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Checklists and illustrative financial statements for common interest realty associations: a financial accounting and reporting practice aid, December 1993 edition

American Institute of Certified Public Accountants. Technical Information Division

Michael A. Tursi

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AICPA

**DECEMBER 1993
EDITION**

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

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

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- Checklists and Illustrative Financial Statements for Prospective Financial Statement Engagements*
- Checklists and Illustrative Financial Statements for Savings Institutions*
- Checklists and Illustrative Financial Statements for State and Local Governmental Units*

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Checklists and Illustrative Financial Statements for Common Interest Realty Associations

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*A Financial Accounting and
Reporting Practice Aid*

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

*Checklists and Illustrative Financial Statements for
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any senior technical committees of the American
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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR COMMON INTEREST REALTY 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 have been updated through SAS No. 72, SSARS No. 7, FASB Statement of Financial Accounting Standards No. 115, FASB Interpretation No. 40, FASB Technical Bulletin No. 90-1 AICPA Statement of Position 93-5, and the AICPA Audit and Accounting Guide, *Audits of Common Interest Realty Associations* (with conforming changes as of May 1, 1993). The illustrative financial statements do not include disclosures for FASB Statement Nos. 106, 107, 109, 112, 114, and 115. 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 needed to determine whether the disclosure indicated is required or suggested, and to what extent the disclosure is relevant to the statements being presented.

.02 Users of the 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.

Introduction

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

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

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

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

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

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

Operating Statutes

.03 The operations of a CIRA are regulated by the individual states and not by the federal government. A CIRA derives authority for all matters from state corporate and not-for-profit statutes, declarations of covenants, master deeds, membership agreements, articles of incorporation, bylaws and board of directors' actions. Federal regulations, however, apply to the income tax treatment of a CIRA.

Primary Accounting Methods

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

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

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

Structure of the Checklist

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

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, AICPA Statements of Position, and the AICPA Audit and Accounting Guides. 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 initialling each question or point to show that it has been considered. The format used herein 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.

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 = AICPA Accounting Research Bulletin
- APB = AICPA Accounting Principles Board Opinion
- SFAS = AICPA Statement of Financial Accounting Standards
- SAS = AICPA Statement on Auditing Standards
- FASBI = FASB Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB ¹
- AC = Reference to section number in FASB *Accounting Standards—Current Text*
- AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
- AAG = AICPA Audit and Accounting Guide, *Audits of Common Interest Realty Associations* (with conforming changes as of May 1, 1993)

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General			
A. Titles and References			
1. For a full presentation in conformity with generally accepted accounting principles, are the following financial statements presented:			
a. Balance sheet?	_____	_____	_____
b. Statement of revenues and expenses (statement of operations)?	_____	_____	_____
c. Statement of changes in fund balances (statement of changes in shareholders' equity)?	_____	_____	_____
Note: For Homeowners' Associations and Condominium Associations Not Using Fund Accounting, the Term "Fund Balance" Should Be Replaced With "Members' Equity." [AAG, par. 4.02, fn.6]			
d. Statement of cash flows?	_____	_____	_____
e. Notes to financial statements?	_____	_____	_____
f. Supplementary information (cooperatives only)? [AAG, pars. 4.05, 4.30, and 9.09]	_____	_____	_____
2. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____

¹ 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>
3. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statement presentation? [FASB Statement of Concepts 1, par. 18]	_____	_____	_____
4. Are the notes referenced to and from the applicable statement classification or appropriately captioned? [FASB Statement of Concepts 1, par. 18]	_____	_____	_____
B. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the CIRA presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105); TB 82-1, par. 4 (AC I28.510)]	_____	_____	_____
3. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
C. Organization			
1. Does disclosure include information about:			
a. The CIRA's legal form (corporation or association)?	_____	_____	_____
b. The legal form of the entity for which the CIRA provides services (e.g., condominium, cooperative, etc.)?	_____	_____	_____
c. Services provided by the developer (e.g., maintenance or subsidies)? [AAG, par. 4.22]	_____	_____	_____
D. Future Major Repairs and Replacements			
1. Do the CIRA's financial statements include the following disclosures about future major repairs and replacements:			
a. Requirements in statutes or association documents to accumulate funds for major repairs and replacements?	_____	_____	_____
b. The CIRA's compliance, or lack of, with the requirements?	_____	_____	_____
c. A description of the CIRA's funding policy, if any, and compliance with that policy?	_____	_____	_____
d. A statement that funds, if any, are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material?	_____	_____	_____
e. Amounts assessed for major repairs and replacements in the current period?	_____	_____	_____
f. A statement indicating whether a study is conducted to estimate the remaining useful lives and the costs of future major repairs and replacements? [AAG, par. 4.26]	_____	_____	_____
E. Accounting Changes			
1. For an accounting change, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including an explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on income? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. For all changes in accounting principle, except those concerning a change in entity:			
a. Are prior-period financial statements, included for comparative purposes, presented as previously reported?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Is the effect of the new accounting principle on the excess of revenues over expenses (income) before extraordinary items and on the net excess of revenues over expenses (net income) disclosed in the period of the change?	_____	_____	_____
c. Is the excess of revenues over expenses (income) before extraordinary items and the net excess of revenues over expenses (net income) computed on a pro forma basis shown on the face of the statement of revenues and expenses for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19, 21 and 25 (AC A06.115d, .117 and .121)]	_____	_____	_____
3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions "extraordinary items" and "net excess of revenues over expenses" ("net income")? [APB 20, pars. 18—26 (AC A06.114—.122 and E09.104)]	_____	_____	_____
4. 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 the excess of revenues (income) over expenses before extraordinary items and the net excess of revenues over expenses (net income and related per-share amounts) ? [APB 20, pars. 36—37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
F. Comparative Financial Statements			
1. Are comparative statements 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 occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
4. Is the information included for the prior period sufficient to constitute a fair presentation in conformity with GAAP? [AAG, par. 4.19]	_____	_____	_____
G. Related-Party Transactions and Economic Dependency			
Note: Some individual board members, officers, or developers may provide the CIRA with insurance, maintenance, and management services. Such services and any other transactions with related parties may require disclosure.			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, board members, officers, stockholders, developers, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which statements of revenues and expenses (statements of operations) are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which statements of revenues and expenses (statements of operations) are presented and the effects of any change in the method of establishing the terms from 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. If 10% or more of the CIRA's revenues is derived from any one source, is:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Are the nature and amount of guarantees disclosed (e.g., of indebtedness of others and of guarantees to repurchase receivables that have been sold or otherwise assigned)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114)]	_____	_____	_____
5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
K. Subsequent Events			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, 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)]	_____	_____	_____
L. Required Supplementary Information			
1. Is the following unaudited supplementary information disclosed:			
a. For estimates of current or future costs of future major repairs and replacements of existing components:			
(1) Estimated amounts required?	_____	_____	_____
(2) Methods used to determine the costs?	_____	_____	_____
(3) Basis for calculation?	_____	_____	_____
(4) Assumptions used for interest and inflation rates?	_____	_____	_____
(5) Sources used and the dates of studies, if any?	_____	_____	_____
b. For components to be repaired or replaced:			
(1) Estimates of the remaining useful lives of the components?	_____	_____	_____
(2) Estimates of current or future replacement cost?	_____	_____	_____
(3) Amounts of funds accumulated for each component as designated by the members of the board? [AAG, par. 4.30]	_____	_____	_____

