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Anita M. Lyons

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Checklists and Illustrative Financial Statements for Not-for-Profit Organizations

A Financial Accounting and Reporting Practice Aid
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements
Checklist Supplement and Illustrative Financial Statements for Construction Contractors
Checklist Supplement and Illustrative Financial Statements for Investment Companies
Checklist Supplement and Illustrative Financial Statements for Oil and Gas Producing Companies
Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures

Industry Checklists and Illustrative Financial Statements
Checklists and Illustrative Financial Statements for Agricultural Cooperatives
Checklists and Illustrative Financial Statements for Banks
Checklists and Illustrative Financial Statements for Colleges and Universities
Checklists and Illustrative Financial Statements for Common Interest Realty Associations
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FSP Section 9000

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR NOT-FOR-PROFIT ORGANIZATIONS

.01 The checklists and illustrative financial statements included in this section are designed to be applied to the not-for-profit organizations covered in SFAS 117, Financial Statements of Not-For-Profit Organizations, AICPA Statement of Position 78-10 and to voluntary health and welfare organizations. They are not designed to be applied to the financial statements of colleges, universities, hospitals, or governmental units.

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

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements for which the likelihood of applicability to not-for-profit organizations is deemed remote are not included in this document.

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

- The checklists and illustrative financial statements have been updated to include relevant accounting pronouncements through AICPA Statement on Auditing Standards No. 74, AICPA Statements on Standards for Accounting and Review Services No. 7, FASB Statement of Financial Accounting Standards No. 121, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position 95-1, Practice Bulletin 13, the AICPA Audit and Accounting Guides, Audits of Certain Nonprofit Organizations and Audits of Voluntary Health and Welfare Organizations (with conforming changes as of May 1, 1994), and EITF Consensuses adopted up to and including the March 23, 1995 Emerging Issues Task Force meeting. 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.

- In June 1993, the FASB issued Statements of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made, and No. 117, Financial Statements of Not-for-Profit Organizations. SFAS 116 changes the accounting for contributions as presently set forth in SOP 78-10, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations, and in the AICPA Audit and Accounting Guide, Audits of Voluntary Health and Welfare Organizations. SFAS 117 establishes standards for not-for-profit organizations general-purpose external financial statements. SFASs 116 and 117 are effective for financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than $5 million in total assets and less than $1 million in annual expenses. For those organizations, these Statements are effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

1 The AICPA has released an exposure draft of a proposed Audit and Accounting Guide, Not-For-Profit Organizations. The final guide, which is expected to be issued in the second quarter of 1996, will supersede the AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations, the AICPA Audit and Accounting Guide, Audits of Certain Nonprofit Organizations, and Statement of Position 78-10, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations, as well as an Industry Audit guide and Statement of Position related to colleges and universities.

Note: This publication was extracted from sections 9,000 through 9,700 of the AICPA Financial Statement Preparation Manual (FSP).
Disclosures relating to SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, have been incorporated into this edition of the checklist. Icons preceding related disclosures identify whether the practitioner should be following the disclosure. If you are preparing or reporting on financial statements of an organization that has adopted SFAS 116 and 117, complete all disclosure items denoted with a “star”. For organizations that have not adopted SFAS 116 and 117, complete all disclosure items with a “diamond”. (See the Explanation of References section of this checklist.)

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 each disclosure is relevant to the statements being presented.

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.
FSP Section 9100

Introduction

.01 In June 1993, the FASB issued SFAS 117, *Financial Statements for Not-for-Profit Organizations*, 1 to enhance the relevance, understandability, and comparability of financial statements of not-for-profit organizations. The Statement requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. These financial statements present the organization’s total assets, liabilities, and net assets; the balances of and changes in each of three classes of net assets—permanently restricted, temporarily restricted, and unrestricted; and the change in cash and cash equivalents.

The basic financial statements for organizations that have not adopted SFAS 117 include a balance sheet and a statement of activity (also referred to as a statement of support, revenue, expenses, capital additions, and changes in fund balances, or similar titles), and a statement of cash flows 2 and/or a statement of functional expenses, depending on whether the organization follows the AICPA Audit and Accounting Guide, *Audits of Certain Nonprofit Organizations*, or the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*. 3 If a reconciliation between beginning and ending fund balances is not included in the statement of activity, a separate statement of changes in fund balances ordinarily would be presented. Many organizations with multiple funds often present comparative totals of all funds for one or more prior periods. The basic financial statements of the current period often are presented on a comparative basis with those of one or more prior periods.

Throughout this checklist, there are references to financial statement titles in disclosure items that apply to statements of organizations that have and have not adopted SFAS 117. In such situations, we have referred only to the financial statement titles prescribed by SFAS 117. If applicable, the titles should be considered equivalent to the prescribed financial statement titles prior to the adoption of SFAS 117. In other words, if you are completing the checklist for an organization that has not adopted SFAS 117 and a disclosure item refers to the “statement of financial position date”, you should interpret that statement as the “balance sheet date”.

.02 Prior to adoption of SFAS 117, most not-for-profit organizations generally present their expenses classified on a functional basis (according to the purpose for which costs are incurred, such as specific programs and supporting services) with the exception of those receiving no significant support from the general public, which often report expenses by natural classification (i.e., salaries, employee benefits, and purchased services). Upon adoption of SFAS 117, all not-for-profit organizations are required to report expenses on a functional basis. An additional reporting requirement is placed on voluntary health and welfare organizations. Regardless of whether they have adopted SFAS 117, they are required to include a separate statement of functional expenses (which presents information about their expenses by both functional and natural classifications) as part of their general-purpose external financial statements.

.03 A wide variety of users are interested in the financial statements of not-for-profit organizations. Among the principal users are (1) contributors to the organization, (2) beneficiaries of the organization, (3) the organization’s trustees or directors, (4) employees of the organization, (5) governmental units, (6) the organization’s creditors and potential creditors, and (7) constituent organizations.

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1 See section 9000.02 for a discussion of the effective date.

2 Not-for-profit organizations that have not adopted SFAS 117 are not subject to FASB 95, *Statement of Cash Flows*. Therefore, they may present either a statement of changes in financial position or a statement of cash flows.

3 The AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*, states that because the information that would be presented in a statement of changes in financial position as discussed in Accounting Principles Board Opinion No. 19 will, in most cases, be readily apparent from other financial statements, such a statement is generally not required.
A principal purpose of a not-for-profit organization’s financial statements is to communicate the ways resources have been used to carry out the organization’s objectives. In addition, while adequate measures of program accomplishment generally are not available in the context of present financial statements, the financial statements should identify the organization’s principal programs and their costs. A third aspect of financial reporting for not-for-profit organizations is disclosure of the degree of control exercised by donors over use of resources. A fourth aspect is that the financial statements of a not-for-profit organization should help the user evaluate the organization’s ability to carry out its fiscal objectives.

Many not-for-profit organizations receive resources restricted for particular purposes. To facilitate observance of limitations, the accounts are often maintained using fund accounting, by which resources are classified for accounting and reporting purposes into funds associated with specified activities or objectives. Each fund is a separate accounting entity with a self-balancing set of accounts for recording assets, liabilities, fund balance, and changes in the fund balance. Although separate accounts are maintained for each fund, the usual practice in preparing financial statements prior to the adoption of SFAS 117 is to group funds that have similar characteristics. Financial statements prepared in accordance with SFAS 117 focus on the organization as a whole rather than on fund balances and changes in fund balances.

How the Checklists Apply to Not-For-Profit Versus Voluntary Health and Welfare Organizations

Users of the checklists will notice that some steps are referenced only to SFAS 117, the audit guide for nonprofit organizations or SOP 78-10, but not to the Voluntary Health and Welfare Organization’s guide. Even though the disclosures are not specifically required by the Voluntary Health and Welfare Organization guide, users are advised to consider the appropriateness of including them in voluntary health and welfare organizations’ financial statements.
FSP Section 9200

Checklists—General

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

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof, and to certain other literature described as “established accounting principles.” 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,” “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.
FSP Section 9300
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:

★ Disclosure applicable if applying SFAS No. 116, Accounting for Contributions Received and Contributions Made, and/or SFAS No. 117, Financial Statements of Not-for-Profit Organizations. Note that not all such disclosure items cite a SFAS 116 or SFAS 117 paragraph because provisions in AICPA Audit and Accounting Guides and Statements of Position that are consistent with or are not addressed by SFAS 116 or SFAS 117 remain applicable for organizations that have adopted SFAS 116 and/or SFAS 117. [SFAS 116, par. 2; SFAS 117, par. 3]

♦ Disclosure applicable if SFAS No. 116 and/or SFAS No. 117 have not been adopted.


SFAS = Statement of Financial Accounting Standards

FASBI = Financial Accounting Standards Board Interpretation

APB = Accounting Principles Board Opinion

ARB = Accounting Research Bulletin

FTB = Technical Bulletin issued by the staff of the FASB

SOP = AICPA Statement of Position

PB = AICPA Accounting Standards Division Practice Bulletin

EITF = Emerging Issues Task Force Abstracts

AC = Reference to section number in FASB Accounting Standards Current Text

AU = Reference to section number in AICPA Professional Standards, Volume I

ACC & AUD = Reference to section number if AICPA Technical Practice Aids, Volume II

SAS = Statement on Auditing Standards

.03 Some questions in this checklist do not cite a specific authoritative reference but indicate that the disclosure is generally accepted. Most organizations disclose that information even though a requirement to do so in the authoritative literature cannot be identified.

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.
This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the not-for-profit organization. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the organization does not have any extraordinary items, place a check by “Extraordinary Items” and skip this section when completing the checklist.

Place ✓ by Sections Not Applicable

• General
  A. Titles and References
  B. Accounting Policies and Other Disclosures
  C. Accounting Changes
  D. Comparative Financial Statements
  E. Related Entities
  F. Business Combinations
  G. Consolidated Financial Statements
  H. Financial Instruments
  I. Derivatives
  J. Nonmonetary Transactions
  K. Contingencies and Commitments
  L. Risks and Uncertainties
  M. Related Parties
  N. Subsequent Events
  O. Pension Plans
  P. Postretirement Benefits Other than Pensions
  Q. Extraordinary Items
  R. Advertising Costs
  S. Costs to Exit an Activity

• Statement of Financial Position/Balance Sheet
  A. General
  B. Cash
  C. Investments/Marketable Securities
  D. Receivables
  E. Inventories
  F. Property and Equipment
  G. Collections of Works of Art and Similar Items
  H. Other Assets and Deferred Charges
    I. Interfund Borrowings
  J. Current Liabilities
  K. Notes Payable and Other Debt
    L. Lessee Leases
  M. Other Liabilities and Deferred Credits
  N. Trust Funds and Gifts of Future Interests
  O. Net Assets/Fund Balances
  P. Restricted Resources

• Statement of Activities/Activity (or Statement of Revenues and Expenses, or Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances)
  A. General
  B. Fund Accounting
  C. Taxes
  D. Transfers
  E. Third-Party Reimbursements
  F. Donated or Contributed Services
  G. Donated Materials and Facilities
  H. Subscription and Membership Income
    I. Fund Raising
    J. Contributions
### K. Gifts of Future Interest
- [ ]

### L. Expenses
- [ ]

### M. Wills or Trusts
- [ ]

### N. Investments and Endowments
- [ ]

#### Additional Financial Statements
- **A.** Statement of Changes in Financial Position
- [ ]
- **B.** Statement of Cash Flows
- [ ]
- **C.** Statement of Functional Expenses
- [ ]

#### Exhibit A — Postretirement Health Care Benefits (for organizations that have not adopted SFAS 106)
- [ ]

#### Exhibit B — Impairment of Long-Lived Assets
- [ ]

#### Auditors’ Report
- [ ]

#### Auditors’ Reports on Audits Performed Under Government Auditing Standards and OMB Circular A-133
- [ ]

#### Accountants’ Reports on Compiled or Reviewed Financial Statements
- [ ]

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### Note: If you are preparing or reporting on financial statements of an organization that has adopted SFAS 116 and 117, complete all disclosure items denoted with a *. For organizations that have not adopted SFAS 116 and 117, complete all disclosure items marked with a ♦.

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### I. General

#### A. Titles and References

1. Are the financial statements suitably titled?  
   [SAS 62, par. 7 (AU 623.07)]
   - [ ]

2. Does each statement include a general reference that the notes are an integral part of the financial statement presentation?  
   [Generally Accepted]
   - [ ]

3. For each period, are the following financial statements presented:
   - **a.** Statement of financial position?
   - **b.** Statement of activities?
   - **c.** Statement of changes in fund balance (if not shown as part of the statement of activity)?
   - **d.** Statement of cash flows?

VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS (VHWO) OMIT STEP e.

- e. Statement of changes in financial position?
- f. Statement of functional expenses?

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2 For simplicity, we have used throughout this checklist, the financial statement titles that would be used by organizations that have adopted SFAS 117, even though a disclosure item may also relate to organizations that have not adopted SFAS 117. In other words, if you are completing the checklist for an organization that has not adopted SFAS 117 and a disclosure item refers to the “statement of financial position date”, you should interpret that statement as the “balance sheet date”.

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...
g. Supplemental schedule of changes in designated portions of unrestricted net assets or fund (optional)?
[SFAS 117, pars. 1 and 6 (AC No5.104); SOP 78-10, pars. 16-18; AAG-NPR, par. 1.10; AAG-VHW, pars. 1.14 and 7.05]

B. Accounting Policies and Other Disclosures

1. Is a description of all significant accounting policies adopted and followed presented as an integral part of the financial statements?
[APB 22, par. 9 (AC A10.103)]

a. Are the organization’s accounting policies disclosed for:
   (1) Grant commitments?
   (2) Carrying value of investments?
   (3) Carrying value of property, plant, equipment, and collections?
   (4) Pledges receivable?
   [Generally Accepted]

2. If the organization prepared its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles (GAAP), was disclosure made of the basis of presentation and how that basis differs from GAAP?
[SAS 62, par. 10 (AU 623.10)]

3. 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)]

4. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?
[APB 22, par. 14 (AC A10.107)]

5. Do the financial statements identify the organization’s:
   a. Principal programs?
   b. Principal program costs?
   [SOP 78-10, par. 9]

6. Do the financial statements or notes disclose the degree of control exercised by donors over the use of resources?
[SOP 78-10, par. 9]

C. Accounting Changes

1. In the initial year of application of SFAS 116 and SFAS 117, is the nature of any restatement and its effect on the change in net assets for each period presented disclosed?
[SFAS 116, par. 30; SFAS 117, par. 31]

2. If SFAS 116 is not applied retroactively, is the cumulative effect of the change in accounting on each class of net assets reported in the statement of activities between the captions "extraordinary items", if any, and "change in unrestricted net assets", "change in temporarily restricted net assets", and "change in permanently restricted net assets"?
[SFAS 116, par. 29]

3. For an accounting change, does disclosure in the period of the change include:
   a. Nature of the change?
   b. Justification for the change and a clear explanation of why the newly adopted principle is preferable?
   c. Effect on excess of revenues over expenses?
   [APB 20, par. 17 (AC A06.113)]
4. Is a correction of an error shown as a prior period adjustment with disclosure of
the following in the period of its discovery and correction:

a. Nature and effect of the error in previously issued financial statements?

b. Effect of its correction on excess of revenues over expenses before and after
extraordinary items?
[APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103); APB 9,
par. 26 (AC A35.107)]

c. For single period statements, the effects of the prior period adjustment on net
assets or fund balance, as applicable, at the beginning of the period?
[APB 9, par. 26 (AC A35.107)]

D. Comparative Financial Statements

1. Has presentation of comparative statements been considered?
[SFAS 117, par. 69; ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102); SOP 78-10,
pars. 41]

2. Are the disclosures included in the prior year’s financial statements repeated, or
at least referred to, to the extent that they continue to be of significance?
[ARB 43, Ch. 2A, par. 2 (AC F43.102)]

3. If changes have occurred in the manner of or basis for presenting corresponding
items for two or more periods, are appropriate explanations of the changes
disclosed?
[ARB 43, Ch. 2A, par. 3 (AC F43.103)]

4. If comparative annual financial statements are presented for earlier periods, are
those financial statements reclassified (or restated) to reflect retroactive
application of the provisions of SFAS 116 and SFAS 117?
[SFAS 116, par. 30; SFAS 117, par. 31]

E. Related Entities

SOP 94-3, Reporting of Related Entities by Not-for-Profit Organizations, is
effective for financial statements issued for fiscal years beginning after December
15, 1994, except for not-for-profit organizations that have less than $5 million in
total assets and less than $1 million in annual expenses. For those organizations,
the effective date is for fiscal years beginning after December 15, 1995. Earlier
application is permitted and for organizations that adopt SFAS 117 before its
effective date, earlier application is encouraged.

