975,000
Other assets .....	165,000	145,000
<b>Total assets</b> .....	<u>3,432,000</u>	<u>3,230,000</u>
<b>Current liabilities</b> .....	2,157,000	2,030,000
Long-term liabilities .....	400,000	450,000
<b>Total liabilities</b> .....	<u>2,557,000</u>	<u>2,480,000</u>
<b>Equity</b> .....	<u>\$ 875,000</u>	<u>\$ 750,000</u>

The sales and net income for 19X3 were \$10,500,000 and \$125,000 and for 19X2 were \$9,700,000 and \$80,000.

**Note 6.** Jane Person is the beneficiary of a remainder interest in a testamentary trust under the will of the late Joseph Jones. The amount included in the accompanying statements is her remainder interest in the estimated current value of the trust assets, discounted at 10%.

**Note 7.** At December 31, 19X3 and 19X2, James Person owned a \$300,000 whole life insurance policy.

**Note 8.** The estimated current value of the residence is its purchase price plus the cost of improvements. The residence was purchased in December 19X1, and improvements were made in 19X2 and 19X3.

**Note 9.** The estimated current values of personal effects and jewelry are the appraised values of those assets, determined by an independent appraiser for insurance purposes.

**Note 10.** The mortgage (collateralized by the residence) is payable in monthly installments of \$815 a month, including interest at 10% a year through 20Y8.

**Note 11.** James Person has guaranteed the payment of loans of Davekar Company, Inc., under a \$500,000 line of credit. The loan balance was \$300,000 at December 31, 19X3, and \$400,000 at December 31, 19X2.

**Note 12.** The estimated current amounts of liabilities at December 31, 19X3, and December 31, 19X2, equaled their tax bases. Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax bases as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax bases by \$850,000 at December 31, 19X3, and by \$770,300 at December 31, 19X2. The excess of estimated current values of major assets over their tax bases are—

	<i>December 31,</i>	
	<u>19X3</u>	<u>19X2</u>
Investment in Davekar Company, Inc. ....	\$430,500	\$355,500
Vested interest in deferred profit sharing plan .....	111,400	98,900
Investment in marketable securities .....	104,100	100,000
Remainder interest in testamentary trust .....	97,000	53,900

## .21 Computing the Excess of the Estimated Current Values of Assets Over Their Tax Bases and the Estimated Income Taxes on the Excess

This section relates to the preceding illustrative financial statements of James and Jane Person and illustrates how to compute the excess of the estimated current values of assets over their tax bases and the provision for estimated income taxes on the excess.<sup>1</sup>

The excess or deficit of the estimated current values of major assets or categories of assets over their tax bases should be disclosed.<sup>2</sup> The provision for estimated income taxes should be presented in the statement of financial condition between liabilities and net worth.

The assumptions and the tax basis information used in computing the excess of the estimated current values of assets over their tax bases and the estimated income taxes on the excess depend on the facts, circumstances, tax laws and regulations, and assumptions that apply to the individual or individuals for whom the financial statements are prepared. The facts, circumstances, tax laws and regulations, and assumptions used in the following are illustrative only.

<i>Description</i>	<i>(A) Estimated current values</i>	<i>(B) Tax bases</i>	<i>Excess of (A) over (B)</i>	<i>Effective income tax rates</i>	<i>Amount of estimated income taxes</i>	<i>Assumptions used</i>
Cash	\$ 3,700	\$ 3,700	—	—	—	No tax effect.
Bonus receivable	20,000	—	\$ 20,000	50%	\$ 10,000	Maximum tax rate.
Investments						
Marketable securities	160,500	56,400	104,100	36%	37,500	Weighted average of short-term and long-term capital gain rates based on composition of portfolio.
Stock options	28,000	20,000	8,000	50%	4,000	Short-term capital gain rate.
Kenbruce Associates	48,000	24,000	24,000	38%	9,100	Weighted average of short-term and long-term capital gain rates.
Davekar Company, Inc.	550,000	119,500	430,500	20%	86,100	Long-term capital gain rate.
Vested interest in deferred profit sharing plan	111,400	—	111,400	50%	55,700	Maximum tax rate.
Remainder interest in testamentary trust	171,900	74,900	97,000	26%	25,600	Weighted average of short-term and long-term capital gain rates.
Cash value of life insurance	5,500	5,500	—	—	—	No tax effect.
Residence	190,000	190,000	—	—	—	No tax effect.
Personal effects	55,000	30,000	25,000	20%	5,000	Long-term capital gain rate.
Jewelry	40,000	10,000	30,000	20%	6,000	Long-term capital gain rate.
	<u>\$1,384,000</u>	<u>\$534,000</u>	<u>\$850,000</u> <sup>3</sup>		<u>\$239,000</u> <sup>4</sup>	

<sup>1</sup> The provision for estimated income taxes should also reflect tax consequences that result from differences between the estimated current amounts of liabilities and their tax bases.

<sup>2</sup> Differences between the estimated current amounts of major liabilities or categories of liabilities and their tax bases should also be disclosed.

<sup>3</sup> The excess or deficit of the estimated current values of major assets or categories of assets over their tax bases should be disclosed.

<sup>4</sup> This amount should be presented in the statement of financial condition between liabilities and net worth.

# FSP Section 23,000

## CHECKLIST OF EITF CONSENSUSES

.01 This checklist was developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist has been updated to include EITF Consensuses through Issue No. 90-5 (last discussed at the March 8, 1990 meeting). The checklist should be modified, as appropriate, for subsequent consensuses.
- The checklist 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, statements on standards for accounting and review services, and statements on standards for attestation engagements.
- Use of this checklist requires the exercise of individual professional judgment. The checklist is organized by topic. Most likely, not every topic will apply to every engagement.
- The checklist does not represent minimum requirements and does not purport to be all-inclusive.

.02 Users of the checklist are urged to refer directly to applicable authoritative pronouncements. If you have further questions, call the AICPA Technical Hotline.

John Graves  
Director  
Technical Services

---

[The next page is 23,101.]

# FSP Section 23,100

## *Introduction*

**.01** The Financial Accounting Standards Board (FASB) established the Emerging Issues Task Force (EITF or task force) in July 1984 to assist the FASB in the early identification of (1) emerging issues affecting financial reporting and (2) problems in implementing authoritative pronouncements. After those issues and problems are identified, the task force attempts to resolve them by consensus.

**.02** The EITF is not an accounting standards setting body. The EITF's discussion of issues and the relevant accounting pronouncements helps the FASB better understand the emerging issues and may indicate that no immediate action by the FASB is needed. The EITF might reach a consensus that the accounting for a particular transaction or issue is clear or a particular transaction or issue is analogous to a transaction or issue for which the accounting already is clear. A consensus among the 13 EITF members is recognized if no more than two members disagree with the conclusion. The SEC's Chief Accountant said he would challenge any accounting that differs from a consensus of the EITF because the consensus position represents the best thinking on areas lacking specific standards.

**.03** In implementing the EITF consensuses, the task force stated a majority of its members would permit prospective application of a change in accounting method to adopt a new EITF consensus. However, the FASB staff's opinion is to follow APB Opinion No. 20, *Accounting Changes*, which requires a cumulative catch-up adjustment.

**.04** This checklist contains an up-to-date summary of issues on which the EITF has reached a consensus. It omits any issues on which (1) no consensus was reached, and (2) those that subsequently were superseded by an FASB Statement, Interpretation, or Technical Bulletin.

**.05** Issues added to the EITF agenda are assigned numbers in sequence beginning with the year followed by the issue number. The EITF may discuss an issue at more than one meeting, and on occasion has changed the consensus previously reached. The issue number, however, does not change.

**.06** Many auditors and accountants use checklists as practice aids to prepare financial statements and reports. Authoritative literature does not require the use of checklists, nor does it prescribe their format or content.

**.07** This checklist consists of brief questions accompanied by reference to the EITF Issue number and topic. Accordingly, this checklist may serve as a convenient memory aid, but cannot be used as a substitute for direct reference to the authoritative literature. Additional background data is available in the EITF Abstracts (a copyrighted summary of proceedings of the EITF published by the FASB) or the Issues Summary (also published by the FASB) and related attachments, which are the discussion materials distributed to each EITF member. The minutes of each EITF meeting also are available through the FASB.

**.08** Checklists provide for checking off or initialing each question. The format of this checklist is a typical one: it provides for "yes", "no", and "not applicable". If "no" is checked off, an explanation should be provided.

---

[The next page is 23,201.]