Balance Sheet

A. General

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

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the operating fund present assets, liabilities, and the fund balance specifically associated with the CIRA's normal maintenance and service activities (e.g., cash, assessments receivable, prepaid expenses and trade payables)? [AAG, par. 4.06]	_____	_____	_____
4. Are total amounts of all fund groups presented? [AAG, par. 4.01]	_____	_____	_____
5. Does the replacement fund include information about assets, liabilities, and the fund balance specifically associated with the CIRA's long-term major repair and replacement activities? [AAG, par. 4.07]	_____	_____	_____
B. Cash			
1. Is restricted cash appropriately segregated from cash available for current operations? [ARB 43, Ch. 3A, par. 6 (AC BO5.107)]	_____	_____	_____
2. Are restrictions on cash appropriately disclosed? [SFAS 5, pars. 18—19 (AC C59.120); AAG, pars. 407 and 9.16]	_____	_____	_____
C. Debt and Equity Securities (see Exhibit A)			
1. Are income tax effects for unrealized gains or losses on marketable securities recognized in conformity with SFAS 109? [SFAS 109]	_____	_____	_____
2. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
3. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each balance sheet presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrealized holding gains?	_____	_____	_____
c. Gross unrealized holding losses?	_____	_____	_____
d. Amortized cost basis? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
4. For the most recent balance sheet presented, are the contract maturities (including the fair value and amortized cost of debt securities) of investment in debt securities classified as available-for-sale or held-to-maturity disclosed, based on at least the following maturity groupings:			
a. In one year or less?	_____	_____	_____
b. After one year through five years?	_____	_____	_____
c. After five years through ten years?	_____	_____	_____
d. After ten years? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
5. Are the following major-security types disclosed:			
a. Equity securities?	_____	_____	_____
b. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?	_____	_____	_____
c. Debt securities issued by states of the U.S. and political subdivisions of the states?	_____	_____	_____
d. Debt securities issued by foreign governments?	_____	_____	_____
e. Corporate-backed securities?	_____	_____	_____
f. Mortgage-backed securities?	_____	_____	_____
g. Other debt securities?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. Other security types, as deemed appropriate? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
6. For securities not due at a single maturity date, is consideration given to disclosing the following:			
a. The securities separately rather than allocated over several maturity groupings?	_____	_____	_____
b. The basis for allocation if such securities are allocated? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
D. Receivables			
1. Are accounts and notes receivable from the developer, officers, directors, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____
2. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of discount or premium reported as interest in the statement of revenues and expenses (statement of operations)? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
3. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that 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)]	_____	_____	_____
4. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
5. For transfers of receivables with recourse that is reported as sales, are the following disclosed:			
a. The proceeds to the transferors during each period for which a statement of revenues and expenses (statement of operations) is presented?	_____	_____	_____
b. The balance of the receivables transferred that remains uncollected at the date of each balance sheet presented, if such information is available? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
(IF NONFUND ACCOUNTING IS USED, OMIT QUESTION #6)			
6. Are interfund receivables separately disclosed? [AAG, par. 4.08]	_____	_____	_____
E. Common Property			
1. Is common personal property, such as furnishings, recreational equipment, maintenance equipment, and work vehicles that are used in operating, preserving, maintaining, repairing, and replacing common property and that provides other services, recorded as an asset? [AAG, par. 4.08]	_____	_____	_____
a. Is the common property recorded at the cost to the CIRA in a monetary transaction?	_____	_____	_____
b. If the common property is acquired in a nonmonetary transaction, excluding transfers between entities under common control, is it recorded at the fair value at its acquisition date? [AAG, par. 4.08]	_____	_____	_____
2. Do the financial statements or notes thereto include disclosure of:			
a. Accounting policy for recognition and measurement of common property?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Description of common property reported as an asset on the CIRA's balance sheet?	_____	_____	_____
c. A description of common property to which the CIRA has title (or other evidence of ownership) that is not reported as an asset on the CIRA's balance sheet?	_____	_____	_____
d. The CIRA's responsibility to preserve and maintain common property?	_____	_____	_____
e. Terms and conditions of existing land or recreation leases?	_____	_____	_____
f. Restrictions on the use or disposition of common property? [AAG, pars. 2.13 and 9.16]	_____	_____	_____
g. Common areas controlled by the CIRA?	_____	_____	_____
h. The number of units (shares for cooperative housing associations or weeks for time-share associations) controlled by the developer?	_____	_____	_____
i. The number of units (shares) owned by the developer? [AAG, pars. 4.22 and 9.16]	_____	_____	_____
F. Depreciable Assets			
1. Are property and equipment recognized as assets depreciated based on their estimated useful lives?	_____	_____	_____
2. For depreciable assets, do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105); APB 22, par. 13 (AC A10.106); AAG, par. 2.14]	_____	_____	_____
(IF NONFUND ACCOUNTING IS USED, OMIT QUESTION #3)			
3. Is the depreciation expense reported in the fund in which the asset is presented? [AAG, par. 4.13]	_____	_____	_____
4. Are capitalized interest costs appropriately determined and reported? [SFAS 34, pars. 6—23 (AC I67.102—.103, .105—.107 and .109—.118), as amended by SFAS 42, par. 4 (AC I67.104); SFAS 58, pars. 5—7 (AC I67.105c, .106c—.106e and .117); SFAS 62, par. 5 (AC I67.106)]	_____	_____	_____
G. Lessors			
1. For operating leases, do disclosures include:			
a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented?	_____	_____	_____
b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
c. Total contingent rentals included in excess revenues over expenses for each period for which a statement of revenues and expenses (statement of operations) is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
2. Do disclosures include a general description of the lessor's leasing arrangements? [SFAS 13, par. 23c (AC L10.119c); for amendments of SFAS 13, see SFASs 22, 23, 26, 27, 28 and 29; for Interpretations, see FASBIs 19, 21, 23, 24, 26 and 27; for Technical Bulletins, see TBs 79-10, 79-11, 79-13, 79-14, 79-15, 79-16, 79-17, 79-18 and 88-1]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
H. Current Liabilities			
1. Do current liabilities include:			
a. Obligations for items that enter 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?	_____	_____	_____
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance-sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7—8 (AC B05.108—.109); SFAS 78, par. 5 (AC B05.109A and .118)]	_____	_____	_____
2. Do current liabilities exclude short-term obligations that the CIRA intends to refinance on a long-term basis, provided the CIRA has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8—14 (AC B05.112—.116); FASBI 8 (AC B05.117 and .138—.139)]	_____	_____	_____
I. Notes Payable and Other Debt			
1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral and covenants to reduce debt and maintain working capital? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
