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Checklists and illustrative financial statements for health care providers : a financial accounting and reporting practice aid, May 1995 edition

American Institute of Certified Public Accountants. Technical Information Division

Moshe S. Levitin

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AICPA

**MAY 1995
EDITION**

Checklists and Illustrative Financial Statements for Health Care Providers

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

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

AICPA

**MAY 1995
EDITION**

Checklists and Illustrative Financial Statements for Health Care Providers

JUL 14 1995

*A Financial Accounting and
Reporting Practice Aid*

*Edited by
Moshe S. Levitin, CPA
Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for Health
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FSP Section 21,000

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR HEALTH CARE PROVIDERS

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements deemed remote for audits of health care providers 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 through FASB Statement No. 120, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position No. 95-1, AICPA Statement on Auditing Standards No. 74, AICPA Statement on Standards for Accounting and Review Services No. 7, EITF Consensuses adopted up to and including the January 19, 1995 Emerging Issues Task Force meeting, and AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services* (with conforming changes as of May 1, 1994). 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 (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 116 changes the accounting for contributions as presently set forth in SOP 78-10 and in the *Audits of Providers of Health Care Services Guide*. SFAS No. 117 establishes standards for not-for-profit organizations general purpose external financial statements. SFAS Nos. 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, the Statements are effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged. Disclosures relating to those Statements are presented in Exhibit B.
- 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.

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

Note: This publication was extracted from sections 21,000 through 21,500 of the *AICPA Financial Statement Preparation Manual (FSP)*.

FSP Section 21,100

Introduction

.01 Health care costs, as well as the number of people requiring health care services, have consistently risen. As a result, many health care providers are relying more heavily on debt financing to meet capital needs creating a greater need for accountability to creditors and investors.

.02 Health care entities may be classified by sponsorship or legal structure within three broad categories: voluntary (not-for-profit), governmental, and investor- (or operator-) owned.

Voluntary (not-for-profit): an entity that operates under the direction of governing boards. Usually exempt from federal and state income taxes if operated exclusively for religious, charitable, scientific or educational purposes, the entity may be further classified as community-based, religious affiliated or university-sponsored.

Governmental: often called public health care entities, the entity is owned and operated by federal, state, city or county governments or other political subdivisions.

Investor- (or Operator-) Owned: a health care entity that operates as a stock corporation, partnership or sole proprietorship.

.03 Health care entities include, but are not limited to, the following:

- Clinics, medical group practices, individual practitioners and practice associations, and other ambulatory care organizations.
- Continuing care retirement communities (CCRCs).
- Health maintenance organizations and similar prepaid health care plans.
- Home health agencies.
- Hospitals.
- Nursing homes that provide skilled, intermediate, and less intensive levels of health care.
- Parent, holding and other organizations that primarily plan, organize and oversee health care services.

Legislation and Regulation

.04 Significant aspects of health care entity operations are affected by government legislation and regulation with many states adopting laws governing the granting of licenses, as well as scope of services to be rendered. In addition, many independent organizations and governmental agencies, including Medicare and Medicaid, evaluate programs and services of health care entities to determine compliance with set standards.

Basic Financial Statements

.05 The basic financial statements of not-for-profit and governmental health care entities generally consist of a balance sheet, statement of revenues and expenses of general funds, statement of changes in fund balances, and a statement of cash flows of general funds (and restricted funds of governmental entities). The basic financial statements of investor-owned health care entities are similar to those of other investor-owned entities. Aggregated (combined fund) and disaggregated (layered fund) balance sheets are acceptable alternatives to reporting financial position of not-for-profit health care entities and governmental hospitals.

Applicability of the Checklist

06. This checklist, and the illustrative financial statements included herein, follow the guidance contained in the May, 1994 edition of the AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services*. Although the Guide applies also to state and local government-owned health care providers, this checklist does not include disclosures or sample financial statements of government-owned providers. Governmental health care providers should follow the interim guidance in the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, until the GASB completes its project on business-type activities. Governmental proprietary activities should apply all applicable GASB pronouncements as well as any Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Furthermore, paragraph 7 of GASB Statement No. 20 provides that governmental proprietary activities may apply all FASB Statements and Interpretations issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Entities that choose to apply these "new" FASB pronouncements must apply them on an "all or none" basis (that is, they may not select which pronouncements to apply).

07. On April 14, 1995, the AICPA issued an exposure draft on a new Audit and Accounting Guide, *Health Care Organizations* (the proposed Guide), that would supersede the existing Guide and also Statements of Position (SOPs), 89-5, *Financial Accounting and Reporting by Providers of Prepaid Health Care Services*, and 90-8, *Financial Accounting and Reporting by Continuing Care Retirement Communities*. The requirements in the proposed Guide, inasmuch as they pertain to governmental health care providers, generally apply to providers who apply paragraph 7 of GASB Statement No. 20 (see previous paragraph). The deadline for comments on the proposed Guide is August 14, 1995.

08. Health care providers who choose to early adopt the provisions of FASB Statements No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*, should consider the items in Exhibit B of this Checklist in addition to the other appropriate disclosures contained in the Checklist.

09. The GASB has issued an exposure draft of a proposed Statement, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. The proposed Statement would provide that proprietary activities that apply the provisions of paragraph 7 of GASB Statement No. 20 should apply only those "new" FASB Statements and Interpretations that are developed for business enterprises, rather than those whose provisions are limited to not-for-profit organizations or address issues primarily concerning such organizations (such as FASB Statements No. 116 and 117).

10. Not-for-profit health care providers that receive federal financial assistance may be required to have an audit conducted in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of Organizations of Higher Education and Other Nonprofit Organizations*. Section 21,500 includes a checklist for auditor's reports for audits performed under OMB Circular A-133.

FSP Section 21,200

Checklists—General

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

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, and Accounting Research Bulletins. Some checklists also include references to FASB Interpretations, Statements of Position, and the AICPA Audit and Accounting Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

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

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

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

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

FSP Section 21,300

Financial Statements and Notes Checklist

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

.02 Explanation of References:

- AAG = AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services* (with conforming changes as of May 1, 1994)
- AC = Reference to section number in FASB *Accounting Standards—Current Text*
- APB = AICPA Accounting Principles Board Opinion
- ARB = AICPA Accounting Research Bulletin
- AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
- FASBI = FASB Interpretation
- FASCON = FASB Statement of Financial Accounting Concepts
- SAS = AICPA Statement on Auditing Standards
- SFAS = FASB Statement of Financial Accounting Standards
- SOP = AICPA Statement of Position
- TB = FASB Technical Bulletin

.03 Checklist Questionnaire

Yes No N/A

I. Accounting Principles of Display and Disclosure

A. Fund Accounting

1. General funds

- | | | | |
|---|-------|-------|-------|
| a. For classified balance sheets, are assets and liabilities classified as current and noncurrent, with totals presented for current assets and current liabilities?
[AAG, par. 3.04; ARB 43, Ch. 3A (AC B05.103—.109); SFAS 6, par. 15 (AC B05.118); TB 79-3 (AC B05.501—.503)] | _____ | _____ | _____ |
| b. Are agency funds (assets owned by others under agency relationships (such as patients or physicians) and their related liabilities) reported in the general funds? | _____ | _____ | _____ |
| c. Are transactions involving receipt and disbursement of agency funds excluded from the results of operations?
[AAG, par. 3.06] | _____ | _____ | _____ |
| d. Is property and equipment used for general operations (and related liabilities) reported in the general funds? | _____ | _____ | _____ |
| e. Is property and equipment not used for general operations (such as property acquired for future expansion or investment purposes) presented as a separate item in the general funds?
[AAG, pars. 3.07 and 8.06] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Donor-restricted funds			
a. Is donor-restricted property and equipment (such as real estate investments of endowment funds) reported in the appropriate donor-restricted fund? [AAG, pars. 3.07 and 8.07]	_____	_____	_____
b. Are resources restricted by donors for additions to property and equipment reported in restricted plant replacement and expansion funds?	_____	_____	_____
c. Are plant replacement and expansion funds reported in the statement of changes in fund balances when expenditures are incurred for the purpose intended by the donor? [AAG, par. 3.10]	_____	_____	_____
d. Do "term endowment funds" include resources whose principal may be expended after the donor-imposed time or after other restrictions are satisfied?	_____	_____	_____
e. Is all pertinent information about term endowment funds (such as term and purposes) disclosed in the notes?	_____	_____	_____
f. Are term endowment funds available for unrestricted purposes reported in the statement of revenues and expenses?	_____	_____	_____
g. Are term endowment funds that became available, but are further restricted under the term endowment provisions, shown as a reclassification to the appropriate donor-restricted fund in the statement of changes in fund balances? [AAG, par. 3.11]	_____	_____	_____
h. Do endowment funds include resources whose principal may not be expended? [AAG, par. 3.13]	_____	_____	_____
B. Donated Funds Held in Trust			
1. If donated resources are held in a trust (by an independent trustee), of which the provider is not the remainderman:			
a. Are they excluded from the balance sheet?	_____	_____	_____
b. Is their existence disclosed? [AAG, par. 3.14]	_____	_____	_____
2. Is disclosure considered of the right to future income and the principal held in trust? [AAG, par. 3.15]	_____	_____	_____
3. If the provider received a distribution, is it reported in accordance with the terms of the trust or agreement with the trustee? [AAG, par. 3.15]	_____	_____	_____
4. If the provider is the remainderman, are the donated funds reported as assets (depending on the terms of the trust document)? [AAG, par. 3.16]	_____	_____	_____
C. Financial Statements			
1. For not-for-profit and governmental providers, do the basic financial statements include:			
a. A balance sheet?	_____	_____	_____
b. A statement of revenues and expenses of general funds?	_____	_____	_____
c. A statement of changes in fund balances?	_____	_____	_____
d. A statement of cash flows of general funds (and restricted funds of governmental entities)? [AAG, par. 3.24]	_____	_____	_____
2. For investor-owned providers, are the basic financial statements similar to those of other investor-owned providers? [AAG, par. 3.24]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
II. Cash and Cash Equivalents			
A. General			
1. Is restricted cash appropriately segregated from cash available for current operations? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
2. Are restrictions on cash (such as for plant acquisition, debt reduction or working capital maintenance) appropriately disclosed? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
B. Personal Fund Accounts			
1. Are personal funds of patients, residents and others under an agency arrangement reported as assets and corresponding liabilities in the balance sheet? [AAG, par. 5.06]	_____	_____	_____
2. Is the amount of personal funds reported as assets disclosed parenthetically on the balance sheet or in the notes? [AAG, par. 5.06]	_____	_____	_____
C. Cash Equivalents			
1. Is the policy for determining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
III. Investments¹ (Not-for-Profit Entities see Exhibit A)			
A. General			
1. Are investments of general funds reported as current or noncurrent assets in conformity with GAAP? [AAG, par. 6.01]	_____	_____	_____
2. Are the appropriate disclosures made for investments in common stock accounted for by the equity method? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. Are other securities (such as real estate) reported at amortized cost, or at lower of cost or market if an impairment in value is deemed to be other than temporary? [AAG, par. 6.02c]	_____	_____	_____
B. Debt and Equity Securities¹ (Not-for-Profit Entities see Exhibit A)			
1. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each balance sheet presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrealized holding gains or losses?	_____	_____	_____
c. Amortized cost basis?	_____	_____	_____
d. Disclosure of major-security types, including:			
(1) Equity securities?	_____	_____	_____
(2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?	_____	_____	_____
(3) Debt securities issued by states of the U.S. and political subdivisions of the states?	_____	_____	_____
(4) Debt securities issued by foreign governments?	_____	_____	_____
(5) Corporate-backed securities?	_____	_____	_____
(6) Mortgage-backed securities?	_____	_____	_____
(7) Other debt securities?	_____	_____	_____

¹ SFAS 115 is not applicable to not-for-profit health care providers. Not-for-profit health care providers should continue to follow the guidance in section 6.02 of the AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services*. See also Exhibit A to this checklist.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(8) Other security types, as deemed appropriate? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
2. For investments in debt securities classified as available-for-sale or held-to-maturity is:			
a. Disclosure made about their contractual maturities, as of the date of the latest balance-sheet date presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. Disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:			
(1) Within one year?	_____	_____	_____
(2) After one year through five years?	_____	_____	_____
(3) After five years through ten years?	_____	_____	_____
(4) After ten years? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
3. Is consideration given to separate disclosure for securities not due at a single date and the basis for allocation if such securities are allocated? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
4. Are realized gains or losses on the sale of investments of endowment funds added to or deducted from the funds' principal (unless such amounts are legally available for other use or chargeable to other funds)? [AAG, par. 6.13]	_____	_____	_____
5. Are income and net realized gains or losses on investments of restricted funds (other than endowment funds) added to or deducted from the respective fund balance (unless such amounts are legally available for other use or chargeable to other funds)?	_____	_____	_____
a. If such amounts are legally available for unrestricted purposes, are they reported in the statement of revenues and expenses?	_____	_____	_____
b. Are gains or losses on investment trading between general and restricted funds and between various categories of restricted funds (such as between endowment and plant expansion funds) separately disclosed in the financial statements? [AAG, par. 6.14]	_____	_____	_____

IV. Receivables

1. Are charity care revenue and receivables excluded from the financial statements? [AAG, par. 7.02]	_____	_____	_____
2. Are differences between the estimates originally reported and final settlements:			
a. Included in the statement of revenues and expenses (statement of operations) in the period the settlements are made?	_____	_____	_____
b. Reported in the current period unless they meet the criteria for prior-period adjustments? [AAG, par. 7.09; SFAS 16 (AC A35)]	_____	_____	_____
3. Are advances from third-party payors reported as a liability (unless the right of setoff against a related receivable applies)? [AAG, par. 7.11]	_____	_____	_____
4. Are deposits received from individuals reported as a liability (to the extent that a right of setoff does not exist)? [AAG, par. 7.12]	_____	_____	_____
5. Are receivables (less an allowance for uncollectibles, discounts, and contractual adjustments) reported as current assets in the general funds?	_____	_____	_____
a. If the terms of payment are extended beyond one year from the balance-sheet date, is that portion classified as noncurrent?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Is consideration given to segregating amounts due from third-party payors for retroactive adjustments of items (such as final settlements or appeals)? [AAG, par. 7.16]	_____	_____	_____
6. If financial statements present assets and liabilities by fund groups:			
a. Are interfund receivables or payables reported separately by fund?	_____	_____	_____
b. In a classified balance sheet, are they reported as current or noncurrent in general funds? [AAG, par. 7.17]	_____	_____	_____
7. If financial statements do not present assets and liabilities by fund groups, are interfund receivables and payables eliminated? [AAG, par. 7.17]	_____	_____	_____
8. Are circumstances and terms of formal interfund borrowing agreements disclosed? [AAG, par. 7.17]	_____	_____	_____
9. Are pledges reported in the period in which they were made?	_____	_____	_____
a. Are pledges reported net of an allowance for uncollectible amounts?	_____	_____	_____
b. Are unrestricted pledges reported in the statement of revenues and expenses (statement of operation)?	_____	_____	_____
c. If a portion of a pledge is to be applied during some future period, is that part reported in the general fund in the period in which it is received as deferred revenue or, if restricted, as an addition to donor-restricted funds?	_____	_____	_____
d. If pledges are restricted in any other way, are they reported as additions to donor-restricted funds? [AAG, par. 7.18]	_____	_____	_____
10. Are all receivables reported net of any related allowance for uncollectible amounts, with appropriate disclosure? [AAG, par. 7.19; APB 12, par. 3 (AC V18.102)]	_____	_____	_____
11. Are accounts and notes receivable from officers, employees, and affiliated organizations shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	_____	_____	_____