# FSP Section 23,200

## Consensuses Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of reference:

EITF = FASB Emerging Issues Task Force issue number

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Business Combinations</b>			
<b>Purchase of Stock Options and Stock Appreciation Rights in a Leveraged Buyout</b> In a leveraged buyout (LBO) transaction, was compensation expense recorded for the amount paid by the target company to buy out the outstanding stock options or stock appreciation rights? [EITF 84-13]	_____	_____	_____
<b>Settlement of Stock Options and Awards</b> In a purchase business combination, if the target company settles stock options voluntarily as part of the plan of acquisition, was the settlement recognized as compensation expense in the separate financial statements of the target company? [EITF 85-45]	_____	_____	_____
<b>Securities That Can Be Acquired for Cash in a Pooling</b> In a pooling of interests business combination, were options, warrants, or convertible securities evaluated to determine if they qualify as the equivalent of common shares for the purpose of issuing those securities in the transaction? [EITF 85-14]	_____	_____	_____
<b>Pooling With 10 Percent Cash Payment Determined by Lottery</b> In a pooling of interests business combination with a 10% cash lottery feature, was the stock purchased (for a cash payment determined by lottery) limited to 10 percent (where the offer was made for substantially all the common stock of the target company)? [EITF 86-10]	_____	_____	_____
<b>The 90 Percent Test for a Pooling</b> If a new company was formed to combine two or more companies, was pooling of interests accounting followed if that accounting would have been required had at least one of the combining companies acted as the issuing company? [EITF 87-16]	_____	_____	_____
<b>Pooling of Companies That Do Not Have a Controlling Class of Common Stock</b> In a business combination (where one company has common stock and the other only voting preferred stock), was pooling of interests accounting followed only if the issuing company exchanges its common stock for substantially all of the voting common and preferred stock of the other combining company? a. If the issuing company has no controlling class of common stock but does have voting preferred stock outstanding, was pooling of interests accounting followed only if the issuing company exchanged its common shares for sufficient shares of its outstanding voting preferred stock so that a controlling class of common stock with voting control was created prior to or at the date of combination? [EITF 87-27]	_____	_____	_____
<b>Post-Retirement Benefits of an Acquired Company</b> In a purchase business combination, if the acquired company has an unfunded obligation for other post-employment benefits (OPEBs) that are vested, and accounts for OPEBs on a pay-as-you-go basis, were the following considered:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Did the company follow the preferable practice of recording a liability for the unfunded obligation of the vested OPEBs of the acquired company?	_____	_____	_____
b. Was the recorded liability reduced for payments relating to specific individuals and the specific amount of benefits included in the calculation of the liability at the purchase date?	_____	_____	_____
c. Were changes to the original estimate of the liability at the purchase date recognized in income?	_____	_____	_____
d. That the acquiring company is not required to adopt the accrual method for OPEBs as a result of the acquiring company's decision to recognize a liability in the purchase price allocation? [EITF 86-20]	_____	_____	_____
<b>Allocation of Purchase Price to Assets to Be Sold</b>			
In a purchase business combination financed by debt to be repaid from the proceeds of the sale of a subsidiary of the acquired company within one year, were the (1) net cash flows from the subsidiary to the sale date, (2) interest during the holding period, and (3) proceeds from that sale, considered in allocating the purchase price (at the date of combination) of that subsidiary?			
a. Were the above three items excluded from the earnings of the acquired enterprises' consolidated financial statements? [EITF 87-11]	_____	_____	_____
<b>Effect of a Standstill Agreement on a Pooling</b>			
If the enterprise entered into an agreement with a more-than-10-percent shareholder that prohibits that shareholder from acquiring additional shares of the enterprise or its successors for a period of years ("standstill agreement"), were the following considered:			
a. That pooling-of-interests accounting is not precluded by the standstill agreement with a less-than-a-majority shareholder if the agreement was not made in contemplation of the business combination?	_____	_____	_____
b. That a standstill agreement (made in contemplation of a business combination) with a more than-10-percent shareholder for shares of the combined company that will be outstanding, would preclude a pooling?	_____	_____	_____
c. That a standstill agreement (made in contemplation of a business combination) by a 10-percent or-less shareholder would preclude a pooling if that shareholder and other dissenters aggregated more than 10 percent? [EITF 87-15]	_____	_____	_____
<b>Accounting Basis for a Master Limited Partnership</b>			
If a master limited partnership (MLP) is formed, was the historical basis of accounting carried over and a new basis of accounting avoided?			
If two or more legally separate limited partnerships are combined into one master limited partnership, were the transaction costs expensed? [EITF 87-21]			
<b>Controlling Preferred Stock in a Pooling</b>			
If preferred stock is the controlling voting interest, and in a business combination, voting preferred stock is issued for voting preferred stock and common stock for common stock, was the transaction recorded as a purchase?			
If each company in the combination creates a controlling class of common stock by converting a sufficient number of preferred shares into common shares, and one company issues its common stock for common stock and its voting preferred stock for voting preferred stock (and the transaction otherwise meets the conditions for a pooling of interests), was the transaction recorded as a pooling of interests? [EITF 88-26]			
<b>ESOP Unallocated Shares in a Business Combination</b>			
If the Employee Stock Ownership Plan (ESOP) holds unallocated ESOP shares in its treasury and those shares are used in a business combination, were those shares not considered tainted for purposes of determining whether the pooling of interests method is appropriate for a business combination, unless (1) there is more than a remote possibility of the shares reverting to the company, (2) there is an agreement of intent to reacquire the shares or (3) the shares were acquired to circumvent the requirements of APB Opinion No. 16, <i>Business Combinations</i> (AC B50)? [EITF 88-27]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Basis in a Leverage Buyout Transaction</b> If there was a leveraged buyout (LBO) transaction involving a change in control of voting interest, was there a change in the basis of the assets and liabilities acquired? [EITF 88-16]	_____	_____	_____
<b>Exchanges for a Noncontrolling Equity Interest</b> If an enterprise transfers ownership of an asset whose value exceeds its basis to a newly created entity in exchange for a minority interest in that entity, was full gain recognition avoided? [EITF 89-7]	_____	_____	_____
<b>Exchanges of Ownership Interests Between Entities Under Common Control</b> If the parent transferred its investment in Sub B to Sub A in exchange for additional shares of Sub A, did the consolidated financial statements of Sub A reflect the assets and liabilities of Sub B at the parent's historical cost as required under AICPA Interpretation 39 to APB Opinion No. 16 (AC B50.645-648)? If Sub A acquired the minority interest of Sub B, was it accounted for as a step acquisition of the minority interest in Sub A's consolidated financial statements in accordance with FASB Technical Bulletin No. 85-5 (AC B50)? [EITF 90-5]	_____	_____	_____
<b>Accounting for a Change in Goodwill Amortization for Business Combinations Initiated Prior to the Effective Date of FASB Statement No. 72</b> If an enterprise now adopts the provisions of FASB Statement No. 72, <i>Accounting for Certain Acquisitions of Banking or Thrift Institutions</i> , to account for goodwill that arose in a purchase business combination initiated prior to September 30, 1982, was it reported as a change in accounting principle and accounted for by a cumulative effect adjustment in accordance with APB Opinion No. 20, <i>Accounting Changes</i> (AC A06)? [EITF 89-19]	_____	_____	_____
<b>Financial Institutions</b>			
<b>ADC Loans</b>			
If the financial institution entered into an acquisition, development, and construction loan ("ADC loans") to acquire operating properties, and granted the lender a right to participate in residual profits from the sale or refinancing of the property, was consideration given to:			
a. Whether the arrangement should be accounted for as a loan, as an investment, or as an interest in a joint venture as required by AcSec Practice Bulletin 1 of the AICPA or the AICPA Third Notice to Practitioners?	_____	_____	_____
b. If a public company, the provisions of SEC Staff Accounting Bulletins 71 and 71A, <i>Views Regarding Financial Statements of Properties Securing Mortgage Loans</i> which provides guidance on mortgage loans that in economic substance represent an investment in real estate or a joint venture rather than a loan? [EITF 84-4 and 86-21]	_____	_____	_____
<b>Mortgage Loan Payment Modification</b>			
If under a mortgage loan agreement the borrower increases his mortgage payments for a specified period, and at its conclusion the lender forgives a portion of the remaining principal of the loan, did the lender accrue expense for the partial forgiveness over the period of increased payments? [EITF 84-19]	_____	_____	_____
<b>Sale of Loans With a Partial Participation Received</b>			
If an enterprise sells a loan to pay a yield below the face rate of the loan, thereby retaining a share in some of the interest income over the period the loan remains outstanding, and also retaining the servicing rights and the excess interest, was gain recognition limited to the gain that would be recognized if the loans were sold outright? [EITF 84-21]	_____	_____	_____
<b>Equity Certificates of Deposit</b>			



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>If a savings and loan association issues "equity certificates of deposit" that pay a stated guaranteed rate plus a contingent rate supplement based on performance of specified assets, was the contingent interest expense recognized in the same period the earnings or gains (related to the designated assets) was recognized? [EITF 84-31]</p>	_____	_____	_____
<b>Amortization of Thrift Intangibles</b>			
<p>In a savings and loan acquisition, were any "unidentifiable intangible assets" (the amount by which the fair value of liabilities assumed exceeds the fair value of the tangible and identifiable intangible assets acquired) amortized to expense in accordance with:</p>			
<p>a. Paragraph 5 of FASB Statement No. 72, <i>Accounting for Certain Acquisitions of Banking or Thrift Institutions</i> (that is, over a period no greater than the estimated remaining life of the long-term interest-bearing assets acquired)?</p>	_____	_____	_____
<p>b. APB Opinion No. 17, <i>Intangible Assets</i> (AC I60) for any additional goodwill recognized? [EITF 85-8]</p>	_____	_____	_____
<b>Sale of Mortgage Servicing Rights</b>			
<p>If mortgage servicing rights that include a participation in the future income stream of the serviced loans were sold, was the gain recognized at the sale date? [EITF 85-13]</p>	_____	_____	_____
<b>EPS Effect of Equity Commitment Notes</b>			
<p>If the enterprise issued equity commitment or equity contract notes to be repaid by issuing common or preferred stock, were the notes excluded in computing earnings-per-share unless the notes specifically require common stock to be issued? [EITF 85-18]</p>	_____	_____	_____
<b>Recognition of Fees for Guaranteeing a Loan</b>			
<p>If the enterprise as guarantor "lends" its creditworthiness to another party (borrower) for a fee, were the following considered:</p>			
<p>a. Was the fee income recognized over the guarantee period?</p>	_____	_____	_____
<p>b. Were the direct costs associated with the guarantee recognized in a manner relative to the fee income?</p>	_____	_____	_____
<p>c. If material, is the guarantee disclosed in a note?</p>	_____	_____	_____
<p>d. Was an assessment made of the probability of loss to determine if a liability should be accrued? [EITF 85-20]</p>	_____	_____	_____
<b>Disallowance of Income Tax Deduction for Core Deposit Intangibles</b>			
<p>If the IRS disallowed a financial institution's deductions of a "core deposit intangible" acquired in the purchase of a financial institution, were the following considered:</p>			
<p>a. Was the impact of the IRS adjustment accounted for as a change in an accounting estimate?</p>	_____	_____	_____
<p>b. Was the remaining carrying amount of the core deposit intangible evaluated together with the goodwill in accordance with APB Opinion No. 17, <i>Intangible Assets</i> (AC I60)?</p>	_____	_____	_____
<p>c. Was the amortization pattern not changed? [EITF 85-33]</p>	_____	_____	_____
<b>FSLIC Management Consignment Program</b>			
<p>If a savings and loan association was acquired by the Federal Savings and Loan Insurance Corporation or a successor governmental agency under a Management Consignment Program, were the following considered:</p>			

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. Was the same accounting treatment applied whether the former institution was a stock or mutual institution?   | _____      | _____     | _____      |
| b. That the transfer of assets and liabilities to the newly chartered corporation does not constitute a business combination as defined in APB Opinion No. 16, <i>Business Combinations</i> (AC B50)?  | _____      | _____     | _____      |
| c. Were the transferred assets and liabilities reevaluated?  | _____      | _____     | _____      |
| d. That it's inappropriate to carryover the historical cost basis of the assets and liabilities?   | _____      | _____     | _____      |
| e. If FASB Statement No. 96, <i>Accounting for Income Taxes</i> , has not been adopted, were the values of the assets and liabilities transferred determined in accordance with paragraphs 87-89 of APB Opinion No. 16, <i>Business Combinations</i> (AC B50)? | _____      | _____     | _____      |
| f. Was the fair value of identifiable intangibles that could reliably be measured (e.g., servicing rights on loans owned by others) recognized by the new institution?   | _____      | _____     | _____      |
| g. Was the amount of the excess of liabilities over identified assets acquired classified as deficit equity, not as goodwill, and presented separately from subsequent retained earnings?  | _____      | _____     | _____      |
| h. Did the new values assigned become the new cost basis, and did subsequent accounting follow GAAP (that is, assets should not be marked to market on a continuing basis)?  | _____      | _____     | _____      |
| i. Was the accounting for the ultimate disposition of the institution consistent with current accounting for similar events?   | _____      | _____     | _____      |

[EITF 85-41]

**Sale of Mortgage Servicing Rights**

If mortgage servicing rights were sold, was the sale recognized on the closing date of the sale rather than on the agreement date?