2. Are the combined aggregate amounts 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 statement of revenues and expenses (statement of operations)?	_____	_____	_____
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
4. Are current portions of debt obligations presented as current liabilities in a classified balance sheet? [ARB 43, Ch. 3A, pars. 7—8 (AC B05.108—.109)]	_____	_____	_____
5. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501—.503)]	_____	_____	_____
6. Are estimated losses from loss contingencies accrued if both “probable” as explained in SFAS 5 and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and .124—.127)]	_____	_____	_____
(IF NONFUND ACCOUNTING IS USED, OMIT SECTION J—FUND BALANCE)			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
J. Fund Balance			
1. Are any differences between the assets and liabilities of each fund group presented as the fund balance of the respective group? [AAG, par. 4.11]	_____	_____	_____
(IF FUND ACCOUNTING IS USED, OMIT SECTION K—SHAREHOLDERS' EQUITY)			
K. Shareholders' Equity			
1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share? [Generally Accepted]	_____	_____	_____
2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights)? [APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. Are liquidation preferences of preferred stock issues prominently disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	_____	_____	_____
4. For preferred stock, do disclosures include:			
a. Aggregate or per-share amounts at which shares may be called or are subject to redemption? [APB 10, par. 11 (AC C16.101)]	_____	_____	_____
b. Aggregate and per-share amounts of arrearages in cumulative preferred dividends? [APB 15, par. 50, 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 exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47 .123); APB 25, par. 19; FASBI 28 (AC C47.119—.122 and .138—.146); TB 82-2, pars. 10—12 (AC C47.513—.515); FASBI 38 (AC C47.135A—.135E)]	_____	_____	_____
6. Are any appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
7. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
8. Are stock subscriptions receivable appropriately identified and presented as a deduction from capital or, if presented as an asset, stated separately, clearly labeled, and their status clearly described to distinguish them from any other type of assets?	_____	_____	_____
9. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presentation? [SFAS 47, par. 10c (AC C32.105c)]	_____	_____	_____
10. Are unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) reported as a net amount in a separate component of shareholders' equity until realized? [SFAS 115, par. 13 (AC I80.110)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Statement of Revenue and Expenses (Statement of Operations)			
(IF NONFUND ACCOUNTING IS USED, OMIT QUESTIONS #1 and #2)			
1. Are all CIRA activities, except for replacement fund activities, presented in the operating fund?	_____	_____	_____
2. If there are periodic assessments for funding future major repairs and replacements, are they reported in the replacement fund in the periods in which they are assessed, regardless of whether they are collected or expended? [AAG, pars. 3.08 and 4.13]	_____	_____	_____
3. Are revenues shown separately for:			
a. Regular assessments from members?	_____	_____	_____
b. Special assessments from members?	_____	_____	_____
c. Assessments and subsidies charged to the developer?	_____	_____	_____
d. Contributions?	_____	_____	_____
e. Lawsuit settlements?	_____	_____	_____
f. Interest income?	_____	_____	_____
g. Laundry and vending machine income?	_____	_____	_____
h. Special-use charges from members and nonmembers? [AAG, pars. 4.14 and 9.13]	_____	_____	_____
4. Are there special assessments?	_____	_____	_____
a. Are the assessments earmarked for a specific expenditure?	_____	_____	_____
b. Is the specific expenditure made?	_____	_____	_____
(1) If not, is the assessment reported as deferred revenue? [AAG, pars. 4.12, .15 and 9.13]	_____	_____	_____
5. For special assessments, do the financial statements or notes thereto include disclosure of:			
a. The proposed use for funds collected in special assessments?	_____	_____	_____
b. Assessments that are used for purposes other than those for which they are designated? [AAG, pars. 4.22 and 9.16]	_____	_____	_____
(IF NONFUND REPORTING IS USED, OMIT QUESTION #6)			
6. Is interest earned presented as revenue of the appropriate fund? [AAG, par. 4.14]	_____	_____	_____
7. For investment in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the CIRA through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)]	_____	_____	_____
b. Is the CIRA's share of earnings shown as a single amount except for investee extraordinary items and prior-period adjustments that are material to the CIRA? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]	_____	_____	_____
c. Are income taxes of the CIRA's share of the investee's earnings appropriately accrued? [APB 24, pars. 7—10 (AC I42.114—.116 and .119); FASBI 29 (AC I42.117—.118)]	_____	_____	_____
8. Is the amount of interest cost incurred and any portion of interest cost that was capitalized during the period(s) presented disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
9. Are the following disclosed:			
a. Income tax filing status?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Liability for income taxes?	_____	_____	_____
c. Credits from taxing authorities that will be phased out in future reporting periods?	_____	_____	_____
d. Extraordinary items?	_____	_____	_____
e. Cumulative effect of accounting changes?	_____	_____	_____
f. Prior-period adjustments?	_____	_____	_____
g. Capital transactions? [SFAS 109, par. 46; AAG, pars. 4.22 and 9.16]	_____	_____	_____
10. Extraordinary items:			
a. Do extraordinary items meet both criteria of (1) an unusual nature and (2) infrequency of occurrence? [APB 30, pars. 19—24 (AC I17.106—.111 and .118)]	_____	_____	_____
b. Are extraordinary items segregated (including applicable income taxes)? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
c. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the statement of revenues and expenses (statement of operations) if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
d. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
e. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):			
(1) Reported as a separate component of revenues and expenses (income) from continuing operations?	_____	_____	_____
(2) Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I28.512)]	_____	_____	_____
11. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment? [SFAS 4, pars. 8—10 (AC I17.104 and D14.105—.107)]	_____	_____	_____
12. 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)]	_____	_____	_____
(IF FUND ACCOUNTING IS USED, OMIT QUESTION # 14)			
13. Is per-share information, if deemed useful, considered for disclosure? [AAG, par. 9.13]	_____	_____	_____
14. If SFAS 115 is adopted, for each period an earnings statement is presented, are the following disclosures made:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss (e.g., specific identification, average cost, or other method used)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that is included in the separate component of shareholders' equity during the period?	_____	_____	_____
e. The change in net unrealized holding gain or loss on trading securities that is included in earnings during the period? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
15. If SFAS 115 is adopted for any sales of or transfers from securities classified as held-to-maturity, is disclosure made of the following for each period an earnings statement is presented:			
a. Amortized cost amount of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____
c. Circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____
16. For each period for which results of operations are presented, are the realized gains and losses for securities classified as either available-for-sale or held-to-maturity reported in earnings? [SFAS 115, par. 14 (AC I80.111)]	_____	_____	_____