V. Property and Equipment, Supplies, and Other Assets

1. Is property and equipment that is donor-restricted (such as property received as a donation to endowment funds) reported as a restricted asset? [AAG, par. 8.07]	_____	_____	_____
2. Are donor or legal restrictions on the proceeds from the disposition of property and equipment disclosed? [AAG, par. 8.06]	_____	_____	_____
3. For depreciable assets, do the financial statements or notes disclose:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
4. Do disclosures include the method and period of amortization of intangible assets? [APB 22, par. 13 (AC A10.106)]	_____	_____	_____
5. In a classified balance sheet:			
a. Are deferred tax assets classified as current or noncurrent based on the classification of the related asset or liability for financial reporting? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Are deferred tax assets not related to an asset or liability for financial reporting (including those related to carryforwards) classified according to the expected reversal date of the temporary difference? [SFAS 109, pars. 41 and 288p (AC I27.140)]	_____	_____	_____
c. Is the valuation allowance for a particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
d. Are the following items offset and presented as a single amount for a particular taxpaying component and within a particular taxpaying jurisdiction:			
(1) All current deferred tax liabilities and assets?	_____	_____	_____
(2) All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (AC I27.141)]	_____	_____	_____
6. Are the totals of (a) all deferred tax assets and (b) the related valuation allowance recognized in the balance sheet disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
7. Is an asset (prepaid pension cost) recognized if net periodic pension cost is less than amounts the employer has contributed to the plan? [SFAS 87, par. 35 (P16.129)]	_____	_____	_____
8. If an additional minimum pension liability is recognized, 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. 36—37 (AC P16.130—.131)]	_____	_____	_____
VI. Current Liabilities, Notes Payable, and Other Debt			
A. Current Liabilities			
1. Do current liabilities include:			
a. Obligations for items that enter the operating cycle?	_____	_____	_____
b. Collections received in advance of the performance of services?	_____	_____	_____
c. Debts that arise from operations directly related to the operating cycle?	_____	_____	_____
d. Other liabilities whose regular and ordinary liquidation is likely 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)]	_____	_____	_____
2. Do current liabilities exclude short-term obligations that the provider intends to refinance on a long-term basis, provided the provider has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8—14 (AC B05.112—.116)]	_____	_____	_____
B. Notes Payable and Other Debt			
1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures (such as assets pledged as collateral, and covenants to reduce debt, and maintain working capital)? [FASCON 5, par. 11; SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
2. Are the combined aggregate amounts of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If 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 expense?	_____	_____	_____
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
4. Are debt conversion features (such as rates and pertinent dates) disclosed? [FASCON 5, par. 11; APB 14 (AC D10)]	_____	_____	_____
5. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]	_____	_____	_____
6. For troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms and/or the major features of settlement?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
d. Per-share amount, if applicable, of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	_____	_____	_____
7. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
8. If there is an early extinguishment of debt, is the difference between reacquisition price and carrying amount identified as a separate or extraordinary item? [SFAS 4, par. 8; SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
9. If debt is considered to be extinguished early, do disclosures include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	_____	_____	_____
10. Are long-term obligations that are or will be callable by the creditor, either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable, or because the violation (if not cured within a specified grace period) will make the obligation callable, classified as current unless one of the following conditions is met:			
a. The creditor waives or subsequently loses the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?	_____	_____	_____

Yes No N/A

- b. The obligation contains a grace period within which the debtor may cure the violation and it is probable that the violation will be cured within that period, thus preventing the violation from becoming callable?
[SFAS 78, par. 5 (AC B05.109A)] _____
- 11. Does the not-for-profit provider report tax-exempt obligations that were issued for its benefit as liabilities in the general funds?
[AAG, par. 9.04] _____
- 12. Is consideration given to the effects, if any, of current and prior tax examinations on the financial statements and disclosures related to the existence of contingent liabilities for unrelated business income tax, additional payroll tax liabilities, or penalties and interest on delinquent taxes?
[AAG, par. 9.19] _____
- 13. Is disclosure considered for any changes in the provider's activities that could affect its tax-exempt status?
[AAG, par. 9.20] _____
- 14. Are disclosures appropriate regarding the provider's tax-exempt status and any other significant tax matters?
[AAG, par. 9.21] _____
- 15. Is appropriate disclosure made if unrelated business income tax has not been accrued on income from:
 - a. Debt-financed investments that are not functionally related to the exempt purpose? _____
 - b. Certain related entities not engaged in an exempt activity? _____
 - c. Pharmacy operations in a medical building for the convenience of physicians' private patients? _____
 - d. A gift shop, cafeteria or food shop that the provider encourages the general public (except patients, visitors and employees) to use? _____
 - e. A parking lot available to the general public (except patients, visitors, and employees)?
[AAG, pars. 9.23-.32] _____
- 16. Is consideration given to disclosing the effects of the Tax Reform Act of 1986 that added arbitrage restrictions regarding tax-exempt bonds?
[AAG, par. 9.33] _____

VII. Commitments and Contingencies

A. Uninsured Medical Malpractice Claims

- 1. If a minimum amount of a probable loss (usually associated with litigating or settling malpractice claims) is accrued, is there disclosure as to a reasonable possibility of an additional potential loss in excess of the amount accrued?
[AAG, par. 10.04; SFAS 5 (AC C59)] _____
- 2. If a range of loss cannot be reasonably estimated, is a contingency disclosed?
[AAG, par. 10.04; SFAS 5(AC C59)] _____
- 3. Is the program of medical malpractice coverage and basis for loss accruals disclosed?
[AAG, par. 10.11; SFAS 5(AC C59)] _____
- 4. If the provider discounts accrued malpractice claims, are the following disclosed:
 - a. The carrying amount of the claims? _____
 - b. The interest rates or other rates used to discount the claims?
[AAG, par. 10.12] _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Retrospectively Rated Premiums			
1. If the provider cannot estimate losses from asserted or unasserted malpractice claims, is the existing contingency disclosed? [AAG, par. 10.14; SFAS 5(AC C59)]	_____	_____	_____
2. Does the provider disclose that it is insured under a retrospectively rated policy? [AAG, par. 10.15]	_____	_____	_____
3. Does the provider disclose that premiums are accrued based on the ultimate cost of the experience to date of a group of entities? [AAG, par. 10.15]	_____	_____	_____
4. If losses cannot be estimated, is the existing contingency disclosed? [AAG, par. 10.15; SFAS 5(AC C59)]	_____	_____	_____
C. Medical Malpractice Claims Insured with Captive Insurance Companies (Controlled by a parent entity for the main purpose of providing insurance for the parent)			
1. Does the provider disclose that it is insured under a retrospectively rated policy of a multiprovider captive? [AAG, par. 10.18]	_____	_____	_____
2. Does the provider disclose that premiums are accrued based on the captive's experience to date? [AAG, par. 10.18]	_____	_____	_____
3. Is the provider's ownership percentage in the captive disclosed? [AAG, par. 10.19]	_____	_____	_____
4. Is the method of accounting for its investment in and the operations of the captive disclosed? [AAG, par. 10.19]	_____	_____	_____
5. If the provider cannot make the necessary estimates of losses from asserted or unasserted claims, does it disclose the existing contingency? [AAG, par. 10.19; SFAS 5 (AC C59)]	_____	_____	_____
D. Trust Funds			
1. If trust funds (revocable or irrevocable) are included in the provider's financial statements:			
a. Is a portion of the funds (the amount of assets expected to be liquidated to pay malpractice claims classified as current liabilities) classified as a current asset in a classified balance sheet? [AAG, par. 10.20]	_____	_____	_____
b. Is the balance of the funds, if any, classified as a noncurrent asset in a classified balance sheet? [AAG, par. 10.20]	_____	_____	_____
c. Are trust fund revenue and administrative expenses included in the statement of revenues and expenses (statement of operations)? [AAG, par. 10.20]	_____	_____	_____
d. Are estimated losses from asserted and unasserted claims reported? [AAG, par. 10.21]	_____	_____	_____
e. Is the existence of trust funds and whether they are irrevocable disclosed? [AAG, par. 10.22]	_____	_____	_____
E. Prepaid Health Care Services			
1. Health Care Costs			
a. Is the basis for accruing health care costs disclosed?	_____	_____	_____
b. Are significant business and contractual arrangements with hospitals, physicians, and other associated entities disclosed? [SOP 89-5 (AAG, Appendix B), par. 32]	_____	_____	_____

Yes No N/A

2. Stop-Loss Insurance

- a. Are receivables representing amounts recoverable from insurers reported as assets net of any valuation allowance? _____
- b. Are the nature, amounts, and effects of significant stop-loss insurance contracts disclosed? _____
[SOP 89-5 (AAG, Appendix B), par. 49]

F. Other Disclosures

- 1. Are the nature and, if applicable, amount (or a statement that no loss estimate can be made) disclosed for loss contingencies (including guarantees)? _____
[SFAS 5, pars. 9—12 and FASBI 34, pars. 2—3 (AC C59.108—.114)]
- 2. Are gain contingencies adequately disclosed with care to avoid misleading implications as to the likelihood of realization? _____
[SFAS 5, par. 17 (AC C59.118)]
- 3. Are the nature, term, amount and other required information disclosed for long-term unconditional purchase obligations? _____
[SFAS 47, pars. 7 and 10a (AC C32.102 and .105a)]
- 4. If an obligation for postemployment benefits (other than pensions) is not accrued in accordance with SFAS 5 (AC C59) or SFAS 43 (AC C44) only because the amount cannot reasonably be estimated and the financial statements are for a fiscal year beginning after December 15, 1993, is the fact of nonaccrual disclosed in the financial statements? _____
[SFAS 112, par. 7 (AC P32.105)]

VIII. Net Assets

A. Financial Statement Presentation

- 1. Are the equity accounts of investor-owned providers presented in a similar fashion as other investor-owned businesses? _____
[AAG, par. 11.01]
- 2. Are the net assets of not-for-profit and governmental providers (that use the disaggregated method) displayed as general and as restricted? _____
[AAG, par. 11.01]
- 3. Are the net assets of not-for-profit and governmental providers (that use the aggregated method) displayed as unrestricted, temporarily restricted or permanently restricted, as appropriate? _____
[AAG, par. 11.01]
- 4. Is the nature of restrictions on donor-restricted resources disclosed? _____
[AAG, par. 11.02]
- 5. Shareholders' Equity (Corporations)
 - a. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights)? _____
[APB 15, par. 19 (AC E09.110)]
 - b. For preferred stock, do disclosures include:
 - (1) Aggregate or per share amounts at which shares may be called or are subject to redemption? _____
[APB 10, par. 11 (AC C16.102)]
 - (2) Aggregate and per share amounts of arrearages in cumulative preferred dividends? _____
[APB 15, par. 50, fn. 16 (AC C16.102)]
 - c. For stock option and stock purchase plans, do disclosures include:
 - (1) Number of shares under option? _____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Option price?	_____	_____	_____
(3) Number of shares as to which options are exercisable?	_____	_____	_____
(4) For options exercised, the number of shares involved and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
d. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
e. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18—19 (AC C59.120)]	_____	_____	_____
f. Are receivables for stock issued or subscribed appropriately identified and presented as a deduction from capital or, if presented as an asset, stated separately, clearly labeled, and their status clearly described to distinguish them from any other type of assets?	_____	_____	_____
g. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
6. Changes in Net Assets			
a. When both financial position and results of operations are presented:			
(1) Are changes in the separate component accounts of equity disclosed? [APB 12, par. 10 (AC C08.102); AAG, par. 3.24]	_____	_____	_____
(2) Are changes in the number of shares of capital stock disclosed for at least the latest year and any subsequent interim periods presented (for-profit only)? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
b. Are prior-period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately presented and disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
c. If an additional pension liability is required to be recognized and exceeds unrecognized prior service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported as a separate component (i.e., a reduction) of equity net of any tax benefits that result from considering such losses as temporary differences? [SFAS 87, par. 37 (AC P16.131)]	_____	_____	_____

IX. Revenues, Expenses, Gains, and Losses

A. Conceptual Framework for Reporting and Classification

1. Are revenues and expenses (arising from ongoing activities associated with health care services) classified as operating and displayed as gross amounts? [AAG, par. 12.01]	_____	_____	_____
2. Is display of gains and losses (resulting from peripheral or incidental transactions and from other events (environmentally related and largely uncontrollable)) as net amounts considered? [AAG, pars. 12.01—.02]	_____	_____	_____
3. Are gains and losses classified in relation to major ongoing or central operations such as:			
a. Operating, if related?	_____	_____	_____
b. Nonoperating, if peripheral, incidental or unrelated? [AAG, par. 12.03]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For investments in common stock accounted for by the equity method, is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior-period adjustments that are material to the investor? [APB 18, pars. 19c—d (AC I82.109c—d)]	_____	_____	_____
5. Are total research and development costs charged to expenses disclosed for each period for which a statement of revenues and expenses (operations) is presented? [SFAS 2, pars. 12—13 (AC R50.108—.109); FASBI 4, par. 5 (AC B50.152); FASBI 6, par. 8 (AC R50.117); SFAS 68, par. 14 (AC R55.112); SFAS 86, par. 3 (AC Co2.102)]	_____	_____	_____
6. Is the amount of interest cost incurred disclosed in the statements or notes thereto, and for an accounting period in which some interest cost is capitalized, the total amount thereof that has been capitalized? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
7. If the provider accounts for its obligation under a research and development arrangement as a contract to perform research and development for others, is there disclosure of:			
a. The terms of significant agreements under the research and development arrangement as of the date of each balance sheet presented?	_____	_____	_____
b. The amount of compensation earned or costs incurred under such contracts for each period for which a statement of revenues and expenses (statement of operations) is presented? [SFAS 68, par. 14 (AC R55.112)]	_____	_____	_____
B. Revenue			
1. Is revenue classified based on the type of service (such as patient or resident) rendered or contracted to be rendered? [AAG, par. 12.04]	_____	_____	_____
2. Are contributions, tax support, and other subsidies classified as:			
a. Gains, when peripheral or incidental to health care activities?	_____	_____	_____
b. Revenues, if deemed ongoing major or central activities to provide health care services? [AAG, par. 12.05]	_____	_____	_____
3. Is other revenue (such as from sales and services, other than health care, to patients, residents, nonpatients or visitors):			
a. Classified as operating?	_____	_____	_____
b. Stated separately? [AAG, pars. 12.06—.07]	_____	_____	_____
4. Are gains and losses properly classified and reported? [AAG, par. 12.08]	_____	_____	_____
C. Financial Statement Presentation (See Exhibit A)			
1. Is service revenue reported net of contractual charity care and other adjustments? [AAG, par. 12.11]	_____	_____	_____
2. Do disclosures include the methods of:			
a. Revenue recognition?	_____	_____	_____
b. Recording unrestricted and restricted donations and investment income of both general and restricted funds? [AAG, par. 12.13]	_____	_____	_____
3. With regard to contractual adjustments and third-party settlements, does the provider identify and explain the estimated amounts payable or receivable? [AAG, par. 12.13]	_____	_____	_____
4. Are expenses incurred to solicit contributions separately disclosed? [AAG, par. 12.16]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. For each period for which an earnings statement is presented, are the following disclosures made: ²			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that is included in the separate component of shareholders' equity during the period?	_____	_____	_____
e. The change in net unrealized holding gain or loss on trading securities that is included in earnings during the period? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
6. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Amortized cost amount of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.114—.122)]	_____	_____	_____
7. Income Taxes			
a. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC 127.142)]	_____	_____	_____
b. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes thereto:			
(1) Current tax expense or benefit?	_____	_____	_____
(2) Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
(3) Investment tax credits?	_____	_____	_____
(4) Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
(5) The benefits of operating loss carryforwards?	_____	_____	_____
(6) Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?	_____	_____	_____
(7) Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the provider?	_____	_____	_____
(8) Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? [SFAS 109, par. 45 (AC I27.144)]	_____	_____	_____
c. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items disclosed for each year for which those items are presented? [SFAS 109, pars. 35—39 and 46 (AC I27.134—.138 and .145)]	_____	_____	_____
d. Is the nature of significant reconciling items disclosed? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____