\_\_\_\_\_

If the seller agreed to subservice the mortgage loans for a short period of time after the closing date, was the sale still recognized on the closing date?

\_\_\_\_\_

[EITF 89-5]

**Deposit Float of Banks**

Does the bank record an asset and liability for the "deposit float" (that is, before deposited checks drawn on other banks are collected)?

\_\_\_\_\_

[EITF 84-9 and Practice Bulletin 1, Exhibit G]

**Amortization of Goodwill**

If, in a purchase acquisition of a financial institution, the fair value of liabilities assumed (which includes a premium assigned to time savings deposits because rates were higher than prevailing rates at acquisition date) exceeds the fair value of the tangible and identifiable intangible assets acquired (and the unidentifiable intangible assets exceed the discount on the long-term interest-bearing assets of the acquired enterprise), was that excess (referred to as Statement 72 goodwill) amortized to expense over a period no greater than the estimated remaining life of the long-term interest-bearing assets acquired?

\_\_\_\_\_

- a. Was any additional goodwill recognized in the acquisition amortized in accordance with APB Opinion No. 17, *Intangible Assets* (AC I60)?

\_\_\_\_\_

[EITF 85-42]

**Difference Between Loan Loss Allowances**

Were any differences between GAAP and regulatory accounting principles (including differences in loan loss allowances) reconciled?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
[EITF 85-44]			
<b>Indexed Debt Instruments</b>			
If indexed debt instruments with guaranteed and contingent payments are issued, and the investor's right to contingent payments is separable, were the proceeds allocated between the debt instrument and the stated rights to receive such payments?	_____	_____	_____
a. Was the premium or discount on the debt instrument resulting from the allocation accounted for in accordance with APB Opinion No. 21, <i>Interest on Receivables and Payables</i> (AC 169)?	_____	_____	_____
b. If the applicable index value increased requiring the issuer to pay the investor a contingent amount at maturity, was a liability recorded for the amount the contingent payment exceeds the amount originally attributed to the contingent payment feature?	_____	_____	_____
c. If no proceeds were allocated to the contingent payment, was the additional liability (due to the fluctuating index) accounted for as an adjustment of the carrying amount of the debt obligation?	_____	_____	_____
[EITF 86-28]			
<b>Sale of Mortgage Servicing Rights</b>			
If an enterprise transfers mortgage servicing rights to a third party and the transferor enters into a subservicing agreement, was any gain deferred?	_____	_____	_____
[EITF 87-34]			
<b>Financial Instruments</b>			
<b>Interest Rate Swaps</b>			
If a termination of an interest rate swap occurred that was accounted for as a hedge, was the gain or loss deferred and recognized when the offsetting gain or loss will be recognized on the hedged transaction?	_____	_____	_____
If there is an underlying debt obligation on the balance sheet of a company entering into an interest rate swap, was the swap arrangement accounted for like a hedge of the obligation, and interest expense recorded using the revised interest rate, with any fees or other payments amortized as yield adjustments?	_____	_____	_____
[EITF 84-7 and 84-36]			
<b>Deferred Interest Rate Setting</b>			
If an enterprise issues debt at a fixed rate and simultaneously enters into a deferred interest rate setting arrangement (whereby the rate is based on the market rate at a specified future date), was any amount received or paid accounted for as a yield adjustment to interest expense over the term of the debt?	_____	_____	_____
[EITF 84-14]			
<b>Long-Term Debt Repayable by Capital Stock</b>			
If a parent company forms a subsidiary that in turn forms a trust to issue debt repayable solely by the issuance of the parent company's common stock, was (1) that subsidiary consolidated, (2) the debt treated as a liability, and (3) the related interest expense included in the income statement?	_____	_____	_____
[EITF 84-40]			
<b>Revenue Recognition on Option to Purchase Stock of Another Entity</b>			
If the enterprise invested in the common stock of other enterprises and issues debt securities with detachable warrants that can be exchanged for shares of that investment, was a liability recorded for the warrant value, and no income recognized until the warrants expire unexercised or are exercised?	_____	_____	_____
[EITF 85-9]			
<b>Accrued Interest Upon Conversion of Convertible Debt</b>			

If convertible debt was converted to equity securities and the accrued interest or imputed interest (zero coupon debt) is forfeited, was the interest amount, net of related income tax effects, charged to interest and credited to capital as part of the cost of the securities issued?

[EITF 85-17]

<u>Yes</u>	<u>No</u>	<u>N/A</u>
_____	_____	_____

**Sale of Preferred Stock With Put Warrants**

If the financial institution owns preferred stock with no mandatory redemption feature (known as perpetual preferred stock) and transferred them at original cost that was higher than current market value, and there is a simultaneous grant of a put option to the transferee to sell the stock back to the enterprise at a fixed price at a future date, were the following considered:

- a. If it's not probable the put option will be exercised, was a sale recorded? \_\_\_\_\_
- b. If it's probable the put option will be exercised, was the transaction recorded as a borrowing? \_\_\_\_\_
- c. If it's probable the option will be exercised and the transaction is recorded as a borrowing, was the difference between the original sale price and the put price amortized over the period to the first date on which the put may be exercised? \_\_\_\_\_
- d. If the transaction is considered a borrowing, are the securities still accounted for under the requirements of FASB Statement No. 12, *Accounting for Certain Marketable Securities* (AC 189)? \_\_\_\_\_

[EITF 85-25]

**Sales of Marketable Securities With Put Warrants**

For the sale of marketable securities with put option arrangements (i.e., the seller grants a put option to a third-party buyer that grants the buyer an option to sell the security back to the seller at a fixed price in the future), were the following considered:

- a. If it's probable the put option will be exercised, was the transaction accounted for as a borrowing and any difference between the sale proceeds and the put option accrued as interest expense and any impairment in the underlying security not recognized? \_\_\_\_\_
  - (i) Was the difference between the original sale price and the price amortized over a period shorter than the expected remaining life of the security? \_\_\_\_\_
- b. If it's not probable the put option will be exercised, was the transaction accounted for as a sale? \_\_\_\_\_
  - (i) In assessing probability, if the transaction involves the transfer of a security with a put option extending beyond 50 percent of the expected remaining life of the security, was the transaction considered a sale? \_\_\_\_\_
  - (ii) Was the asset (security) removed from the balance sheet? \_\_\_\_\_
  - (iii) If the sale transaction involved a gain, was the gain deferred until expiration of the put without exercise? \_\_\_\_\_
- c. If considered a borrowing, is there a continual reassessment of the probability the put will be exercised and the appropriate accounting adopted under (a) or (b) above? \_\_\_\_\_
- d. If considered a sale and later it becomes probable the put option will be exercised, was an immediate accrual made of any loss expected upon exercise, with periodic adjustments of the estimated loss accrual, and ultimate recording of the repurchased security at the lower of cost or market? \_\_\_\_\_

[EITF 85-40]

**Debtor's Accounting for a Modification of Debt Terms**

If a modification of debt terms occurred, was the exchange of a new noncallable debt instrument for an older callable debt instrument accounted for as the extinguishment of the older debt issue?

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

Yes      No      N/A

If, instead of acquiring debt securities directly, a borrower loans funds to a third party who in turn acquires the borrower's original debt securities with the agreement that the respective receivables and obligations will be setoff as they become due, has the borrower continued to account for the original debt securities (and not considered them as extinguished) and not offset the debt against the third-party receivable in the borrower's financial statements?  
[EITF 86-18]

\_\_\_\_\_

**Convertible Bonds With a "Premium Put"**

If convertible bonds were issued at par with a "premium put" allowing the investor to redeem the bonds for cash at a date or dates prior to maturity, were the following considered:

- a. Was the liability for the put premium accrued over the period from the date of debt issuance to the initial put date?
- b. Does the accrual continue regardless of any changes in the market value of the debt or underlying stock?
- c. If the put expires unexercised and the market value of the common stock under conversion exceeds the put price, was the put premium accrued credited to additional paid-in capital?
- d. If the put expires unexercised and the put price exceeds the market value of the common stock under conversion, is the premium amortized as a yield adjustment over the remaining term of the debt?

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

[EITF 85-29]

**Demand Notes With Repayment Terms**

If there is a loan agreement with specified repayment terms, but the creditor at his discretion can demand payment at any time, is the liability classified as a current liability?  
[EITF 86-5]

\_\_\_\_\_

**Sale of Bad Debt Recovery Rights**

If a financial institution sells to a third party (with no recourse to the seller) the right to an amount of future recoveries on loans previously written off as uncollectible, was the transaction recorded as a secured borrowing?  
[EITF 86-8]

\_\_\_\_\_

**Increasing Rate Debt**

If a debt instrument that matures periodically can be extended at the option of the borrower until the final maturity date at increasing rates of interest, were the following considered:

- a. Was the periodic interest expense determined using the interest method based on the estimated outstanding term of the debt?
- b. In estimating the term of the debt, did the borrower consider its plans, ability and intent to service the debt?
- c. Was the debt issue cost amortized over the same period used for the interest cost?
- d. If the debt is paid at par prior to its estimated maturity, was any excess interest accrued adjusted to interest expense and not considered an extraordinary item?
- e. Does the classification of the debt as current or noncurrent reflect the anticipated source of repayment? (It need not be consistent with the time frame used to determine periodic interest cost.)