1. If consolidated financial statements are presented in accordance with SOP 94-3,
refer to section I.G., “Consolidated Financial Statements”; if an investment is
accounted for under the equity method, refer to section I.C., “Investments/
 Marketable Securities”.
[SOP 94-3, pars. 5-13 (ACC 10,610.05-.13)]

2. Is the nature of a controlled relationship disclosed, even though there are no
transactions between the enterprises, if the reporting entity and one or more
other enterprises are under common ownership or management control, and the
existence of the control could result in operating results or financial position of
the reporting entity being significantly different from those that would have been
obtained if the entity were autonomous?
[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

3. If the organization controls a separate not-for-profit organization through a form
other than majority ownership or voting interest and has an economic interest in
that other organization and consolidated financial statements are not presented,
do disclosures include:

a. Identification of the other organization and the nature of its relationship with
the reporting organization that results in control?

b. Summarized financial data of the other organization including: total assets,
liabilities, net assets, revenue, and expenses, and resources that are held for
the benefit of the reporting organization or that are under its control?
c. Disclosures required by SFAS 57 as described in items 2. and 3.? [SOP 94-3, par. 12 (ACC 10.610.12)]

F. Business Combinations

★ GI. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, do the statements and notes include the required disclosures? Note: Not-for-profit organizations are, under certain circumstances, permitted to use the pooling-of-interests method, even though they generally do not issue common stock. [SOP 94-2, pars. 18-19] [APB 16, pars. 45-48 and 63-65 (AC B50.104-.107 and .122-.124)]

★ G. If a business combination does not meet the specified conditions for a pooling-of-interests:

a. Is the combination accounted for by the purchase method?
   [APB 16, pars. 66-88, 90-94 (AC B50.125-.146 and .159-.163); SFAS 38 (AC B50.148-.150 and .166); FASBI 4 (AC B50.151-.152) concerns research and development activities of an acquired subsidiary]

b. Do the statements and notes include the required disclosures?
   [APB 16, pars. 95-96 (AC B50.164-.165); SFAS 79, par. 6 (AC B50.165)]

G. Consolidated Financial Statements

★ G. 1. If consolidated financial statements are presented:

a. Is the consolidation policy disclosed?
   [ARB 51, par. 5 (AC C51.108); APB 22, pars. 12-14 as amended by SFAS 95, par. 152 (AC A10.105-.107)]

b. In instances in which the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations?
   [ARB 51, par. 4 (AC C51.107)]

c. Are restrictions made by entities outside of the reporting entity on distributions from the controlled not-for-profit organization to the reporting organization and any resulting unavailability of the net assets of the controlled not-for-profit organization for use by the reporting organization disclosed?
   [SOP 94-3, par. 14 (ACC 10.610.14)]

H. Financial Instruments

In October 1994, the FASB issued SFAS 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments, which expands the disclosure requirements for entities that hold or issue derivative financial instruments. It also amends certain disclosure requirements of SFAS 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, and SFAS 107, Disclosures about Fair Value of Financial Instruments. This section has been updated to reflect SFAS 119’s amendments to SFAS 105 and 107. For entities that have not adopted SFAS 119, guidance is provided in certain footnotes in this section of the checklist for applying the disclosure requirements of SFAS 105 and 107 prior to adoption of SFAS 119.

Only organizations that have adopted SFAS 119 should complete the following section, Section I., “Derivatives.”

★ GI. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument? 4

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3 SFAS 119 is effective for fiscal years ending after December 15, 1994. For organizations with less than $150 million in total assets in the current statement of financial position, the effective date is for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

4 Category of financial instrument refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the entity also should describe for each
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?

b. The nature and terms, including, at a minimum, a discussion of:
   (1) The credit and market risk of those instruments?
   (2) The cash requirements of those instruments?
   (3) The related accounting policy pursuant to the requirements of APB 22 [AC A10]
      [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]

★ ★ 2. Do the disclosures in steps 1a. and b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?  
   [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112A)]

★ ★ 3. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:

   a. The amount of accounting loss the organization would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the organization?

   b. The organization’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the organization’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?
      [SFAS 105, par. 18 as amended by SFAS 119, par. 14 (AC F25.113)]

★ ★ 4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:

   a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

   b. The amount of the accounting loss due to credit risk the organization would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the organization?

   c. The organization’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the organization’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?
      [SFAS 105, par. 20 (AC F25.115)]

(Footnote Continued)

category the classes of financial instruments included in that category. Practices for grouping and separately identifying similar financial instruments into classes in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 [AC F25], “class of financial instrument” refers to those classifications. If the organization has not adopted SFAS 119, the disclosures in steps 1.a.-b. should be made by class of financial instrument, rather than by category.

5 Not applicable to organizations that have not adopted SFAS 119.

6 See Footnote 4. If the organization has not adopted SFAS 119, the disclosures in step 3 should be made by class of financial instrument, rather than by category.
NOTE: For organizations with less than $150 million in total assets in the current statement of financial position, the effective date for SFAS 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

★ 5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position? [SFAS 107, par. 10 as amended by SFAS 119, par. 15 (AC F25.115C)]

★ 6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10 as amended by SFAS 119, par. 15 (AC F25.115C)]

★ 7. Are the methods and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]

★ 8. If it is not practicable to estimate the fair market value of a financial instrument, do disclosures include:
   a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?
   b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115I)]

★ 9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, does the organization, in disclosing the fair value of a derivative financial instrument, not: [SFAS 107, par. 13 as amended by SFAS 119, par. 15 (AC F25.115I)]
   a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?
   b. Net the fair value with the fair value of other derivative financial instruments?

★ 10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 107, par. 17]

I. Derivatives (SFAS 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than $150 million in total assets. For those entities, the Statement is effective for financial statements issued for fiscal years ending after December 15, 1995.)

★ 1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:
   a. The face or contract amount (or notional principal amount if there is no face or contract amount)?
   b. The nature and terms, including a discussion of:

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7 If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

8 Not applicable to organizations that have not adopted SFAS 119.

9 See footnote 8.
(1) Credit and market risk?  
(2) Cash requirements?  
(3) Related accounting policy as required by APB 22?  
c. Do disclosures in Steps 1.a. and b. above distinguish between financial instruments held or issued for:
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?  
(2) Purposes other than trading?  
[SFAS 119, pars. 8 and 9]

★ ★ 2. Does the organization that holds derivative financial instruments for trading purposes disclosure:

a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?  
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?  
(1) If the disaggregation is other than by class, did the organization also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?  
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (This disclosure is encouraged but not required.)  
[SFAS 119, par. 10]

★ ★ 3. Does an organization that holds derivative financial instruments for purposes other than trading disclose:

a. A description of:
   (1) The objectives for holding?  
   (2) The context needed to understand those objectives?  
   (3) The strategies for achieving those objectives?  
   (4) The classes of derivative financial instruments used?  
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:
   (1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?  
   (2) When recognized, where the instruments and related gains and losses are reported?  
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:
   (1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?  
   (2) A description of the classes of derivative financial instruments used to hedge?  
   (3) The amount of explicitly deferred hedging gains and losses?  
   (4) A description of the transaction or events that result in the recognition in earnings of the deferred gains or losses?  
[SFAS 119, par. 11]

★ ★ 4. Are the following encouraged, but not required, quantitative disclosures made:

a. Interest rate?
b. Foreign exchange?__________________________Yes________No________N/A________

c. Commodity price?__________________________Yes________No________N/A________

d. Other market risks consistent with management’s strategies?__________________________Yes________No________N/A________

e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments?  
[SFAS 119, pars. 12 and 13]__________________________Yes________No________N/A________

J. Nonmonetary Transactions

★★ 1. Do disclosures for nonmonetary transactions during the period include:
   a. Nature of the transactions?__________________________Yes________No________N/A________
   b. Basis of accounting for the assets transferred?__________________________Yes________No________N/A________
   c. Gains or losses recognized on the transfers?__________________________Yes________No________N/A________
   [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]

K. Contingencies and Commitments

★★ 1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading?  
[SFAS 5, par. 9 (AC C59.108)]__________________________Yes________No________N/A________

★★ 2. For loss contingencies not accrued, do disclosures indicate:
   a. Nature of the contingency?__________________________Yes________No________N/A________
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?  
[SFAS 5, par. 10 (AC C59.109)]__________________________Yes________No________N/A________

★★ 3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible?  
[SFAS 5, par. 10 (AC C59.109)]__________________________Yes________No________N/A________

★★ 4. Are the nature and amount of guarantees disclosed (for example, of indebtedness of others)?  
[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2-3 (AC C59.114)]__________________________Yes________No________N/A________

★★ 5. Are gain contingencies adequately disclosed to avoid any misleading implications about likelihood of realization?  
[SFAS 5, par. 17 (AC C59.118)]__________________________Yes________No________N/A________

★★ 6. Is there adequate disclosure of commitments such as those for capital expenditures, grants to be awarded to others, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts?  
[SFAS 5, pars. 18-19 (AC C59.120)]__________________________Yes________No________N/A________

★★ 7. Are encumbrances, appropriations of fund balance, unspecified reserves, and other commitments not meeting the criteria of SFAS 5, par. 8 not reported as expenses or liabilities? Note: These may be reported as segregations of net assets of individual funds if such funds are reported separately on the statement of financial position (if SFAS 117 has been adopted) or as segregations of fund balance on the balance sheet (if SFAS 117 has not been adopted).  
[SFAS 5, pars. 14-15 (AC C59.116-.117); SOP 78-10, par. 12]__________________________Yes________No________N/A________

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10 Suggested methods of disclosure of the above include:

a. Additional details about current positions and period activity.

b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.

c. Gap analysis of interest rate repricing or maturity dates.

d. Duration of financial instruments.

e. The entity’s value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.

f. Any other helpful informative disclosures.
8. Are commitments to fund future grants that are not unconditional grants at the statement of financial position date disclosed?  
[SOP 78-10, par. 102]  

Yes  No  N/A  

L. **Risks and Uncertainties** (SOP 94-6, Disclosure of Certain Significant Risks and Uncertainties, is effective for financial statements issued for fiscal years ending after December 15, 1995, and for financial statements for interim periods in fiscal years subsequent to the year for which this SOP is to be first applied. Early application is encouraged but not required.)

1. Is a description of the principal services performed by the organization and the revenue sources for the organization's services included in the financial statements?  
[SOP 94-6, par. 10]  

2. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements?  
[SOP 94-6, par.11]  

3. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the criteria in SOP 94-6, par. 13 are met?  
[SOP 94-6, par. 13]  

4. Does the disclosure in Step 3. above, indicate the nature of the uncertainty including an indication that it is at least reasonably possible that a change in estimate will occur in the near term?  
[SOP 94-6, par. 14]  

5. Have the optional disclosures in paragraphs 14-15 of SOP 94-6 been considered?  
[SOP 94-6, par. 14-15]  

6. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 are met?  
[SOP 94-6, pars. 21-22]  

M. **Related Parties**

1. For related-party transactions, do disclosures include:
   a. The nature of the relationships involved (e.g., affiliate companies, officers, etc.)?  
   [SFAS 57, pars. 2-4 (AC R36.102-.104)]
   
   2. With respect to disclosure of related-party transactions, is consideration given to disclosing transactions with chapters, foundations, auxiliaries, guilds, trusts, etc., as well as to members of management and the governing board and other organizations with which such parties are affiliated?  
   [SOP 78-10, par. 7.01]
N. Subsequent Events

**★1.** Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence about conditions that existed at the statement of financial position date?  
[SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, 560.07 and 561.01-.10 (AU 560.03-.04, .07 and 561.01-.10)]

**★2.** Are subsequent events that provide evidence about conditions that did not exist at the statement of financial position 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) and SAS 1, secs. 560.05-.07, 561.01-.10 (AU 560.05-.07, and 561.01-.10)]

(Consider the appropriateness of dual dating the auditor’s report if a subsequent event is disclosed in the financial statements. SAS 1, sec. 530.05 (AU 530.05))

O. Pension Plans  [For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe5)]

**★1.** If there is a defined benefit plan, do disclosures include:

a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?  
[SFAS 87, par. 54a (AC P16.150a)]

b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?  
[SFAS 87, par. 54b (AC P16.150b)]

c. A schedule reconciling the funded status of the plan with amounts reported in the employer’s statement of financial position, showing separately:

(1) The fair value of plan assets?  
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?  
(3) The amount of unrecognized prior service cost?  
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?  
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?  
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?  
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 (AC P16.129-.130) (which is the net result of combining the preceding six items)?  
[SFAS 87, par. 54c (AC P16.150c)]

d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?  
[SFAS 87, par. 54d (AC P16.150d)]

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11 The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16). That net total includes:

(1) The net asset gain or loss during the period deferred for later recognition (in effect, and offset or a supplement to the actual return on assets)
(2) Amortization of the net gain or loss from earlier periods
(3) Amortization of unrecognized prior service cost
(4) Amortization of unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16).
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?  
[SFAS 87, par. 54e (AC P16.150e)]

f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87 paragraph 41 (AC P16.135)?  
[SFAS 87, par. 54e (AC P16.150e)]

g. If more than one defined benefit plan exists:
   (1) Are the required disclosures above aggregated for all of the employer’s single-employer-defined benefit plans or disaggregated in groups so as to provide the most useful information?
   (2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?  
[SFAS 87, par. 56 (AC P16.153)]

2. If there is a defined contribution plan, are the following items disclosed:
   a. A description of the plan including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?
   b. The amount of cost recognized during the period?  
[SFAS 87, par. 65 (AC P16.162)]
   c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan and the substance of the plan is to provide a defined benefit, is Step 1 (a-g) followed?  
[SFAS 87, par. 66 (AC P16.163)]

3. If there is a multiemployer plan, do disclosures include:
   a. A description of the multiemployer plan, including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?  
[SFAS 87, par. 69a (AC P16.166a)]
   b. The amount of cost recognized during the period?  
[SFAS 87, par. 69b (AC P16.166b)]
   c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 [AC C59] applied?  
[SFAS 87, par. 70 (AC P16.167)]

4. If there is a settlement or curtailment of a defined benefit pension plan or of termination benefits under such plan, do disclosures include:
   a. A description of the nature of the event(s)?
   b. The amount of gain or loss recognized?  
[SFAS 88, par. 17 (AC P16.187)]

5. If the organization terminates a defined benefit plan and (1) contributes the assets withdrawn to a defined contribution plan, (2) the amount contributed is in excess of the employer’s required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, were the following considered for the defined contribution plan:
   a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?
   b. Is the unallocated amount treated as if it were part of the employer’s investments portfolio and recorded as an asset?
(1) Is the income attributed to such securities including dividends, interest, and realized gains and losses reported in a manner consistent with the employer's reporting of similar items?