² See footnote 1.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
f. If the provider is a member of a group that files a consolidated tax return, are the following items disclosed in its separately-issued financial statements:			
(1) The aggregate amount of current and deferred tax expense for each period presented, and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?	_____	_____	_____
(2) The method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) for each period presented? [SFAS 109, par. 49 (AC I27.148)]	_____	_____	_____
8. Discontinued Operations			
a. Are operations of a segment that are discontinued or are the subject of a formal plan for disposition:			
(1) Reported separately from continuing operations and as a component (including applicable income taxes) of operations before extraordinary items?	_____	_____	_____
(2) Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
b. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8, 13 and 15—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
c. For the period encompassing the measurement date, do notes to financial statement disclose:			
(1) Identity of the segment discontinued?	_____	_____	_____
(2) Expected disposal date, if known?	_____	_____	_____
(3) Expected manner of disposal?	_____	_____	_____
(4) Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?	_____	_____	_____
(5) Results of operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
d. For periods after the measurement date and including the disposal, do notes to financial statements disclose the information required for the period encompassing the measurement date and the actual date and results of disposal compared with the prior estimates? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
9. Extraordinary Items			
a. Are extraordinary items segregated and shown (including applicable income taxes) after income before extraordinary items and before net income? [APB 30, par. 10—12 (AC I17.102—.103)]	_____	_____	_____
b. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement, if practicable?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
d. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
(1) Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	_____	_____	_____
(2) Income tax effect in the period of extinguishment?	_____	_____	_____
(3) Per share amount (if applicable) of the aggregate gain or loss net of related income tax effect? [SFAS 4, pars. 8—10 (AC I17.104 and D14.105—.107)]	_____	_____	_____
e. For an adjustment of an extraordinary item reported in a prior period (except for correction of an error):			
(1) Is the adjustment classified separately as an extraordinary item in the current period?	_____	_____	_____
(2) Are the nature, origin, and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	_____	_____	_____
10. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
11. Do disclosures for advertising costs include:			
a. The accounting policy selected from the two alternatives in the beginning of paragraph 26 of SOP 93-7 for reporting advertising, indicating 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 accounting policy for it, and the amortization period?	_____	_____	_____
c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value?	_____	_____	_____
d. The total amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49]	_____	_____	_____

X. Statement of Cash Flows

A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of revenues and expenses (statement of operations) is presented for:			
1. General funds of a nonprofit or governmental entity?	_____	_____	_____
2. Restricted funds of a governmental entity?	_____	_____	_____
3. Any investor-owned entity? [SFAS 95, par. 3 (AC C25.101); AAG, pars. 3.24—.25]	_____	_____	_____
B. Does the statement of cash flows show the change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
C. Is the policy for defining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. If the direct method is used, is a reconciliation of the excess of revenues and expenses (income) to net cash flow from operating activities provided in a separate schedule? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____
E. If the indirect method is used:			
1. Is the same amount for net cash flow from operating activities reported indirectly by adjusting the excess of revenues and expenses (income) to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)]	_____	_____	_____
2. Is the reconciliation of the excess of revenues and expenses (income) to net cash flow from operating activities reported, either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____
F. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
1. Interest received on loans?	_____	_____	_____
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to suppliers and employees?	_____	_____	_____
5. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities? [SFAS 95, pars. 22—23 (AC C25.120—.121)]	_____	_____	_____
G. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from collections or sales of loans?	_____	_____	_____
2. Receipts from sales of property?	_____	_____	_____
3. Loans to others?	_____	_____	_____
4. Payments to acquire property? [SFAS 95, pars. 16—17 (AC C25.114—.115)]	_____	_____	_____
H. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt?	_____	_____	_____
2. Repayments for amounts borrowed? [SFAS 95, pars. 19—20 (AC C25.117—.118)]	_____	_____	_____
I. Except for certain items whose turnover is quick, amounts are large and maturities are short, are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows? [SFAS 95, pars. 12—13 and 31 (AC C25.110—.111 and .129)]	_____	_____	_____
J. Are noncash investing and financing activities (such as converting debt to equity) summarized in a separate schedule or the notes? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
XI. Related Organizations and Economic Dependency			
A. Consolidation and Combination (See Exhibit A)			
1. If the provider and another entity are related and they meet the criteria for consolidation or combination (“consolidation”), are consolidated or combined (“consolidate”) financial statements presented? [AAG, par. 13.02; ARB 51 (AC C51); SFAS 94 (AC C51)]	_____	_____	_____
2. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. When the financial reporting periods of consolidated entities differ, is recognition given, by disclosure or otherwise, to the effect of intervening events that materially affect financial position or results of operations? [ARB 51, par. 04 (AC C51.107); FASBI 13, pars. 6—8 (AC I89.120—.122)]	_____	_____	_____
3. Do disclosures about formerly unconsolidated subsidiaries that are now consolidated include summarized information about the assets, liabilities, and results of operations (or separate statements) in the consolidated financial statements or notes? [AAG, par. 13.02; SFAS 94, par. 14 (AC C51.120A)]	_____	_____	_____
B. Related Parties and Economic Dependency			
1. If the entity does not meet the criteria for consolidation or combination, but controls and is the sole beneficiary of a related organization’s activities, is summarized financial data of the related organization disclosed? [AAG, pars. 13.03—.04]	_____	_____	_____
2. For any related party that is not consolidated or combined, does the entity disclose (even if there are no transactions between them):			
a. The nature of the relationship between the entity and the related party?	_____	_____	_____
b. If there are material transactions between the entity and the related party:			
(1) A description of the transactions, including transactions to which nominal or no amounts were ascribed?	_____	_____	_____
(2) The amount of such transactions?	_____	_____	_____
(3) Amounts due from or to the related party and, if not apparent, the terms and manner of settlement? [AAG, par. 13.05; SFAS 13, par. 29 (AC L10.125); SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
XII. Continuing Care Retirement Communities (CCRCs)			
A. Refundable Advance Fees			
1. Is the estimated amount of advance fees expected to be refunded to current residents reported as a liability? [SOP 90-8 (AAG, Appendix C), par. 22]	_____	_____	_____
2. Is the remaining amount of advance fees reported in the balance sheet as deferred revenue? [SOP 90-8 (AAG Appendix C), par. 22]	_____	_____	_____
3. Are the following disclosed:			
a. The gross amount of contractual refund obligations under existing contracts?	_____	_____	_____
b. The CCRC’s refund policy? [SOP 90-8 (AAG, Appendix C), par. 22]	_____	_____	_____
4. Are amounts refunded disclosed in the statement of cash flows as a financing transaction? [SOP 90-8 (AAG, Appendix C), par. 22]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is the method of accounting, including the amortization method, for deferred revenue disclosed? [AAG, par. 9.34; SOP 90-8 (AAG, Appendix C), pars. 23, 31 and 43]	_____	_____	_____
B. Fees Refundable to Residents Only From Reoccupancy Proceeds of a Contract Holder's Unit			
1. Are the following reported as deferred revenue:			
a. The portion of fees to be paid to current residents or their designees, only to the extent of a contract holder's unit reoccupancy proceeds, if law and management policy and practice support the withholding of refunds under this condition?	_____	_____	_____
b. Similar amounts received from new residents in excess of the amount to be paid to previous residents or their designees? [SOP 90-8 (AAG, Appendix C), par. 31]	_____	_____	_____
C. Nonrefundable Advance Fees			
1. Are nonrefundable advance fees reported as deferred revenue? [SOP 90-8 (AAG, Appendix C), par. 43]	_____	_____	_____
2. Is unamortized deferred revenue reported as revenue upon a resident's death or contract termination? [SOP 90-8 (AAG, Appendix C), pars. 23 and 43]	_____	_____	_____
D. Obligation to Provide Future Services and Use of Facilities to Current Residents			
1. If the obligation to provide future services and use of facilities to current residents under continuing-care contracts results in a liability, are the following disclosed:			
a. The carrying amount of the liability?	_____	_____	_____
b. The interest rate used to discount that liability? [SOP 90-8 (AAG, Appendix C), par. 55]	_____	_____	_____
E. Costs of Acquiring Initial Continuing-Care Contracts			
1. Are costs of acquiring initial continuing-care contracts capitalized if they are expected to be recovered from future contract revenues? [SOP 90-8 (AAG, Appendix C), par. 63]	_____	_____	_____
2. Are continuing-care contract acquisition costs expensed if incurred after (a) the CCRC is substantially occupied or (b) one year following completion? [SOP 90-8 (AAG, Appendix C), par. 63]	_____	_____	_____
XIII. Financial Statements and Notes—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?	_____	_____	_____
B. Disclosure of Accounting Policies			
1. Is a description of all pertinent accounting policies of the provider presented as an integral part of the financial statements? [APB 22, pars. 8—9 (AC A10.102—.103)]	_____	_____	_____
2. Does disclosure of significant accounting policies encompass important judgments as to the appropriateness of principles concerning recognition of revenue and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
3. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
C. Accounting Changes			
1. For an accounting change, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on income? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. For changes in accounting principle (excluding specific exceptions related to an initial public offering, change in the reporting entity, or adoption of certain authoritative pronouncements):			
a. If comparative financial statements are included, are they presented as previously reported?	_____	_____	_____
b. Is the cumulative effect of the change (direct effects and income tax effects only) on beginning retained earnings for the period of the change shown in the statement of revenues and expenses (statement of operations) of that period, after any extraordinary items and before net revenue and gains in excess of expenses and losses (net income)?	_____	_____	_____
c. Is the effect of adopting the new accounting principle on revenue and gains in excess of expenses and losses (income) before extraordinary items and net revenue and gains in excess of expenses and losses (net income) (and applicable per share data) disclosed for the period of the change?	_____	_____	_____
d. Are pro forma revenues and gains in excess of expenses and loss (income) before extraordinary items and net revenue and gains in excess of expenses and losses (net income) shown on the face of the statement of revenue and expenses (statement of operations) for all periods presented as if the newly adopted accounting principle had been applied during all periods affected?	_____	_____	_____
e. If pro forma amounts or cumulative effects cannot be determined, are the reasons disclosed? [APB 20, pars. 12, 17—22, 24—26, 29 and 34 (AC A06.113—.118, .120—.122 and .125, and A35.112 and .114); FASBI 20, par. 5 (A06.127)]	_____	_____	_____
3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on revenue and gains in excess of expenses and losses (income) before extraordinary items and net revenue and gains in excess of expenses and losses (net income) (and related per share amounts if applicable)? [APB 20, par. 36 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]	_____	_____	_____
D. Financial Instruments			
1. Except for certain excluded items (SFAS 105, pars. 14—15 (AC F25.104—.105)), are the following disclosed in the financial statements or notes for each class of financial instruments with off-balance-sheet risk:			
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) Credit and market risk of those instruments?	_____	_____	_____
(2) Cash requirements of those instruments?	_____	_____	_____
(3) Related accounting policy, as required by APB 22, <i>Disclosure of Accounting Policies</i> (AC A10)? [SFAS 105, par. 17 (CT F25.112)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For financial instruments with off-balance-sheet credit risk (except for the items excluded in SFAS 105 (AC F25)), are the following disclosed, either in the financial statements or in the notes, by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
b. Regarding collateral or other security to support financial instruments subject to credit risk:			
(1) The entity's policy of requiring such collateral or other security?	_____	_____	_____
(2) Information about the entity's access to that collateral or other security?	_____	_____	_____
(3) The nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____
3. 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 and substantively extinguished debt), 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 entity would incur if any party to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. Regarding collateral or other security to support financial instruments subject to credit risk:			
(1) The entity's policy of requiring such collateral or other security?	_____	_____	_____
(2) Information about the entity's access to that collateral or other security?	_____	_____	_____
(3) The nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, pars. 14 and 20 (AC F25.104 and .115)]	_____	_____	_____
4. Is the fair value of financial instruments for which it is practicable to estimate that value (except for certain excluded items and trade receivables and payables whose amount approximates fair value) disclosed in the financial statements or accompanying notes? [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]	_____	_____	_____
5. Are the methods and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
6. If it is not practicable to estimate the fair value of a financial instrument, are the following disclosed:			
a. Information pertinent to estimating the fair value of that 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 F25.115G)]	_____	_____	_____
E. Nonmonetary Transactions			
1. Do disclosures include:			
a. Nature of the transactions?	_____	_____	_____
b. Basis of accounting for the assets transferred?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120)]	_____	_____	_____
F. Subsequent Events			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 and 561.01—.09 (AU 560.03—.04, .07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16 (AC B50.120); SAS 1, secs. 560.05—. 07, .09 and 561.01—.09 (AU 560.05—. 07, .09 and 561.01—.09)]	_____	_____	_____
G. Pension Plans			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?	_____	_____	_____
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's balance sheet, 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 balance sheet pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—.130) (which is the net result of combining the preceding six items)?	_____	_____	_____
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?	_____	_____	_____
e. If applicable, the amount and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties (also, if applicable, the alternative amortization methods used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in paragraph 41 (AC P16.135))? [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
f. If more than one defined benefit plan exists:			
(1) Are the disclosures required by Step G.1. above aggregated for all of the employee's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there are one or more defined contribution plans, do disclosures include:			
a. A description of the plans, 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)]	_____	_____	_____
3. If the substance of a plan having characteristics of both defined benefits and contributions is to provide a defined benefit, are disclosures in accordance with the requirements applicable to a defined benefit plan as described in Step G.1. above? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
4. If there are one or more multiemployer plans, do disclosures include:			
a. A description of the multiemployer plans, including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
5. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination of 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)]	_____	_____	_____
H. Postretirement Benefits Other Than Pensions			
1. If there are one or more defined benefit postretirement plans, do disclosures include:			
a. A description of the substantive plans that is the basis for the accounting for the postretirement benefits, including the nature of the plans, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plans, and the existence and nature of any commitment to increase monetary benefits provided by the plans, 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?	_____	_____	_____
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?	_____	_____	_____
c. A schedule reconciling the funded status of the plans with amounts reported in the employer's balance sheet, 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)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(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 balance sheet, 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 changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s) and when the rate(s) is expected to be achieved?	_____	_____	_____
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 and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?	_____	_____	_____
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:			
(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?	_____	_____	_____
(2) The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions shall be held constant and the effects shall 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?	_____	_____	_____
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. 74 (AC P40.169)]	_____	_____	_____
2. If more than one defined benefit postretirement plan exists:			
a. Are the disclosures 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 that 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 primarily provide postretirement health care benefits and plans that primarily provide 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 of 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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____
4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan information:			
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)]	_____	_____	_____
I. Lessor Leases			
1. For sales-type and direct financing leases, do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the latest balance-sheet date presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a (AC L10.119a)]	_____	_____	_____
d. For direct financing leases, the amount of initial direct costs as part of the investment? [SFAS 91, par. 25d (AC L10.119(a)(1))]	_____	_____	_____
2. For operating leases, do disclosures include:			
a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented?	_____	_____	_____
b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
J. Lessee Leases			
1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes, as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments, as of the date of the latest balance sheet presented, in total and for each of the next five years, with separate deductions for executory costs and imputed interest to reduce net minimum lease payments to present value?	_____	_____	_____
c. Total future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?	_____	_____	_____
d. Total contingent rentals actually incurred for each period presented?	_____	_____	_____
e. Assets recorded under capital leases and the related accumulated amortization, and obligations under those leases identified separately in the balance sheet or a note? [SFAS 13, pars. 13 and 16 (AC L10.112a)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in total and for each of the next five years?	_____	_____	_____
b. Total future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases do disclosures include rental expense for each period presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including, but not limited to:			
a. Bases for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d)]	_____	_____	_____
K. Other Liabilities and Deferred Credits			
1. If the entity is subject to income taxes:			
a. Are deferred tax liabilities classified as current or noncurrent based on the related asset or liability for financial reporting? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
b. Are deferred tax liabilities not related to an asset or liability for financial reporting classified according to the expected reversal date of the temporary difference pursuant to SFAS 37? [SFAS 109, par. 41 (AC I27.140)]	_____	_____	_____
c. Are the following items offset and presented as a single amount for a particular tax-paying component and within a particular tax-paying jurisdiction:			
(1) All current deferred tax liabilities and assets?	_____	_____	_____
(2) All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (AC I27.141)]	_____	_____	_____
d. Are the components of the total of all deferred tax liabilities recognized in the balance sheet disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
L. Risks and Uncertainties (SOP 94-6, <i>Disclosure of Certain Significant Risks and Uncertainties</i>, 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. Are the following disclosed?			
a. The nature of the provider's operations?	_____	_____	_____
b. The fact that financial statements prepared in accordance with GAAP require the use of management's estimates. [SOP 94-6, pars. 10 and 11]	_____	_____	_____
2. If (a) it is at least reasonably possible that the estimate(s) used in preparing the financial statements will change in the near term, and (2) the effect(s) of the change will be material, are the following disclosed?			
a. The nature of uncertainties inherent in estimates used to determine the carrying amounts of assets and liabilities, or used to disclose gain or loss contingencies.	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. That a material change in the estimate could occur in the near term. [SOP 94-6, pars. 12-14]	_____	_____	_____
3. If (a) concentrations exist at the financial statement date, and (b) the concentrations could cause the provider a near-term severe impact, are the following disclosed?			
a. Concentrations in the volume of business transacted with a particular customer (patient), supplier, lender, grantor, or contributor.	_____	_____	_____
b. Concentrations in revenue from particular services provided or fund-raising events.	_____	_____	_____
c. Concentrations in the available sources of supply of labor, services, or of applicable licenses necessary to provide services.	_____	_____	_____
d. Concentrations in the market or geographical area in which an entity conducts its operations, including the carrying amounts of net assets and their locations.	_____	_____	_____
e. Concentrations of labor subject to collective bargaining agreements, including the percentage of the labor force covered by a collective bargaining agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire within one year.	_____	_____	_____
f. Information adequate to inform users of the general nature of the risk associated with the concentration. [SOP 94-6, pars. 21-24]	_____	_____	_____