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

[EITF 86-15]

**Third-Party Establishment of CMO's**

If the financial institution sells mortgage loans to an unrelated third party and cannot repurchase the loans, nor is it at risk except for eligibility defects, and through CMO's acquires the right to receive a defined portion of the total payment from the mortgages in excess of the amount required to service the mortgages (residual interest), was the gain or loss on the sale, including the present value of the residual interest if it can be reliably estimated, recognized in the period of sale?  
[EITF 86-24]

\_\_\_\_\_

**Offsetting Foreign Currency Swaps**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>If the enterprise entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the right of setoff)? [EITF 86-25]</p>	_____	_____	_____
<p><b>Classification of Obligations When a Violation is Waived by the Creditor</b>                      If a covenant on a long-term loan agreement is not met, and thus the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements, was the debt classified as noncurrent unless (1) the covenant violation occurred at the balance sheet date or would have occurred absent a loan modification, and (2) it is probable the enterprise will not be able to comply with the covenant at a measurement date within the next 12 months? [EITF 86-30]</p>	_____	_____	_____
<p><b>Early Extinguishment of Subsidiary's Preferred Stock</b>                      If the enterprise purchases (early extinguishment) a wholly-owned subsidiary's mandatorily redeemable preferred stock, was the transaction considered a capital stock transaction, (thereby excluding any gain or loss from income)?                      a. In consolidated financial statements, were dividends on the subsidiary's preferred stock, whether mandatorily redeemable or not, included in minority interest as a charge against income? [EITF 86-32]</p>	_____	_____	_____
<p><b>Futures Contracts Used as a Hedge</b>                      If a financial institution entered into a futures contract because it expects future issuances of reverse repurchase agreements, was any gain or loss accounted for as a hedge transaction if the futures contract reduces the interest rate risk and the criteria in paragraph 9 of FASB Statement No. 80, <i>Accounting for Futures Contracts</i> (AC F80.109) are satisfied? [EITF 86-34]</p>	_____	_____	_____
<p><b>Mortgage Prepayments on Amortization of Servicing Rights</b>                      If the enterprise owns mortgage servicing rights, and experienced unanticipated mortgage prepayments, did the enterprise avoid a write-down if the future net servicing income exceeds the asset's carrying amount?                      If the enterprise has mortgage servicing rights, and the fee for servicing exceeds a normal service fee, was the excess service fee receivable written down to the present value of the estimated remaining future excess service fee revenue using the same discount factor used to calculate the original excess service receivable? [EITF 86-38]</p>	_____	_____	_____
<p><b>Sale of Mortgage Loans With Servicing Retained</b>                      If an enterprise purchases loans with the intention of subsequently selling the loans and retaining the servicing rights, was any gain on the sale first offset against the amount capitalized as the cost of the servicing rights? [EITF 86-39]</p>	_____	_____	_____
<p><b>Valuing Speculative Foreign Exchange Contracts</b>                      Was the optional discounting (or net present value) approach considered to calculate the gain or loss on unsettled speculative foreign currency forward exchange contracts? [EITF 87-2]</p>	_____	_____	_____
<p><b>Troubled Debt Restructuring</b>                      If a savings and loan institution has a troubled debt restructuring that involves only a modification of terms, was a loan loss allowance established based on net realizable value of the underlying collateral? [EITF 87-5]</p>	_____	_____	_____
<p><b>Substituted Debtors in a Troubled Debt Restructuring</b>                      In a troubled debt restructuring, if a debtor with the creditor's approval sells the collateral for a price with a present value less than the creditor's net investment in the loan and the third-party purchaser must make the payments to the creditor, did the creditor recognize a loss on the disposition of the original loan and record an asset for the fair value of the payments to be received? [EITF 87-19]</p>	_____	_____	_____

Yes      No      N/A

**Debentures With Detachable Stock Purchase Warrants**

If an enterprise issued subordinated notes with detachable warrants to purchase the enterprise's stock and granted the right to require the enterprise to repurchase all or any portion of the warrants for a higher price, were the following considered:

- a. Were the proceeds allocated between the liability and the warrant and the discount amortized in accordance with APB Opinion No. 21, *Interest on Receivables and Payables* (AC I69)?
- b. Was the carrying amount of the warrant accrued to the put price?
- c. If the put price is substantially higher than the value of the warrant exclusive of the put at the time of issuance, was the accrual reported as interest expense?

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

**Investments in Open-End Mutual Funds**

If the financial institution invested in a mutual fund, was the investment reported at the lower of cost or market?  
 [EITF 86-40]

\_\_\_\_      \_\_\_\_      \_\_\_\_

**Foreign Debt-For-Equity Swaps**

If an enterprise enters into a transaction to exchange U.S.-dollar-denominated debt due from a foreign government or company for an investment in the foreign company denominated in the foreign currency, was the amount by which the local currency proceeds translated at the official exchange rate exceeds the cost of the debt used to reduce (1) the basis of any long-lived assets acquired or constructed or (2) the basis of any existing long-lived assets other than goodwill?

- a. If the foreign investee (1) has no significant assets or liabilities other than local currency debt, (2) has an accumulated deficit and (3) the proceeds from the debt-for-equity swap are used to extinguish the debt, was the excess reported as negative goodwill?  
 [EITF 87-12]

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

**Zero Coupon Bonds in a Troubled Debt Restructuring**

In a troubled debt restructuring, if the debtor, with the creditor's approval, sells the collateral at less than the creditor's net investment in the loan and the debtor invests the proceeds in zero coupon bonds held by the creditor as collateral, did the creditor recognize a loss on the satisfaction of the loan and record an asset for the fair value of the zero coupon bonds?  
 [EITF 87-18]

\_\_\_\_      \_\_\_\_      \_\_\_\_

**Sale of a Short-Term Loan Made Under a Long-Term Credit Commitment**

If a financial institution involved in commercial lending made a short-term loan under a long-term credit commitment and transferred the short-term loan that contains substantive subjective or objective covenants to a third party without recourse, were the following considered:

- a. Was the transfer of the short-term loan accounted for as a sale?
- b. Were any commitment fees received on the long-term commitment recognized in accordance with FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated With Originating or Acquiring Loans* (AC L20)?  
 [EITF 87-30]

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

**Sale of a Put Option on Issuer's Stock**

If a company sells for cash put options that enable the holder to sell the company a share of the company's common stock at a fixed price, were the following considered:

- a. Were the proceeds of the put option, whether or not exercisable on the date of issuance, recorded in permanent equity and transferred to temporary equity at an amount equal to the redemption price of the common stock?
- b. Were subsequent changes in the market value of the options not recorded?
- c. Was the equity section of the balance sheet adjusted only when the options were redeemed, exercised or expired?
- d. Was the effect on earnings-per-share considered?

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

If a public corporation distributed stock appreciation rights to its shareholders and at the issue date and the strike price was higher than the market price, was the fair value of the rights accounted for as a stock dividend?  
 [EITF 87-31]

\_\_\_\_      \_\_\_\_      \_\_\_\_

**Mortgage Swaps**

If the enterprise engaged in a mortgage swap (not an interest rate swap) involving (1) declining notional principal amount, (2) periodic cash settlements for adjustments of the premium or discount resulting from mortgage payment activity, and (3) settlement with cash or delivery of securities at a predetermined termination date, were the following considered:

- a. At the inception of the transaction, was the notional amount of the mortgage-backed security and the related notional debt not recognized on the balance sheet (because they are similar to an executory contract)?
- b. For swaps that do not qualify for hedge accounting, were subsequent changes in market value of the mortgage swap recognized during the term of the swap using market value or lower-of-cost-or-market approach consistent with the enterprise's accounting for similar investments?
- c. Was hedge accounting used if the hedge criteria under existing GAAP was met? [EITF 88-8]

<u>Yes</u>	<u>No</u>	<u>N/A</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

**Put Warrants**

If the enterprise issued put warrants, allowing the holder (1) to acquire common stock at a specified price, (2) to put the instrument back to the issuer for a cash payment, or (3) to acquire common stock and put that stock back to the issuer for a cash payment, were the following considered:

- a. Were the proceeds applicable to the put warrants classified as equity (except for situations discussed in EITF 86-35) (similar to that for mandatorily redeemable preferred stock)?
  - (i) Did a public company classify the put warrants as temporary capital in accordance with SEC ASR 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks?"*
  - (ii) Was the classification of put warrants not changed subsequent to issuance?
- b. Were the put warrants adjusted from the value assigned at the date of issuance to the highest redemption price?
  - (i) Was this accrual made over the period from the date of issuance to the earliest put date of the warrants?
  - (ii) Were changes in the highest redemption price after date of issuance but before the earliest put date considered as a change in accounting estimate and accounted for prospectively?
  - (iii) Were changes in the highest redemption price after the earliest put date recognized in the current period?
  - (iv) Were the adjustments consistent with the balance sheet classification (i.e., if considered debt, the adjustment should be reported as interest expense; if considered equity, the adjustment should be reported as a charge to retained earnings)?
  - (v) Were the put warrants included in the earnings-per-share calculation using the more dilutive of the "equity" or "debt" basis? [EITF 88-9]

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

**Allocation When a Loan or Part of a Loan Is Sold**

If the enterprise acquired or originated a loan and sold the right to receive either the interest payments or the principal payments, or a portion of both, was the carrying amount of the loan sold allocated between the portion sold and the portion retained based on the relative fair values on the date the loan was acquired (adjusted for payments and other activity between the acquisition date and sale date)?

- a. If fair value on the acquisition date cannot be determined, was that allocation based on the relative fair values at the date of sale?
- b. Did any gain recognized not exceed the gain that would be recognized if the entire loan was sold?
- c. Were the amounts included in the allowance for loan losses excluded from the calculation?
- d. If excess servicing was retained, was a portion of the recorded investment allocated to excess servicing based on its relative fair value? [EITF 88-11]

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

**Securitization of Credit Card Portfolios**

If a financial institution securitized a credit card portfolio, were the following considered?