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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**P. Postretirement Benefits Other Than Pensions** (See Exhibit A if SFAS 106 has not been adopted)

1. If there are one or more defined benefit postretirement plans, do disclosures include:
   
   a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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   b. The amount of net periodic postretirement benefit cost, showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components?¹²

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

   c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:

   1. The fair value of plan assets?

   2. The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?

   3. The amount of unrecognized prior service cost?

   4. The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?

   5. The amount of any remaining unrecognized transition obligation or transition asset?

   6. The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?

   d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible charges) for the next year and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved?

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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   e. The weighted-average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted-average of the expected long-term rate(s) of return on plan assets?

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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¹² The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:

   a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).

   b. Amortization of unrecognized prior service cost.

   c. Amortization of the net gain or loss from earlier periods.

   d. Any gain or loss recognized due to a temporary deviation from the substantive plan (of SFAS 106, par. 61 (AC P40.156)).
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost; and the accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)?

________  _______  _______


g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?

________  _______  _______

|h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (e.g., a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants)?

________  _______  _______

|i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?

________  _______  _______

|j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)?

[SFAS 106, par. 74a-j (AC P40.169a-j)]

________  _______  _______

★２. If more than one defined benefit postretirement plan exists:

a. Are the disclosures required by Step 1. above aggregated for all of an employer’s single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except, for purposes of the disclosures required by Step 1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)?

[SFAS 106, par. 77 (AC P40.172)]

________  _______  _______

b. Are plans that provide primarily postretirement healthcare benefits and plans that provide primarily other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all the plans?

[SFAS 106, par. 78 (AC P40.173)]

________  _______  _______

★３. If there is a multiemployer plan, do disclosures include:

a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?

________  _______  _______

b. The amount of postretirement benefit cost recognized during the period, if available. Otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees?

[SFAS 106, par. 82 (AC P40.178)]

________  _______  _______

c. Are the provisions of SFAS 5 [AC C59] applied if the situation arises where withdrawal from a multiemployer plan may result in an employer’s having an obligation to the plan for a portion of the plan’s unfunded accumulated postretirement benefit obligation and it is probable or reasonably possible that:

(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

or
(2) An employer's contribution to the fund would be increased during the
remainder of the shortfall in the funds necessary to maintain the
negotiated level of benefit coverage?

[SFAS 106, par. 83 (AC P40.179)]

★★4. If there is one or more defined contribution postretirement plans, are the
following items disclosed separately from defined benefit postretirement plan
disclosures:

a. A description of the plan(s) including employee groups covered, the basis for
determining contributions, and the nature and effect of significant matters
affecting comparability of information for all periods presented?

b. The amount of cost recognized during the period?

[SFAS 106, par. 106 (AC P40.198)]

Q. Extraordinary Items

★★1. Are extraordinary items segregated and shown on the face of the Statement of
Activities using the caption "extraordinary items"?

★★2. Are descriptive captions and amounts presented for individual extraordinary
events or transactions, preferably on the face of the Statement of Activities?

★★3. 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 II17.102)]

★★4. 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 II17.119)]

R. Advertising Costs

[Note: Fund-raising by nonprofit organizations is not considered advertising.
(SOP 93-7, par. 22, fn. 4)]

★★1. Do the disclosures for advertising costs include:

a. The accounting policy selected from the two alternatives in paragraph 26 of
SOP 93-7 (as interpreted by PB 13, Direct-Response Advertising and
Probable Future Benefits), including whether such costs are expensed as
incurred or the first time the advertising takes place?

b. A description of the direct-response-advertising reported as assets (if any), the
related accounting policy, and the amortization method and period?

c. The amount charged to advertising expense for each statement of activities
presented, with separate disclosure of amounts, if any, representing a write-
down of the capitalized advertising costs to net realizable value and the
reasons for the write-down?

d. The amount of advertising reported as assets in each statement of financial
position presented?

[SOP 93-7, par. 49; APB 17, pars. 30 and 31 (AC I60.111-.112)]

S. Costs to Exit an Activity

★★1. If the organization commits to an exit plan meeting the criteria of EITF 94-3,
Liability Recognition for Certain Employee Termination Benefits and Other Costs
to Exit an Activity (including Certain Costs Incurred in a Restructuring), has the
organization made the disclosures prescribed by EITF 94-3?

[EITF 94-3]
II. Statement of Financial Position/Balance Sheet

A. General

1. For classified statements of financial position, are assets and liabilities segregated into current and noncurrent classifications, with totals presented for current assets and current liabilities?
   [ARB 43, Ch. 3A, par. 3; SFAS 78, pars. 5 and 13 (AC BO5.102—.109B); SFAS 6, par. 15 (AC BO5.118); FASBI 8, par. 3 (AC BO5.117); TB 79-3, par. 2 (AC BO5.501—.503); SOP 78-10, pars. 23 and 24; SFAS 117, par. 12 (AC No5.110)]

2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?
   [ARB 43, Ch. 3A, pars. 5—6 (AC BO5.106—.107)]

3. Does the statement of financial position report total assets, liabilities, and net assets as well as separate amounts for each of three classes of net assets with captions used to describe their meaning as explained in SFAS 117?
   [SFAS 117, pars. 10, 13, and 100 (AC No5.131, fn. a)]

4. Does the organization provide information about liquidity by one or more of the following presentations:
   a. Sequencing assets according to their nearness of conversion to cash and sequencing liabilities according to the nearness of their maturity and resulting use of cash?
   b. Classifying assets and liabilities as current and noncurrent?
   c. Disclosing in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets?
   [SFAS 117, par. 12 (AC No5.110)]

5. Are valuation allowances for assets shown as deductions from their related assets with appropriate disclosure?
   [APB 12, par. 3 (AC V18.102); AAG-VHW, par. 4.12]

6. Is the need for disclosure of the impact of a new FASB Statement issued but not yet effective where restatement of prior periods is required considered?
   [SAS 1, sec. 9410.13-.18 (AU 9410.13-.18)]

B. Cash

1. Are restricted amounts appropriately segregated from other cash balances?
   [ARB 43, Ch. 3A, par. 6 (AC BO5.107)]

2. If a concentration of credit risk arises from deposits in excess of federally insured limits, is it disclosed?
   [SFAS 105, par. 20 (AC F25.115)]

3. If the organization has material bank overdrafts or a material balance of undelivered checks as of the statement of financial position date, are:
   a. Bank overdrafts presented as a separate caption within current liabilities?
   b. Undelivered checks classified as accounts payable?
   [Generally Accepted]

4. Is the organization’s policy for treating items as cash equivalents disclosed?
   [SFAS 95, par. 10 (AC C25.108)]

C. Investments/Marketable Securities

1. Are the appropriate disclosures made for investments in common stock accounted for under the equity method?
   [APB 18, par. 20 as amended and superseded by SFAS 94 (AC I82.110)]
2. For Organizations Other Than VHWO:

a. If investments in marketable securities are not carried at market value, is the market value for that group as of the statement of financial position date disclosed?
   [SOP 78-10, par. 79]

b. Do the notes to financial statements summarize total realized and unrealized gains and losses and income earned from investments held by all funds, except life income and custodial funds?
   [SOP 78-10, par. 83]

3. For VHWO:

a. Is the basis of carrying investments the same in all funds and clearly disclosed in the financial statements?
   (1) If carried at cost, is the total market value of investments at the balance-sheet date shown parenthetically for each fund, or disclosed in the notes?
   (2) If carried at market value, is the cost disclosed parenthetically for each fund or disclosed in the notes?
   (3) Is the unrealized appreciation (or depreciation) in such investments at the beginning and end of the year disclosed in the notes?
   [AAG-VHW 2.05]

D. Receivables

1. Are accounts and notes receivable due from officers, employees, and affiliated organizations shown separately with appropriate disclosures?
   [ARB 43, Ch. 1A, par. 5 (AC R36.105)]

2. If a note is noninterest bearing or has an inappropriate stated interest rate:

a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?

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

c. Is amortization of discount or premium reported as interest in the statement of activity?
   [APB 21, par. 16 (AC 169.109)]

3. Are unearned discounts, finance charges and interest included in the face amount of receivables shown as a deduction from the related receivables?
   [APB 6, par. 14 (AC B05.107A, note 3)]

4. Are legally enforceable pledges, grants, and reimbursements receivable, net of allowance for uncollectible amounts, recorded?
   [SOP 78-10, pars. 64—66; AAG-NPR 5.07; AAG-VHW 4.12 and 4.13]

5. Do organizations that receive unconditional promises to give disclose the following:

a. The amounts of promises receivable in less than one year, in one to five years, and in more than five years?

b. The amount of any allowance for uncollectible promises receivable?
   [SFAS 116, par. 24 (AC C67.121)]

6. Do organizations that receive conditional promises to give disclose the following:

a. The total of the amounts promised?

b. A description and amount for each group of promises having similar characteristics (such as amount of promises conditioned on establishing new programs, completing a new building, and raising matching gifts by a specified date)?
   [SFAS 116, par. 25 (AC C67.122)]

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13 If the organization has extended a loan that is impaired, refer to SFAS 114, as amended by SFAS 118, for presentation and disclosure requirements.
E. Inventories

★★ 1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)?
   [ARB 43, Ch. 3A, par. 4 (AC B05.105); ARB 43, Ch. 4, par. 3 (AC I78.102–.103)]

★★ 2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed?
   [ARB 43, Ch. 3A, par. 9 (AC I78.120)]

★★ 3. Is the basis for stating inventory disclosed (e.g., lower of cost or market) and, if necessary, the nature of a change in basis for stating inventory and the effect on income of such a change?
   [ARB 43, Ch. 4, pars. 4–16 (AC I78.104–.117 and .119–.120); APB 22, par. 13 (AC A10.106)]

★★ 4. Are valuation allowances for inventory losses shown as a deduction from the related inventory?
   [APB 12, par. 3 (AC V18.102)]

F. Property and Equipment

VHWO Omit Step #1.

★★ 1. Are the amounts of depreciation provided on (1) assets carried at historical cost and (2) assets carried on a basis other than historical cost separately disclosed?
   [SOP 78-10, par. 110]

★★ 2. Are the following disclosed:
   a. Depreciation expense for each period?
   b. Balances of major classes of depreciable assets by nature or function at the balance-sheet date?
   c. Accumulated depreciation, either by major classes of assets or in total?
   d. The method(s) used in computing depreciation with respect to major classes of depreciable assets?
   [APB 12, par. 5 (AC D40.105); SOP 78-10, par. 108]

★★ 3. Is the amount of capitalized interest disclosed?
   [SFAS 34, par. 21 (AC I67.118)]

G. Collections of Works of Art and Similar Items

★ 1. For organizations that maintain a collection of works of art, historical treasures, or similar assets, that are not capitalized, are the following items reported separately on the statement of activities, separately from revenues, expenses, gains, and losses:
   a. Costs of collection items purchased as a decrease in the appropriate class of net assets?
   b. Proceeds from the sale of collection items as an increase in the appropriate class of net assets?
   c. Proceeds from insurance recoveries of lost or destroyed collection items as an increase in the appropriate class of net assets?
   [SFAS 116, pars. 13 and 26 (AC C67.113 and .123)]

★ 2. For organizations that capitalize collections prospectively, are proceeds from sales and insurance recoveries of items not previously capitalized reported separately from revenues, expenses, gains, and losses?
   [SFAS 116, par. 26 (AC C67.123)]

★ 3. For organizations that do not capitalize collections or that capitalize prospectively, are the following items disclosed:
   a. Description of collections including their relative significance?
   b. Accounting and stewardship policies for collections?
   [SFAS 116, par. 27 (AC C67.124)]

★ 4. If collection items not capitalized are disposed of during the period, does the organization also:
a. Describe the items given away, damaged, destroyed, lost, or otherwise deaccessed during the period, or
   [SFAS 116, par. 27 (AC C67.124)]
   Yes No N/A
b. Disclose their fair value?
   [SFAS 116, par. 27 (AC C67.124)]

★ 5. Is the line item on the financial statement that refers to the disclosures required by Steps 3 and 4, dated if collections are capitalized prospectively?
   [SFAS 116, par. 27 (AC C67.124)]
   Yes No N/A

★ 6. If the organization has inexhaustible collections (usually associated with museums, art galleries, botanical gardens, libraries or similar entities), and if such collections are not capitalized, does the caption "Collections" appear on the balance sheet with no amount shown, but with a reference to a note that describes the collections?
   [SOP 78-10, par. 113]
   Yes No N/A

★ 7. Is the cost or contributed value of current period accessions and the nature of and proceeds from deaccessions discussed?
   [SOP 78-10, par. 114]
   Yes No N/A

H. Other Assets and Deferred Charges

★★ 1. Do disclosures include the method and period of amortization of intangible assets?
   [APB 17, par. 30 (AC I60.111); APB 22, par. 13 (AC A10.106)]
   Yes No N/A

★★ 2. Is an asset (prepaid pension cost) recognized if net periodic pension cost is less than amounts the employer contributed to the plan?
   [SFAS 87, par. 35 (AC P16.129)]
   Yes No N/A

★★ 3. If an additional minimum liability is recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), is an equal amount recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized prior-service cost?
   [SFAS 87, pars. 37—38 (AC P16.131 and .132)]
   Yes No N/A

I. Interfund Borrowings

★ 1. Are restricted funds used in interfund borrowings and any liquidity problems in either fund disclosed?
   [SOP 78-10, par. 119]
   Yes No N/A

★ 2. When funds for repayment are not available, are such borrowings considered permanent and recorded as transfers?
   [SOP 78-10, par. 118]
   Yes No N/A

★ 3. Are interfund receivables and payables clearly identified and arranged in the statement of financial position to eliminate their amounts when displaying total assets or liabilities?
   [SFAS 117, par. 85, fn. 8 (AC No5.109, fn.4)]
   Yes No N/A

J. Current Liabilities

★★ 1. For classified statements of financial position, do current liabilities include:
   a. Obligations for items that entered the operating cycle?
   b. Collections received in advance of the delivery of goods or performance of services?
   c. Debts that arise from operations directly related to the operating cycle?
   d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?
   e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance-sheet date, even though liquidation may not be expected within that period?
   [ARB 43, Ch. 3A, pars. 7—8 (AC B05.108—.109); SFAS 78, par. 5 (AC B05.109A and B05.118)]
2. In classified statements of financial position, are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7–8 (AC B05.108—.109)]

3. In classified statements of financial position, do current liabilities exclude short-term obligations that the organization intends to refinance on a long-term basis, provided the organization demonstrates the ability to consummate the long-term financing? [SFAS 6, pars. 9–14 (AC B05.113—.116); FASBI 8 (AC B05.117 and B05.138—.139)]

K. 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, etc.? [SFAS 5, pars. 18–19 (AC C59.120); and Generally Accepted]

2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)]

3. For unconditional purchase obligations that have been recorded in accordance with SFAS No. 47, par. 6, are the amount of payments due in the aggregate and for each of the five years following the date of the latest statement of financial position presented disclosed? [SFAS 47, par. 10a (AC C32.105a)]

4. 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 the discount or premium reported as interest in the statement of activity?
   d. Are issue costs reported in the statement of financial position as deferred charges? [APB 21, par. 16 (AC I69.109)]

5. If a short-term obligation is to be classified as a long-term borrowing, do disclosures include:
   a. General description of the financing agreement?
   b. Terms of any new obligation incurred or expected to be incurred, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]

L. Lessee Leases

1. For capital leases, do disclosures include:
   a. Gross amounts of assets recorded by major classes as of the date of each statement of financial position presented? [SFAS 13, par. 16a (AC L10.112a(1))]
   b. Future minimum lease payments as of the date of the latest statement of financial position presented, in the aggregate and for each of the five succeeding fiscal years, with separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, par. 16a (AC L10.112a (2))]
   c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest statement of financial position presented? [SFAS 13, par. 16a (AC L10.112a (3))]

Yes No N/A
<table>
<thead>
<tr>
<th>d. Total contingent rentals actually incurred for each period for which a statement of activity is presented? [SFAS 13, par. 16a (AC L10.112a (4))]</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>e. Separate identification of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Assets recorded under capital leases?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Accumulated amortization of capital leases?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Obligations under capital leases?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a (5))]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:**

<table>
<thead>
<tr>
<th>a. Future minimum rental payments required as of the date of the latest statement of financial position presented in the aggregate and for each of the five succeeding fiscal years?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Total of future minimum rentals to be received under noncancelable subleases as of the date of the latest statement of financial position presented? [SFAS 13, par. 16b (AC L10.112b)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**3. For all operating leases, do disclosures include rental expense for each period for which a statement of activities (or revenue and expenses, etc.) is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]**

**4. Do disclosures include a general description of the lessee’s leasing arrangements, including but not limited to:**

<table>
<thead>
<tr>
<th>a. Bases for determining contingent rentals?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Existence and terms of any renewal or purchase options or escalation clauses?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Restrictions imposed by lease agreements (e.g., those concerning dividends, additional debt and further leasing?) [SFAS 13, par. 16d (AC L10.112d)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**5. Is the nature and extent of leasing transactions with related parties disclosed? [SFAS 13, par. 29 (AC L10.125)]**

### M. Other Liabilities and Deferred Credits

**1. Are grants subject to periodic renewal recorded as expenses and liabilities at renewal date with disclosure of the remaining commitment? [SOP 78-10, par. 102]**

VHWO Omit Step #2.