Exhibit A—Various

SFAS 115 applies to for-profit entities only. The effective date of SFAS 115 is for fiscal years beginning after December 15, 1993. It is to be initially applied as of the beginning of a fiscal year and cannot be applied retroactively to prior years' financial statements. A for-profit entity may elect to apply this statement as of the end of an earlier fiscal year for which annual financial statements have not previously been issued. Until such applications, and for not-for-profit entities, the following disclosures remain in effect:

A. Consolidations and Combination

- | | | | |
|---|-------|-------|-------|
| <p>1. If the parent company includes realized gains or losses of marketable securities in net income and a consolidated subsidiary does not, is the subsidiary's accounting treatment for marketable securities conformed with that of the parent?
[SFAS 12, par. 18 (AC I89.112)]</p> | _____ | _____ | _____ |
| <p>2. If the parent follows specialized accounting practices for marketable securities and the consolidated subsidiaries do not, are the subsidiaries' current and noncurrent portfolios consolidated as separate current and noncurrent portfolios exclusive of the parent and is the information required by SFAS 12, paragraph 12, disclosed?
[SFAS 12, pars. 12 and 19 (AC I89.106 and .113)]</p> | _____ | _____ | _____ |
| <p>3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?
[SFAS 12, par. 20 (AC I89.114)]</p> | _____ | _____ | _____ |

B. Marketable Equity Securities

- | | | | |
|---|-------|-------|-------|
| <p>1. For marketable equity securities, do disclosures include:</p> <p style="margin-left: 20px;">a. For each balance sheet presented, aggregate cost and market value (each segregated between current and noncurrent portfolios when a classified balance sheet is presented) with identification as to which is the carrying amount?</p> | _____ | _____ | _____ |
| <p style="margin-left: 20px;">b. For the latest balance sheet presented, gross unrealized gains and gross unrealized losses (each segregated between current and noncurrent portfolios when applicable)?
[SFAS 12, pars. 12b and 16a (AC I89.106b and .110a)]</p> | _____ | _____ | _____ |
| <p style="margin-left: 20px;">c. For each period for which a statement of revenues and expenses (statement of operations) is presented:</p> <p style="margin-left: 40px;">(1) Net realized gain or loss included in the statement?</p> | _____ | _____ | _____ |
| <p style="margin-left: 40px;">(2) Basis on which cost was determined in calculating realized gain or loss (such as average cost or FIFO)?
[AAG, par. 6.09; SFAS 12, pars. 12 and 16 (AC I89.106 and .110)]</p> | _____ | _____ | _____ |
| <p>2. Are significant net realized and net unrealized gains and losses that arose after the latest balance sheet date, but before issuance of the financial statements, disclosed?
[AAG, par. 6.10; SAS 1, sec. 560, pars. 5 and 7 (AU 560.05 and .07); SFAS 12, pars. 13 and 17 (AC I89.107 and .111); FASBI 11, pars. 3—4 (AC I89.115—.116); FASBI 13, pars. 5—7 (AC I89.120—.122)]</p> | _____ | _____ | _____ |
| <p>3. Are losses due to a change in classification of a marketable equity security between current and noncurrent reported in the statement of revenues and expenses?
[AAG, par. 6.12; SFAS 12, par. 10 (AC I89.104)]</p> | _____ | _____ | _____ |
| <p>4. For a portfolio included in current assets in the general funds, are changes in the valuation allowance disclosed and reported in the statement of revenues and expenses?
[AAG, par. 6.12]</p> | _____ | _____ | _____ |
| <p>5. For a portfolio included in noncurrent assets, or assets in unclassified balance</p> | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
sheets or restricted funds, are changes in the valuation allowance disclosed and reported in the respective statement of changes in fund balances or equity? [AAG, par. 6.12; SFAS 12, par. 11 (AC I89.105)]	_____	_____	_____

C. Financial Statement Presentation

- | | | | |
|--|-------|-------|-------|
| 1. For marketable equity securities, are the following disclosed for each period for which an income statement is presented: | | | |
| a. Net realized gain or loss included in determination of net income?
[SFAS 12, par. 12c (AC I89.106c)] | _____ | _____ | _____ |
| b. For entities with certain specialized accounting practices, the change in net unrealized gain or loss?
[SFAS 12, par. 16b (AC I89.110b)] | _____ | _____ | _____ |
| c. Basis on which cost was determined in computing realized gain or loss?
[SFAS 12, par. 12c (AC I89.106c)] | _____ | _____ | _____ |
| d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented and the amount of such change included in the determination of net income?
[SFAS 12, par. 12c (AC I89.106c)] | _____ | _____ | _____ |

Exhibit B—SFAS 116 and 117

In June 1993, the FASB issued SFAS 116, *Accounting for Contributions Received and Contributions Made*, (applies to both for-profit and not-for-profit health care providers) and SFAS 117, *Financial Statements of Not-for-Profit Organizations*. Both Statements are effective for annual 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, the Statements are effective for fiscal years beginning after December 15, 1995. For providers implementing those pronouncements, the following items should be considered in addition to other appropriate inquiries contained in this checklist:

A. Contributions Received

- | | | | |
|--|-------|-------|-------|
| 1. If the provider 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 volunteer efforts (optional)? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Dollar amount of contributions raised by volunteers (optional)? [SFAS 116, pars. 10 and 123 (AC C67.110)]	_____	_____	_____
2. Does the provider 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)]	_____	_____	_____
3. 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)]	_____	_____	_____
4. Does the provider 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)]	_____	_____	_____
5. Does a provider 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?	_____	_____	_____
c. Report such support as unrestricted in the absence of such a policy? [SFAS 116, par. 16 (AC No5.145)]	_____	_____	_____
B. Contributions Made			
1. Does a provider that receives promises to give in which the assets promised will be received in future periods 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)]	_____	_____	_____
2. Do providers 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)]	_____	_____	_____
3. Do providers 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
C. Financial Statement Presentation			
1. In the initial year of application of SFAS 116 and/or 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. 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 and total 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)]	_____	_____	_____
3. Are cash and 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)]	_____	_____	_____
4. Does the provider give 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. Does the providers give information about the nature and amounts of different types of permanent restrictions and temporary restrictions by reporting their amounts provided on the face of the statement of financial position or by including relevant details in the notes to the financial statements? [SFAS 117, par. 14 (AC No5.112)]	_____	_____	_____
6. Are limits on the use of unrestricted net assets (such as loan covenants and board-designated endowments) disclosed in the notes to or on the face of the financial statements? [SFAS 117, par. 16 (AC No5.114)]	_____	_____	_____
7. 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)]	_____	_____	_____
D. Statement of Operations			
1. Does the statement of operations report the amount of change in net assets for the period for the provider as a whole (using a descriptive term such as "change in net assets"), 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 operations 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 operations 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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 No5.146)]	_____	_____	_____
4. Does the provider 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 No5.119)]	_____	_____	_____
5. 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 provider to retain permanently some portion of gains on investments? [SFAS 117, pars. 22 and 129 (AC No5.119 and No.5.119 fn8)]	_____	_____	_____
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 as noted in 5a? [SFAS 117, par. 129 (AC No5.119, fn. 8)]	_____	_____	_____
6. If the provider 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)]	_____	_____	_____
7. If the provider's use of the term operations is not apparent from the details provided on the face of the statement of operations, 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)]	_____	_____	_____
8. Does the statement of operations report gross amounts of revenues and expenses? [SFAS 117, par. 24 (AC No5.121)]	_____	_____	_____
9. If the provider elects to report investment revenues net of related expenses, does the provider disclose the amount of expenses, either on the face of the statement of operations or in the notes to financial statements? [SFAS 117, par. 24 (AC No5.121)]	_____	_____	_____
10. If the provider reports net gains and losses on its statement of operations, do these gains and losses result from peripheral or incidental transactions or from events largely beyond the control of the provider and its management? [SFAS 117, par. 25 (AC No5.122)]	_____	_____	_____
11. Does the provider give information about expenses reported by their functional classification (such as major classes of program services and supporting services) either in the statement of operations or in the notes to the financial statements? [SFAS 117, par. 26 (AC No5.123)]	_____	_____	_____
12. 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]	_____	_____	_____
13. In its statement of cash flows, does the provider 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)]	_____	_____	_____

FSP Section 21,400

Auditors' Reports Checklist

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

.02 Explanation of References:

- SAS = AICPA Statement on Auditing Standards
 AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
 SSARS = FASB Statements on Standards for Accounting and Review Services
 AR = Reference to section number in AICPA *Professional Standards* (vol. 2)

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par.8a (AU 508.08a)]	_____	_____	_____
2. If the auditor is not independent, is the appropriate disclaimer expressed, regardless of the extent of services provided? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and 38)]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, par. 47—48 (AU 508.47—.48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under			
b. There is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12—.13)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77—78 and 81—82 (AU 508.77—.78 and .81—.82)]	_____	_____	_____
e. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
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)]	_____	_____	_____
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)]	_____	_____	_____
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)]	_____	_____	_____
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)]	_____	_____	_____
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40—45 (AU 508.40—.45); SAS 31, par. 22 (AU 326.23); SAS 19, par. 12 (AU 333.12)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> 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—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> 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. Is a qualified or adverse opinion expressed if the entity specifically requests the auditor to report on prior-period financial statements that are incomplete (e.g., prior-period totals only)? [SAS 58, fn. 27 (AU 508, fn. 27)]	_____	_____	_____
9. 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)]	_____	_____	_____
10. 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 (AU 9623.47—.54)]	_____	_____	_____
11. If information accompanies the basic financial statements and auditor's report 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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information is subject to the auditing procedures applied in the audit of the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
12. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure related matters noted in an audit? ¹ [SAS 60, pars. 9—19 (AU 325.09—.19)]	_____	_____	_____
13. Is the reporting form and content of SAS 72 followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings? [SAS 72 (AU 634)]	_____	_____	_____

FSP Section 21,500

*Auditors' Reports on Audits Performed Under Government Auditing Standards and OMB Circular A-133 Checklist*¹

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

.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 = AICPA Statement on Auditing Standards
- AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
- SOP 92-9 = AICPA Statement of Position, *Audits of Not-for-Profit Organizations Receiving Federal Awards*

.04 Checklist Questionnaire

Yes No N/A

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 provider'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] _____

¹ On March 8, 1990, The Office of Management and Budget issued Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*, to implement a "single audit" requirement for not-for-profit 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*, 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 OMB's October 1991 *Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions*, and the President's Council on Integrity and Efficiency Standards Subcommittee's Position Statement No. 6 (A-133 Questions and Answers).

² See the checklist for auditor's reports on the basic financial statements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does each report listed in Step 1. above contain a statement that the audit was conducted in accordance with generally accepted auditing standards and the Yellow Book? ³ [GAS, Chap. 5, par. 11; SOP 92-9, par. 7.4]	_____	_____	_____
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?	_____	_____	_____
4. If material weaknesses were noted, are the condition, criteria, and effect of those material weaknesses disclosed in the report? [GAS, Chap. 6, pars. .49-.52, fn. 7]	_____	_____	_____
5. If the auditor determines that deficiencies in the internal control structure were not significant enough to be considered reportable conditions (referred to as "nonreportable conditions"), are those matters communicated separately to the provider in writing (or orally, with working paper documentation)? [GAS, Chap. 5, par. 27 and Chap. 7, par. 29]	_____	_____	_____
6. If a separate written communication describing nonreportable conditions is issued, does the report on internal controls refer to that separate communication? [SOP 92-9, par. 7.12]	_____	_____	_____
7. If no reportable conditions were noted during the audit, has the report or 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]	_____	_____	_____
Report on Compliance With Laws and Regulations			
8. Does the report on compliance with laws and regulations conform to the standard report illustrated in Exhibits D-4 to D-7 in Appendix D of SOP 92-9?	_____	_____	_____
9. In rare circumstances in which the auditor decides not to test compliance with laws and regulations, does the report contain a statement that compliance with laws and regulations was not tested? [SOP 92-9, Appendix D, Exhibit D-7]	_____	_____	_____
10. 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]	_____	_____	_____
11. If the auditing procedures disclose material instances of noncompliance, is the report on compliance appropriately modified? [SAS 74, par. 19]	_____	_____	_____
12. If the report contains material instances of noncompliance, is the effect of such misstatements on the auditor's report on the basic financial statements considered? [SAS 74, par. 20]	_____	_____	_____
13. Are immaterial instances of noncompliance reported in a separate communication to the provider? ⁵ [SAS 74, par. 19; GAS, Chap. 7, par. 29]	_____	_____	_____
14. If a separate letter describing immaterial instances of noncompliance is issued, does the compliance report refer to that letter? [SOP 92-9, par. 7.16]	_____	_____	_____

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.