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Was the amount received from transferring (to investors) a participating interest in the credit card receivables in a trust accounted for as a sale only if the conditions specified in paragraph 5 of FASB Statement No. 77, <i>Reporting by Transferors for Transfers of Receivables with Recourse</i> (AC R20.105) were met?	_____	_____	_____
b. If, at the beginning of any liquidation period, the percentage of principal payments allocated to the investors exceeded the investors' ownership interests in the receivables in the trust, was the transaction not considered a sale (because under the liquidation method, the buyer would have the ability to require the seller to repurchase some of the receivables)?	_____	_____	_____
c. Was any gain on the sale of receivables limited to the amount of receivables existing at the date of sale (and did not include any amounts related to future receivables expected to be sold during the reinvestment period)?	_____	_____	_____
d. Were the terms of the transaction carefully reviewed to determine whether a loss should be recognized for the costs expected to be incurred for all future servicing obligations, including costs for receivables not yet sold? [EITF 88-22]	_____	_____	_____
<b>Fees and Costs in a Loan Syndication or Participation</b>			
If a financial institution arranges a lending syndicate and funds a portion of the loan, or originates a loan and at or near the same time sells a participation in the loan, are the fees and costs on the transaction recognized as adjustments of the yield over the life of the loan in accordance with FASB Statement No. 91, <i>Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans</i> (AC L20)?			
a. Was a transaction legally structured as a participation accounted for as a syndication if within 60 days of the initial funding date the institution sold at least 50 percent of the loan to other independent enterprises and the risks and rewards were shared proportionately from the date of sale?	_____	_____	_____
b. If the above conditions were not met, was the transaction accounted for as a participation, in accordance with the provisions of FASB Statement No. 91 (AC L20)? [EITF 88-17]	_____	_____	_____
<b>FSLIC-Assisted Acquisition of Thrifts</b>			
If a savings institution (Thrift) is acquired pursuant to an assistance agreement between the acquiror and the FSLIC (or its successor) ("the governmental agency"), were the following considered (this guidance also applies to regulatory assisted acquisitions of banks):			
a. If there was a tax-sharing arrangement with the governmental agency to share in a specified percentage of certain income tax benefits realized by the Thrift, were the tax benefits the governmental agency is entitled to receive under the agreement offset against the income tax benefits realized by the Thrift (because the Thrift is considered a conduit for the tax benefits accruing to the governmental agency)?	_____	_____	_____
b. If there is a yield maintenance agreement (that (1) guarantees additional interest on specified interest bearing assets, (2) a level of return on specified non-interest bearing assets, (3) reimbursement if covered assets are ultimately collected or sold for amounts less than a specified amount, or (4) any combination thereof), are the assets covered by the agreement considered interest bearing (for the purpose of applying FASB Statement No. 72, <i>Accounting for Certain Acquisitions of Banking or Thrift Institutions</i> ) even if the covered assets are non-interest bearing?	_____	_____	_____
c. To allocate the purchase price of acquired assets based on fair values, was the stated interest rate (the guaranteed yield or level of return on covered assets) specified in the agreement considered a market rate? (i) If the above rate is not used as the market rate, was another rate, selected by the acquiror, determined in accordance with paragraph 88 of APB Opinion No. 16, <i>Business Combinations</i> (AC B50.146)?	_____	_____	_____
d. If an asset covered by the yield maintenance agreement was converted to a different covered asset, was the basis of the asset not changed?	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| e. Were losses resulting from contingencies related to the acquisition (covered by the indemnification provisions of the agreement) recognized by the acquiror net of reimbursements received or receivable from the governmental agency?   | _____      | _____     | _____      |
| f. If part of the governmental agency assistance involved a note receivable and cash from the sale of the Thrift's equity securities, was a portion of the note receivable equal to the fair value of the equity securities sold to the governmental agency offset against the equity securities (unless it can be demonstrated the equity security is economically separable from the note)?<br>(See the actual EITF for conditions that would determine economic separability.) | _____      | _____     | _____      |
| g. If a note receivable from the governmental agency is offset against the equity from the securities issued by the Thrift, are subsequent dividend payments to the governmental agency on the equity securities netted against cash receipts from the governmental agency for interest payments on the note, and the net amount recorded as regulatory assistance?<br>[EITF 88-19]   | _____      | _____     | _____      |

**Purchased Credit Card Portfolio**

If an enterprise purchases a credit card portfolio including the cardholder relationship, was the difference between the amount paid for the portfolio and the sum of the balances of the credit card loans at the date of purchase (the premium) allocated between the cardholder relationships acquired and the loans acquired?

- |   |       |       |       |
|---|-------|-------|-------|
| a. Is the premium related to the cardholder relationships considered an intangible asset and amortized over the period estimated to be benefited in accordance with APB Opinion No. 17, Intangible Assets (AC I60)?   | _____ | _____ | _____ |
| b. Is the premium allocated to the loan portion being amortized over the life of the loan (including any repayment period beyond expiration of the card if the card is not renewed) in accordance with FASB Statement No. 91, <i>Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans</i> (AC L20)?<br>[EITF 88-20] | _____ | _____ | _____ |

**Liquidating Bank**

If a bank with a substantial amount of nonperforming assets transfers the assets to a "liquidating bank," were the following considered:

- |  |       |       |       |
|--|-------|-------|-------|
| a. Did the liquidating bank's financial statements report the assets and liabilities at fair values?   | _____ | _____ | _____ |
| b. Were any increases or decreases during the period in the value of the assets and liabilities recognized currently by the same method used to develop the initial fair values (unless there was a change in circumstances as to the anticipated timing and manner of disposition)?<br>[EITF 88-25] | _____ | _____ | _____ |

**Maximum Maturity Guarantees on Transfers of Receivables With Recourse**

If the enterprise transferred its receivables to another entity with recourse and the purchaser has the option to "put" the receivables back to the seller (or the seller has the option to "call" the receivables) at a future date when the outstanding balances are expected to be minor based on the contractual payment schedule of the underlying receivables (but are not minor based on the seller's estimate of prepayment), was the transaction recorded as a sale?

- |  |       |       |       |
|--|-------|-------|-------|
| a. Was a sale not recorded if the future date is based on the seller's estimate of prepayments?<br>[EITF 89-2] | _____ | _____ | _____ |
|--|-------|-------|-------|

**Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security**

- |   |       |       |       |
|---|-------|-------|-------|
| a. If an interest-only (I-O) security or a principal-only (P-O) security (which represent ownership of undivided interests in the interest or principal payments, respectively, of mortgage-backed securities) of one trust is exchanged for an I-O or P-O security of another trust, was the acquired security recorded at fair value unless the securities exchanged are "substantially the same" (as defined by AICPA SOP 90-3)? | _____ | _____ | _____ |
|---|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Was the exchange of the I-O and P-O securities of the same trust for the related mortgage-backed security recorded at fair value? [EITF 90-2]	_____	_____	_____

**Income Taxes**

**Push-Down Accounting**

If an enterprise acquires an entity through liquidation, corporate reorganization, or statutory merger, was appropriate disclosure made of the method of allocating the consolidated tax provision?  
[EITF 86-9]

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

**Tax Indemnifications in Lease Agreements**

If an enterprise as lessee entered into a lease containing indemnification clauses that indemnify lessors, on an after-tax basis, for certain tax benefits the lessor may lose if a change in the tax law precludes realization of those tax benefits, were the following considered concerning any indemnification payments:

- a. For operating leases, were the payments accounted for as additional expense ratably over the remaining lease term irrespective of when made?  
\_\_\_\_\_
- b. For capital leases, was the basis of the leased asset adjusted?  
\_\_\_\_\_

If an enterprise as lessor entered into a lease containing indemnification clauses that indemnify the lessor, on an after-tax basis, for certain tax benefits the lessor may lose if a change in the tax law precludes realization of those tax benefits, were the following considered concerning any indemnification payments:

- a. Allocation of the payments into two parts: (1) any investment tax credit lost and (2) all other tax effects?  
\_\_\_\_\_
  - (i) Was the portion related to ITC's accounted for consistent with the lessor's accounting policy for ITC's? That is, were the payments allocated to the ITC recognized in the income statement in the same period as the ITC would have been recognized?  
\_\_\_\_\_
  - (ii) If a capital lease, were the remaining payments accounted for as an adjustment of the lessor's investment, or if an operating lease, were those remaining payments recognized ratably over the lease term?  
[EITF 86-33]  
\_\_\_\_\_

**Effect of a Change in Tax Laws or Rates on Leveraged Leases**

For leveraged leases, was the effect of a change in tax law or rates calculated and reported for all components of the leveraged lease from its inception based on the revised after-tax cash flows arising from the change in the tax law, with the difference included in income in the year the tax law was enacted?

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

- a. For public companies, was the cumulative effect on pretax income and income tax expense reported as a separate line item in the income statement?  
[EITF 86-43]  
\_\_\_\_\_

**Effect of a Change in Tax Law on Safe Harbor Leases**

For "safe harbor leases", was the effect of a change in tax law concerning net income to be recognized by an investor recalculated from inception and the difference either (1) included in income in the year the tax law was enacted, or (2) accounted for prospectively?  
[EITF 86-44]

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

**Uniform Capitalization Rules for Inventory**

If the Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986 were applied to inventories for tax purposes, was it determined if it is preferable or appropriate to capitalize those costs for GAAP purposes?  
[EITF 86-46]

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

**Tax Reform Act of 1986 —AMT**

Yes      No      N/A

If the company is subject to the "Alternative Minimum Tax" (AMT) under the Tax Reform Act of 1986, and accounts for income taxes under APB Opinion No. 11 *Accounting for Income Taxes*, were the following considered? (Note—Many of these conclusions have been modified by FASB Statement No. 96, *Accounting for Income Taxes*).

- a. Was the AMT in excess of regular tax not viewed as a prepayment of future regular tax to the extent it results in an AMT credit? \_\_\_\_\_
- b. How the AMT should affect the amount of deferred taxes on originating timing differences based on the with-and-without computation? (Under Statement 96, the concept of originating timing differences does not exist, nor is the with-and-without method used.) \_\_\_\_\_
- c. How the amount of AMT credit should be determined for financial reporting purposes (i.e., the AMT credit is the amount that AMT on financial income exceeds the regular tax computed on financial income)? \_\_\_\_\_
- d. If realization of AMT is assured beyond a reasonable doubt, was the excess credit recognized as an asset prior to realization in the tax return? (Under Statement 96, the drawdown of existing net deferred tax credits no longer is applicable.) \_\_\_\_\_
- e. If not assured beyond a reasonable doubt, did the credit offset existing deferred tax credits? \_\_\_\_\_
- f. Was the excess AMT credit that was offset against existing net deferred tax credits limited to the difference between the regular tax provided on timing differences when originated and the AMT to be paid on reversal? \_\_\_\_\_
- g. Were limitations on originating timing differences based on a with-and-without computation? \_\_\_\_\_
- h. If AMT credits previously recognized by offset of deferred taxes subsequently are used in the tax return, were the reinstated deferred taxes equivalent to the AMT credits realized as a reduction of taxes payable? \_\_\_\_\_
- i. Under the net change method, were deferred taxes provided or amortized based on the difference between income tax on taxable income and income tax on taxable income adjusted for the aggregate timing differences? \_\_\_\_\_
- j. To the extent AMT is used to reduce taxes on existing timing differences to an amount less than the deferred tax credits after the prior drawdown for ITC carryforwards, were existing deferred tax credits further reduced by the AMT credit? \_\_\_\_\_
- k. Were assumptions included concerning the effect of AMT, (after considering its consolidated tax position) on leveraged lease computations and any changes in the assumptions resulting in an adjustment included as a gain or loss in the year of change? (Note: Statement 96 did not affect the accounting for leveraged leases required by Statement 13.) \_\_\_\_\_
- l. If total net income from the leveraged lease changed due to the effect of the AMT on cash flows for the lease, were the leveraged lease computations revised? \_\_\_\_\_
- m. In a purchase business combination, was the effect of the AMT considered to determine the amounts to be assigned to assets acquired and liabilities assumed? [EITF 87-8] \_\_\_\_\_

**Classification of Payments to IRS to Retain Fiscal Year**

Was a payment by a partnership or an S corporation to the IRS to retain its fiscal year rather than adopt a calendar year for tax purposes, classified as an asset (deposit)? [EITF 88-4] \_\_\_\_\_

**Inventories**

**Market Declines at Interim Dates**

During an interim period, was any decline in the market price of inventory below cost written down to the lower-of-cost-or-market (unless substantial evidence exists that market prices will recover before the inventory is sold or in the case of LIFO inventory, that inventory amounts will be restored by year-end)? \_\_\_\_\_

Yes      No      N/A

[EITF 86-13]

**Lease Accounting**

**Consideration of Executory Costs in Sale-Leaseback Transactions**

In a sale-leaseback transaction, were the executory costs (insurance, maintenance and taxes) excluded from the calculation of the deferred profit irrespective of who pays the costs or the classification of the leaseback?