**2. Are balances of unexpended restricted gifts, grants and bequests reported as deferred revenue and support on the statement of financial position? [SOP 78-10, par. 62]**

**3. Are liabilities properly accrued and reported for employees’ compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]**

**4. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 or SFAS 43 only because the amount cannot be reasonably estimated, is the fact that the benefits have not been accrued disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]**

### N. Trust Funds and Gifts of Future Interests

**1. Are funds held in trust by others, and that are not under the control of the organization, disclosed either parenthetically (in the endowment funds group in the balance sheet) or in the notes to the financial statements? [SOP 78-10, par. 122]**
2. Is significant income from such trusts reported separately? [SOP 78-10, par. 122] 

3. Is the basis of valuing gifts of future interests, e.g., life income and annuity gifts, and interest-free loans disclosed? [AAG-NPR 4.27] 

4. Is the restrictive nature of other fund groups not mentioned in SOP 78-10 (e.g., those fund groups used to account for resources relating to activities, such as agency or custodial relationships, self-administered pensions, and permanent maintenance funds) disclosed? [SOP 78-10, par. 123] 

O. Net Assets/Fund Balances 

1. Are limits on the use of unrestricted net assets (such as loan covenants and board-designated endowments) disclosed? [SFAS 117, par. 16 (AC No. 5.114)] 

2. Are unrestricted fund balances, designated for a specific purpose by the governing board of the organization, segregated on the balance sheet? [SOP 78-10, par. 120] 

3. Are internally designated fund balances, such as quasi-endowment funds or designated funds, excluded from donor-restricted fund balances and is a term such as "other than restricted" used to describe the fund? [AAG-VHW, par. 1.06; SOP 78-10, App. A—definition of quasi-endowment)] 

4. Are restricted resources, such as endowment funds, shown separately in the fund section of the balance sheet? [SOP 78-10, par. 21] 

5. Is the nature of the restrictions on fund balances and deferred revenues disclosed? [SOP 78-10, par. 21] 

P. Restricted Resources 

1. Are cash or other assets received with a donor-imposed restriction that limits their use to long-term purposes reported separately from assets that are unrestricted and available for current use? [SFAS 117, par. 11(AC No5.109)] 

2. Does the organization provide information about the nature and amounts of different types of permanent restrictions and temporary restrictions by reporting their amounts on the face of the statement of financial position or by including relevant details in notes to financial statements? [SFAS 117, par. 14(AC No5.112)] 

3. Are significant restrictions disclosed in the financial statements? [SOP 78-10, par. 59c] 

VHWO Omit Step #4. 

4. Do the notes disclose the changes in deferred restricted amounts of gifts, grants, bequests, and other income? [SOP 78-10, Exhibit 1D, Note 7] 

III. Statement of Activities (or Statement of Revenue and Expenses, or Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances) 

A. General 

1. Does the statement of activities report the amount of change in net assets for the period for the organization as a whole (using a descriptive term such as "change in net assets" or "change in equity"), and does that amount articulate to the net assets reported in the statement of financial position? [SFAS 117, par. 18 (AC No5.116)]
2. Does the statement of activities report the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets for the period?
   [SFAS 117, par. 19 (AC No5.117)]

3. Does the statement of activities report the following:
   a. Revenues as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions?
   b. Expenses as decreases in unrestricted net assets?
   c. Events that simultaneously increase one class of net assets and decrease another (reclassifications), including expiration of donor-imposed restrictions, separately from revenues, expenses, gains, and losses?
   [SFAS 117, pars. 19-20 (AC No5.117-118); SFAS 116, par. 17 (AC No 5.146)]

4. If the organization reports an intermediate measure of operations (for example, excess or deficit of operating revenues over expenses), is this intermediate measure reported only in a financial statement that, at a minimum, reports the change in unrestricted net assets for the period?
   [SFAS 117, par. 23 (AC No5.120)]

5. If the organization's use of the term operations is not apparent from the details provided on the face of the statement of activities, does a note to financial statements describe the nature of the reported measure of operations or the items excluded from operations?
   [SFAS 117, par. 23 (AC No5.120)]

6. Does the statement of activities report gross amounts of revenues and expenses?
   [SFAS 117, par. 24 (AC No5.121)]

7. If the organization reports net gains and losses or revenue and expense on its statement of activities, do these net amounts result from peripheral or incidental transactions or from events largely beyond the control of the organization and its management?
   [SFAS 117, pars. 25 and 138 (AC No5.122)]

B. Fund Accounting

1. Does the statement of activity include the activity in the unrestricted, restricted, plant and endowment funds, as well as other capital funds that represent resources of the organization?
   [SOP 78-10, par. 26]

2. If a columnar format is used, do the statements show a Total All Funds column? (Alternative formats are acceptable.)
   [SOP 78-10, pars. 37—40]

3. If there are capital additions, are captions for the excess (deficiency) of revenue and support over expenses, both before and after capital additions, shown?
   [SOP 78-10, pars. 30—31]

C. Taxes

1. Does the organization disclose the following information about its tax status:
   a. Reference to the Internal Revenue Code section under which the organization is exempt?
   b. Whether the organization is classified as a private foundation? [Generally Accepted]

2. If the organization is subject to federal excise tax on investment income or to federal and state income taxes on unrelated business income, are classifications and disclosures made in accordance with SFAS 109?
   [SOP 78-10, par. 103]

3. If the organization's tax exempt status is in question by the IRS, is the potential impact disclosed?
   [SFAS 5, pars. 1 and 39 (AC C59.101 and .145)]
D. Transfers

★ 1. Are transfers of resources among fund groups reported as changes in net assets or of fund balances under the caption “net assets or fund balance at beginning of period”? (Note: this step is applicable for an organization that has adopted SFAS 117 only if the organization chooses to disaggregate classes of net assets into fund groups.)

★ 2. Are transfers required under contractual arrangements with third parties and transfers as a result of the expiration of a term endowment fund disclosed separately?

[SFAS 117, par. 3-4]

 Organizations Other Than VHWO Omit Step #3.

★ 3. Is the amount of realized (and, when applicable, unrealized) investment gains included in endowment funds that are available for transfer to the unrestricted fund at the discretion of the governing board, and the authority on which such funds may be transferred, disclosed?

[AAG-VHW, par. 2.12]

E. Third-Party Reimbursements

★ 1. If the organization depends significantly on third-party reimbursement arrangements to carry out its program activities, do the financial statements adequately disclose these arrangements?

[AAG-NPR, par. 3.18]

F. Donated or Contributed Services

★ 1. If the organization receives contributed services, does it disclose the following:

a. A description of the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period?

b. The fair value of contributed services received but not recognized, if practicable (optional)?

c. Nonmonetary information such as the number and trends of donated hours received or service outputs provided by volunteers (optional)?

d. Dollar amount of contributions raised by volunteers (optional)?

[SFAS 116, pars. 10 and 123 (AC C67.110)]

★ 2. Do the notes to the financial statements disclose the methods used in valuing, recording, and reporting donated or contributed services?

[SFAS 117, par. 3-4; AAG-VHW, par. 5.07]

★ 3. Do the notes indicate which donated or contributed services are recorded and which are not recorded?

[SFAS 117, par. 3-4; AAG-VHW, par. 5.07]

G. Donated Materials and Facilities

★ 1. If donated materials merely pass through the organization to its charitable beneficiaries, and the organization is only an agent for the donors, has that donation not been recorded as a contribution?

[SFAS 116, pars. 52-53; SFAS 117, par. 71; AAG-VHW, par. 5.03]

H. Subscription and Membership Income

★ 1. If dues, assessments, and nonrefundable initiation fees are in substance contributions and services are not to be provided to the member, are they recognized as revenue and support in the period the organization is entitled to them?

[SFAS 117, par. 84]
I. Fund-Raising 14

★ ★ 1. If the organization receives significant support from the general public, are the expenses reported on a functional basis presenting separately expenses for program services, fund-raising, membership development, and management and general activities?
[SOP 78-10, pars. 85—88 and 96; AAG-VHW, pars. 6.02—6.07]

★ ★ 2. If revenue from fund-raising affairs is reported net of expenses, are such expenses disclosed?
[SOP 78-10, par. 93; AAG-VHW, par. 8.01]

★ ★ 3. Is the total cost of all fund-raising activities disclosed whether the organization reports expenses on a functional basis or some other basis?
[SOP 78-10, par. 94; AAG-VHW, par. 6.13]

★ ★ 4. Do fund-raising expenses include any applicable portion of management salaries, depreciation, and other occupancy expenses?
[SOP 78-10, par. 98; AAG-VHW, par. 6.10]

★ ★ 5. Is the total support received and the related fund-raising costs for the period disclosed?
[SOP 78-10, par. 94; AAG-VHW, par. 6.13]

★ ★ 6. If joint costs of informational materials and activities that include fund-raising appeals are incurred and allocated between fund-raising and the appropriate program or management and general function, are the following disclosed:
   a. The fact that such costs have been allocated?
   b. The total amount allocated during the period?
   c. The portion allocated to each functional expense category?
   [SOP 87-2, par. 22; AAG-VHW, par. 6.11]

J. Contributions

★ 1. Does the organization distinguish between contributions received with permanent restrictions, those received with temporary restrictions, and those received without donor-imposed restrictions, so that they are reported as support increasing permanently restricted net assets, temporarily restricted net assets, or unrestricted net assets, respectively?
[SFAS 116, par. 14 (AC No5.143)]

★ 2. If donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support, is such treatment consistent from period to period and is the policy disclosed?
[SFAS 117, par. 21; SFAS 116, par. 14 (AC No5.143)]

★ 3. Does the organization report receipt of unconditional promises to give with payments due in future periods as restricted support, unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended the contribution to be used to support activities of the current period?
[SFAS 116, par. 15 (AC No5.144)]

★ 4. Does an organization that receives gifts of long-lived assets without donor stipulation about how long the donated asset must be used:
   a. Disclose its accounting policy of implying or not implying a time restriction that expires over the useful life of the asset?
   b. Report such support as restricted if it is the organization’s policy to imply a time restriction that expires over the useful life of the donated asset?

   

14 In September, 1993, the AICPA issued an exposure draft of a proposed Statement of Position, Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include a Fund-Raising Appeal. The proposed SOP would apply to all not-for-profit organizations that report expenses by function and would require reporting the costs of all materials and activities that include a fund-raising appeal as fund-raising expenses, unless a program or management and general function has been conducted in conjunction with the appeal for funds. The disclosure requirements of the exposure draft of the SOP are not reflected in this checklist. The final SOP is expected to be issued in the fourth quarter of 1995.
c. Report such support as unrestricted in the absence of such a policy?  
[SFAS 116, par. 16 (AC No5.145)]

★★ 5. Does an organization that receives unconditional promises to give in which cash promised will be received in future periods measure the fair value of the contribution as the present value of estimated future cash flows using a discount rate commensurate with the risks involved and report subsequent accruals of the interest element as contribution income increasing either the temporarily or permanently restricted class of net assets if the underlying promise to give is donor restricted?  
[SFAS 116, par. 20 (AC C67.116)]

★★ 6. In discounting unconditional promises to give (as described in Step 5.), are the provisions of APB 21 applied?  
[SOP 94-2, par. 20]

♦ 7. Are restricted contributions that possess many of the characteristics of capital, and that cannot be spent for program or supporting services because of donor or legal restrictions, recorded as "capital additions" or "nonexpendable additions" and disclosed?  
[SOP 78-10, par. 28]

K. Gifts of Future Interest

1. Annuity Gifts

★★ a. Is the present value of the actuarially determined liability resulting from such gifts recorded at the date of the gift?  

★★ b. Is any excess or deficiency in the amount of an annuity gift over the liability recorded as support in the year of the gift?  

♦ c. If the excess is restricted for specific purposes, has the excess been reported as deferred revenue?  

♦ d. Is the amount previously recorded as deferred revenue reflected as support or a capital addition at the future date when the terms of the annuity gift are met?  
[SOP 78-10, par. 121]

2. Life Income Gifts

♦ a. For the principal amount of life income gifts where the donor reserves the right to the income from the gift for life or some other stipulated period, is this principal amount recorded as deferred support in the period the gift is received?  

♦ b. Is the amount previously recorded as deferred support reflected as support or a capital addition when the terms of the life income gift are met?  
[SOP 78-10, par. 121]

L. Expenses

VHWO Omit Step #1

★★ 1. Does the organization provide information about expenses reported by their functional classification (such as major classes of program services and supporting services) either in the statement of activities or in notes to financial statements?  
[SFAS 117, par. 26 (AC No5.123)]
Organizations Other Than VHWO Omit Step 2.