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
15. If the auditor becomes aware of illegal acts or of possible illegal acts, are they communicated to management? [GAS, Chap. 5, par. 18]	_____	_____	_____
16. If the auditor becomes aware of illegal acts and remains uncertain about whether they materially affect the financial statements, is the report on the financial statements qualified or a disclaimer of opinion issued? [SOP 92-9, par. 7.18]	_____	_____	_____
Other Matters			
17. If performance audits are required by contractual obligations, are findings presented in accordance with the guidance in the Yellow Book? [GAS, Chap. 7, pars. 17, 21, 26 and 34]	_____	_____	_____
18. If the auditor is unable to follow an applicable standard and is unable to withdraw from the engagement, did the auditor disclose in the scope section of the report on the financial statements the fact that an applicable standard is not followed, the reasons therefor, and the known effect of not following the standard on the results of the audit? [GAS, Chap. 3, pars. 27-29]	_____	_____	_____
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, Chap. 4, par. 10; SOP 92-9, par. 7.41]	_____	_____	_____
20. Did the auditor consider the impact on his or her report on the financial statements of the effects of noncompliance findings from other simultaneous audits that may result in claims for refunds? [SOP 92-9, par. 7.43; SFAS 5 (AC C59)]	_____	_____	_____
21. Do the reports on compliance and internal control structure carry the same date as the report on the basic financial statements? [SOP 92-9, par. 7.27]	_____	_____	_____

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

- | | | | |
|--|-------|-------|-------|
| 1. If the provider is subject to the requirements of Circular A-133, are the following additional reports issued: | | | |
| a. A report on the supplementary schedule of federal awards? ⁶ | _____ | _____ | _____ |
| b. A report on the internal control structure policies and procedures used to administer federal awards? | _____ | _____ | _____ |
| c. A report on compliance with specific laws and regulations that may have a direct and material effect on each major program? | _____ | _____ | _____ |
| d. A report on compliance with certain laws and regulations applicable to nonmajor programs? ⁷ | _____ | _____ | _____ |
| e. A report on compliance with general requirements? ⁸
[SOP 92-9, par. 7.19] | _____ | _____ | _____ |
| 2. Does each auditor's report listed in Step 1. above contain a statement that the audit was conducted in accordance with GAAS; <i>Government Auditing Standards</i> issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133? ⁹
[SOP 92-9, Appendix D, Exhibits D-1, D-2, and D-8 through D-18] | _____ | _____ | _____ |

⁶ Under Circular A-133, a recipient or subrecipient of an award is required to prepare a schedule of federal awards. A sample schedule and the auditor's report thereon are presented in the Financial Statements section of these checklists and 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 provider 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]

⁹ SOP 92-9, paragraph 7.4, states federal reviewers have accepted 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.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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?	_____	_____	_____
4. If the auditor does not test controls because he or she determined that control policies and procedures are likely to be ineffective in preventing or detecting noncompliance, is that matter disclosed as a "reportable condition"?	_____	_____	_____
5. If the auditor limits 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]	_____	_____	_____

Report on Compliance With Specific Requirements Related to Major Programs

6. For audits of major programs, does the report on compliance with specific requirements conform with the standard report illustrated in Exhibits D-9 through D-14 in Appendix D of SOP 92-9?	_____	_____	_____
7. 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 does not comply with GAAS, the Yellow Book, or OMB Circular A-133?	_____	_____	_____
b. Does the auditor state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. 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]	_____	_____	_____
8. If the auditing procedures disclosed instances of noncompliance on major programs:			
a. Does 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?	_____	_____	_____
b. If, after considering those factors, the auditor concludes that the instances of noncompliance have a material effect on a federal program, is 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 financial statements modified? [SOP 92-9, par. 7.24]	_____	_____	_____
9. If the auditor is unable to examine appropriate evidence to support the comply/noncomply decision, is the report appropriately modified? [SOP 92-9, par. 7.24]	_____	_____	_____

Report on Compliance With General Requirements

10. 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?	_____	_____	_____
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(Footnote Continued)

Practitioners are advised to determine the requirements of any nonfederal reviewers before deleting the reference to *Government Auditing Standards* in reports on the basic financial statements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Report on Compliance Related to Nonmajor Programs			
11. 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			
12. 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? [SOP 92-9, pars. 7.30 and 7.32]	_____	_____	_____
13. Are any immaterial findings included either (1) in a schedule of findings and costs or (2) in a separate communication to management? [SOP 92-9, par. 7.30]	_____	_____	_____
14. If the audit is biennial, are both years within the period covered? [SOP 92-9, par. 2.47]	_____	_____	_____

FSP Section 21,600

Illustrative Financial Statements

.01 The following illustrative auditors' reports and financial statements demonstrate the practical applications of the reporting practices discussed in the AICPA Audit and Accounting Guide, *Audits of Providers of Health Care Services* (the Guide). The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements deemed remote for audits of health care providers are not included in this document. Specific types of health care organizations have been selected to illustrate a wide diversity of reporting practices; it is not intended that these illustrations represent either the only types of disclosure or the only statement formats that would be appropriate. Health care providers are urged to develop financial statement formats that are appropriate for their individual circumstances while being consistent with the accounting and reporting practices discussed in the Guide.

Note: The illustrative financial statements in this section do not conform to the requirements of FASB (SFAS) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS 117 is effective for annual 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, the Statement is effective for fiscal years beginning after December 15, 1995.

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

SAMPLE HOSPITAL

.02

Balance Sheets

(Disaggregated "Layered" Reporting Approach)

December 31, 19X7 and 19X6

<i>Assets</i>	<i>19X7</i>	<i>19X6</i>	<i>Liabilities and Fund Balances</i>	<i>19X7</i>	<i>19X6</i>
General Funds					
Current assets					
Cash and cash equivalents	\$ 3,103,000	\$ 4,525,000	Current liabilities		
Assets whose use is limited— required for current liabilities (notes 5, 7, and 8)	970,000	1,300,000	Current installments of long-term debt (note 7)	\$ 970,000	\$ 1,200,000
Patient accounts receivable, net of estimated uncollectibles of \$2,500,000 in 19X7 and \$2,400,000 in 19X6 (note 15)	15,100,000	14,194,000	Current portion of capital lease obligations (note 7)	500,000	550,000
Estimated third-party payor settlements—Medicare (notes 3 and 15)	441,000	600,000	Accounts payable	2,217,000	2,085,000
Supplies, at lower of cost (first-in, first-out) or market	1,163,000	938,000	Accrued expenses	3,396,000	3,225,000
Other current assets	321,000	403,000	Estimated third-party payor settlements—Medicaid (note 2) . .	2,143,000	1,942,000
Due from donor-restricted funds . .	—	500,000	Deferred third-party reimbursement	200,000	210,000
			Advances from third-party payors Current portion of estimated malpractice costs (note 8)	122,000	632,000
			Retainage and construction accounts payable	600,000	500,000
			Due to donor-restricted funds	955,000	772,000
				300,000	—
Total current assets	21,098,000	22,460,000	Total current liabilities	11,403,000	11,116,000
Assets whose use is limited (notes 5, 7, and 8)					
By board for capital improvements	11,000,000	10,000,000	Deferred third-party reimbursement	746,000	984,000
By agreements with third-party payors for funded depreciation . .	9,234,000	6,151,000	Estimated malpractice costs, net of current portion (note 8)	3,207,000	2,182,000
Under malpractice funding arrangement—held by trustee . .	3,007,000	2,682,000			
Under indenture agreement— held by trustee	11,708,000	11,008,000	Long-term debt, excluding current installments (note 7)	22,644,000	23,614,000
Total assets whose use is limited	34,949,000	29,841,000	Capital lease obligations, excluding current portion (note 7)	500,000	400,000
Less assets whose use is limited and that are required for current liabilities	970,000	1,300,000	Fund balance	69,310,000	64,567,000
Noncurrent assets whose use is limited	33,979,000	28,541,000			
Property and equipment, net (notes 6 and 7)	51,038,000	50,492,000			
Other assets			Commitments and contingent liabilities (notes 3, 6, 8, 12, and 13)		
Prepaid pension cost (note 12) . . .	85,000	35,000			
Deferred financing costs	693,000	759,000			
Investment in affiliated company (note 4)	917,000	576,000			
Total other assets	1,695,000	1,370,000			
	\$107,810,000	\$102,863,000		\$107,810,000	\$102,863,000

SAMPLE HOSPITAL

.02

Balance Sheets—continued

(Disaggregated "Layered" Reporting Approach)

December 31, 19X7 and 19X6

<i>Assets</i>	<i>19X7</i>	<i>19X6</i>	<i>Liabilities and Fund Balances</i>	<i>19X7</i>	<i>19X6</i>
Donor-Restricted Funds					
Specific-purpose funds					
Cash	\$ 378,000	\$ 378,000	Accounts payable	\$ 205,000	\$ 72,000
Investments, at cost that approximates market	728,000	455,000	Deferred grant revenue	92,000	—
Grants receivable	613,000	535,000	Due to general funds	—	255,000
	<u>\$ 1,719,000</u>	<u>\$ 1,368,000</u>	Fund balance	1,422,000	1,041,000
				<u>\$ 1,719,000</u>	<u>\$ 1,368,000</u>
Plant replacement and expansion funds					
Cash	24,000	321,000	Due to general funds	—	345,000
Investments, at cost that approximates market	252,000	165,000	Fund balance	558,000	521,000
Pledges receivable, net of estimated uncollectibles of \$60,000 in 19X7 and \$120,000 in 19X6	132,000	380,000			
Due from general funds	150,000	—			
	<u>\$ 558,000</u>	<u>\$ 866,000</u>		<u>\$ 558,000</u>	<u>\$ 866,000</u>
Endowment funds					
Cash	1,253,000	653,000	Fund balance	5,259,000	6,073,000
Investments, net of \$175,000 valuation allowance in 19X7, market value \$3,798,000 in 19X7 and \$5,013,000 in 19X6 (note 9)	3,856,000	5,320,000			
Due from general funds	150,000	100,000			
	<u>\$ 5,259,000</u>	<u>\$ 6,073,000</u>		<u>\$ 5,259,000</u>	<u>\$ 6,073,000</u>

See accompanying notes to financial statements.

SAMPLE HOSPITAL

.03

Balance Sheets

(Aggregated Approach)

December 31, 19X7 and 19X6

<i>Assets</i>	<i>19X7</i>	<i>19X6</i>	<i>Liabilities and Fund Balances</i>	<i>19X7</i>	<i>19X6</i>
Current assets			Current liabilities		
Cash and cash equivalents	\$ 2,803,000	\$ 5,025,000	Current installments of long-term debt (note 7)	\$ 970,000	\$ 1,200,000
Assets whose use is limited—required for current liabilities (notes 5, 7 and 8)	1,267,000	1,372,000	Current portion of capital lease obligations (note 7)	500,000	550,000
Patient accounts receivable, net of estimated uncollectibles of \$2,500,000 in 19X7 and \$2,400,000 in 19X6 (note 15)	15,100,000	14,194,000	Accounts payable	2,422,000	2,157,000
Estimated third-party payor settlements—Medicare (notes 3 and 15)	441,000	600,000	Accrued expenses	3,396,000	3,225,000
Supplies, at lower of cost (first-in, first-out) or market	1,163,000	938,000	Estimated third-party payor settlements—Medicaid (note 2)	2,143,000	1,942,000
Other current assets	321,000	403,000	Deferred third-party reimbursement Advances from third-party payors	200,000	210,000
Total current assets	21,095,000	22,532,000	Current portion of estimated malpractice costs (note 8)	122,000	632,000
Assets whose use is limited or restricted (notes 5, 7, 8 and 9)			Retainage and construction accounts payable	955,000	772,000
By board for capital improvements	11,000,000	10,000,000	Advances and deferred revenue	92,000	—
By agreements with third-party payors for funded depreciation	9,234,000	6,151,000	Total current liabilities	11,400,000	11,188,000
Under malpractice funding arrangement—held by trustee	3,007,000	2,682,000	Deferred third-party reimbursement	746,000	984,000
Under indenture agreement—held by trustee	11,708,000	11,008,000	Estimated malpractice costs, net of current portion (note 8)	3,207,000	2,182,000
By donors or grantors for specific purposes	2,277,000	1,634,000	Long-term debt, excluding current installments (note 7)	22,644,000	23,614,000
By donors for permanent endowment funds	5,259,000	6,073,000	Capital lease obligations, excluding current installments (note 7)	500,000	400,000
Total assets whose use is limited or restricted	42,485,000	37,548,000	Total liabilities	38,497,000	38,368,000
Less assets whose use is limited and that are required for current liabilities	1,267,000	1,372,000	Net assets		
Noncurrent assets whose use is limited or restricted	41,218,000	36,176,000	Unrestricted	69,310,000	64,567,000
Property and equipment, net (notes 5 and 6)	51,038,000	50,492,000	Temporarily restricted by donors/grantors	1,980,000	1,562,000
Other assets			Permanently restricted by donors	5,259,000	6,073,000
Prepaid pension cost (note 12)	85,000	35,000	Total net assets	76,549,000	72,202,000
Deferred financing costs	693,000	759,000	Commitments and contingent liabilities (notes 3, 6, 8, 12 and 13)		
Investment in affiliated company (note 4)	917,000	576,000			
Total other assets	1,695,000	1,370,000			
Total Assets	\$115,046,000	\$110,570,000		\$115,046,000	\$110,570,000

SAMPLE HOSPITAL

.04

Statements of Revenue and Expenses of General Funds

Years Ended December 31, 19X7 and 19X6

	<u>19X7</u>	<u>19X6</u>
Net patient service revenue (notes 3, 7 and 15)	\$92,656,000	\$88,942,000
Other revenue	6,010,000	5,380,000
Total revenue	<u>98,666,000</u>	<u>94,322,000</u>
Expenses (notes 7, 8, 12, and 13)		
Professional care of patients	53,016,000	48,342,000
Dietary services	4,407,000	4,087,000
General services	10,888,000	9,973,000
Administrative services	11,075,000	10,145,000
Employee health and welfare	10,000,000	9,335,000
Medical malpractice costs	1,125,000	200,000
Depreciation and amortization of property and equipment	4,782,000	4,280,000
Interest	1,752,000	1,825,000
Provision for bad debts	1,010,000	1,103,000
Total expenses	<u>98,055,000</u>	<u>89,290,000</u>
Income from operations	<u>611,000</u>	<u>5,032,000</u>
Nonoperating gains (losses)		
Unrestricted gifts and bequests (note 10)	822,000	926,000
Loss on investment in affiliated company (note 4)	(37,000)	(16,000)
Income on investments of endowment funds	750,000	650,000
Income on investments whose use is limited		
By board for capital improvements	1,120,000	1,050,000
By agreements with third-party payors for funded depreciation	850,000	675,000
Under indenture agreement	100,000	90,000
Other investment income	284,000	226,000
Nonoperating gains, net	<u>3,889,000</u>	<u>3,601,000</u>
Revenue and gains in excess of expenses and losses	<u>\$ 4,500,000</u>	<u>\$ 8,633,000</u>

See accompanying notes to financial statements.

SAMPLE HOSPITAL

.05

Statements of Changes in Fund Balances
Years Ended December 31, 19X7 and 19X6

	19X7				19X6			
	<i>Donor-Restricted Funds</i>				<i>Donor-Restricted Funds</i>			
	<i>General Funds</i>	<i>Specific- Purpose Funds</i>	<i>Plant Replacement and Expan- sion Funds</i>	<i>Endowment Funds</i>	<i>General Funds</i>	<i>Specific- Purpose Funds</i>	<i>Plant Replacement and Expan- sion Funds</i>	<i>Endowment Funds</i>
Balances at beginning of year	\$64,567,000	\$1,041,000	\$ 521,000	\$6,073,000	\$56,679,000	\$ 933,000	\$ 501,000	\$5,973,000
Additions								
Revenue and gains in excess of expenses and losses	4,500,000	—	—	—	8,633,000	—	—	—
Gifts, grants, and bequests (notes 10 and 11)	—	869,000	220,000	—	—	558,000	290,000	—
Investment income	—	62,000	20,000	—	—	50,000	15,000	—
Net realized gain on sale of investments	—	—	100,000	—	—	—	20,000	100,000
Transfer to finance property and equipment additions	243,000	—	(243,000)	—	255,000	—	(255,000)	—
	<u>4,743,000</u>	<u>931,000</u>	<u>97,000</u>	<u>—</u>	<u>8,888,000</u>	<u>608,000</u>	<u>70,000</u>	<u>100,000</u>
Deductions								
Provision for uncollectible pledges	—	—	60,000	—	—	—	50,000	—
Capital contribution to Sample Health System (note 11)	—	—	—	—	1,000,000	—	—	—
Net realized loss on sale of investments	—	—	—	639,000	—	—	—	—
Unrealized loss on marketable equity securities (note 9)	—	—	—	175,000	—	—	—	—
Transfer to other revenue	—	550,000	—	—	—	500,000	—	—
	<u>—</u>	<u>550,000</u>	<u>60,000</u>	<u>814,000</u>	<u>1,000,000</u>	<u>500,000</u>	<u>50,000</u>	<u>—</u>
Balances at end of year	<u>\$69,310,000</u>	<u>\$1,422,000</u>	<u>\$ 558,000</u>	<u>\$5,259,000</u>	<u>\$64,567,000</u>	<u>\$1,041,000</u>	<u>\$ 521,000</u>	<u>\$6,073,000</u>

See accompanying notes to financial statements.