[EITF 89-16]

\_\_\_\_\_

**Accounting for Cross Border Tax Benefit Leases**

If cash consideration is received by a U.S. enterprise from a foreign investor for tax benefits the foreign investor will obtain in the foreign tax jurisdiction, was income recognition based on the individual facts and circumstances?

\_\_\_\_\_

a. Was income not recognized immediately if there was more than a remote possibility the cash consideration received will be lost due to indemnification or other contingencies?

\_\_\_\_\_

[EITF 89-20]

**Sale of Property Subject to the Seller's Preexisting Lease**

If the enterprise owns property or an interest in property and is also a lessee under an operating lease for all or a portion of the property and the owner-lessee sells its interest in the property to an independent third party and continues to lease the property under the preexisting operating lease, was the transaction accounted for as a sale-leaseback?

[EITF 88-21]

\_\_\_\_\_

**Cost Associated With Lease-Modification or Terminations**

If a new lease was entered into with a different lessor prior to the expiration of an existing operating lease, were the following considered:

a. Were any moving costs expensed?

\_\_\_\_\_

b. Were any remaining costs such as rental payments, capitalized leasehold improvements, and penalties for early termination of the lease expensed if the property has no future use or benefit to the lessee?

\_\_\_\_\_

c. If the lessee will receive sublease income on the original property, was the amount of expense to be recognized reduced by the actual or discounted amount of the sublease income?

\_\_\_\_\_

[EITF 88-10]

**Off Balance-Sheet Financing**

**Leveraged Leases**

Did the enterprise classify as leveraged leases, real estate leases, and sale-leaseback transactions that meet the criteria in paragraph 42 of FASB Statement No. 13, *Accounting for Leases* (AC L10.144) and FASB Statement No. 98?

\_\_\_\_\_

If there was a delayed equity contribution by a lessor in a leveraged lease transaction, was the lessor's obligation for that contribution recorded as a liability at its present value at the inception of the leveraged lease?

\_\_\_\_\_

[EITF 85-16]

**Pensions and Employee Benefits**

**Lump-Sum Payments Under Union Contracts**

If the enterprise, in connection with a union contract, made lump-sum payments in lieu of an increase in base wage rates, is the lump-sum payment being deferred and amortized over the contract period if it is clear the payment will benefit a future period in the form of a lower base wage rate?

\_\_\_\_\_

[EITF 88-23]

**Stock Compensation Issues Related to Market Decline**

Yes      No      N/A

If, due to a market decline or other event, a stock option plan (including restricted options) is repriced or cancelled and reissued, was (1) compensation expense measured for the reduction of the exercise price as if a new measurement date had occurred and amortized over the remaining vesting period, (2) none of the original compensation expense amounts reversed, and (3) the original compensation expense continues to be amortized or accrued?

\_\_\_\_\_

If a stock option (including restricted options) is repurchased in contemplation of issuing a new option that contains terms identical to the remaining terms of the original option except for a reduction in the exercise price, was the guidance above applied to the transaction and the cash paid charged to expense in the current period?

\_\_\_\_\_

If the original option terms are not changed but the enterprise grants new options with the stipulation that each share acquired through exercise under the new grant cancels a proportionate number of shares available under the original grant and vice versa, were the awards considered variable and compensation measured at each reporting date?

\_\_\_\_\_

If the stock option contains a stock indemnification right to protect the employee from a decline in the market price of the stock after the exercise date, was the right accounted for as a variable award and compensation measured at each reporting date?

\_\_\_\_\_

[EITF 87-33]

**Book Value Stock Purchase Plans**

If a privately held company has a stock purchase plan where (1) the purchase price is a formula based on book value or earnings, and (2) the purchaser is required to sell the shares back to the company at retirement or upon leaving the company at a price determined in the same manner as the purchase price, has the company not recognized any compensation expense for increases or decreases in book value during the employment period if the employee makes a substantive investment that will be at risk for a reasonable period of time?

\_\_\_\_\_

If the privately held company grants options at a formula price and the employee can resell the options (or the shares received upon exercise) to the company at any time, was compensation expense recognized for any increase in option value from the grant date to exercise date?

\_\_\_\_\_

a. Is additional compensation expense recognized if the shares are sold back to the company shortly after exercise?

\_\_\_\_\_

If an employee sold shares back to an employee stock option plan (ESOP), did the entity not recognize any compensation expense for the excess of the sales price over the ESOP purchase price?

\_\_\_\_\_

[EITF 87-23]

**Book Value Stock Plans in an Initial Public Offering**

If the enterprise is publicly held, was a book value stock purchase plan considered a performance plan and accounted for like a stock appreciation right?

\_\_\_\_\_

If the enterprise had an initial public offering, and has a book value stock purchase plan that converts to an option to purchase unrestricted stock (market value stock option), was compensation expense recognized for the difference between market value and book value at the date of the successful completion of the offering (in addition to compensation expense previously recognized for actual changes in book value)?

\_\_\_\_\_

For a book value stock purchase plan that remains a book value option plan after the successful completion of an initial public offering, was compensation expense recognized for any change in book value resulting from the offering?

\_\_\_\_\_

For a book value stock purchase plan that converts to a market value stock option as part of an initial public offering:

a. Was compensation expense not recognized at the time of the offering for the difference between market value and book value?

\_\_\_\_\_

Yes      No      N/A

b. For book value shares issued under the purchase plan within one year of the initial public offering, was compensation expense recognized for the difference between the book value price and the estimated fair value at the date of issuance?

\_\_\_\_\_

c. Subsequent to the offering, was no further compensation expense recognized assuming the plan remains a fixed plan under APB Opinion No. 25, *Accounting for Stock Issued to Employees* (AC C47)?

\_\_\_\_\_

For a book value stock option plan that remains a book value stock option plan after the initial public offering:

a. Was compensation expense not recognized upon successful completion of the initial public offering?

\_\_\_\_\_

b. For book value shares issued under the purchase plan within one year of the initial public offering, was compensation expense recognized under variable-plan accounting for actual changes in book value since the date of issuance?

\_\_\_\_\_

c. Was compensation expense recognized for increases in book value after the offering?

\_\_\_\_\_

Does the registration statement filed in conjunction with the initial public offering include prominent pro forma disclosure of the additional compensation expense related to book value shares issued within one year of the initial public offering?

\_\_\_\_\_

[EITF 88-6]

**Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan**

For some defined benefit pension plans (typically foreign plans), is the vested benefit obligation either (1) the actuarial present value of the vested benefits to which an employee is entitled if the employee separates immediately or (2) the actuarial present value of the vested benefits to which the employee currently is entitled based on the employee's expected date of separation or retirement?

\_\_\_\_\_

[EITF 88-1]

**Measurement of Excess Contributions to a Defined Contribution Plan or ESOP**

If an enterprise terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, were the following considered:

For a defined benefit plan:

a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?

\_\_\_\_\_

b. Was the unallocated amount treated as if it were part of the employer's investment portfolio and recorded as an asset?

\_\_\_\_\_

(i) Is the income attributed to such securities including dividends, interest, and realized gains and losses reported in a manner consistent with the employer's reporting of similar items?

\_\_\_\_\_

c. Is compensation expense recognized at the time allocation is made by the plan based on the fair market value of the assets at the time?

\_\_\_\_\_

d. For a defined contribution plan or an ESOP, are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?

\_\_\_\_\_

e. For a defined contribution plan or an ESOP, are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishments) in the employer's financial statements?

\_\_\_\_\_

For an ESOP:

a. If the excess contribution is not allocated to individual participants, are the unallocated shares of the employer's own common stock reported as treasury stock?

\_\_\_\_\_

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| b. Is compensation expense at the date of allocation recognized based on the then current market price of the stock and the difference between the purchase price and the current market price recognized as an increase or decrease in shareholders' equity? | _____      | _____     | _____      |
| c. Were the dividends paid on the unallocated shares of the employer and invested in additional stock of the employer used to increase treasury stock rather than to reduce retained earnings?  | _____      | _____     | _____      |
| (i) Was (a) compensation expense charged for dividends paid to participants on the unallocated shares, and (b) retained earnings charged for dividends on the allocated shares?   | _____      | _____     | _____      |
| (ii) Were prepayments on ESOP debt (using dividends on unallocated shares accounted for as treasury stock) treated as compensation expense?   | _____      | _____     | _____      |
| d. Were the unallocated shares of the employer's common stock considered as not outstanding for purposes of computing earnings-per-share?<br>[EITF 86-27]   | _____      | _____     | _____      |

**Recognition of Insurance Death Benefits**

If the enterprise as beneficiary purchased life insurance on the lives of employees (1) was an asset recognized for the amount that could be realized under the insurance contract as of the balance sheet date, and (2) did the enterprise not recognize income from death benefits based on an actuarially expected basis, but rather upon the actual death of the insured?  
[EITF 88-5]

\_\_\_\_\_

**Recognition of ESOP Debt**

Did the employer/sponsor of an ESOP record a liability for ESOP debt unless the ESOP has the ability and intent to satisfy the debt from sources other than dividends or contributions from the sponsor, or from the sale of the sponsor's securities?  
[EITF 89-10]

\_\_\_\_\_

**Accounting for Employer's Obligations for Future Contributions to a Multiemployer Pension Plan**

If the employer joined a multiemployer defined benefit pension plan (or improved benefits under the plan) and agreed to pay prior service costs, was only the required contribution for the period recorded as net pension cost and any contributions due and unpaid recorded as a liability?  
[EITF 90-3]

\_\_\_\_\_

**Earnings-Per-Share Treatment of Tax Benefits for Dividends on Preferred Stock Held by an ESOP**

To compute primary earnings-per-share, did the tax benefit for dividends paid to an ESOP increase earnings applicable to common shareholders, and was the amount of any material benefit disclosed?

\_\_\_\_\_

- a. Were the dividends earned on the preferred stock held by the ESOP deducted from net income, net of applicable income tax benefit?  
[EITF 90-4]

\_\_\_\_\_

**Expense Recognition for ESOPs**

Was the "shares allocated method" (as discussed in the consensus) adopted for an ESOP's purchase of the sponsor's shares after December 14, 1989?