Statement of Changes in Fund Balance (Shareholders' Equity)

Note: For Homeowners' Associations and Condominium Associations Not Using Fund Accounting, the Term "Fund Balance" Should Be Replaced With "Members' Equity."

1. Is the statement of changes in fund balances (shareholders' equity) presented?	_____	_____	_____
2. Is beginning and ending fund balance (shareholders' equity) reconciled with results of operations for each period presented?	_____	_____	_____
(IF NONFUND ACCOUNTING IS USED, OMIT QUESTION #3)			
3. Are permanent transfers presented as interfund transfers? [AAG, par. 4.11 and .17]	_____	_____	_____
(IF FUND ACCOUNTING IS USED, OMIT QUESTIONS #4 AND #5)			
4. Are changes in the separate component accounts of shareholders' equity disclosed?	_____	_____	_____
5. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
6. Are changes in fund balance (stockholders' equity) disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
7. Are prior-period adjustments limited to:			
a. Correction of an error(s) in financial statements of prior periods?	_____	_____	_____
b. Adjustments resulting from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries? [SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
8. Are prior-period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?	_____	_____	_____
9. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts (if applicable)? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 10. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior service cost, is the excess (that would represent a net loss not yet recognized as net periodic pension cost) reported as a separate component (i.e., 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 109?
[SFAS 87, par. 37 (AC P16.131)] | _____ | _____ | _____ |

Statement of Cash Flows

A. Format

- | | | | |
|---|-------|-------|-------|
| 1. Is a statement of cash flows presented as a basic financial statement for each period for which a balance sheet and a statement of revenues and expenses (statement of operations) is presented?
[SFAS 95, par. 3 (AC C25.101); AAG, pars. 4.18 and 9.15] | _____ | _____ | _____ |
| 2. Is the policy for defining cash equivalents disclosed?
[SFAS 95, par. 10 (AC C25.108)] | _____ | _____ | _____ |
| 3. Are major classes of gross cash receipts and gross cash payments and their arithmetic sum (the net cash flow from operating activities (direct method)) presented in the statement?
[SFAS 95, par. 27 (AC C25.125)] | _____ | _____ | _____ |
| 4. If the direct method is used, is a reconciliation of the excess of revenues and expenses to net cash flow from operating activities provided in a separate schedule?
[SFAS 95, par. 30 (AC C25.128)] | _____ | _____ | _____ |
| 5. If the indirect method is used: | | | |
| a. Is the same amount for net cash flow from operating activities reported indirectly by adjusting the excess of revenues and expenses (income) to reconcile it to net cash flow from operating activities?
[SFAS 95, par. 28 (AC C25.126)] | _____ | _____ | _____ |
| b. Is the reconciliation of the excess of revenues and expenses (income) to net cash flow from operating activities reported, either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities?
[SFAS 95, par. 30 (AC C25.128)] | _____ | _____ | _____ |

B. Content

- | | | | |
|--|-------|-------|-------|
| 1. Are cash receipts and cash payments from investing activities shown separately on the statement of cash flows?
[SFAS 95, par. 31 (AC C25.129)] | _____ | _____ | _____ |
| 2. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities: | | | |
| a. Receipts from sales of property? | _____ | _____ | _____ |
| b. Additions to building, furniture, and equipment? | _____ | _____ | _____ |
| c. Loans to members?
[SFAS 95, pars. 16—17 (AC C25.114—.115)] | _____ | _____ | _____ |
| 3. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows?
[SFAS 95, par. 31 (AC C25.129)] | _____ | _____ | _____ |
| 4. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities: | | | |
| a. Proceeds from issuing debt? | _____ | _____ | _____ |
| b. Repayments of amounts borrowed? | _____ | _____ | _____ |
| 5. Are cash receipts and cash payments classified as cash flows from operating activities for: | | | |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Member assessments collected?	_____	_____	_____
b. Expenditures for major repairs and replacements?	_____	_____	_____
c. Real estate taxes?	_____	_____	_____
d. Interest income?	_____	_____	_____
e. Interest expense?	_____	_____	_____
f. Forfeited security deposits?	_____	_____	_____
g. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
h. Payments to settle lawsuits?	_____	_____	_____
i. Contributions to charities? [SFAS 95, pars. 22—23 (AC C25.120—.121)]	_____	_____	_____