SAMPLE HOSPITAL

.06

Statements of Cash Flows of General Funds (Direct Method) *

Years Ended December 31, 19X7 and 19X6

	19X7	19X6
Cash flows from operating activities and gains and losses		
Cash received from patients and third-party payors	\$ 90,342,000	\$ 85,619,000
Cash paid to employees and suppliers	(89,214,000)	(81,510,000)
Other receipts from operations	6,042,000	5,563,000
Receipts from unrestricted gifts and bequests	1,122,000	905,000
Interest and dividends received	2,510,000	2,330,000
Interest paid (net of amount capitalized)	(1,780,000)	(1,856,000)
Net cash provided by operating activities and gains and losses	9,022,000	11,051,000
Cash flows from investing activities		
Purchase of property and equipment	(4,728,000)	(5,012,000)
Transfer from donor-restricted fund for purchase of property and equipment	243,000	255,000
Investment in affiliated company	(394,000)	(425,000)
Transfer to Sample Health System	—	(1,000,000)
Cash invested in assets whose use is limited	(4,798,000)	(855,000)
Net cash used by investing activities	(9,677,000)	(7,037,000)
Cash flows from financing activities		
Increase in retainage and construction accounts payable	183,000	175,000
Repayment of long-term debt	(1,200,000)	(1,630,000)
Payments from donor-restricted funds related to temporary loans	500,000	—
Payments on capital lease obligations	(550,000)	(600,000)
Temporary loans from (to) donor-restricted funds	300,000	(193,000)
Net cash used by financing activities	(767,000)	(2,248,000)
Net increase (decrease) in cash and cash equivalents	(1,422,000)	1,766,000
Cash and cash equivalents at beginning of year	4,525,000	2,759,000
Cash and cash equivalents at end of year	\$ 3,103,000	\$ 4,525,000

See accompanying notes to financial statements.

* The direct and indirect methods of reporting cash flows by hospitals are presented for illustrative purposes. The indirect method is presented on page 21,609.

SAMPLE HOSPITAL

.06 Statements of Cash Flows of General Funds (Direct Method) *—continued

Years Ended December 31, 19X7 and 19X6

Reconciliation of Revenue and Gains in Excess of Expenses and Losses to Net Cash Provided by Operating Activities and Gains and Losses

	<i>19X7</i>	<i>19X7</i>
Revenue and gains in excess of expenses and losses	\$ 4,500,000	\$ 8,633,000
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities and gains and losses		
Depreciation and amortization of property and equipment	4,782,000	4,280,000
Provision for bad debts	1,010,000	1,103,000
Amortization of deferred financing costs	66,000	45,000
Loss on investment in affiliated company	53,000	—
Noncash gifts and bequests	—	(175,000)
Decrease in amounts due to third-party payors	(398,000)	(77,000)
Increase in liability for estimated malpractice costs	1,125,000	200,000
Increase in patient accounts receivable	(1,916,000)	(3,141,000)
Increase in supplies and other current assets	(193,000)	(118,000)
Increase in accounts payable and accrued expenses	303,000	301,000
Increase in interest earned but not received on assets whose use is limited	(310,000)	—
Net cash provided by operating activities and gains and losses	\$ 9,022,000	\$ 11,051,000

Supplemental Disclosures of Cash Flow Information

Sample Hospital entered into capital lease obligations of \$600,000 for new equipment in 19X7.

See accompanying notes to financial statements.

* The direct and indirect methods of reporting cash flows by hospitals are presented for illustrative purposes. The indirect method is presented on page 21,609.

SAMPLE HOSPITAL

.07

Statements of Cash Flows of General Funds (Indirect Method) *

Years Ended December 31, 19X7 and 19X6

	19X7	19X6
Cash flows from operating activities and gains and losses		
Revenue and gains in excess of expenses and losses	\$ 4,500,000	\$ 8,633,000
Adjustments to reconcile revenue and gains in excess of expenses and losses to net cash provided by operating activities and gains and losses		
Depreciation and amortization of property and equipment	4,782,000	4,280,000
Provision for bad debts	1,010,000	1,103,000
Amortization of deferred financing costs	66,000	45,000
Loss on investment in affiliated company	53,000	—
Noncash gifts and bequests	—	(175,000)
Decrease in net amounts due to third-party payors	(398,000)	(77,000)
Increase in liability for estimated malpractice costs	1,125,000	200,000
Increase in patient accounts receivable	(1,916,000)	(3,141,000)
Increase in supplies and other current assets	(193,000)	(118,000)
Increase in accounts payable and accrued expenses	303,000	301,000
Increase in interest earned but not received on assets whose use is limited	(310,000)	—
Net cash provided by operating activities and gains and losses	9,022,000	11,051,000
Cash flows from investing activities		
Purchase of property and equipment	(4,728,000)	(5,012,000)
Transfer from donor-restricted fund for purchase of property and equipment	243,000	255,000
Investment in affiliated company	(394,000)	(425,000)
Transfer to Sample Health System	—	(1,000,000)
Cash invested in assets whose use is limited	(4,798,000)	(855,000)
Net cash used by investing activities	(9,677,000)	(7,037,000)
Cash flows from financing activities		
Increase in retainage and construction accounts payable	183,000	175,000
Repayment of long-term debt	(1,200,000)	(1,630,000)
Payments from donor-restricted funds related to temporary loans	500,000	—
Payments on capital lease obligation	(550,000)	(600,000)
Temporary loans from (to) donor-restricted funds	300,000	(193,000)
Net cash used by financing activities	(767,000)	(2,248,000)
Net increase (decrease) in cash and cash equivalents	(1,422,000)	1,766,000
Cash and cash equivalents at beginning of year	4,525,000	2,759,000
Cash and cash equivalents at end of year	\$ 3,103,000	\$ 4,525,000

Supplemental Disclosures of Cash Flow Information

Sample Hospital entered into capital lease obligations of \$600,000 for new equipment in 19X7.

Cash paid for interest (net of amount capitalized) in 19X7 and 19X6 was \$1,780,000 and \$1,856,000, respectively.

See accompanying notes to financial statements.

* The direct and indirect methods of reporting cash flows by hospitals are presented for illustrative purposes. The direct method is presented on pages 21,607 and 21,608.

SAMPLE HOSPITAL

.08

Notes to Financial Statements

December 31, 19X7 and 19X6

1. Summary of Significant Accounting Policies

Organization

Sample Hospital (Hospital) is a not-for-profit acute care hospital. Effective June 30, 19X6, under a plan of reorganization, Sample Health System was formed as the parent holding company of the Hospital. In its capacity as sole member of the Hospital, Sample Health System has the right to appoint Hospital trustees, approve major Hospital expenditures, and approve long-term Hospital borrowings.

Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Investments and investment income

Donated investments are reported at fair value at the date of receipt, which is then treated as cost. Marketable equity securities included in investment portfolios are carried at the lower of aggregate cost (determined on an average-cost basis) or market at the balance sheet date. Other marketable securities are stated at cost, adjusted for impairments in value that are deemed to be other than temporary. Sample Hospital's investment in Affiliated Company is reported on the equity method of accounting that approximates Sample Hospital's equity in the underlying net assets of Affiliated Company.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the malpractice trust are reported as other revenue. Investment income from all other general fund investments and investment income of endowment funds are reported as nonoperating gains. Investment income and gains (losses) on investments of donor-restricted funds are added to (deducted from) the appropriate restricted fund balance.

Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Unrestricted pledges are reported in the statement of revenue and expenses of general funds; restricted pledges are reported as additions to the appropriate restricted fund balance.

Statement of revenue and expenses of general funds

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Deferred financing costs are amortized over the period the obligation is outstanding using the interest method.

Amortization of deferred financing costs is capitalized during the period of construction of capital assets.

Donor-restricted funds

Donor-restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted fund.

Resources restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period.

Resources restricted by donors or grantors for specific operating purposes are reported in other operating revenue to the extent used within the period.

Assets whose use is limited

Assets whose use is limited include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets set aside in accordance with agreements with third-party payors; and assets held by trustees under indenture agreements and self-insurance trust arrangements.

Property and equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for hospital operations are recorded as additions to the donor-restricted plant replacement and expansion funds at fair value at the date of receipt and as transfers to the general fund balance when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

An accelerated method for depreciating certain operating equipment acquired before 1970 has been elected for third-party reimbursement purposes. Third-party reimbursement is deferred to the extent of the effect of the difference between accelerated depreciation used for reimbursement reporting and straight-line depreciation used for financial reporting.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

Estimated malpractice costs

The provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

2. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended December 31, 19X7 and 19X6.

	<u>19X7</u>	<u>19X6</u>
Charges foregone, based on established rates	\$6,000,000	\$5,700,000
Estimated costs and expenses incurred to provide charity care	5,600,000	5,000,000
Equivalent percentage of charity care patients to all patients served	5.7%	5.6%

3. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

- **Medicare.** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 19X6.
- **Medicaid.** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 19X6.
- **Blue Cross.** Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per diem rates are not subject to retroactive adjustment.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

4. Investment in Affiliated Company

In 19X2, the Hospital entered into an agreement with two unrelated hospitals to establish and operate an ambulatory care center, Affiliated Company (Center). In accordance with this agreement, each hospital invested \$970,000 for a 33¹/₃ percent equity interest in the common stock of the Center. The investment was made in installments during the years 19X5 through 19X7, and in May 19X7 the Center began operations. The investment is recorded on the equity method.

Summarized financial information from the unaudited financial statements of the Center follows.

	<u>December 31, 19X7</u>	<u>December 31, 19X6</u>
Current assets	\$1,779,000	\$1,835,000
Noncurrent assets	4,052,000	4,007,000
Current liabilities	1,566,000	1,325,000
Noncurrent liabilities	1,514,000	2,789,000
Shareholders' equity	2,751,000	1,728,000

	<u>Year Ended</u>	
	<u>December 31, 19X7</u>	<u>December 31, 19X6</u>
Revenue	\$3,220,000	\$2,899,000
Net loss	(111,000)	(48,000)

5. Assets Whose Use Is Limited

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31, 19X7 and 19X6, is set forth in the following table. Investments are stated at cost that approximates market.

	<u>19X7</u>	<u>19X6</u>
By board for capital improvements		
Cash and short-term investments	\$11,000,000	\$10,000,000
By agreements with third-party payors for funded depreciation		
Cash and short-term investments	\$ 8,503,000	\$ 5,712,000
U.S. Treasury obligations	316,000	316,000
Interest receivable	415,000	123,000
	<u>\$ 9,234,000</u>	<u>\$ 6,151,000</u>
Under malpractice funding arrangement—held by trustee		
Cash and short-term investments	\$ 1,058,000	\$ 857,000
U.S. Treasury obligations	1,949,000	1,825,000
	<u>\$ 3,007,000</u>	<u>\$ 2,682,000</u>
Under indenture agreement—held by trustee		
Cash and short-term investments	\$ 592,000	\$ 1,260,000
U.S. Treasury obligations	11,024,000	9,674,000
Interest receivable	92,000	74,000
	<u>\$11,708,000</u>	<u>\$11,008,000</u>

6. Property and Equipment

A summary of property and equipment at December 31, 19X7 and 19X6, follows.

	<u>19X7</u>	<u>19X6</u>
Land	\$ 3,000,000	\$ 3,000,000
Land improvements	472,000	472,000
Buildings and improvements	46,852,000	46,636,000
Equipment	29,190,000	26,260,000
Equipment under capital leases	2,851,000	2,752,000
	<u>82,365,000</u>	<u>79,120,000</u>
Less accumulated depreciation and amortization	34,928,000	30,661,000
	<u>47,437,000</u>	<u>48,459,000</u>
Construction in progress	3,601,000	2,033,000
Property and equipment, net	<u>\$51,038,000</u>	<u>\$50,492,000</u>

Construction contracts of approximately \$7,885,000 exist for the remodeling of Hospital facilities. At December 31, 19X7, the remaining commitment on these contracts approximated \$4,625,000.

7. Long-Term Debt and Capital Leases

A summary of long-term debt and capital leases at December 31, 19X7 and 19X6, follows.

	<u>19X7</u>	<u>19X6</u>
9.25% Revenue Notes, due November 1, 19XX, collateralized by a pledge of the Hospital's gross receipts	\$21,479,000	\$22,016,000
9.25% mortgage loan, due January 19XX, collateralized by a mortgage on property and equipment with a depreciated cost of \$1,800,000 at December 31, 19X7	2,010,000	2,127,000
9.75% note payable, due March 19XX, unsecured	125,000	671,000
Total long-term debt	<u>23,614,000</u>	<u>24,814,000</u>
Less current installments of long-term debt	<u>970,000</u>	<u>1,200,000</u>
Long-term debt excluding current installments	<u>\$22,644,000</u>	<u>\$23,614,000</u>
Capital lease obligations, at varying rates of imputed interest from 9.8% to 12.3%, on leased equipment with an amortized cost of \$1,500,000 at December 31, 19X7	1,000,000	950,000
Less current portion of capital lease obligations	<u>500,000</u>	<u>550,000</u>
Capital lease obligations, excluding current portion	<u>\$ 500,000</u>	<u>\$ 400,000</u>

Under the terms of the Revenue Note Indenture, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the financial statements. The Revenue Note Indenture also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding.

Scheduled principal repayments on long-term debt and payments on capital lease obligations for the next five years are as follows:

	<u>Long-Term Debt</u>	<u>Obligations Under Capital Leases</u>
19X8	\$ 970,000	\$ 500,000
19X9	912,000	260,000
19Y0	983,000	260,000
19Y1	1,060,000	95,000
19Y2	1,143,000	—
	<u>\$5,068,000</u>	<u>1,115,000</u>
Less amount representing interest on obligations under capital leases		<u>115,000</u>
		<u>\$1,000,000</u>

A summary of interest cost and investment income on borrowed funds held by the trustee under the Revenue Note Indenture during 19X7 and 19X6 follows.

	<u>19X7</u>	<u>19X6</u>
<i>Interest cost</i>		
Capitalized	\$ 740,000	\$ 740,000
Charged to operations	1,752,000	1,825,000
	<u>\$2,492,000</u>	<u>\$2,565,000</u>
<i>Investment income</i>		
Capitalized	505,000	663,000
Credited to other revenue	330,000	386,000
	<u>\$ 835,000</u>	<u>\$1,049,000</u>

8. Medical Malpractice Claims

The Hospital is uninsured with respect to medical malpractice risks. Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. Accrued malpractice losses have been discounted at rates ranging from 7 percent to 9 percent. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made because the amount is not reasonably estimable.

The Hospital has established an irrevocable trust fund for the payment of medical malpractice claim settlements. Professional insurance consultants have been retained to assist the Hospital with determining amounts to be deposited in the trust fund.