\_\_\_\_\_

- a. Was interest expense recognized as incurred?
- b. Was the compensation portion recognized by multiplying the original principal by the ratio of shares allocated to total shares purchased?
- c. If dividends were used to service the ESOP debt, was the expense recognized during the period reduced?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Was the effect, if any, of initial application of the consensus reported as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, <i>Accounting Changes</i> (AC A06)?	_____	_____	_____
e. If at the initial application of this consensus there is a difference between the expense recognized and the cash contribution, was the related debit adjusted for that difference? [EITF 89-8]	_____	_____	_____
<b>Sponsor's Balance Sheet Classification of Capital Stock With a Put Option Held by an ESOP</b>			
In a leveraged ESOP, if securities with a put option are required by the SEC to be presented on the balance sheet outside the equity section, was the related loan to ESOP in the employer's equity section similarly classified? [EITF 89-11]	_____	_____	_____
<b>Earnings-Per-Share Issues Related to Convertible Preferred Stock Held by an ESOP</b>			
If a sponsor issues high-yield convertible preferred stock to an ESOP, has the following been considered in computing earnings-per-share (EPS):			
a. Were the convertible preferred shares considered common stock equivalents if the yield at date of issuance was less than 66 2/3% of the Corporate Aa bond rate?	_____	_____	_____
b. Was net income for EPS adjusted for the difference between the amount of the current preferred dividends and the amount of the dividends on common shares considered outstanding?	_____	_____	_____
c. If there is a guaranteed minimum redemption value for the convertible stock, and the market value of the common stock falls below the redemption value, was EPS calculated using the number of common shares assumed to be issued based on the market price at the close of the period?	_____	_____	_____
d. If the number of shares issued or contingently issuable subsequently changed because of changes in the market price, was prior period EPS data restated?	_____	_____	_____
e. If the redemption price guarantee in c. above can be satisfied in cash, and the sponsor has the ability and expressed intent to pay cash, were no additional issuances of shares assumed in the calculation, and was the stated conversion rate used for all shares?	_____	_____	_____
f. Were these consensus applied to both the primary and fully-diluted calculations, if the preferred stock is a common stock equivalent? [EITF 89-12]	_____	_____	_____
<b>Real Estate</b>			
<b>Antispeculation Clauses in Real Estate Sales</b>			
If a land sale agreement contains an "antispeculation" clause requiring the buyer to develop the land in a specified manner or period (otherwise the seller may reacquire the property), was a sale recognized if the probability of noncompliance by the buyer is remote? [EITF 86-6]	_____	_____	_____
<b>Homebuilders Recognition of Profit</b>			
Was the deposit method used to account for a contract to construct a home on the homebuilder's lot, until the conditions of paragraph 5 of FASB Statement No. 66, <i>Accounting for Sales of Real Estate</i> for full sales recognition are met (AC Re 1.105)? [EITF 86-7]	_____	_____	_____
<b>Transfer of Ownership as Part of Down Payment</b>			
If a buyer pledges purchased property as security for a note payable to a seller as part of the initial investment, was a sale recorded under the full accrual method? [EITF 88-12]	_____	_____	_____
<b>Effects of Various Forms of Financing</b>			
If real estate was sold, were the proceeds of debt obtained by the buyer from an independent third party, secured by the purchased property, not considered a part of the buyer's initial investment under FASB Statement No. 66, <i>Accounting for Sales of Real Estate</i> ? [EITF 88-24]	_____	_____	_____

Yes      No      N/A

**Sales of Real Estate With Insured Mortgages or Security Bond**

If profit on the sale of real estate is recognized under the full accrual method:

- a. Was a surety bond (or similar irrevocable financial instrument) received by the seller included as part of the buyer's initial and continuing investment (if it contains certain specified characteristics)?
- b. Was the purchase of mortgage insurance not deemed to demonstrate a commitment by the buyer to honor the obligation to pay for the property?
- c. Was the mortgage receivable used to satisfy the down payment requirements of FASB Statement No. 66 insured under either the FHA or VA program?  
[EITF 87-9]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Valuation of Repossessed Real Estate Whose Sale was Accounted for Under the Installment Method**

If real estate sold and financed by the seller was recorded by the creditor/seller on the installment or cost recovery method under FASB Statement No. 66 and subsequently was foreclosed, was the foreclosed property recorded at the lower of the net amount of the receivable (including the accrual of interest on the financing) or its fair value?  
[EITF 89-14]

\_\_\_\_\_

**Other**

**Non-Monetary Transactions and "Boot"**

In an exchange of assets, were the following considered:

- a. For nonmonetary transactions involving products or properties held for sale, were they accounted for based on recorded amounts if the products or properties received will be sold in the same line of business as the products or properties given up (based on a "same line of business" test in APB Opinion No. 29, *Accounting for Nonmonetary Transactions* [AC N35])?
- b. If a product or property held for sale is exchanged for a productive asset, was it accounted for at the recorded amount (if they are in the same line of business)?
- c. If there was an exchange of nonmonetary assets that otherwise would be based on recorded amounts but it involves "boot", was the transaction considered monetary (rather than nonmonetary if the boot is at least 25% of the fair value of the exchange) and recorded at fair values?
- d. If the boot in the transaction is less than 25%, did the receiver of the boot recognize a pro rata gain and the payer of boot not recognize a gain?
- e. Was an exchange of securities in which the enterprise acquires control of a subsidiary accounted for as a business combination in accordance with APB Opinion No. 16, *Business Combinations* (AC B50)?
- f. Did the enterprise account for an exchange of securities (other than an exchange involving a joint venture or the acquisition of a minority interest) accounted for by consolidation or by the equity method as a nonmonetary transaction in accordance with APB Opinion No. 29 (AC N35)?  
[EITF 86-29]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Exchange of Real Estate Involving Boot**

For transactions involving an exchange of similar real estate that is considered a monetary transaction because boot is at least 25% of the fair value of the exchange, was an allocation made between the monetary and nonmonetary portions, based on fair values at the time of the transaction?

- a. For the receiver of boot, was the monetary portion accounted for as the equivalent of a sale of an interest in the underlying real estate and the nonmonetary portion accounted for at the recorded amounts?
- b. For the payer of boot, was the monetary portion accounted for as the acquisition of real estate, and the nonmonetary portion accounted for at the recorded amount?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Yes      No      N/A

[EITF 87-29]

**Accounting for the Cost of Asbestos Removal**

If a property with a known asbestos problem was acquired, was the cost incurred to treat the problem capitalized as part of the property?

\_\_\_\_\_

For an existing property with an asbestos problem, were the costs incurred to treat the problem capitalized as a betterment subject to an impairment test for that property?

\_\_\_\_\_

a. If the costs were incurred in anticipation of a sale of the property, were the costs deferred and recognized in the period of sale to the extent the costs may be recovered from the estimated selling price?

\_\_\_\_\_

If the asbestos treatment costs were charged to expense, are they not classified as an extraordinary item?

\_\_\_\_\_

[EITF 89-13]

**Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties**

If an enterprise experiencing financial difficulties exchanges existing debt for new debt with the same creditors, with terms more favorable to the creditor than the existing debt, but less favorable than prevailing terms for new borrowings by enterprises in similar circumstances, was a gain not recorded?

\_\_\_\_\_

[EITF 89-15]

**Accounting for the Retail Sale of an Extended Warranty Contract in Connection With the Sale of a Product**

If a product is sold with an extended warranty, were the revenues and related costs under the warranty contract not recorded under the full recognition method (revenues recognized at point of sale and future estimated costs accrued)?

\_\_\_\_\_

[EITF 89-17]

**Divestiture of Certain Investment Securities to an Unregulated Commonly Controlled Entity Under FIRREA**

If a savings institution intends to transfer below-investment-grade debt securities to an affiliate, were the securities recorded at the lower of cost or market (because it no longer has the ability to hold the securities to maturity)?

\_\_\_\_\_

[EITF 89-18]

**Notes Receivable for Capital Stock**

If an enterprise receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of shareholders' equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time?

\_\_\_\_\_

[EITF 85-1]

**Accounting for Investments in Consolidation**

If specialized accounting principles apply to a wholly-owned subsidiary that is a small business investment company (SBIC) or a venture capital investment company, were those principles retained in consolidation?

\_\_\_\_\_

[EITF 85-12]

**Discontinued Operations**

If a company plans to dispose of a segment of its operation and expects to realize a net gain (consisting of a gain on disposal reduced by estimated losses from the segment up to the disposal date), was the loss deferred until the disposal date if there is reasonable assurance that a net gain is anticipated?

\_\_\_\_\_

[EITF 85-36]

If there is an expected net gain from the planned disposal of two segments, (one has a net gain and the other has a net loss), was that gain shown net?

\_\_\_\_\_

[EITF 85-36]

**Invasion of Defeasance Trust**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
If an enterprise previously accounted for an in-substance defeasance, and for tax purposes invades the trust to redeem some of the outstanding debentures, was the previous recognition of the extinguishment not affected?	_____	_____	_____
a. Was the purchase of the debentures accounted for as an investment?	_____	_____	_____
b. Was the receipt of the assets from the trust accounted for as an exchange of the investment for the assets received?	_____	_____	_____
c. Were the assets received from the trust accounted for at market value with any resulting gain or loss not classified as extraordinary? [EITF 86-36]	_____	_____	_____
<b>Restructuring of Operations</b>			
For nonpublic companies, if there was a restructuring charge, was it reflected using the most meaningful income statement presentation within the framework of APB Opinion No. 30?	_____	_____	_____
For a public company, was the restructuring charge presented as a component of income from continuing operations in accordance with SEC SAB No. 67, <i>Income Statement Presentation of Restructuring Changes</i> ? [EITF 87-4]	_____	_____	_____
<b>Adjustments Relating to Stock Compensation Plans</b>			
If the company revised a stock option plan because of certain tax-motivated changes, were the following considered:			
a. If there were only minor technical changes, and the aggregate effect from the employee's perspective is de minimis, was no new measurement date established?	_____	_____	_____
b. If the plan contains a cash bonus feature to reimburse employees for taxes payable from the exercise of nonqualified options, was the option accounted for as a "fixed" plan, and the bonus feature as a "variable" plan if certain conditions specified in the consensus were met?	_____	_____	_____
c. If the option plan allows the use of option shares to meet tax withholding requirements, was it considered a fixed plan and no compensation expense recorded?	_____	_____	_____
d. If the option plan permits a "phantom" stock-for-stock exercise, is the plan considered a fixed plan (provided the holding period condition is met for which compensation expense is measured at the date of grant)? [EITF 87-6]	_____	_____	_____
<b>Distributions of Loans Receivable to Shareholders</b>			
If an enterprise distributes loans receivable to its owners by (1) forming a subsidiary, (2) transferring the loans receivable to the subsidiary, and (3) distributing the stock of the subsidiary to shareholders of the parent, were the assets reported at fair value by the enterprise and the recipient? [EITF 87-17]	_____	_____	_____
<b>Allocation of Interest to Discontinued Operations</b>			
If an enterprise sells a portion of its business and reports the sale separately as a discontinued operation, was any interest expense allocated to discontinued operations limited to (1) interest on debt of the discontinued operations to be assumed by the buyer and (2) an allocation of other consolidated interest that is not directly related to other operations of the enterprise?	_____	_____	_____
a. Was general corporate overhead not allocated to discontinued operations? [EITF 87-24]	_____	_____	_____
<b>Sales of Future Revenues</b>			
If an enterprise sells future revenue and receives cash from an investor and agrees to pay the investor for a defined period a specified percentage or amount of the revenue or measure of income (gross margin, operating income, or pretax income), were the following considered:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Was the classification of the proceeds as debt or as deferred income based on the specific facts and circumstances of the transaction?	_____	_____	_____
b. If the transaction was recorded as debt, was it amortized using the interest method?	_____	_____	_____
c. If the transaction was recorded as deferred income, was it amortized using the units-of-revenue method (which is based on computing a ratio of the proceeds received to the total payments expected over the term of the agreement and applying that ratio to the period's cash payment)?	_____	_____	_____
d. If classified as deferred income, did that classification result in a nonmonetary liability that is not subject to foreign exchange gains or losses under FASB Statement 52, <i>Foreign Currency Translation</i> (AC F60)?	_____	_____	_____
e. If classified as debt, did that classification result in no recognition of foreign exchange gains or losses if (1) the debt is contractually required to be repaid only to the extent of future revenues, (2) there is no recourse to the enterprise for the payments due the investor and (3) the transaction is not cancellable by either party? [EITF 88-18]	_____	_____	_____
<b>Credit Union Savings Accounts</b>			
Are savings accounts of a credit union reported unequivocally as a liability on the credit union's statement of financial condition in accordance with the AICPA Audit Guide for Credit Unions? [EITF 89-3]	_____	_____	_____
<b>Medicare-Retroactive Wage Adjustments</b>			
For retroactive wage adjustments of Medicare, was the gain or loss deferred and the contingency, if material, disclosed in the financial statements? [EITF 86-2]	_____	_____	_____