★ 2. Does the organization report information about expenses both by function and by natural classification (such as salaries, rent, electricity, etc.) in a matrix format in a separate financial statement?
[SFAS 117, par. 26 (AC No.5.123)]

◆ 3. Is a reasonable allocation of the organization’s functional expenses made to various programs and supporting services, and is the method of these allocations disclosed?
[SOP 78-10, par. 100; AAG-VHW, Ch. 6]

◆ 4. For deferred compensation agreements, are estimated amounts to be paid properly accrued?
[APB 12, pars. 6—7 (AC C38.101—.102)]

M. Wills

★ 1. If the organization receives a promise to give conditioned on a future uncertain event that is contained in a will and the will has been declared valid by the probate court, has the organization disclosed the conditional promise to give?
[SFAS 116, par. 208]

N. Investments and Endowments

★ 1. Does the organization report gains and losses on investments or other assets (or liabilities) as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law?
[SFAS 117, par. 22 (AC No.5.119)]

★ 2. Does the organization report gains and losses on endowments in the following manner:
   a. As an increase or decrease in permanently restricted net assets if the governing board has determined that the relevant law requires the organization to retain permanently some portion of gains on investments?
   [SFAS 117, pars. 22 and 129 (AC No.5.119)]
   b. As an increase or decrease in unrestricted or temporarily restricted net assets, whichever is consistent with the reporting of the endowment’s income, in the absence of such a law noted in Step 2a.?
   [SFAS 117, par. 129 (AC No.5.119, fn. 8)]

★ 3. If the organization elects to report investment revenues net of related expenses, does the organization disclose the amount of expenses, either on the face of the statement of activities or in the notes to financial statements?
[SFAS 117, par. 24 (AC No.5.121)]

IV. Additional Financial Statements

For Organizations Other Than VHWO:

A. Statement of Changes in Financial Position 16

◆ 1. Is a statement of changes in financial position presented as a basic financial statement for each period for which a statement of activity (or statement of support, revenue, and expenses) is presented?
[SOP 78-10, pars. 16 and 17, Exhibit 1C]

◆ 2. Does the statement of changes in financial position disclose all financing and investing activities, including capital additions, and changes in deferred support and revenue?
[SOP 78-10, par. 34]

---

15 See footnote 14.
16 Not-for-profit organizations that have not adopted SFAS 117 are not subject to SFAS 95, Statement of Cash Flows. Therefore they may present either a statement of changes in financial position or a statement of cash flows. The AICPA Industry Guide, Audits of Voluntary Health and Welfare Organizations, states that because the information that would be presented in a statement of changes in financial position as discussed in APB 19 will, in most cases, be readily apparent from other financial statements, such a statement is generally not required.
B. **Statement of Cash Flows** ¹⁷

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<tr>
<td>★★ 1. Is a statement of cash flows presented as a basic financial statement for each period for which both a statement of financial position and a statement of activities is presented? [SFAS 95, par. 3 as amended by SFAS 117, par. 30a. (AC C25.101)]</td>
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<td>★★ 2. Does the statement of cash flows report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]</td>
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<td>★★ 3. Are cash receipts and disbursements classified as cash flows from operating, investing, and financing activities in accordance with the classifications prescribed by SFAS 95, paragraphs 14 through 24 (as amended by SFAS 102 and SFAS 117)? [SFAS 95, pars. 14 - 24 as amended by SFAS 102 and SFAS 117 (AC C25.112-122)]</td>
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<td>★★ 4. Do the notes disclose the organization’s accounting policy for determining which items are treated as cash equivalents? (Note: any change in policy for determining which items are treated as cash equivalents is a change in accounting principle.) [SFAS 95, par. 10 (AC C25.108)]</td>
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<td>★★ 5. Does the statement of cash flows separately report:</td>
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<td>a. Cash received from contributors?</td>
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<td>b. Cash received from service recipients?</td>
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<td>c. Interest and dividends received?</td>
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<td>d. Cash collected on pledges?</td>
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<td>e. Other operating cash receipts (if any)?</td>
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<td>f. Cash paid to employees and suppliers?</td>
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<td>g. Grants paid?</td>
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<td>h. Interest paid?</td>
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<tr>
<td>i. Other operating cash payments (if any)? [SFAS 95, par. 27 as amended by SFAS 117, par. 30e. (AC C25.125)]</td>
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<tr>
<td>★★ 6. If the direct method is used, is a separate reconciling schedule provided to reconcile the change in net assets or excess of revenue and support over expenses, as applicable, to net cash used (provided) by operating activities? [SFAS 95, par. 29 (AC C25.127)]</td>
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<tr>
<td>★★ 7. If the indirect method is used, is the change in net assets or excess of revenue and support over expenses, as applicable, reconciled to net cash flow from operating activities within the statement of cash flows or in a separate schedule? [SFAS 95, pars. 28 and 30 as amended by SFAS 117, par. 30f. (AC C25.126 and 128)]</td>
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<td>★★ 8. Are investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or cash payments disclosed? [SFAS 95, par. 32 as amended by SFAS 117, par. 30g. (AC C25.134)]</td>
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<tr>
<td>★ 9. In its statement of cash flows, does the organization include in cash flows from financing activities any amounts received with donor-imposed stipulations that they must be used for long-term purposes? [SFAS 117, par. 30(c) (AC C25.116)]</td>
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¹⁷ See note 16.
FOR VHWOs:

C. Statement of Functional Expenses

★★ 1. Is a statement of functional expenses presented as a basic financial statement for each period for which a statement of support, revenue, and expenses is presented?
[AAG-VHW, par. 6.17; SFAS 117, par. 26 (AC No5. 123)]

★★ 2. Does the statement of functional expenses contain sufficient information to enable a reader to obtain a general understanding of the nature of the costs of carrying out the organization’s activities?
[AAG-VHW, par. 6.17; SFAS 117, par. 26 (AC No5. 123)]

Exhibit A

Postretirement Health Care and Life Insurance Benefits

The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992, except for plans outside the United States, and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor-defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate, in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. If the not-for-profit organization has 500 or fewer plan participants and does not elect early application, the following disclosures remain in effect:

★★ 1. Do disclosures include:
   a. Description of benefits and employee groups covered?
   b. Description of accounting and funding policies?
   c. Cost of benefits recognized during the period unless the provisions of Step 2 apply?
   d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?
   [SFAS 81, par. 6 (AC P50.102)]

★★ 2. If the cost of any postretirement health care or life insurance benefit cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, is the total cost of providing those benefits to both active employees and retirees as well as the number of active employees and the number of retirees covered by the plan disclosed?
   [SFAS 81, par. 7 (AC P50.103)]

Exhibit B

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to assets to be held and used or disposed of. This standard is effective for financial statements for fiscal years beginning after December 15, 1995; however, earlier application is encouraged. Restatement of previously issued financial statements is not permitted.

★★ 1. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down:
   a. A description of the impaired assets and the facts and circumstances leading to the impairment?
   b. The amount of the impairment loss and how fair value was determined?
   c. The caption in the statement of activities in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?
   [SFAS 121, par. 14]
2. If assets to be disposed of are accounted for in accordance with paragraphs 15-17 of SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, are all of the following disclosed in financial statements that include a period during which those assets are held:

   a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?

   b. The loss resulting from the application of paragraph 15 of SFAS 121?

   c. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121.

   d. The caption in the statement of activities in which the gains or losses in (b) and (c) are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement.

   e. The results of operations for assets to be disposed of to the extent that those results are included in the entity's results of operations for the period and can be identified.

   [SFAS 121, par. 19]

3. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes, or similar caption, in the statement of activities?

   [SFAS 121, pars. 13 and 18]
FSP Section 9400

Auditors’ Reports Checklist

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

.02 Explanation of References:

- **SAS** = Statement on Auditing Standards
- **AU** = Reference to section number in *AICPA Professional Standards (Vol. 1)*
- **AAG-NPR** = AICPA Audit and Accounting Guide, *Audits of Certain Nonprofit Organizations* (with conforming changes as of May 1, 1994)
- **SOP** = AICPA Statement of Position

.03 Checklist Questionnaire

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<th>Yes</th>
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<tr>
<td>1. Does the auditor’s report include the appropriate:</td>
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<td>a. Addressee?</td>
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<tr>
<td>[SAS 58, par. 9 (AU 508.09)]</td>
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<td>b. Date (or dual dates) of the report?</td>
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<td>[SAS 1, sec. 530.05 (AU 530.05); SAS 58, pars. 08 and 46 (AU 508.08 and .46)]</td>
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<td>c. Title that includes the word “independent”?</td>
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<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<td>2. If the auditor is not independent, is a compilation report the highest level of service performed?</td>
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<td>[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]</td>
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<td>3. Does the reporting language conform with the auditor’s standard report on:</td>
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<td>a. Financial statements of a single year or period?</td>
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<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<td>b. Comparative financial statements?</td>
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<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<td>4. Does the report include appropriate language for the following situations:</td>
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<td>a. Only one basic financial statement is presented and there are no scope limitations?</td>
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<td>[SAS 58, pars. 47—48 (AU 508.47—.48)]</td>
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<td>b. Audited and unaudited financial statements are presented in comparative form?</td>
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<td>[SAS 26, pars. 14—17 (AU 504.14—.17)]</td>
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<td>5. Is an explanatory paragraph (or other explanatory language) added to the standard auditor’s report if:</td>
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<td>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?</td>
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<td>[SAS 58, pars. 16—33 (AU 508.16—.33)]</td>
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**Note:** Consult the Topical Index to the *AICPA Professional Standards* under “Uncertainties” for additional references to specific types of uncertainties.
b. There is substantial doubt about the organization’s ability to continue as a going concern for a reasonable period of time, and is that conclusion expressed through the use of the phrase “substantial doubt about the organization’s ability to continue as a going concern”?
[SAS 64, par. 12 (AU 341.12)]

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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)]

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d. In an updated report on comparative financial statements, the current 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)]

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<th>Yes</th>
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e. The prior period financial statements are audited by a predecessor auditor whose report is not presented?
[SAS 58, par. 83 as amended by SAS 64, par. 2 (AU 508.83)]

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f. The auditor’s opinion is based in part on the report of another auditor?
[SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]

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g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation?
[SAS 58, pars. 14—15 (AU 508.14—.15)]

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h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements?
[SAS 8, par. 4 (AU 550.04)]

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i. The auditor decides to emphasize a matter in the report?
[SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]

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j. The auditor uses the work of a specialist in performing an audit and the auditor decides to add an explanatory paragraph?

Note: Reference to and identification of the specialist may be made if the auditor believes such a reference will facilitate an understanding of the reason for the explanatory paragraph.
[SAS 73, par. 16 (AU 336.16)]

6. Is a qualified opinion or disclaimer of opinion expressed if:

a. 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)]

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b. The organization has inadequate internal control structure policies and procedures over contributions and there is a significant risk that such revenue may be materially underrecorded?
[AAG-VHW, par. 4.15; AAG-NPR, pars. 8.06—.07]

Note: Consult the Topical Index to the AICPA Professional Standards under "Scope of Audit-Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

7. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present?
[SAS 58, pars. 49—69 (AU 508.49—.69); SAS 32, par. 3 (AU 431.03)]

Note: Consult the Topical Index to the AICPA Professional Standards under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.
8. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified?  
[SAS 58, pars. 39, 68—69, and 71 (AU 508.39, .68—69 and .71)]

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9. If information accompanies the basic financial statements in an auditor-submitted document, does the report on the accompanying information:

- a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?
- b. Specifically identify the accompanying information?
- c. State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?
- d. State whether the accompanying information is subject to the auditing procedures applied in an audit of the basic financial statements and the appropriate expression of opinion or disclaimer?  
[SAS 29, pars. 6—11 (AU 551.06—.11)]

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10. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure related matters noted in an audit?  
[SAS 60, pars. 9—19 (AU 325.09—.19)]

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11. If the auditor is requested to audit Internal Revenue Form 990, “Return of Organizations Exempt From Income Tax,” is the appropriate report prepared?  
[Interpretation 2 of SAS 62, sec. 623 (AU 9623.47—.54)]

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12. If during a GAAS audit of the financial statements the auditor becomes aware that the organization is subject to an audit requirement not encompassed in the terms of the engagement (e.g., the entity is required to have an audit performed in accordance with OMB Circular A-133), the auditor must communicate to management and the audit committee, or to others with equivalent authority and responsibility that a GAAS audit may not satisfy relevant legal, regulatory, or contractual requirements. Did the auditor consider the client’s actions in response to such communication (e.g., not arranging for an audit that meets the applicable requirements) including the potential effect on the financial statements and auditor’s report?  
[SAS 74, pars. 22—23]

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1 Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]
FSP Section 9500

Auditors’ Reports on Audits Performed Under Government Auditing Standards and Under OMB Circular A-133 Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page i is incorporated herein by reference.

.02 This checklist has two parts: Part I is for reports on audits performed under Government Auditing Standards (“Yellow Book”). Part II contains the additional requirements for reports on audits performed in accordance with OMB Circular A-133. For audits performed under Circular A-133, both Parts I and II of this checklist must be completed.

.03 Explanation of References:
- A-133 = Office of Management and Budget (OMB) Circular A-133
- GAS = Government Auditing Standards (“Yellow Book,” issued by GAO, 1994 Revision)
- SAS = Statement on Auditing Standards
- AU = Reference to section number in AICPA Professional Standards, Volume I of SAS cited
- SOP 92-9 = AICPA Statement of Position, Audits of Not-for-Profit Organizations Receiving Federal Awards

.04 Checklist Questionnaire

Part I—Reports on Audits Performed in Accordance with Government Auditing Standards (the “Yellow Book”)

1. In an audit performed in accordance with the Yellow Book, are the following reports issued:
   a. A report on the organization’s basic financial statements? 2
   b. A report on internal control structure?
   c. A report on compliance with laws and regulations that may have a direct and material effect on the basic financial statements?

   [SOP 92-9, par. 7.2]

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1 On March 8, 1990, The Office of Management and Budget issued Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, to implement a “single audit” requirement for nonprofit institutions. Circular A-133 requires that the auditor perform the audit in accordance with Government Auditing Standards (the “Yellow Book”) issued by the Comptroller General of the United States.

SAS No. 74, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance, (which supersedes SAS 68) provides guidance on planning, performing, and reporting on the compliance aspects of audits in accordance with GAAS, GAO Standards, Circular A-133 and Circular A-128, which applies to state and local governmental entities.

On December 28, 1992, the AICPA issued SOP 92-9, Audits of Not-for-Profit Organizations Receiving Federal Awards, to provide guidance on the auditor’s responsibilities when conducting an audit in accordance with Circular A-133. It incorporates the guidance in SAS 68 (which has been superseded by SAS 74), SOP 92-7, OMB’s October 1991 Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions, and the President’s Council on Integrity and Efficiency Standards Subcommittee’s Position Statement No. 6 (A-133 Questions and Answers).

2 See checklist for auditor’s reports on the basic financial statements.
2. Does each auditor’s report listed in Step No. 1 above contain a statement that the audit was conducted in accordance with GAAS and the Yellow Book? \(^3\)  
[GAAS, Ch. 5, par. 11; SOP 92-9, par. 7.4]  

<table>
<thead>
<tr>
<th>Yes</th>
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</table>

**Report on Internal Control Structure** \(^4\)

3. Does the report on internal control structure conform to the standard report illustrated in Exhibit D-3 of Appendix D of SOP 92-9?  
[GAAS, Ch. 5, pars. 17 and 18; SOP 92-9, Appendix D, Exhibit D-3]  

<table>
<thead>
<tr>
<th>Yes</th>
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4. If material weaknesses were noted, is the condition, cause, criteria, and effect of those material weaknesses included in the report?  
[GAAS, Chap. 6, pars. 49-52]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

5. If deficiencies in the internal control structure were not considered reportable conditions (referred to as “nonreportable conditions”), are those matters communicated to the organization in writing (or orally, with working paper documentation)?  
[GAAS Chap. 5, par. 28 and Chap. 7, par. 29]  

<table>
<thead>
<tr>
<th>Yes</th>
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</table>

6. If a separate written communication describing nonreportable conditions is issued, does the auditor’s report on the internal control structure refer to that separate communication?  
[SOP 92-9, par. 7.12]  

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<thead>
<tr>
<th>Yes</th>
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7. If no reportable conditions are noted during the audit, has the report on internal control structure been modified in accordance with Note 3 to Exhibit D-3 of appendix D to SOP 92-9?  
[SOP 92-9, par. 7.11]  

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<thead>
<tr>
<th>Yes</th>
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**Report on Compliance With Laws and Regulations**

8. Does the report on compliance with laws and regulations (included in either the report on the financial statements or a separate report) conform to the standard report illustrated in Exhibits D-4 to D-7 in Appendix D of SOP 92-9?  