9. Endowment Funds—Investments

Donor-restricted endowment fund investment portfolios include marketable equity securities that are carried at the lower of cost or market. Marketable equity securities of endowment funds at December 31, 19X7 and 19X6, are summarized as follows:

	<u>Cost</u>	<u>Quoted Market Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
19X7	\$1,476,000	\$1,301,000	\$ 8,000	\$183,000
19X6	1,620,000	1,832,000	228,000	16,000

Realized gains on marketable equity securities of endowment funds amounted to \$10,000 in 19X7 and \$50,000 in 19X6.

10. Assets Held in Trust

The Hospital is an income beneficiary of the Thomas A. Smith Trust. Because the assets of the trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. At December 31, 19X7, the market value of the assets totaled approximately \$2,652,000. Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trust is restricted for construction or equipment additions and amounted to \$150,000 in 19X7 and \$140,000 in 19X6.

11. Related Party Transactions

Because of the existence of common trustees and other factors, the Hospital and Sample Health Foundation (Foundation) are related parties. The Foundation is authorized by the Hospital to solicit contributions on its behalf. In its general appeal for contributions to support the community's providers of health care services,

the Foundation also solicits contributions for certain other health care institutions. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing, and use of its distributions.

Contributions made by the Foundation to the Hospital during the years ended December 31, 19X7 and 19X6, are reported in the Hospital's financial statements as follows:

	<u>19X7</u>	<u>19X6</u>
Unrestricted gifts and bequests	\$375,000	\$525,000
Restricted contributions for—		
Specific purposes	300,000	200,000
Plant replacement and expansion	70,000	85,000

In addition, the Hospital made a capital contribution of \$1,000,000 to Sample Health System during 19X6.

12. Pension Plan

The Hospital has a defined benefit pension plan covering substantially all of its employees. The plan benefits are based on years of service and employee compensation during the last five years of covered employment. The Hospital makes annual contributions to the plan equal to the amounts of net periodic pension cost. 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 actuarially computed net periodic pension cost for 19X7 and 19X6 included the following components:

	<u>19X7</u>	<u>19X6</u>
Service cost-benefits earned during the period	\$ 905,000	\$ 770,000
Interest cost on projected benefit obligation	700,000	650,000
Actual return on plan assets	(950,000)	(800,000)
Net amortization and deferral	70,000	80,000
Net periodic pension cost	<u>\$ 725,000</u>	<u>\$ 700,000</u>

Assumptions used in the accounting for net periodic pension cost were as follows:

	<u>As of December 31</u>	
	<u>19X7</u>	<u>19X6</u>
Discount rates	7.0%	7.0%
Rates of increase in compensation levels	6.0	6.0
Expected long-term rate of return on assets	8.0	8.0

The following table sets forth the plan's funded status and amounts recognized in the Hospital's financial statements at December 31, 19X7 and 19X6.

	<u>19X7</u>	<u>19X6</u>
Actuarial present value of benefit obligations		
Vested benefit obligation	\$ 8,020,000	\$ 6,800,000
Nonvested benefit obligation	1,900,000	1,930,000
Accumulated benefit obligation	9,920,000	8,730,000
Effect of projected future compensation levels	1,000,000	980,000
Projected benefit obligation	10,920,000	9,710,000
Plan assets at fair value (primarily listed stocks and U.S. bonds)	11,050,000	9,800,000
Plan assets in excess of projected benefit obligation	130,000	90,000
Unrecognized net gain from past experience different from that assumed .	(30,000)	(40,000)
Prior service cost not yet recognized in net periodic pension cost	50,000	55,000
Unrecognized net asset at January 1, 19X6, being recognized		
over 15 years	(65,000)	(70,000)
Prepaid pension cost, included in other assets in the balance sheet	<u>\$ 85,000</u>	<u>\$ 35,000</u>

13. Commitments

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 19X7, that have initial or remaining lease terms in excess of one year.

<i>Year Ending December 31</i>	<i>Minimum Lease Payments</i>
19X8	\$ 517,000
19X9	506,000
19Y0	459,000
19Y1	375,000
19Y2	343,000
Total minimum lease payments	<u>\$2,200,000</u>

Total rental expense in 19X7 and 19X6 for all operating leases was approximately \$859,000 and \$770,000, respectively.

14. Subsequent Event

On February 9, 19X8, the Hospital signed a contract in the amount of \$1,050,000 for the purchase of certain real estate.

15. Concentrations of Credit Risk

The Hospital is located in Feeling, Illinois. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Revenues from patients and third-party payors were as follows:

	<u>19X7</u>	<u>19X6</u>
Medicare and Medicaid	20%	19%
Blue Cross	20	19
Other third-party payors (none over 10%)	27	26
Patients	33	36
	<u>100%</u>	<u>100%</u>

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

SAMPLE NURSING HOME, INC.

.09

Balance Sheets

December 31, 19X2 and 19X1

<i>Assets</i>	<i>19X2</i>	<i>19X1</i>	<i>Liabilities and Shareholders' Equity</i>	<i>19X2</i>	<i>19X1</i>
Current assets			Current liabilities		
Cash and cash equivalents	\$ 95,000	\$ 129,000	Current maturities of long-term debt	\$ 50,000	\$ 50,000
Investments, at cost that approximates market	150,000	—	Accounts payable	78,000	52,000
Assets whose use is limited—required for current liabilities	50,000	50,000	Accrued expenses	175,000	188,000
Patient accounts receivable less allowance for doubtful accounts: 19X2-\$6,700; 19X1-\$5,300	162,000	152,000	Deposits from patients	50,000	45,000
Estimated third-party payor settlements	71,000	62,000	Income taxes payable	74,000	15,000
Interest receivable	7,000	—	Total current liabilities	427,000	350,000
Supplies	59,000	57,000	Deferred income tax liability	6,000	14,000
Prepaid expenses	3,000	2,000	Long-term debt, less current maturities	1,700,000	1,750,000
Total current assets	597,000	452,000	Shareholders' equity		
Assets whose use is limited			Common stock, \$20 par value; authorized 5,000 shares; issued and outstanding 3,500 shares	70,000	70,000
Under indenture agreement—held by trustee	176,000	153,000	Retained earnings	376,000	229,000
By board for capital improvements	47,000	47,000	Total shareholders' equity	446,000	299,000
Total assets whose use is limited	223,000	200,000			
Less assets whose use is limited and that are required for current liabilities	50,000	50,000			
Noncurrent assets whose use is limited	173,000	150,000			
Property and equipment					
Land	205,000	205,000			
Land improvements	37,000	32,000			
Buildings	1,399,000	1,399,000			
Furniture, fixtures, and equipment	228,000	189,000			
	1,869,000	1,825,000			
Less accumulated depreciation	210,000	141,000			
Property and equipment, net	1,659,000	1,684,000			
Other assets					
Note receivable	81,000	72,000			
Bond issuance cost, net of accumulated amortization of \$38,000 in 19X2 and \$32,000 in 19X1	42,000	48,000			
Land held for investment	27,000	7,000			
Total other assets	150,000	127,000			
Total assets	\$2,579,000	\$2,413,000	Total liabilities and shareholders' equity	\$2,579,000	\$2,413,000

See accompanying notes to financial statements.

SAMPLE NURSING HOME, INC.

.10

Statements of Income and Retained Earnings

Years Ended December 31, 19X2 and 19X1

	<u>19X2</u>	<u>19X1</u>
Net patient service revenue	\$2,163,000	\$1,949,000
Other revenue	67,000	22,000
Total revenue	<u>2,230,000</u>	<u>1,971,000</u>
Expenses		
Nursing services	1,083,000	1,010,000
Dietary services	228,000	225,000
General services	212,000	212,000
Administrative services	173,000	147,000
Interest	164,000	172,000
Provision for bad debts	92,000	83,000
Depreciation	69,000	57,000
Total expenses	<u>2,021,000</u>	<u>1,906,000</u>
Income from operations	209,000	65,000
Nonoperating gains-interest and dividends	18,000	7,000
Income before provision for income taxes	227,000	72,000
Provision for income taxes	80,000	29,000
Net income	147,000	43,000
Retained earnings at beginning of year	229,000	186,000
Retained earnings at end of year	<u>\$ 376,000</u>	<u>\$ 229,000</u>

See accompanying notes to financial statements.

SAMPLE NURSING HOME, INC.

.11

Statements of Cash Flows

Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Cash flows from operating activities and gains		
Cash received from residents and third-party payors	\$2,048,000	\$1,796,000
Cash received from others	67,000	22,000
Cash paid to employees and suppliers	(1,679,000)	(1,495,000)
Interest and dividends received	10,000	10,000
Interest paid	(160,000)	(170,000)
Taxes paid	(29,000)	(30,000)
Deposits received from patients	35,000	15,000
Deposits refunded to patients	(30,000)	(20,000)
Net cash provided by operating activities and gains	262,000	128,000
Cash flows from investing activities		
Purchase of land held for investment	(20,000)	—
Purchase of other investments	(150,000)	—
Proceeds from sale of property	—	2,000
Additions to property and equipment	(44,000)	(79,000)
Cash invested in assets whose use is limited	(23,000)	—
Increase in notes receivable	(9,000)	—
Net cash used in investing activities	(246,000)	(77,000)
Cash flows from financing activities		
Repayment of long-term debt	(50,000)	(50,000)
Net cash used by financing activities	(50,000)	(50,000)
Net increase (decrease) in cash	(34,000)	1,000
Cash at beginning of year	129,000	128,000
Cash at end of year	\$ 95,000	\$ 129,000
<i>Reconciliation of Net Income to Net Cash Provided by Operating Activities and Gains</i>		
Net income	147,000	43,000
Adjustments to reconcile net income to net cash provided by operating activities and gains		
Depreciation	69,000	57,000
Provision for bad debts	92,000	83,000
Amortization	6,000	6,000
Loss on disposal of property	—	11,000
Increase (decrease) in deferred income tax liability	(8,000)	7,000
Net effect of changes in receivables, supplies, prepaid expenses, accounts payable, accrued expenses, and deposits	(44,000)	(79,000)
Net cash provided by operating activities and gains	\$ 262,000	\$ 128,000

See accompanying notes to financial statements.

SAMPLE NURSING HOME, INC.

.12

Notes to Financial Statements

December 31, 19X2 and 19X1

1. Summary of Significant Accounting Policies

Sample Nursing Home, Inc. (Company) operates a 128-bed nursing home in Abacus, New State. A summary of the Company's significant accounting policies follows.

Income taxes

The provisions for income taxes are based on net income reported for financial reporting purposes. Deferred income taxes arise from temporary differences between financial and income tax reporting of various items (principally depreciation). Tax credits are treated as a reduction of the provision for income taxes in the year in which the credits arise.

Patient service revenue

Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Assets whose use is limited

Assets set aside by the board of directors for capital improvements and assets limited as to use under terms of a note indenture are classified as assets whose use is limited.

Property and equipment

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

Bond issuance costs

Costs incurred in issuing bonds are being amortized over the term of the bonds using the straight-line method.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or note indenture.

2. Assets Whose Use Is Limited

Assets whose use is limited under a note indenture agreement at December 31, 19X2 and 19X1, are summarized as follows:

	<u>19X2</u>	<u>19X1</u>
U.S. Treasury obligations, at cost that approximates market	\$150,000	\$130,000
Cash	23,000	21,000
Accrued interest income	3,000	2,000
	<u>\$176,000</u>	<u>\$153,000</u>

Assets set aside by the board of directors for capital improvements consist of certificates of deposit, at a cost that approximates market.

3. Long-Term Debt

Long-term debt at December 31, 19X2 and 19X1, was as follows:

	<u>19X2</u>	<u>19X1</u>
9.5 percent notes payable to the City of Abacus, maturing \$50,000 annually through November 1, 19XX, with a final maturity of \$1,000,000 on November 1, 20XX	\$1,750,000	\$1,800,000
Less current maturities	50,000	50,000
	<u>\$1,700,000</u>	<u>\$1,750,000</u>

The notes are collateralized by a first-mortgage lien on all property and equipment of the Company and a security interest in all of its receipts. The note indenture requires the maintenance of certain deposits with a trustee, which are included in assets whose use is limited.

Future maturities of long-term debt as of December 31, 19X2, follow.

19X3	\$ 50,000
19X4	50,000
19X5	50,000
19X6	50,000
19X7	50,000
Thereafter	1,500,000
Total	<u>\$1,750,000</u>

4. Income Taxes

The provisions for income taxes on earnings were as follows:

	<u>19X2</u>	<u>19X1</u>
Current		
Federal	\$72,000	\$15,000
State	2,000	—
Total current	<u>74,000</u>	<u>15,000</u>
Deferred		
Federal	6,000	13,000
State	—	1,000
Total deferred	<u>6,000</u>	<u>14,000</u>
Total provision for income taxes	<u>\$80,000</u>	<u>\$29,000</u>

A reconciliation between the "statutory" federal income tax rate and the effective rate in the statements of income is as follows:

	<u>19X2</u>	<u>19X1</u>
Statutory tax rate	34%	40%
State taxes, net of federal benefit	1	1
Effective tax rate	<u>35%</u>	<u>41%</u>

5. Pension Plan

[The disclosures contained in this note would be similar to the disclosures contained in note 12 of Sample Hospital and therefore are not repeated here.]

6. Concentrations of Credit Risk

[The disclosures contained in this note would be similar to the disclosures contained in note 15 of Sample Hospital and therefore are not repeated here.]

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

SAMPLE CONTINUING CARE RETIREMENT COMMUNITY

.13

Balance Sheets

December 31, 19X5 and 19X4

<i>Assets</i>	<i>19X5</i>	<i>19X4</i>	<i>Liabilities and Fund Deficit</i>	<i>19X5</i>	<i>19X4</i>
Current assets			Current liabilities		
Cash	\$ 375,000	\$ 330,000	Current maturities of long-term debt	\$ 90,000	\$ 77,000
Accounts receivable (net of allowance for doubtful accounts of \$4,000 and \$5,000)	187,000	197,000	Accounts payable	180,000	174,000
Supplies	40,000	21,000	Accrued expenses	161,000	178,000
Prepaid expenses	15,000	8,000	Deposits on unoccupied units	22,000	40,000
Total current assets	617,000	556,000	Total current liabilities	453,000	469,000
Assets whose use is limited			Long-term debt, less current maturities	8,871,000	8,935,000
Under note agreement—investments	2,130,000	1,753,000	Refundable fees	59,000	144,000
By board for capital improvements—investments	100,000	65,000	Estimated obligation to provide future services and use of facilities in excess of amounts received or to be received for such services	88,000	100,000
	2,230,000	1,818,000	Deferred revenue from advance fees ..	9,304,000	9,585,000
Property and equipment			Fund deficit	(952,000)	(1,489,000)
Land	557,000	557,000			
Land improvements	205,000	203,000			
Buildings and improvements	14,573,000	14,564,000			
Furniture and equipment	752,000	698,000			
	16,087,000	16,022,000			
Accumulated depreciation	1,194,000	742,000			
	14,893,000	15,280,000			
Deferred financing costs (net of accumulated amortization of \$28,000 and \$21,000)	83,000	90,000			
	\$17,823,000	\$17,744,000		\$17,823,000	\$17,744,000

See accompanying notes to financial statements.