Exhibit A

The effective date of SFAS 115 is for fiscal years beginning after December 15, 1993. It is to be initially applied as of the beginning of an institution's fiscal year and cannot be applied retroactively to prior years' financial statements. However, a CIRA may elect to initially apply this statement as of the end of an earlier fiscal year for which annual financial statements have not previously been issued. Earlier application is encouraged. Until such time, the following disclosures remain in effect:

A. Marketable Securities

- | | | | |
|--|-------|-------|-------|
| <p>1. Are the carrying amounts of the marketable equity securities portfolios (current and noncurrent) each reported at the lower of aggregate cost or market?
[SFAS 12, pars. 8 and 15 (AC I89.102 and .109)]</p> | _____ | _____ | _____ |
| <p>2. Is the amount by which the 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)]</p> | _____ | _____ | _____ |
| <p>3. Are changes in the valuation allowances appropriately accounted for?
[SFAS 12, par.11 (AC I89.105)]</p> | _____ | _____ | _____ |
| <p>4. Are realized gains and losses included in net excess of revenues over expenses (net income) of the period in which they occur?
[SFAS 12, par. 11 (AC I89.105)]</p> | _____ | _____ | _____ |
| <p>5. If particular marketable securities for which changes in carrying amounts are included in fund balance (shareholders' equity), and for which the market value has declined 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)]</p> | _____ | _____ | _____ |
| <p>6. For marketable equity securities, do disclosures include:</p> | | | |
| <p>a. For each balance sheet presented, aggregate cost and market value (each segregated between current and noncurrent portfolios when a classified balance sheet is presented) with identification of which is the carrying amount?
[SFAS 12, par. 12a (AC I89.106a)]</p> | _____ | _____ | _____ |
| <p>b. For the latest balance sheet presented, gross unrealized gains and gross unrealized losses (each segregated between current and noncurrent portfolios when applicable)?
[SFAS 12, pars. 12b and 16a (AC I89.106b and .110a)]</p> | _____ | _____ | _____ |
| <p>c. The following information for each period for which a statement of revenues and expenses (statement of operations) is presented:</p> | | | |
| <p>(1) Net realized gain or loss included in determination of net excess of revenues and expenses (net income)?</p> | _____ | _____ | _____ |
| <p>(2) Basis on which cost was determined in computing realized gain or loss (e.g., average cost, FIFO)?</p> | _____ | _____ | _____ |
| <p>(3) The change in valuation allowance(s) included in the fund balance section of the balance sheet during the period and, when a classified balance sheet is presented, the amount of such change included in determination of net excess of revenues over expenses (net income)?
[SFAS 12, par. 12c (AC I89.106c)]</p> | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Are significant net realized and net unrealized gains and losses that arose after the latest balance sheet date, but before issuance of the financial statements, disclosed? [SFAS 12, pars. 13 and 17 (AC I89.107 and .111); FASBI 11 (AC I89.115—.116); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
B. Statement of Revenue and Expenses (Statement of Operations)			
1. For marketable equity securities, are the following disclosed for each period for which a statement of revenues and expenses (statement of operations) is presented:			
a. Net realized gain or loss included in determination of excess of revenues over expenses (income)? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____
b. The change in net unrealized gain or loss? [SFAS 12, par. 16b (AC I89.110b)]	_____	_____	_____
c. Basis on which cost was determined in computing realized gain or loss? [SFAS 12, par. 12c (AC I89.106c)]	_____	_____	_____

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 = AICPA Statement on Auditing Standards
- AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
- SSARS = AICPA Statement on Standards for Accounting and Review Services
- AR = Reference to section number in AICPA *Professional Standards* (vol. 2)
- AAG = AICPA Audit and Accounting Guide, *Audits of Common Interest Realty Associations* (with conforming changes as of May 1, 1993)