<table>
<thead>
<tr>
<th>Yes</th>
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9. Does the report on compliance with laws and regulations contain:  
   a. A statement of positive assurance on those items that were tested for compliance and negative assurance on those items not tested?  
   [SOP 92-9, par. 7.13]  

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<thead>
<tr>
<th>Yes</th>
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</table>

   b. All material instances of noncompliance?  
   [SOP 92-9, par. 7.16]  

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
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   c. All instances of illegal acts have or are likely to have occurred, described in perspective?  
   [GAAS, Chap. 5, pars. 18-19]  

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<thead>
<tr>
<th>Yes</th>
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10. In rare circumstances in which the auditor has decided not to test compliance with laws and regulations, does the report contain a statement that compliance with laws and regulations is not tested?  
[SOP 92-9, Appendix D, Exhibit D-7]  

<table>
<thead>
<tr>
<th>Yes</th>
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11. Did the auditor consider the best estimate of total costs questioned for each major federal financial assistance program (likely questioned costs) in evaluating the effect of questioned costs on the opinion on compliance?  
[SAS 74, par. 18]  

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<tr>
<th>Yes</th>
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12. If the auditing procedures disclosed material instances of noncompliance, is the report on compliance appropriately modified?  
[SAS 74, par. 19; GAAS, Chap. 7, pars. 26-27]  

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<tr>
<th>Yes</th>
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\(^3\) SOP 92-9, paragraph 7.4, states that federal reviewers accept reports on the basic financial statements only that do not refer to Government Auditing Standards. However, state reviewers and others may insist on full compliance with the “Yellow Book” requirement. Practitioners are advised to determine the requirements of any non-federal reviewers before deleting the reference to Government Auditing Standards in reports on the basic financial statements.

\(^4\) Under the Yellow Book, a report on the internal control structure is required in all audits, even if no reportable conditions were noted. Also, the matters contained in this report are beyond those required to be communicated under SAS 60 (AU 325) in a GAAS audit.
13. If the report contains material instances of noncompliance, is the effect of such instances on the auditor’s report on the basic financial statements considered? [SAS 74, par. 20]  
Yes  No  N/A

14. Are immaterial instances of noncompliance reported in a separate communication to the organization? [GAS, Chap. 7, par. 29; SAS 74, par. 19]  
Yes  No  N/A

15. If the auditor issued a separate letter describing immaterial instances of noncompliance, did the compliance report include a reference to that letter? [SOP 92-9, par. 7.16]  
Yes  No  N/A

16. If the auditor became aware of illegal acts or of possible illegal acts, are they communicated to management or to the appropriate oversight body? [GAS, Chap. 5, par. 18]  
Yes  No  N/A

17. If the auditor became aware of illegal acts and remains uncertain about whether they will materially affect the financial statements, is the report qualified or a disclaimer of opinion issued? [SOP 92-9, par. 7.18]  
Yes  No  N/A

**Other Matters**

18. If performance audits are required by contractual obligations, are findings presented in accordance with the Yellow Book? [GAS, Ch. 7]  
Yes  No  N/A

19. Does the auditor’s report on the financial statements disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that could have an effect on the current audit objective? [GAS, Ch. 4, par. 10; SOP 92-9, par. 7.41]  
Yes  No  N/A

20. Did the auditor consider the impact on his or her report of the effects of noncompliance findings from other simultaneous audits that may result in claims for refunds? [SOP 92-9, par. 7.43; See also SFAS 5 (AC 59)]  
Yes  No  N/A

21. Do the reports on the schedule of federal awards, compliance, and internal control structure carry the same date as the report on the basic financial statements? [SOP 92-9, par. 7.27]  
Yes  No  N/A

**Part II—Reports on Audits Performed Under OMB Circular A-133**

1. If the organization is subject to the requirements of Circular A-133, are the following additional reports issued:
   a. A report on a supplementary schedule of the entity’s federal awards? [SOP 92-9, par. 7.19]  
   Yes  No  N/A

   b. A report on the internal control policies and procedures used to administer federal awards?  
   Yes  No  N/A

   c. A report on compliance with specific laws and regulations that may have a direct and material effect on each major program?  
   Yes  No  N/A

   d. A report on compliance with certain laws and regulations applicable to nonmajor programs?  
   Yes  No  N/A

   e. A report on compliance with general requirements? [SOP 92-9, par. 7.20]  
   Yes  No  N/A

---

5 If there are no immaterial instances of noncompliance, the auditor may so note in the report. [SOP 92-9, par. 7.24]

6 Under Circular A-133, a recipient or subrecipient of an award is required to prepare a schedule of federal awards. A sample schedule is presented in Appendix E of SOP 92-9. [Attachment to Circular A-133, par. 15(c)(1), SOP 92-9, pars. 4.7 and 7.20]

7 If the entity has no nonmajor programs, or if the auditor has not selected any nonmajor program transactions, this report is not required. [SOP 92-9, par. 7.26]

8 A report on compliance with general requirements is required regardless of whether there are any major programs. [SOP 92-9, par. 7.25]
2. Does each auditor’s report listed in Step no. 1 above contain a statement that the audit was conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133? [SOP 92-9, Appendix D, Exhibits D-8 through D-18]

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**Report on Internal Control Structure Used in Administering Federal Awards**

3. Does the report on the internal control structure used in administering federal awards conform to the standard report illustrated in Exhibit D-8 in Appendix D of SOP 92-9?

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<th>Yes</th>
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4. Does the report on internal control structure include:
   a. If applicable, a statement that the auditor has audited the financial statements and a reference to the auditor’s report on the financial statements?
   [SOP 92-9, par. 7.22]

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   b. A description of the scope of the auditor’s work to obtain an understanding of the internal control structure, to assess control risk, and to test the internal control structure policies and procedures?

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<th>Yes</th>
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   c. A description of the organization’s significant control policies and procedures established to provide reasonable assurance that it is managing its federal awards in compliance with applicable laws and regulations?

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<th>Yes</th>
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   d. Any reportable conditions noted, including the identification of material weaknesses?
   [SOP 92-9, par. 7.22]

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<th>Yes</th>
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5. If the auditor determines that tests of controls are likely to be ineffective in preventing or detecting noncompliance, is that matter disclosed as a “reportable condition”? [SOP 92-9, par. 7.23]

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<th>Yes</th>
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6. If the auditor has limited his or her consideration of the internal control structure for any reason, are the circumstances disclosed in the report on the internal control structure? [SOP 92-9, par. 7.23]

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<th>Yes</th>
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**Report on Compliance With Specific Requirements Related to Major Programs**

7. For audits of major programs, does the report on compliance with specific requirements conform to the standard report illustrated in Exhibits D-9 through D-14 in Appendix D of SOP 92-9?

<table>
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<th>Yes</th>
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8. If the auditor is disclaiming an opinion due to a scope limitation:
   a. Are the reasons indicated, in a separate paragraph, as to why the audit did not comply with GAAS, the Yellow Book, or Circular A-133?

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<th>Yes</th>
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   b. Is a statement included that the scope of the audit was not sufficient to warrant the expression of an opinion?

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<tr>
<th>Yes</th>
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   c. Does the report exclude identification of the procedures performed and exclude a paragraph describing the characteristics of an audit?

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<th>Yes</th>
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   d. Does the auditor disclose any reservations he or she has regarding compliance with applicable laws and regulations? [SOP 92-9, Appendix D, Exhibit D-13]

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<th>Yes</th>
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</table>

9. If the auditing procedures disclosed instances of noncompliance on major programs:
   a. Did the resulting modification to the auditor’s report on compliance consider factors that include:
      (1) The number and types of instances of noncompliance?
      (2) Determinability of questioned costs?
      (3) Materiality of questioned costs?

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<th>Yes</th>
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</table>
b. If, after considering those factors, the auditor concludes that the instances of noncompliance have a material effect on a federal program, was a qualified or adverse opinion issued?  

   or  

c. If, after considering those factors, the auditor is unable to determine if the instance of noncompliance could have a material effect on the program, does the report state that noncompliance occurred but the effect on the programs presently cannot be determined?  

   (1) Is the effect of such uncertainties considered, and if necessary, is the report on the basic financial statements modified?  

10. If the auditor was unable to examine appropriate evidence to support the comply/noncomply decision, is the report appropriately modified?  

Report on Compliance With General Requirements  
11. Does the report on compliance with general requirements conform to the standard report illustrated in Exhibits D-15 through D-17 in Appendix D of SOP 92-9?  

Report on Compliance Related to Nonmajor Programs  
12. For nonmajor programs, does the report on compliance conform to the standard report illustrated in Exhibit D-18 in Appendix D of SOP 92-9?  

General  
13. Does each auditor’s report on compliance with laws and regulations include, for each federal award:  
   a. An identification of total amounts questioned as a result of noncompliance?  
   b. Any corrective action recommended by the auditor?  

14. Are any immaterial findings included either (1) in a schedule of findings and costs, or (2) in a separate communication to management?  

15. If the audit is biennial, are both years within the period covered?  

   ________________
FSP Section 9600

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 Explanation of References:

SSARS = AICPA Statement on Standards for Accounting and Review Services
AR = Reference to section number in AICPA Professional Standards, Volume II

.03 This checklist is divided into two parts. Part I should be used by accountants engaged to compile financial statements and Part II should be used by accountants engaged to review financial statements.

.04 Checklist Questionnaire

<table>
<thead>
<tr>
<th>Part I—For Compilation Engagements</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>1. Is the compilation report appropriately worded to state that:</td>
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</tr>
<tr>
<td>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?</td>
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</tr>
<tr>
<td>b. A compilation is limited to presenting in the form of financial statements information that is the representation of management? [See SSARS 3, par. 3 (AR 300.03) for reporting on financial statements included in a prescribed form, and the form calls for departure from GAAP]</td>
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<tr>
<td>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)]</td>
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<tr>
<td>2. 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 .32)]</td>
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<tr>
<td>3. For compiled financial statements that contain departures ¹ from GAAP or, where applicable, an other comprehensive basis of accounting (OCBOA):</td>
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</tr>
<tr>
<td>a. If the departure is the omission of substantially all required disclosures, does the accountant’s report clearly indicate such omission? [SSARS 1, pars. 19 and 21 (AR 100.19 and .21)]</td>
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<tr>
<td>b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled “Selected Information—Substantially All Disclosures Required by GAAP (or, where applicable, OCBOA) Are Not Included”? [SSARS 1, par. 19 (AR 100.19)]</td>
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¹ Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 (AR 300) compilation report on financial statements included in a prescribed form.
c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant’s report disclose the basis of accounting?  
[SSARS 1, par. 20 (AR 100.20)]

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d. If compiled financial statements contain a departure from GAAP or, where applicable, OCBOA, does the accountant modify his or her report to disclose the departure in a separate paragraph?  
[SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]

1. 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)]

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2. If the effects of the departure on the financial statements are not determined, does the accountant state this in his or her report?  
[SSARS 1, par. 40 (AR 100.40)]

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4. If the accountant is not independent with respect to the organization, does the last paragraph of the compilation report state, “I am (We are) not independent with respect to XYZ organization”?  
[SSARS 1, pars. 22 and 38 (AR 100.22 and 100.38)]

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5. Is the report dated as of the date that substantially all compilation procedures have been completed?  
[SSARS 1, par. 15 (AR 100.15)]

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6. Does each page of the financial statements compiled by the accountant include a reference such as “See Accountant’s Compilation Report”?  
[SSARS 1, par. 16 (AR 100.16)]

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7. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity’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?  
[SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]

<table>
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8. If the accountant compiles both the basic financial statements and other data that is presented for supplementary analysis purposes, does the compilation report also include the other data indicating the degree of responsibility taken?  
[SSARS 1, par. 43 (AR 100.43)]

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</tbody>
</table>

9. If an audit or review engagement is changed to a compilation, does the report omit reference to: (a) the original engagement, (b) any auditing or review procedures that may have been performed, and (c) any scope limitation that results in the changed engagement?  
[SSARS 1, par. 49 (AR 100.49)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. If comparative financial statements are presented, does the accountant’s report cover each period presented?  
[SSARS 2, par. 2 (AR 200.02)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. If compiled financial statements that omit substantially all of the disclosures required by GAAP are presented with the comparative financial statements that previously included all disclosures, do all the periods presented also omit such disclosures?  
[SSARS 2, par. 5 (AR 200.05)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

2 SAS 62, paragraphs 9 and 10 (AU Secs. 623.09—10), provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with OCBOA.
a. If the prior-period financial statements do not omit the required disclosures and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant’s compilation report include an additional paragraph that indicates:

(1) The nature of the previous service rendered (compilation, review or audit)?  
[SSARS 2, pars. 29—30 (AR 200.29—.30)]

(2) The date of the previous report?

12. For comparative statements, 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 prior period financial statements presented, is the report on the prior period updated?
[SSARS 2, pars. 8—10 (AR 200.08—.10)]

13. For comparative statements, if the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the prior period financial statements:

a. Does the report on the current period include a separate paragraph that describes the responsibility assumed for the prior period?  

or

b. Is the report on the current period accompanied by or combined with a reissued report on the prior period financial statements?  
[SSARS 2, pars. 8 and 11—12 (AR 200.08 and .11—.12)]

14. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the report indicate:

a. The date of the previous report?  

b. Description of the circumstances or events underlying the change?  

or
c. If applicable, that the prior-period financial statements are changed?  
[SSARS 2, pars. 14—15 (AR 200.14—.15)]

15. For comparative statements, if the current-period financial statements are compiled and the prior period financial statements are audited and the audit report is not reissued, does the current-period report include a separate paragraph that contains the following:

a. A statement that the prior-period financial statements were audited previously?  

b. The date of the previous report?

c. The type of opinion previously expressed?  

d. If the opinion is other than unqualified, the substantive reasons therefor?  

e. The fact that no auditing procedures were performed after the date of the previous report?  
[SSARS 2, par. 28 (AR 200.28)]

Predecessor’s Compilation Report

16. If the predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:

a. Make appropriate reference in his or her report to the predecessor’s report in accordance with paragraphs .17 to .19 of SSARS 2?  

or

b. Perform a compilation, review, or audit of the prior period statements and report on them accordingly?  
[SSARS 2, pars. 16—19 (AR 200.16—.19)]

17. 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)]

51
Part II—For Review Engagements

Note: An accountant is precluded from issuing a review report on the financial statements of an organization with respect to which he or she is not independent.
[SSARS 1, par. 38 (AR 100.38)]

1. Is the review report appropriately worded to 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?
      [SAS 1, par. 38 (AR 100.38)]
   b. All information included in the financial statements is the representation of the management of the organization?
   c. A review consists principally of inquiries of organization 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 modifications that should be made to the financial statements in order for them to be in conformity with GAAP or, where applicable, with OCBOA, other than those modifications, if any, indicated in the report?
      [SSARS 1, par. 32 (AR 100.32)]

2. 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 .32)]

3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the accountant’s report modified to disclose the departure?
   [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]
   a. If the effects of the departure 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 are not determined, does the accountant state this in his or her modified report?
      [SSARS 1, par. 40 (AR 100.40)]

4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity’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?
   [SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]

5. Is the report dated as of the completion of substantially all review procedures?
   [SSARS 1, par. 33 (AR 100.33)]

6. Does each page of the financial statements include a reference such as “See Accountant’s Review Report”?
   [SSARS 1, par. 34 (AR 100.34)]
7. When accompanying information is presented with the financial statements, does the accountant clearly indicate his or her degree of responsibility with respect to such information as follows:

   a. If the basic financial statements are reviewed, is the degree of responsibility disclosed in the report or in a separate report on the other data that states:
      (1) The review is made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with GAAP or, where applicable, OCBOA?

      and either:
      (2) The other data accompanying the financial statements was subject to the inquiry and analytical procedures applied in the review of the basic financial statements?

   or

   (3) The other data accompanying the financial statements was not subject to the inquiry and analytical procedures applied in the review of the basic financial statements but have been compiled?