[The next page is 23,251.]

## APPENDIX A

## INDEX OF EITF CONSENSUSES

<u>EITF Issue No.</u>	<u>Page</u>	
84-4	ADC Loans	2-1
84-7	Interest Rate Swaps	3-1
84-9	Deposit Float of Banks	2-4
84-13	Purchase of Stock Options and Stock Appreciation Rights in a Leveraged Buyout	1-1
84-14	Deferred Interest Rate Setting	3-1
84-19	Mortgage Loan Payment Modification	2-1
84-21	Sale of Loans With a Partial Participation Received	2-1
84-31	Equity Certificates of Deposit	2-2
84-36	Interest Rate Swaps	3-1
84-40	Long-Term Debt Repayable by Capital Stock	3-1
85-1	Notes Receivable for Capital Stock	11-3
85-8	Amortization of Thrift Intangibles	2-2
85-9	Revenue of Recognition on Option to Purchase Stock of Another Entity	3-1
85-12	Accounting for Investments in Consolidation	11-3
85-13	Sale of Mortgage Servicing Rights	2-2
85-14	Securities That Can Be Acquired for Cash in a Pooling	1-1
85-16	Leveraged Leases	8-1
85-17	Accrued Interest Upon Conversion of Convertible Debt	3-2
85-18	EPS Effect of Equity Commitment Notes	2-2
85-20	Recognition of Fees for Guaranteeing a Loan	2-2—2-3
85-25	Sale of Preferred Stock With Put Warrants	3-2
85-29	Convertible Bonds With a "Premium Put"	3-4
85-33	Disallowance of Income Tax Deduction for Core Deposit Intangibles	2-3
85-36	Discontinued Operations	11-4
85-40	Sales of Marketable Securities With Put Warrants	3-2—3-3
85-41	FSLIC Management Consignment Program	2-3—2-4
85-42	Amortization of Goodwill	2-5
85-44	Difference Between Loan Loss Allowances	2-5
85-45	Settlement of Stock Options and Awards	1-1
86-2	Medicare-Retroactive Wage Adjustments	11-7
86-5	Demand Notes With Repayment Terms	3-4

**INDEX OF EITF CONSENSUSES—continued**

<u>EITF Issue No.</u>		<u>Page</u>
86-6	Anti-speculation Clauses in Real Estate Sales	10-1
86-7	Homebuilders Recognition of Profit	10-1
86-8	Sale of Bad Debt Recovery Rights	3-5
86-9	Push-Down Accounting	5-1
86-10	Pooling With 10 Percent Cash Payment Determined by Lottery	1-1
86-13	Market Declines at Interim Dates	6-1
86-15	Increasing Rate Debt	3-5
86-18	Debtor's Accounting for a Modification of Debt Terms	3-3—3-4
86-20	Post-Retirement Benefits of an Acquired Company	1-2
86-21	ADC Loans	2-1
86-24	Third-Party Establishment of CMOs	3-5
86-25	Offsetting Foreign Currency Swaps	3-6
86-27	Measurement of Excess Contributions to a Defined Contribution Plan or ESOP	9-4—9-5
86-28	Indexed Debt Instruments	2-5—2-6
86-29	Non-Monetary Transactions and "Boot"	11-1
86-30	Classification of Obligations When a Violation Is Waived by the Creditor	3-6
86-32	Early Extinguishment of Subsidiary's Preferred Stock	3-6
86-33	Tax Indemnifications in Lease Agreements	5-1—5-2
86-34	Futures Contract Used as a Hedge	3-6
86-35	Debentures With Detachable Stock Purchase Warrants	3-8
86-36	Invasion of Defeasance Trust	11-4
86-38	Mortgage Prepayments on Amortization of Servicing Rights	3-7
86-39	Sale of Mortgage Loans With Servicing Retained	3-7
86-40	Investments in Open-End Mutual Funds	3-8
86-43	Effect of a Change in Tax Laws or Rates on Leveraged Leases	5-2
86-44	Effect of a Change in Tax Law on Safe Harbor Leases	5-2
86-46	Uniform Capitalization Rules for Inventory	5-2
87-2	Valuing Speculative Foreign Exchange Contracts	3-7
87-4	Restructuring of Operations	11-4
87-5	Troubled Debt Restructuring	3-7
87-6	Adjustments Relating to Stock Compensation Plans	11-5
87-8	Tax Reform Act of 1986—AMT	5-2—5-4
87-9	Sales of Real Estate With Insured Mortgages or Security Bond	10-1

**INDEX OF EITF CONSENSUSES—continued**

<u>EITF Issue No.</u>	<u>Page</u>
87-11 Allocation of Purchase Price to Assets to Be Sold	1-2—1-3
87-12 Foreign Debt-for-Equity Swaps	3-8—3-9
87-15 Effect of a Standstill Agreement on a Pooling	1-3
87-16 The 90 Percent Test for a Pooling	1-1
87-17 Distributions of Loans Receivable to Shareholders	11-5
87-18 Zero Coupon Bonds in a Troubled Debt Restructuring	3-9
87-19 Substituted Debtors in a Troubled Debt Restructuring	3-7
87-21 Accounting Basis for a Master Limited Partnership	1-3
87-23 Book Value Stock Purchase Plans	9-2
87-24 Allocation of Interest to Discontinued Operations	11-5—11-6
87-27 Pooling of Companies That Do Not Have a Controlling Class of Common Stock	1-2
87-29 Exchange of Real Estate Involving Boot	11-2
87-30 Sale of a Short-Term Loan Made Under a Long-Term Credit Commitment	3-9
87-31 Sale of a Put Option on Issuer's Stock	3-9—3-10
87-33 Stock Compensation Issues Related to Market Decline	9-1
87-34 Sale of Mortgage Servicing Rights	2-6
88-1 Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan	9-4
88-4 Classification of Payments to IRS to Retain Fiscal Year	5-4
88-5 Recognition of Insurance Death Benefits	9-5—9-6
88-6 Book Value Stock Plans in an Initial Public Offering	9-2—9-3
88-8 Mortgage Swaps	3-10
88-9 Put Warrants	3-10—3-11
88-10 Cost Associated With Lease-Modification or Terminations	7-1—7-2
88-11 Allocation When a Loan or Part of a Loan Is Sold	3-11—3-12
88-12 Transfer of Ownership as Part of Down Payment	10-1
88-16 Basis in a Leveraged Buyout Transaction	1-4
88-17 Fees and Costs in a Loan Syndication or Participation	3-13
88-18 Sales of Future Revenues	11-6
88-19 FSLIC-Assisted Acquisition of Thrifts	3-13—3-15
88-20 Purchased Credit Card Portfolio	3-15
88-21 Sale of Property Subject to the Seller's Preexisting Lease	7-1
88-22 Securitization of Credit Card Portfolios	3-12—3-13



**INDEX OF EITF CONSENSUSES—continued**

<u>EITF Issue No.</u>	<u>Page</u>
88-23 Lump-Sum Payments Under Union Contracts	9-1
88-24 Effects of Various Forms of Financing	10-1
88-25 Liquidating Bank	3-15
88-26 Controlling Preferred Stock in a Pooling	1-4
88-27 ESOP Unallocated Shares in a Business Combination	1-4
89-2 Maximum Maturity Guarantees on Transfers of Receivables With Recourse	3-16
89-3 Credit Union Savings Accounts	11-6
89-5 Sale of Mortgage Servicing Rights	2-4
89-7 Exchanges for a Noncontrolling Equity Interest	1-4
89-8 Expense Recognition for ESOPs	9-6—9-7
89-10 Recognition of ESOP Debt	9-6
89-11 Sponsor's Balance Sheet Classification of Capital Stock With a Put Option Held by an ESOP	9-7
89-12 Earnings-Per-Share Issues Related to Convertible Preferred Stock Held by an ESOP	9-7—9-8
89-13 Accounting for the Cost of Asbestos Removal	11-2
89-14 Valuation of Repossessed Real Estate Whose Sale was Accounted for Under the Installment Method	10-2
89-15 Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties	11-3
89-16 Consideration of Executory Costs in Sale-Leaseback Transactions	7-1
89-17 Accounting for the Retail Sale of an Extended Warranty Contract in Connection With the Sale of a Product	11-3
89-18 Divestiture of Certain Investment Securities to an Unregulated Commonly Controlled Entity Under FIRREA	11-3
89-19 Accounting for a Change in Goodwill Amortization for Business Combinations Initiated Prior to the Effective Date of FASB Statement No. 72	1-5
89-20 Accounting for Cross Border Tax Benefit Leases	7-1
90-2 Exchange of Interest-Only and Principal-Only Securities for a Mortgage-Backed Security	3-16
90-3 Accounting for Employer's Obligations for Future Contributions to a Multiemployer Pension Plan	9-6
90-4 Earnings-Per-Share Treatment of Tax Benefits for Dividends on Preferred Stock Held by an ESOP	9-6
90-5 Exchanges of Ownership Interest Between Entities Under Common Control	1-5

# FSP Appendixes

[Reserved]

---