.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 26, pars. 15—17 (AU 504.15—.17); SAS 58, par. 74 (AU 508.74)]	_____	_____	_____
2. If the auditor is not independent, is the appropriate disclaimer 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 for 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 revenue and expenses (statements of operations) and changes in fund balance (shareholders' equity) without presentation of the comparative balance sheets for the prior years? [SAS 58, par. 9, fn. 7 (AU 508.08, fn. 7)]	_____	_____	_____
c. Part of an audit is made by other independent auditors and the principal auditor is indicating a division of responsibility for the audit in his or her report? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
d. The financial statements contain a departure from a promulgated accounting principle when conformity would result in a misleading presentation? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
e. Updating of a previously issued report? [SAS 58, par. 78 (AU 508.78)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Comparative financial statements with differing opinions? [SAS 58, par. 76 (AU 508.76)]	_____	_____	_____
g. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
h. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37)]	_____	_____	_____
5. Is explanatory language 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 report? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____
b. The auditor concludes that there is substantial doubt about the CIRA’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about its (the CIRA’s) ability to continue as a going concern”? [SAS 64, par. 1 (AU 341.12)]	_____	_____	_____
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
d. In an updated report on comparative financial statements, the opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77, 78 and 81—83 (AU 508.77—.78 and .81—.83)]	_____	_____	_____
e. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8 (AU 550)]	_____	_____	_____
f. Required unaudited supplementary information is omitted or inadequate (see General Checklist, Section L.—Required Supplementary Information)? [AAG, par. 7.30]	_____	_____	_____
g. Auditor’s inability to apply certain limited procedures to required supplementary information (e.g., determine whether disclosure includes all major property components)? [AAG, par. 7.31]	_____	_____	_____
h. Auditor has unresolved doubts about the adherence to the required supplementary information disclosure? [AAG, par. 4.31]	_____	_____	_____
6. If the financial statements of a prior period are audited by a predecessor auditor whose report is not presented, does the successor auditor indicate in the introductory paragraph:			
a. The financial statements of the prior period are audited by another auditor?	_____	_____	_____
b. The date of the predecessor auditor’s report?	_____	_____	_____
c. The type of report issued by the predecessor auditor?	_____	_____	_____
d. If the report is other than a standard report, the substantive reasons therefor? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
7. If the financial statements are restated, does the introductory paragraph indicate that a predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
8. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. Is a qualified opinion or adverse opinion expressed because of a lack of conformity with GAAP (including inadequate disclosure)? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 54, par. 18; (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 34, par. 11 (AU 340.11)]	_____	_____	_____
10. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 68 and 71 (AU 508.39, .68, and .71)]	_____	_____	_____
b. Is the reporting language clear and appropriate for the:			
(1) Qualified opinion? [SAS 58, pars. 38—66 (AU 508.38—.66)]	_____	_____	_____
(2) Adverse opinion? [SAS 58, pars. 67—69 (AU 508.67—.69)]	_____	_____	_____
(3) Disclaimer of opinion? [SAS 58, pars. 70—72 (AU 508.70—.72)]	_____	_____	_____
11. Does the report include modification, if applicable, for the following:			
a. Conditions that preclude application of necessary auditing procedures to opening inventories or long-term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Client representations about related-party transactions that are unsubstantiated by management? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
c. Client’s refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
d. Limitations on scope of lawyer’s response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
e. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
f. Irregularities that 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 that will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, sec. 410 (AU 9410.13—.15)]	_____	_____	_____
12. Is a piecemeal opinion avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 14 (AU 623.14)]	_____	_____	_____
13. For special reports, are the provisions of SAS 14 and SAS 35 complied with for the following situations:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than GAAP? [SAS 62, pars. 2—10 (AU 623.02—.10)]	_____	_____	_____
b. Specified elements, accounts, or items of a financial statement? [SAS 62, pars. 11—18 (AU 623.11—.18); SAS 35 (AU 622)]	_____	_____	_____
c. Financial information that requires a prescribed form of auditor’s report? [SAS 62, pars. 32—33 (AU 623.32—.33)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
14. If information accompanies the basic financial statements in an auditor-submitted document:			
a. Is there a clear distinction between the client's representations and auditor's? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
b. Does the auditor's report on the accompanying information:			
(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
(2) Specifically identify the accompanying information?	_____	_____	_____
(3) State that the accompanying information is presented for purposes of analysis and is not part of the basic financial statements?	_____	_____	_____
(4) State whether the additional information has been subjected to the auditing procedures applied in auditing the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
15. If an auditor-submitted document with accompanying information (long-form report) coexists with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all coexisting documents consistently include all the information necessary for a fair presentation in conformity with GAAP? [SAS 29, par. 21 (AU 551.21)]	_____	_____	_____
b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the audit in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
16. If the document contains interim financial information, is the auditor's report expanded if required? [SAS 71, pars. 36—42 (AU 722.36—.42)]	_____	_____	_____
17. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, is an opinion disclaimed on such information unless it has been audited? [SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 553.08 and .11)]	_____	_____	_____

Accountants' Reports on Compiled or Reviewed Financial Statements Checklist

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

.02 SSARS No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*, issued in November 1992, amends the SSARSs in several different areas. It is effective for periods ending after December 15, 1993, and for reports issued after that date. Earlier application is encouraged. This checklist incorporates the provisions of SSARS No. 7.

.03 Explanation of References:

SSARS = AICPA Statement on Standards for Accounting and Review Services

AR = Reference to section number in *AICPA Professional Standards* (vol. 2)