[SSARS 1, par. 43 (AR 100.43)]

8. If the client does not provide a representation letter, were the matters discussed in paragraphs 44—49 of SSARS 1 considered in deciding whether it is appropriate to issue a compilation report?

[SSARS 1, par. 49 (AR 100.49)]

9. If an audit engagement is changed to a review, does the report omit reference to: (a) the original engagement, (b) any auditing or review procedures that may have been performed, (c) any scope limitation that resulted in the changed engagement?

[SSARS 1, par. 49 (AR 100.49)]

10. If comparative financial statements are presented, does the accountant's report cover each period presented?

[SSARS 2, par. 2 (AR 200.02)]

11. For comparative statements, 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 prior period financial statements, is the continuing accountant's report on the prior period updated?

[SSARS 2, pars. 8—10 (AR 200.08—10)]

12. For comparative statements, if the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the prior period financial statements:

   a. Does the report on the current period include a separate paragraph that describes the responsibility assumed for the prior period?

   or

   b. Is the report on the current period accompanied by or combined with a reissued report on the prior period financial statements?

[SSARS 2, pars. 8 and 11—12 (AR 200.08, and .11—.12)]

13. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the report indicate:

   a. The date of the previous report?

   b. A description of the circumstances or events underlying the change?

   c. If applicable, that the prior-period financial statements are changed?

[SSARS 2, pars. 14—15 (AR 200.14—.15)]

14. 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)]
15. If the current-period financial statements are 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:
   a. A statement that the prior-period financial statements were audited previously?  
   b. The date of the previous report?  
   c. The type of opinion expressed previously?  
   d. If the opinion is other than unqualified, the substantive reasons therefor?  
   e. The fact that no auditing procedures were performed after the date of the previous report?  
      [SSARS 2, par. 28 (AR 200.28)]

**Predecessor's Review Report**

16. If the predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:
   a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs .17 to .19 of SSARS 2?  
      or  
   b. 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)]
FSP Section 9700
Illustrative Financial Statements

.01 The following illustrative auditor’s reports and financial statements (exhibits 1 and 2) demonstrate financial statement formats and disclosures appropriate for organizations that have and that have not adopted SFAS 116 and 117. These illustrations are not intended to represent the only appropriate presentation and disclosure formats, however. Not-for-profit organizations are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices promulgated. Furthermore, the illustrative financial statements do not include all disclosures and presentation items promulgated.
Exhibit 1—SFAS 116 and 117 have been adopted

Independent Auditor’s Report

The Board of Directors
Big Brothers of Any County, Inc.

We have audited the accompanying statement of financial position of Big Brothers of Any County, Inc. (an Any State non-for-profit corporation) as of December 31, 19X4 and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers of Any County, Inc. as of December 31, 19X4, and the changes in net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 8 to the financial statements, in 19X4 the Organization changed its method of accounting for contributions and its method of financial reporting and financial statement presentation.

[Signature]
[Date]
The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

EXHIBIT 1—SFAS 116 and 117 have been adopted

Big Brothers of Any County, Inc.

Statement of Financial Position

December 31, 19X4

Assets

Current assets
- Cash and cash equivalents $36,450
- Contributions receivable (Note 2) 42,100
- Leasehold interest, current (Note 3) 34,500
- Prepaid expenses 3,800
- Deposit 2,000
  Total current assets 118,850

Noncurrent assets
- Vehicles and office equipment (Note 4) 26,400
- Leasehold interest, noncurrent (Note 3) 213,950
- Investments (Note 5) 67,800
  Total noncurrent assets 308,150

Total assets $427,000

Liabilities and Net Assets

Current liabilities
- Accounts payable and accrued expenses $34,500

Net assets
- Unrestricted 68,150
- Temporarily restricted (Note 9) 266,550
- Permanently restricted (Note 10) 57,800
  Total net assets 392,500

Total liabilities and net assets $427,000

The accompanying notes are an integral part of these financial statements.
Big Brothers of Any County, Inc.

Statement of Activities

Year Ended December 31, 19X4

Changes in Unrestricted Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$91,400</td>
</tr>
<tr>
<td>Program revenue</td>
<td>212,600</td>
</tr>
<tr>
<td>Special events, net of direct costs in the amount of $14,000</td>
<td>22,200</td>
</tr>
<tr>
<td>Donated goods and facilities</td>
<td>34,800</td>
</tr>
<tr>
<td>Donated services</td>
<td>4,500</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>3,050</td>
</tr>
<tr>
<td><strong>Total unrestricted revenue</strong></td>
<td>368,550</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td></td>
</tr>
<tr>
<td>Expiration of time restrictions</td>
<td>27,000</td>
</tr>
<tr>
<td><strong>Total unrestricted revenues and other support</strong></td>
<td>395,550</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Program expenses</td>
<td>335,300</td>
</tr>
<tr>
<td>Management and general</td>
<td>41,350</td>
</tr>
<tr>
<td>Fund-raising expenses</td>
<td>46,050</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>422,700</td>
</tr>
<tr>
<td>Decrease in unrestricted net assets</td>
<td>(27,150)</td>
</tr>
</tbody>
</table>

Changes in Temporarily Restricted Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>18,100</td>
</tr>
<tr>
<td>Donated facilities</td>
<td>248,450</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(27,000)</td>
</tr>
<tr>
<td><strong>Increase in temporarily restricted net assets</strong></td>
<td>239,550</td>
</tr>
</tbody>
</table>

Changes in Permanently Restricted Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to endowment fund</td>
<td>10,000</td>
</tr>
<tr>
<td>Interest income</td>
<td>500</td>
</tr>
<tr>
<td><strong>Increase in permanently restricted net assets</strong></td>
<td>10,500</td>
</tr>
</tbody>
</table>

Increase in Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>222,900</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$222,900</td>
</tr>
</tbody>
</table>

Net Assets at Beginning of Year, Restated (Note 8)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>169,600</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$169,600</td>
</tr>
</tbody>
</table>

Net Assets at End of Year

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>395,550</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$392,500</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Statement of Cash Flows

### Year Ended December 31, 19X4

### Cash Flows From Operating Activities

Increase in net assets $222,900

Adjustments to reconcile change in net assets to net cash used by operating activities:

- Depreciation 8,500
- Contributions restricted for long-term investment (258,450)
- Increase in contribution receivable (3,100)
- Increase in prepaid expenses (2,000)
- Increase in accounts payable and accrued expenses 7,800

Net cash used by operating activities (24,350)

### Cash Flows From Investing Activities

Purchase of office equipment (6,500)

### Cash Flows From Financing Activities

Proceeds from contributions restricted for building fund 10,000

Interest and dividends restricted for reinvestment 500

Net cash provided by financing activities 10,500

### Net Decrease in Cash and Cash Equivalents

(20,350)

### Cash and Cash Equivalents at Beginning of Year 56,800

### Cash and Cash Equivalents at End of Year $36,450

Supplemental data:

- Noncash investing and financing activities:
  - Gift of leasehold rights $248,450

The accompanying notes are an integral part of these financial statements.
### Statement of Functional Expenses

**Year Ended December 31, 19X4**

<table>
<thead>
<tr>
<th></th>
<th>Management and General</th>
<th>Fund-Raising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries</strong></td>
<td>$197,000</td>
<td>$22,000</td>
<td>$241,000</td>
</tr>
<tr>
<td><strong>Rent</strong></td>
<td>36,500</td>
<td>3,000</td>
<td>42,500</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>22,000</td>
<td>2,300</td>
<td>26,600</td>
</tr>
<tr>
<td><strong>Payroll taxes</strong></td>
<td>17,200</td>
<td>1,900</td>
<td>21,000</td>
</tr>
<tr>
<td><strong>Outside services</strong></td>
<td>8,000</td>
<td>9,000</td>
<td>17,000</td>
</tr>
<tr>
<td><strong>Telephone</strong></td>
<td>9,500</td>
<td>1,500</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Office supplies</strong></td>
<td>8,500</td>
<td>2,000</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>6,000</td>
<td>1,250</td>
<td>8,250</td>
</tr>
<tr>
<td><strong>Lease and maintenance</strong></td>
<td>5,600</td>
<td>900</td>
<td>7,500</td>
</tr>
<tr>
<td><strong>Dues</strong></td>
<td>7,000</td>
<td>—</td>
<td>7,000</td>
</tr>
<tr>
<td><strong>Accounting and legal</strong></td>
<td>—</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td><strong>Postage</strong></td>
<td>6,200</td>
<td>1,100</td>
<td>9,300</td>
</tr>
<tr>
<td><strong>Advertising and recruitment</strong></td>
<td>3,600</td>
<td>—</td>
<td>3,600</td>
</tr>
<tr>
<td><strong>Mileage</strong></td>
<td>2,000</td>
<td>300</td>
<td>2,300</td>
</tr>
<tr>
<td><strong>Newsletter</strong></td>
<td>2,500</td>
<td>—</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Awards and recognition</strong></td>
<td>2,500</td>
<td>—</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td>1,200</td>
<td>600</td>
<td>2,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$335,300</td>
<td>$41,350</td>
<td>$422,700</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Big Brothers of Any County, Inc.

Notes to Financial Statements

For the Year Ended December 31, 19X4

Note 1—Nature of Organization and Significant Accounting Policies

Big Brothers of Any County, Inc. (the Organization) is a nonprofit organization dedicated to helping single-parent children by building friendships through a one-on-one matching program with screened adult volunteers.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services, Goods and Facilities

A substantial number of volunteers have donated approximately 20,000 hours to the Organization's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services (which include accounting and legal services) are reflected in the statement of activities at their fair value.

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Conditional Promises to Give

As of December 31, 19X4, the Organization had received conditional promises to give aggregating $13,000 that are contingent upon the Organization's raising matching corporate gifts.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days. At year-end and throughout the year, the organization's cash balances were deposited in several banks. Management believes the organization is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Investments are stated at cost which approximates market value.
Vehicles and Office Equipment

Vehicles and office equipment are carried at cost. Depreciation is computed on the straight-line method.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Organization is a nonprofit corporation whose revenue is derived from contributions and other fund-raising activities and is not subject to federal or state income taxes.

Note 2—Contributions Receivable

- Contributions receivable (in less than one year) $ 52,600
- Less allowance for uncollectible contributions (10,500)

Total $ 42,100

Note 3—Leasehold Interest

In December of 19X4, the Organization received a contribution of leasehold rights for 3,000 square feet of office space for a ten-year term. The Organization’s monthly rent under a signed lease agreement is $1 per month. The present value of the fair market rent of $3,000 per month over the lease term, which was determined using an 8% discount rate, has been recognized as temporarily restricted support in the current year. The amounts are classified as follows:

- Future leasehold rights $ 248,450
- Less current portion—twelve months (34,500)
- Leasehold interest—noncurrent $ 213,950

The expected time expirations on restrictions of leasehold interests are:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X5</td>
<td>$ 34,500</td>
</tr>
<tr>
<td>19X6</td>
<td>31,900</td>
</tr>
<tr>
<td>19X7</td>
<td>29,500</td>
</tr>
<tr>
<td>19X8</td>
<td>27,200</td>
</tr>
<tr>
<td>19X9</td>
<td>25,100</td>
</tr>
<tr>
<td>Thereafter</td>
<td>100,250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 248,450</td>
</tr>
</tbody>
</table>

Note 4—Vehicles and Office Equipment

- Office equipment $ 29,500
- Leasehold improvements 12,400
- Vehicles 14,300

Less accumulated depreciation

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>56,200</td>
</tr>
<tr>
<td></td>
<td>(29,800)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 26,400</td>
</tr>
</tbody>
</table>

Note 5—Investments

The Organization’s investments at December 31, 19X4 included approximately $57,800 of equity securities and $10,000 of State of Israel Bonds.
Note 6—Lease Commitments

The Organization leased its Any City office facilities under a noncancellable operating lease which expired December 31, 19X4. Rental expense for the year ended December 31, 19X4 including common area expenses was $42,500.

In December 19X4, the Organization signed a lease agreement for new office facilities for a term of ten years. The Organization may cancel the lease at any time with a 30-day notice. See also note 3.

Note 7—Functional Allocation of Expenses

The costs of providing the various programs, fund-raising and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fund-raising activities benefited.

Note 8—Change in Accounting Method

During 19X4, the Organization adopted the accounting treatment prescribed by Statement on Financial Accounting Standards (SFAS) No. 116, Accounting for Contributions Received and Contributions Made, and SFAS No. 117, Financial Statements for Not-for-Profit Organizations. In accordance with SFAS No. 116, contributions received are recorded as unrestricted support depending on the existence and/or nature of any donor restrictions. As permitted by SFAS No. 116, the Organization may retroactively apply the provisions of this new statement by restating the net assets as of December 31, 19X3. The adjustment of $27,000 made to net assets as of December 31, 19X3, represents contributions not previously reported.

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, beginning</td>
<td>$89,850</td>
<td>—</td>
<td>$52,750</td>
<td>$142,600</td>
</tr>
<tr>
<td>as previously stated</td>
<td></td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption of SFAS No.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>116</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets, beginning</td>
<td>$89,850</td>
<td>$27,000</td>
<td>$52,750</td>
<td>$169,600</td>
</tr>
<tr>
<td>restated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 9—Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following specific program services:

- Contributions receivable for the Combined Federal Campaign $18,100
- Donated facilities available for future years 248,450

$266,550

Note 10—Permanently Restricted Assets

Permanently restricted assets of $57,800 are restricted to investments in perpetuity, the income from which is expendable to support the Combined Federal Campaign.
EXHIBIT 2—SFAS 116 and 117 have not been adopted

Independent Auditor’s Report

The Board of Directors
Sample Independent School

We have audited the accompanying balance sheet of Sample Independent School as of June 30, 19X2, and the related statements of support and revenues, expenses, capital additions, and changes in fund balances and changes in financial position for the fiscal year then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Independent School as of June 30, 19X2, and the results of its operations and changes in its financial position for the fiscal year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]
The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

EXHIBIT 2—SFAS 116 and 117 have not been adopted

SAMPLE INDEPENDENT SCHOOL

.03 Balance Sheet

June 30, 19X2

<table>
<thead>
<tr>
<th></th>
<th>Operating Funds</th>
<th>Plant Funds</th>
<th>Endowment Funds</th>
<th>Total All Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$87,000</td>
<td>$15,000</td>
<td>$19,000</td>
<td>$121,000</td>
</tr>
<tr>
<td>Accounts receivable, less allowance for doubtful receivables of $3,000</td>
<td>34,000</td>
<td>—</td>
<td>—</td>
<td>34,000</td>
</tr>
<tr>
<td>Pledges receivable, less allowance for doubtful pledges of $10,000</td>
<td>—</td>
<td>75,000</td>
<td>—</td>
<td>75,000</td>
</tr>
<tr>
<td>Inventories, at lower of cost (FIFO) or market</td>
<td>7,000</td>
<td>—</td>
<td>—</td>
<td>7,000</td>
</tr>
<tr>
<td>Investments (Note 2)</td>
<td>355,000</td>
<td>10,000</td>
<td>100,000</td>
<td>465,000</td>
</tr>
<tr>
<td>Land, buildings, equipment, and library books, at cost less accumulated depreciation of $980,000 (Note 3)</td>
<td>—</td>
<td>2,282,000</td>
<td>—</td>
<td>2,282,000</td>
</tr>
<tr>
<td>Other assets</td>
<td>17,000</td>
<td>—</td>
<td>—</td>
<td>17,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$500,000</td>
<td>$2,382,000</td>
<td>$119,000</td>
<td>$3,001,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Operating Funds</th>
<th>Plant Funds</th>
<th>Endowment Funds</th>
<th>Total All Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and Fund Balances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>13,000</td>
<td>—</td>
<td>—</td>
<td>13,000</td>
</tr>
<tr>
<td>Deferred amounts (Note 6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>unrestricted</td>
<td>86,000</td>
<td>—</td>
<td>—</td>
<td>86,000</td>
</tr>
<tr>
<td>restricted</td>
<td>27,000</td>
<td>100,000</td>
<td>—</td>
<td>127,000</td>
</tr>
<tr>
<td>long-term debt (Note 4)</td>
<td></td>
<td>—</td>
<td>131,000</td>
<td>131,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>126,000</td>
<td>231,000</td>
<td>—</td>
<td>357,000</td>
</tr>
</tbody>
</table>

| Fund balances          |                 |             |                 |                |
| unrestricted           | 355,000         | —           | —               | 355,000        |
| designated by the governing board for long-term investment | 19,000 | — | — | 19,000 |
| undesignated           | 374,000         | —           | —               | 374,000        |
| restricted—nonexpendable |                 |             | $119,000        | 119,000        |
| net investment in plant |                 | 2,151,000   | —               | 2,151,000      |
| total fund balances    | 374,000         | 2,151,000   | 119,000         | 2,644,000      |
| total liabilities and fund balances | $500,000 | $2,382,000 | $119,000 | $3,001,000 |