SOP = AICPA Statement of Position

.04 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. For compiled financial statements, does the report state that:			
a. A compilation is performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants?	_____	_____	_____
b. A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)?	_____	_____	_____
c. The financial statements are not audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
2. For reviewed financial statements, does the report state that:			
a. A review is performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants?	_____	_____	_____
b. All information included in the financial statements is the representation of the management of the CIRA?	_____	_____	_____
c. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data?	_____	_____	_____
d. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed?	_____	_____	_____
e. The accountant is not aware of any material modification that should be made to the financial statements in order for them to be in conformity with GAAP or, where applicable, with an other comprehensive basis of accounting, other than those modifications, if any, indicated in the report? [SSARS 1, par. 32 (AR 100.32)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For both compiled and reviewed financial statements, does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, pars. 14 and 32 (AR 100.14 and 100.32)]	_____	_____	_____
4. If the basic financial statements are compiled or reviewed, is the required supplementary information accompanying the basic financial statements, at a minimum, compiled? [SOP 93-5, par. 3]	_____	_____	_____
5. If the basic financial statements are compiled or reviewed and the accompanying required supplementary information is compiled, does the accountant indicate in the report, or in a separate report, the degree of responsibility he or she is taking for the supplementary information? [SOP 93-5, par. 4]	_____	_____	_____
6. If, on the basis of facts known to him or her, the accountant is aware that the required supplementary information is not measured or presented in accordance with prescribed guidelines, does the accountant indicate in his or her report that the information does not conform to the guidelines and describe the nature of any material departure? [SOP 93-5, par. 5]	_____	_____	_____
7. If the compiled or reviewed financial statements are not accompanied by the required supplementary information, is a paragraph added to the compilation or review report indicating that the required supplementary information is omitted? [SOP 93-5, par. 6]	_____	_____	_____
8. If the financial statements omit substantially all disclosures required by GAAP, does the accountant's report clearly indicate such omission? [SSARS 1, pars. 19 and 21 (AR 100.19 and .21)]	_____	_____	_____
9. If the financial statements include disclosures about only a few matters, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included"? [SSARS 1, par. 19 (AR 100.19)]	_____	_____	_____
10. If the financial statements are presented on a basis of accounting other than GAAP, and the basis of accounting is not disclosed, does the accountant's report disclose the basis of accounting? [SSARS 1, par. 20 (AR 100.20)]	_____	_____	_____
11. If compiled financial statements contain a departure from GAAP or, where applicable, an other comprehensive basis of accounting, is the accountant's report modified to disclose the departure? [SSARS 1, par. 39 (AR 100.39)]	_____	_____	_____
a. If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
b. If the effects of the departure on the financial statements are not determined, does the accountant state this in his or her modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
12. For reviewed financial statements that contain departures from GAAP or, where applicable, an other comprehensive basis of accounting (including the omission of required disclosures), is the accountant's report modified to disclose the departure? [SSARS 1, par. 39 (AR 100.39)]	_____	_____	_____
a. If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant's procedures, are these effects disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If the effects of the departure on the financial statements have not been determined, does the accountant state this in his or her modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
13. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about a CIRA's ability to continue as a going concern, or an inconsistency in the application of accounting principles, does the report include a separate paragraph that discloses such matters?	_____	_____	_____
a. In evaluating the adequacy of disclosure of going-concern uncertainties, does the accountant look to the guidance in paragraphs 10 and 11 of SAS 59? [SSARS 1, par. 40, fn. 18 (AR 100.40 fn. 18)]	_____	_____	_____
14. If the accountant is not independent with respect to the CIRA for which financial statements are compiled, does the accountant state in the last paragraph of his or her report, "I am (we are) not independent with respect to XYZ Company" (accountants are precluded from issuing a review report if they are not independent)? [SSARS 1, pars. 22 and 38 (AR 100.22 and 100.38)]	_____	_____	_____
15. Is the report properly dated? [SSARS 1, par. 15 (AR 100.15)]	_____	_____	_____
16. Does each page of the comparative financial statements, compiled or reviewed, include a reference such as "See Accountant's Compilation (Review) Report"? [SSARS 1, pars. 16 and 34 (AR 100.16, 100.34)]	_____	_____	_____
17. When accompanying information is presented with the financial statements, does the accountant's report clearly indicate his or her degree of responsibility with respect to such information? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
18. If an audit engagement is changed to a review or compilation, does the report omit reference to: (a) the original engagement, (b) any auditing procedures that are performed, and (c) any scope limitation that results in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
19. For comparative financial statements:			
a. Does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by GAAP are presented with the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph that indicates:			
(1) The nature of the previous service rendered (compilation, review or audit)?	_____	_____	_____
(2) Date of the previous report?	_____	_____	_____
(3) Appropriate language in accordance with SSARS 1, paragraphs 19—20 and SSARS 2, paragraph 30? [SSARS 1, pars. 19—21 (AR 100.19—.21); SSARS 2, pars. 5 and 29—30 (AR 200.05 and 200.29—.30)]	_____	_____	_____
c. If the level of service performed by the continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant's report on the prior period updated? [SSARS 2, pars. 8—10 (AR 200.08—.10)]	_____	_____	_____
d. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented:			
(1) Does the report on the current period include a separate paragraph that describes the responsibility assumed for the prior period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
or			
(2) Is the report on the current period accompanied by, or combined with, a reissued report on the financial statements of the prior period presented? [SSARS 2, pars. 8 and 11—12 (AR 200.08 and 200.11—.12)]	_____	_____	_____
e. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph in the report include:			
(1) The date of the previous report?	_____	_____	_____
(2) A description of the circumstances or events underlying the change?	_____	_____	_____
(3) An indication, if applicable, that the prior-period financial statements are changed? [SSARS 2, pars. 14—15 (AR 200.14—.15)]	_____	_____	_____
f. If the predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:			
(1) Make appropriate reference in his or her report to the predecessor's report in accordance with SSARS 2?	_____	_____	_____
or			
(2) Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16—19 (AR 200.16—.19)]	_____	_____	_____
g. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25—26 (AR 200.25—.26)]	_____	_____	_____
h. If the current-period financial statements are compiled or reviewed and the financial statements of the prior period presented are audited and the audit report is not reissued, does the current-period report include a separate paragraph that contains the following:			
(1) A statement that the prior-period financial statements were previously audited?	_____	_____	_____
(2) The date of the previous report?	_____	_____	_____
(3) The type of opinion previously expressed?	_____	_____	_____
(4) If the opinion is other than unqualified, the substantive reasons therefor?	_____	_____	_____
(5) The fact that no auditing procedures are performed after the date of the previous report? [SSARS 2, par. 28 (AR 200.28)]	_____	_____	_____
[Note: For guidance in situations when the current period is audited and the prior period is compiled or reviewed, see SAS 26 (AU 504)]			

Illustrative Financial Statements *

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

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

.02 The financial statements illustrated do not include immaterial amounts.

* The illustrative financial statements do not include disclosures for FASB Statements Nos. 106, 107, 109, 112, 114, and 115.

Exhibit 1.1

XYZ CONDOMINIUM ASSOCIATION, INC.

.03

Balance Sheets

December 31, 19X2

(With Comparative Totals for 19X1)

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

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

Exhibit 1.2

XYZ CONDOMINIUM ASSOCIATION, INC.

.04 Statements of Revenues and Expenses and Changes in Fund Balances

Year Ended December 31, 19X2

(With Comparative Totals for 19X1)

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

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

Exhibit 1.3

XYZ CONDOMINIUM ASSOCIATION, INC.

.05

Statements of Cash Flows (Direct Method)

Year Ended December 31, 19X2

(With Comparative Totals for 19X1)

	19X2			19X1
	Operating Fund	Replacement Fund	Total	Total
Cash flows from operating activities:				
Member assessments collected	\$733,000	\$247,000	\$980,000	\$920,000
Interest received		49,000	49,000	46,000
Lawsuit settlement		141,000	141,000	91,000
Other income received	22,000		22,000	20,000
Cash paid for operating expenditures	(735,000)		(735,000)	(673,000)
Replacement expenditures paid		(258,000)	(258,000)	(310,000)
Income taxes paid	(1,000)	(15,000)	(16,000)	(26,000)
Transfers from replacement fund	10,000	(10,000)		
Net borrowings from replacement fund	20,000	(20,000)		
Net cash provided by operating activities	49,000	134,000	183,000	68,000
Cash flows from investing activities:				
Equipment purchases	(7,000)		(7,000)	(3,000)
Net increase in cash and cash equivalents	42,000	134,000	176,000	65,000
Cash and cash equivalents at beginning of year	68,000	230,000	298,000	233,000
Cash and cash equivalents at end of year	<u>\$110,000</u>	<u>\$364,000</u>	<u>\$474,000</u>	<u>\$298,000</u>
Reconciliation of excess of revenues over expenses to net cash provided by operating activities:				
Excess of revenues over expenses	10,000	164,000	174,000	56,000
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Increase (decrease) in interfund balances	20,000	(20,000)		
Transfer from replacement fund	10,000	(10,000)		
Depreciation	3,000		3,000	3,000
Increase in assessments receivable	(19,000)		(19,000)	(1,000)
Decrease in prepaid expenses				1,000
Increase in accounts payable	14,000	4,000	18,000	2,000
Increase in wages payable	6,000		6,000	
Decrease in income taxes payable		(4,000)	(4,000)	
Increase in prepaid assessments	5,000		5,000	7,000
Total adjustments	39,000	(30,000)	9,000	12,000
Net cash provided by operating activities	<u>\$ 49,000</u>	<u>\$134,000</u>	<u>\$183,000</u>	<u>\$ 68,000</u>

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

Exhibit 1.3A

XYZ CONDOMINIUM ASSOCIATION, INC.

.06

Statements of Cash Flows (Indirect Method)

Year Ended December 31, 19X2

(With Comparative Totals for 19X1)

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

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

Exhibit 1.4

XYZ CONDOMINIUM ASSOCIATION, INC.

.07

Notes to Financial Statements

December 31, 19X2 and 19X1

1. Organization

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

2. Summary of Significant Accounting Policies

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

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

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

3. Owners' Assessments

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

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

4. Future Major Repairs and Replacements

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

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

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

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future

expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

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

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

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

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

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

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

5. Federal and State Taxes

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

6. Lawsuit Settlements

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

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

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

7. Assessments Receivable

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

Exhibit 1.5

XYZ CONDOMINIUM ASSOCIATION, INC.

.08

Schedules of Operating Fund Revenues and Expenses

Years Ended December 31, 19X2 and 19X1

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

(continued)

XYZ CONDOMINIUM ASSOCIATION, INC.

.08

Schedules of Operating Fund Revenues and Expenses—continued

Years Ended December 31, 19X2 and 19X1

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

XYZ CONDOMINIUM ASSOCIATION, INC.

.09

Schedules of Changes in Replacement Fund Balances

Years Ended December 31, 19X2 and 19X1

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

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

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

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

Exhibit 1.7

XYZ CONDOMINIUM ASSOCIATION, INC.

.10 Supplementary Information on Future Major Repairs and Replacements

December 31, 19X2

(Unaudited)

Alternative A

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

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

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

Alternative B

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

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

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

Exhibit 2.1

ABC COOPERATIVE, INC.* (A COOPERATIVE HOUSING CORPORATION)

.11

Balance Sheets

December 31, 19X2

Assets

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

Liabilities and Shareholders' Equity (Deficit)

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

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

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

Exhibit 2.2

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

.12

Statements of Revenues, Expenses, and Deficit

Year Ended December 31, 19X2

Revenues		
Carrying charges		\$ 700,000
Commercial rent		89,000
Appliance and air-conditioning charges		45,000
Interest		10,000
Resale fees		3,000
Forfeited security deposits		2,000
		849,000
Expenses		
Wages, including fringe benefits	\$295,000	
Real estate taxes	237,000	
Interest	195,000	
Utilities	121,000	
Repairs and maintenance	53,000	
Management fees	24,000	
Insurance	16,000	
Legal and accounting	10,000	
Security	4,000	
Income taxes	2,000	
		957,000
Deficiency of revenues over expenses before depreciation		(108,000)
Depreciation		72,000
		(180,000)
Deficiency of revenues over expenses		(180,000)
Deficit—beginning of year		(1,220,000)
		(1,400,000)
Deficit—End of Year		\$(1,400,000)

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

Exhibit 2.3

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

.13

Statements of Cash Flows (Direct Method)

Year Ended December 31, 19X2

Cash flows from operating activities:	
Carrying charges, net of \$60,000 allocated to financing activities	\$ 640,000
Commercial rent	89,000
Appliance and air-conditioning charges and resale fees	48,000
Interest income	10,000
Forfeited security deposits	2,000
Cash paid to employees and suppliers	(437,000)
Real estate taxes	(292,000)
Interest expense	(140,000)
Net cash absorbed by operating activities	<u>(80,000)</u>
Cash flows from financing activities:	
Carrying charges	60,000
Repayment of debt	(60,000)
Net cash from financing activities	<u>0</u>
Cash flows from investing activities:	
Additions to building, furniture, and equipment	(150,000)
Net decrease in cash and cash equivalents	<u>(230,000)</u>
Cash and cash equivalents:	
Beginning of period	268,000
End of period	<u>\$ 38,000</u>
Reconciliation of deficiency of revenues over expenses to net cash absorbed by operating activities:	
Deficiency of revenues over expenses	\$(180,000)
Adjustments to reconcile deficiency of revenues over expenses to net cash absorbed by operating activities:	
Revenue allocated to financial activities	(60,000)
Depreciation	72,000
(Increase) in carrying charges receivables	(2,000)
Decrease in prepaid expenses	3,000
Increase in accounts payable and accrued expenses	85,000
Increase in prepaid rents	3,000
(Decrease) in security deposits of commercial leases	(1,000)
Net cash absorbed by operating activities	<u>\$ (80,000)</u>

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

Exhibit 2.4

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

.14

Notes to Financial Statements

December 31, 19X2

1. Organization

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

2. Summary of Significant Accounting Policies

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

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

3. Revenue

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

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

4. Mortgage Note Payable

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

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

5. Federal and State Taxes

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

6. Future Major Repairs and Replacements

The Corporation's governing documents require that funds be accumulated for future major repairs and replacements. The Corporation has not accumulated those funds. When those funds are needed, the

Corporation plans to borrow, increase carrying charges, or delay repairs and replacements until funds are available.

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

Exhibit 2.5

ABC COOPERATIVE, INC. (A COOPERATIVE HOUSING CORPORATION)

.15 Supplementary Information on Future Major Repairs and Replacements

December 31, 19X2

(Unaudited)

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

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

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