The accompanying notes are an integral part of these financial statements.
## Statement of Support and Revenues, Expenses, Capital Additions, and Changes in Fund Balances

### Year Ended June 30, 19X2

<table>
<thead>
<tr>
<th></th>
<th>Operating Funds</th>
<th>Plant Funds</th>
<th>Endowment Funds</th>
<th>Total All Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Restricted</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Support and Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$ 910,000</td>
<td>—</td>
<td>$ 910,000</td>
<td>$ 910,000</td>
</tr>
<tr>
<td>Contributions</td>
<td>104,000</td>
<td>$80,500</td>
<td>184,500</td>
<td>184,500</td>
</tr>
<tr>
<td>Endowment and other investment income</td>
<td>23,000</td>
<td>1,500</td>
<td>24,500</td>
<td>24,500</td>
</tr>
<tr>
<td>Net loss on investment transactions</td>
<td>(8,000)</td>
<td>—</td>
<td>(8,000)</td>
<td>(8,000)</td>
</tr>
<tr>
<td>Auxiliary activities</td>
<td>25,000</td>
<td>—</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Summer school and other programs</td>
<td>86,000</td>
<td>—</td>
<td>86,000</td>
<td>86,000</td>
</tr>
<tr>
<td>Other sources</td>
<td>26,000</td>
<td>—</td>
<td>26,000</td>
<td>26,000</td>
</tr>
<tr>
<td><strong>Total support and revenues</strong></td>
<td>1,166,000</td>
<td>82,000</td>
<td>1,248,000</td>
<td>1,248,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction and student activities</td>
<td>798,000</td>
<td>43,000</td>
<td>841,000</td>
<td>910,000</td>
</tr>
<tr>
<td>Auxiliary activities</td>
<td>24,000</td>
<td>—</td>
<td>24,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Summer school and other programs</td>
<td>91,000</td>
<td>—</td>
<td>91,000</td>
<td>98,000</td>
</tr>
<tr>
<td>Financial aid</td>
<td>—</td>
<td>37,000</td>
<td>37,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total program services</strong></td>
<td>913,000</td>
<td>80,000</td>
<td>993,000</td>
<td>1,072,000</td>
</tr>
<tr>
<td>Supporting services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General administration</td>
<td>147,000</td>
<td>2,000</td>
<td>149,000</td>
<td>162,000</td>
</tr>
<tr>
<td>Fund raising</td>
<td>12,000</td>
<td>—</td>
<td>12,000</td>
<td>13,000</td>
</tr>
<tr>
<td><strong>Total supporting services</strong></td>
<td>159,000</td>
<td>2,000</td>
<td>161,000</td>
<td>175,000</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>1,072,000</td>
<td>82,000</td>
<td>1,154,000</td>
<td>1,247,000</td>
</tr>
<tr>
<td><strong>Excess (deficiency) of support and revenues over expenses before capital additions</strong></td>
<td>94,000</td>
<td>—</td>
<td>94,000</td>
<td>94,000</td>
</tr>
<tr>
<td>Capital additions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and bequests</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>80,000</td>
</tr>
<tr>
<td>Investment income</td>
<td>—</td>
<td>—</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Net gain on investment transactions</td>
<td>—</td>
<td>—</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total capital additions</strong></td>
<td>—</td>
<td>—</td>
<td>86,000</td>
<td>86,000</td>
</tr>
<tr>
<td><strong>Excess (deficiency) of support and revenues over expenses after capital additions</strong></td>
<td>94,000</td>
<td>—</td>
<td>94,000</td>
<td>94,000</td>
</tr>
<tr>
<td><strong>Fund balances at beginning of year</strong></td>
<td>387,000</td>
<td>—</td>
<td>387,000</td>
<td>2,047,000</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment acquisitions and principal debt service payments</td>
<td>(111,000)</td>
<td>—</td>
<td>(111,000)</td>
<td>111,000</td>
</tr>
<tr>
<td>Realized gains on endowment funds utilized</td>
<td>4,000</td>
<td>—</td>
<td>4,000</td>
<td>(4,000)</td>
</tr>
<tr>
<td><strong>Fund balances at end of year</strong></td>
<td>$ 374,000</td>
<td>—</td>
<td>$ 374,000</td>
<td>$2,151,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Sample Independent School

### Statement of Changes in Financial Position

#### Year Ended June 30, 19X2

<table>
<thead>
<tr>
<th>Resources Provided</th>
<th>Operating Funds</th>
<th>Plant Funds</th>
<th>Endowment Funds</th>
<th>Total All Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess (deficiency) of support and revenues over expenses before capital additions</td>
<td>$94,000</td>
<td>$(93,000)</td>
<td>—</td>
<td>$1,000</td>
</tr>
<tr>
<td><strong>Capital additions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and bequests</td>
<td>—</td>
<td>80,000</td>
<td>$30,000</td>
<td>110,000</td>
</tr>
<tr>
<td>Investment income</td>
<td>—</td>
<td>5,000</td>
<td>—</td>
<td>5,000</td>
</tr>
<tr>
<td>Net gain on investments</td>
<td>—</td>
<td>1,000</td>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Excess (deficiency) of support and revenue over expenses after capital additions</td>
<td>94,000</td>
<td>(7,000)</td>
<td>32,000</td>
<td>119,000</td>
</tr>
<tr>
<td><strong>Items not using (providing) resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for depreciation</td>
<td>—</td>
<td>93,000</td>
<td>—</td>
<td>93,000</td>
</tr>
<tr>
<td>Net (gain) loss on investment transactions</td>
<td>8,000</td>
<td>(1,000)</td>
<td>(2,000)</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Decrease in inventories</strong></td>
<td>2,000</td>
<td>—</td>
<td>—</td>
<td>2,000</td>
</tr>
<tr>
<td>Increase in deferred amounts</td>
<td>3,000</td>
<td>75,000</td>
<td>—</td>
<td>78,000</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>160,000</td>
<td>2,000</td>
<td>47,000</td>
<td>209,000</td>
</tr>
<tr>
<td><strong>Total resources provided</strong></td>
<td>267,000</td>
<td>162,000</td>
<td>77,000</td>
<td>506,000</td>
</tr>
<tr>
<td>Resources Used</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of equipment</td>
<td>—</td>
<td>145,000</td>
<td>—</td>
<td>145,000</td>
</tr>
<tr>
<td>Reduction of long-term debt</td>
<td>—</td>
<td>52,000</td>
<td>—</td>
<td>52,000</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>210,000</td>
<td>6,000</td>
<td>136,000</td>
<td>352,000</td>
</tr>
<tr>
<td><strong>Increase in other assets</strong></td>
<td>1,000</td>
<td>—</td>
<td>—</td>
<td>1,000</td>
</tr>
<tr>
<td>Increase in accounts and pledges receivable</td>
<td>3,000</td>
<td>60,000</td>
<td>—</td>
<td>63,000</td>
</tr>
<tr>
<td><strong>Decrease in accounts payable and accrued expenses</strong></td>
<td>3,000</td>
<td>—</td>
<td>—</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total resources used</strong></td>
<td>217,000</td>
<td>263,000</td>
<td>136,000</td>
<td>616,000</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equipment acquisitions and principal debt service payments</strong></td>
<td>(111,000)</td>
<td>111,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Realized gains on endowment funds utilized</strong></td>
<td>4,000</td>
<td>—</td>
<td>(4,000)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total transfers</strong></td>
<td>(107,000)</td>
<td>111,000</td>
<td>(4,000)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash</strong></td>
<td>$(57,000)</td>
<td>$10,000</td>
<td>$(63,000)</td>
<td>$(110,000)</td>
</tr>
</tbody>
</table>

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

---

1 FSP section 9100.01.
Note 1—Summary of Significant Accounting Policies

The financial statements of Sample Independent School ("School") have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the school, the accounts of the school are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and fund balances of the school are reported in three self-balancing fund groups as follows:

- Operating funds, which include unrestricted and restricted resources, represent the portion of expendable funds that is available for support of school operations.
- Plant funds represent resources restricted for plant acquisitions and funds expended for plant.
- Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be used.

Expendable Restricted Resources

Operating and plant funds restricted by the donor, grantor, or other outside party for particular operating purposes or for plant acquisitions are deemed to be earned and reported as revenues of operating funds or as additions to plant funds, respectively, when the school has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred amounts.

Plant Assets and Depreciation

Uses of operating funds for plant acquisitions and principal debt service payments are accounted for as transfers to plant funds. Proceeds from the sale of plant assets, if unrestricted, are transferred to operating fund balances, or, if restricted, to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned the assets. Ordinary income from investments, receivables, and the like is accounted for in the fund owning the assets, except for income derived from investments of endowment funds, which is accounted for, if unrestricted, as revenue of the expendable operating fund or, (a) if restricted by purpose, as deferred revenue of the operating fund until the terms of the restriction have been met and (b) if required to be added to endowment principal, as capital additions.

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as receivables in the year made. Pledges for support of current operations are recorded as operating fund support. Pledges for support of
future operations and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

**Note 2—Investments**

Investments are presented in the financial statements in the aggregate at the lower of cost (amortized, in the case of bonds) or fair market value.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating funds</td>
<td>$355,000</td>
<td>$365,000</td>
</tr>
<tr>
<td>Plant funds</td>
<td>10,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Endowment funds</td>
<td>100,000</td>
<td>109,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$465,000</td>
<td>$485,000</td>
</tr>
</tbody>
</table>

Investments are composed of the following:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate stocks and bonds</td>
<td>$318,000</td>
<td>$320,000</td>
</tr>
<tr>
<td>U.S. government obligations</td>
<td>141,000</td>
<td>159,000</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$465,000</td>
<td>$485,000</td>
</tr>
</tbody>
</table>

The following tabulation summarizes the relationship between carrying values and market values of investment assets.

<table>
<thead>
<tr>
<th></th>
<th>Carrying Value</th>
<th>Market Value</th>
<th>Excess of Market Over Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at end of year</td>
<td>$465,000</td>
<td>$485,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>$327,000</td>
<td>$335,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Increase in unrealized appreciation</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized net loss for year</td>
<td></td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>Total net gain for year</td>
<td></td>
<td>$7,000</td>
<td></td>
</tr>
</tbody>
</table>

The average annual yield exclusive of net gains (losses) was 7% and the annual total return based on market value was 9% for the year ended June 30, 19X2.

**Note 3—Plant Assets and Depreciation**

A summary of plant assets follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$255,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>2,552,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>340,000</td>
</tr>
<tr>
<td>Library books</td>
<td>115,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,262,000</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>980,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,282,000</td>
</tr>
</tbody>
</table>

**Note 4—Long-Term Debt**

A summary of long-term debt follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>71/2% unsecured notes payable to bank due in quarterly installments of $2,500</td>
<td>$29,000</td>
</tr>
<tr>
<td>81/2% mortgage payable in semiannual installments of $3,500 through 20Y6</td>
<td>102,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$131,000</td>
</tr>
</tbody>
</table>
Aggregate maturities of long-term debt are summarized as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X3</td>
<td>$17,000</td>
</tr>
<tr>
<td>19X4</td>
<td>17,000</td>
</tr>
<tr>
<td>19X5</td>
<td>16,000</td>
</tr>
<tr>
<td>19X6</td>
<td>7,000</td>
</tr>
<tr>
<td>19X7</td>
<td>7,000</td>
</tr>
<tr>
<td>19X8 and after</td>
<td>$67,000</td>
</tr>
<tr>
<td></td>
<td>$131,000</td>
</tr>
</tbody>
</table>

Note 5—Pension Plans and Other Postretirement Benefit Plans

The School has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The School's funding policy is to contribute annually at a rate that is intended to remain a level percentage of compensation for the covered employees (presently 12%). Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the School's financial statements at June 30, 19X2:

<table>
<thead>
<tr>
<th>Funded status of plan:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial present value of benefit obligations:</td>
</tr>
<tr>
<td>Accumulated benefit obligation, including vested benefits of $250,000</td>
</tr>
<tr>
<td>Projected benefit obligation for service rendered to date</td>
</tr>
<tr>
<td>Assets available for benefits:</td>
</tr>
<tr>
<td>Plan assets at fair value, primarily listed stocks and U.S. government securities</td>
</tr>
<tr>
<td>Plan assets in excess of projected benefit obligation</td>
</tr>
<tr>
<td>Unrecorded net gain from past experience different from that assumed and effects of changes in assumptions</td>
</tr>
<tr>
<td>Unrecognized net obligation at January 1, 19X1 being recognized over 15 years</td>
</tr>
<tr>
<td>Prepaid pension cost included in other assets</td>
</tr>
</tbody>
</table>

Net pension expense included the following components:

<table>
<thead>
<tr>
<th>19X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost—benefits earned during the year</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
</tr>
<tr>
<td>Amortization of unrecognized net obligation</td>
</tr>
<tr>
<td>Net periodic pension expense</td>
</tr>
</tbody>
</table>

The weighted-average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 6% and 5%, respectively. The expected long-term rate of return on assets was 8%.

The School also sponsors a defined contribution postretirement health care plan covering substantially all of its employees. The School's contributions and cost are determined annually as 2% of each covered employee's salary and totalled $31,000 in 19X2.
Note 6—Changes in Deferred Restricted Amounts

<table>
<thead>
<tr>
<th></th>
<th>Operating Funds</th>
<th>Plant Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances at beginning of year</td>
<td>$ 24,000</td>
<td>$ 25,000</td>
</tr>
<tr>
<td>Additions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions and bequests</td>
<td>79,000</td>
<td>158,000</td>
</tr>
<tr>
<td>Investment income</td>
<td>6,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Net gain on investment transactions</td>
<td>—</td>
<td>2,000</td>
</tr>
<tr>
<td>Deductions—funds expended during the year</td>
<td>109,000</td>
<td>186,000</td>
</tr>
<tr>
<td>Balances at end of year</td>
<td>$ 27,000</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Note 7—Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses, capital additions, and changes in fund balances. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 8—Commitments

The school has entered into various agreements aggregating approximately $80,000 for the purchase of equipment to be received subsequent to June 30, 19X2.

Note 9—Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the School’s programs, principally in instruction and student activities. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Note 10—Allocation of Joint Costs

In 19X2, the School incurred joint costs of $33,000 for informational materials and activities that included fund-raising appeals. Those costs were allocated as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction and student activities</td>
<td>$26,000</td>
</tr>
<tr>
<td>Fund raising</td>
<td>7,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$33,000</strong></td>
</tr>
</tbody>
</table>

Note 11—Income Taxes

The School is a tax-exempt organization under the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.
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