SAMPLE CONTINUING CARE RETIREMENT COMMUNITY

.14 Statements of Revenue and Expenses and Changes in Fund Deficit

Years Ended December 31, 19X5 and 19X4

	19X5	19X4
Revenue		
Resident fees earned including amortization of deferred revenue from nonrefundable advance fees of \$935,000 and \$915,000	\$ 3,946,000	\$ 3,152,000
Patient revenue from nonresidents	249,000	275,000
Investment income	107,000	78,000
Other	75,000	68,000
	4,377,000	3,573,000
Expenses		
Resident care	649,000	566,000
Dietary	781,000	701,000
Health care	185,000	170,000
Plant	491,000	421,000
General and administrative	436,000	445,000
Depreciation	452,000	447,000
Interest	967,000	955,000
	3,961,000	3,705,000
	416,000	(132,000)
Decrease (increase) in obligation to provide future services and use of facilities to current residents	12,000	(82,000)
Income (loss) from operations	428,000	(214,000)
Nonoperating gains—Contributions	109,000	73,000
Revenue and gains in excess of (less than) expenses	537,000	(141,000)
Fund deficit, beginning of year	(1,489,000)	(1,348,000)
Fund deficit, end of year	\$ (952,000)	\$(1,489,000)

See accompanying notes to financial statements.

SAMPLE CONTINUING CARE RETIREMENT COMMUNITY

.15

Statements of Cash Flows

Years Ended December 31, 19X5 and 19X4

	19X5	19X4
Cash flows from operating activities and nonoperating gains		
Cash received from residents and third-party payors	\$ 3,252,000	\$ 2,341,000
Other receipts from operations	75,000	68,000
Investment income received	109,000	73,000
Contributions received	107,000	78,000
Cash paid to employees and suppliers	(2,589,000)	(2,042,000)
Interest paid	(950,000)	945,000
Net cash provided (used) by operating activities and nonoperating gains	4,000	(427,000)
Cash flows from investing activities		
Acquisition of property and equipment	(65,000)	(250,000)
Cash invested in assets whose use is limited	(412,000)	(238,000)
Assets whose use is limited used for acquisition of property and equipment	—	467,000
Net cash used by investing activities	477,000	(21,000)
Cash flows from financing activities		
Proceeds from advance fees and deposits	615,000	857,000
Refunds of advance fees and deposits	(46,000)	(52,000)
Proceeds from issuance of long-term debt	26,000	—
Repayments of long-term debt	(77,000)	(307,000)
Net cash provided by financing activities	518,000	498,000
Net increase in cash	45,000	50,000
Cash at beginning of year	330,000	280,000
Cash at end of year	\$ 375,000	\$ 330,000
<i>Reconciliation of Revenue and Gains in Excess of (Less Than) Expenses to Net Cash Provided (Used) by Operating Activities and Nonoperating Gains</i>		
Revenue and gains in excess of (less than) expenses	537,000	(141,000)
Adjustments to reconcile revenue and gains in excess of (less than) expenses to net cash provided (used) by operating activities and nonoperating gains		
Amortization of advance fees	(935,000)	(915,000)
Loss (gain) on obligation to provide future services	(12,000)	82,000
Depreciation and amortization	459,000	475,000
Provision for bad debts	3,000	3,000
Net change in other assets and liabilities [details omitted for editorial brevity*] ..	(48,000)	69,000
Net cash provided (used) by operating activities and nonoperating gains	\$ 4,000	\$ (427,000)

See accompanying notes to financial statements.

* FASB Statement 95, *Statement of Cash Flows*, paragraph 29 [AC C25.127], requires that "The reconciliation of net income to net cash flow from operating activities . . . shall separately report all major classes of reconciling items".

SAMPLE CONTINUING CARE RETIREMENT COMMUNITY

.16

Notes to Financial Statements

December 31, 19X5 and 19X4

1. Summary of Significant Accounting Policies

Sample Continuing Care Retirement Community (CCRC) provides housing, health care, and other related services to residents through the operation of a retirement facility containing 249 apartments and a seventy-eight-bed health care facility. A summary of significant accounting policies follows.

Advance fees

Fees paid by a resident upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Obligation to provide future services and use of facilities

CCRC annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services and use of facilities to current residents) with the corresponding charge to income. The obligation is discounted at 9 percent, based on the expected long-term rate of return on government obligations.

Investments

Investments, which consist of U.S. Treasury obligations, are stated at cost, which approximates fair market value. Interest and investment income are recognized when earned.

2. Property and Equipment

Property and equipment are stated at cost. Donated property is recorded at its estimated fair value at date of receipt, which then is treated as cost. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Land improvements	20 years
Buildings and improvements	40 years
Furniture and equipment	5-15 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

3. Deferred Financing Costs

Deferred financing costs are being amortized using the interest method over the term of the related financing agreement.

4. Tax Status

CCRC is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

5. Long-Term Debt

Long-term debt at December 31, 19X5 and 19X4, is as follows:

	<u>19X5</u>	<u>19X4</u>
10.75% mortgage note payable	\$8,901,000	\$8,965,000
Notes payable to bank—unsecured	34,000	14,000
Other	<u>26,000</u>	<u>33,000</u>
	8,961,000	9,012,000
Less current maturities	<u>90,000</u>	<u>77,000</u>
	<u>\$8,871,000</u>	<u>\$8,935,000</u>

The mortgage note is payable in consecutive monthly installments of principal and interest of \$85,425 to May 20XX. The note is collateralized by a first mortgage on property and equipment with a depreciated value at December 31, 19X5, of \$14,893,000 and by a pledge of all operating revenue.

As required by the mortgage note agreement, CCRC established an initial debt service reserve fund of \$1,000,000 at April 15, 19X3. All resident fees received thereafter, net of resident fee refunds and debt service payments not to exceed \$300,000 annually in the first four years and \$200,000 annually thereafter, are to be added to the debt service reserve fund until the total sum of \$2,050,000 is accumulated. Since June 1, 19X4, CCRC is required to deliver to the Trustee \$5,500 per month to establish maintenance reserves until the aggregate of such payments equals a residential unit reserve and a health care center reserve of \$240,000 and \$90,000, respectively. At December 31, 19X5, the trustee held investments aggregating \$2,130,000. Such amount had been classified as assets whose use is limited.

Scheduled annual principal maturities of long-term debt for the next five years are as follows:

19X6	\$ 90,000
19X7	90,000
19X8	95,000
19X9	105,000
19Y0	105,000

6. Assets Whose Use Is Limited

[The disclosures contained in this note would be similar to the disclosures contained in Note 5 of Sample Hospital and therefore are not repeated here.]

7. Pension Plan

[The disclosures contained in this note would be similar to the disclosures contained in Note 12 of Sample Hospital and therefore are not repeated here.]

8. Concentrations of Credit Risk

[The disclosures contained in this note would be similar to the disclosures contained in Note 15 of Sample Hospital and therefore are not repeated here.]

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

SAMPLE HOME HEALTH AGENCY

.17

Balance Sheets

December 31, 19X5 and 19X4

<i>Assets</i>	<i>19X5</i>	<i>19X4</i>	<i>Liabilities and Fund Balance</i>	<i>19X5</i>	<i>19X4</i>
Current assets			Current liabilities		
Cash and cash equivalents ... \$	74,000	\$ 41,000	Current maturities of long-term debt (note 4)	\$ 13,000	\$ 13,000
Investments	112,000	102,000	Accounts payable	40,000	21,000
Accounts receivable, net of estimated uncollectibles of \$61,000 in 19X5 and \$30,000 in 19X4	752,000	476,000	Accrued payroll and vacation costs	496,000	352,000
Other receivables	27,000	22,000	Estimated third-party payor settlements (note 2)	28,000	31,000
Total current assets	965,000	641,000	Advances from third-party payors	70,000	66,000
Assets whose use is limited (note 3)			Total current liabilities	647,000	483,000
Cash	35,000	35,000	Long-term debt less current maturities (note 4)	105,000	118,000
Bank certificates of deposit ..	100,000	100,000			
	135,000	135,000			
Equipment					
Medical and office equipment	56,000	39,000			
Vehicles	50,000	37,000			
	106,000	76,000			
Less accumulated depreciation	45,000	24,000			
Net equipment	61,000	52,000			
Deferred finance charges, net of accumulated amortization of \$15,000 in 19X5 and \$10,000 in 19X4	20,000	25,000	Fund balance	429,000	252,000
	\$1,181,000	\$853,000		\$1,181,000	\$853,000

See accompanying notes to financial statements.

SAMPLE HOME HEALTH AGENCY

.18 Statements of Revenue and Expenses and Changes in Fund Balances

Years Ended December 31, 19X5 and 19X4

	<i>19X5</i>	<i>19X4</i>
Net patient service revenue (note 2)	\$4,042,000	\$2,687,000
Other revenue	27,000	32,000
Total revenue	4,069,000	2,719,000
Expenses (note 5)		
Professional care of patients	2,714,000	1,835,000
General and administrative	1,042,000	675,000
Occupancy	90,000	83,000
Provision for bad debts	46,000	21,000
Depreciation	21,000	15,000
Interest	16,000	19,000
Total expenses	3,929,000	2,648,000
Income from operations	140,000	71,000
Nonoperating gains		
Contributions	19,000	15,000
Investment income	18,000	12,000
Total nonoperating gains	37,000	27,000
Revenue and gains in excess of expenses	177,000	98,000
Fund balance at beginning of year	252,000	154,000
Fund balance at end of year	\$ 429,000	\$ 252,000

See accompanying notes to financial statements.

SAMPLE HOME HEALTH AGENCY

.19

Statements of Cash Flows

Years Ended December 31, 19X5 and 19X4

	19X5	19X4
Cash flows from operating activities and nonoperating gains		
Cash received from customers and third-party payors	\$ 3,721,000	\$ 2,542,000
Other receipts from operations	22,000	32,000
Cash paid to employees and suppliers	(3,683,000)	(2,540,000)
Interest paid	(11,000)	(14,000)
Nonoperating gains	37,000	27,000
Net cash provided by operating activities and nonoperating gains	86,000	47,000
Cash flows from investing activities		
Purchase of equipment	(30,000)	(19,000)
Purchase of investments	(10,000)	(15,000)
Net cash used by investing activities	(40,000)	(34,000)
Cash flows from financing activities		
Payment of long-term debt	(13,000)	—
Net cash used by financing activities	(13,000)	—
Net increase in cash and cash equivalents	33,000	13,000
Cash and cash equivalents at beginning of year	41,000	28,000
Cash and cash equivalents at end of year	\$ 74,000	\$ 41,000
<i>Reconciliation of Revenue and Gains in Excess of Expenses to Net Cash Provided by Operating Activities and Nonoperating Gains</i>		
Revenue and gains in excess of expenses	177,000	98,000
Adjustments to reconcile revenue and gains in excess of expenses to net cash provided by operating activities and nonoperating gains		
Provision for bad debts	46,000	21,000
Depreciation and amortization	26,000	20,000
Increase in accounts receivable	(322,000)	(150,000)
Increase in other receivables	(5,000)	(2,000)
Increase in accounts payable and accrued expenses	163,000	50,000
Decrease (increase) in estimated third-party receivables	(3,000)	3,000
Increase in advances from third-party payors	4,000	7,000
Net cash provided by operating activities and nonoperating gains	\$ 86,000	\$ 47,000

See accompanying notes to financial statements.

SAMPLE HOME HEALTH AGENCY

.20

Notes to Financial Statements

Years Ended December 31, 19X5 and 19X4

1. Summary of Significant Accounting Policies

Sample Home Health Agency (the Agency) was incorporated in 19X0 as a not-for-profit corporation. The Agency provides health and supportive services to individuals at their homes.

Charity care

The Agency has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Since the Agency does not expect payment, estimated charges for charity care are not included in revenue.

Net patient service revenue

Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Income taxes

The Agency is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Assets whose use is limited

Assets set aside for board-designated purposes are classified as assets whose use is limited.

Investments

Investments consist of U.S. Treasury obligations at cost, which approximates market value.

Equipment

Equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation.

2. Third-Party Rate Adjustments and Revenue

Approximately 38 percent in 19X5 and 37 percent in 19X4 of net patient service revenue was derived under federal and state third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, results of operations or cash flows of the Agency.

3. Board-Designated Assets

The board of directors has designated cash and investments aggregating \$135,000 to be used for future major capital improvements. Those assets are classified in the balance sheets as assets whose use is limited.

4. Long-Term Debt

Long-term debt at December 31, 19X5 and 19X4, is as follows:

	<u>19X5</u>	<u>19X4</u>
Note payable to bank, interest at 15%, collateralized by equipment with a depreciated cost in 19X5 of \$42,000	\$118,000	\$131,000
Less current maturities	<u>13,000</u>	<u>13,000</u>
Long-term debt, less current maturities	<u>\$105,000</u>	<u>\$118,000</u>

Scheduled maturities of long-term debt at December 31, 19X5 are as follows:

19X6	\$ 13,000
19X7	13,000
19X8	13,000
19X9	13,000
19X0	13,000
Thereafter	<u>53,000</u>
Total	<u>\$118,000</u>

5. Pension Plan

[The disclosures contained in this note would be similar to the disclosures contained in note 12 of Sample Hospital.]

6. Charity Care

Charity care represented approximately 3 percent and 4 percent of visits in 19X5 and 19X4, respectively.

7. Concentrations of Credit Risk

[The disclosures contained in this note would be similar to the disclosures contained in note 15 of Sample Hospital.]

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

SAMPLE HEALTH MAINTENANCE ORGANIZATION

.21

Balance Sheets

December 31, 19X5 and 19X4

<i>Assets</i>	<i>19X5</i>	<i>19X4</i>	<i>Liabilities and Fund Balance</i>	<i>19X5</i>	<i>19X4</i>
Current assets			Current liabilities		
Cash	\$ 2,000	\$ 193,000	Unsecured 12% note payable to a bank	\$ —	\$ 44,000
Temporary cash investments	2,935,000	828,000	Portion of long-term debt payable within one year (note 4)	241,000	109,000
Premiums receivable	358,000	407,000	Accounts payable—medical services	2,245,000	1,471,000
Other receivables	263,000	261,000	Other accounts payable and accrued expenses	829,000	661,000
Supplies	190,000	184,000	Unearned premium revenue ..	141,000	202,000
Prepaid expenses	197,000	99,000	Total current liabilities	<u>3,456,000</u>	<u>2,487,000</u>
Total current assets	<u>3,945,000</u>	<u>1,972,000</u>	Long-term debt, less portion payable within one year (note 4)	4,295,000	4,382,000
Property and equipment (notes 3 and 4)	7,559,000	7,062,000	Commitments and contingencies (notes 2 and 8)		
Less accumulated depreciation and amortization	1,803,000	1,436,000	Fund balance	2,118,000	900,000
	<u>5,756,000</u>	<u>5,626,000</u>			
State guaranty fund deposit (note 5)	150,000	150,000	Total liabilities and fund balance	<u>\$9,869,000</u>	<u>\$7,769,000</u>
Debt issuance costs, net of accumulated amortization of \$42,000 in 19X5 and \$39,000 in 19X4	18,000	21,000			
Total assets	<u>\$9,869,000</u>	<u>\$7,769,000</u>			

See accompanying notes to financial statements.

SAMPLE HEALTH MAINTENANCE ORGANIZATION

.22 Statements of Revenue and Expenses and Changes in Fund Balances

Years Ended June 30, 19X5 and 19X4

	<i>19X5</i>	<i>19X4</i>
Revenue		
Premiums earned	\$27,682,000	\$22,500,000
Coinsurance	689,000	500,000
Interest and other income	242,000	100,000
	28,613,000	23,100,000
Expenses		
Contracted hospital, physician, and other services	12,749,000	9,734,000
Health centers—medical services	10,116,000	8,786,000
Health centers—administration	1,556,000	1,530,000
General administration	1,695,000	1,309,000
Membership services	527,000	440,000
Interest	385,000	375,000
Depreciation and amortization	367,000	336,000
	27,395,000	22,510,000
Income from operations	1,218,000	590,000
Fund balance at beginning of year	900,000	310,000
Fund balance at end of year	\$ 2,118,000	\$ 900,000

See accompanying notes to financial statements.

SAMPLE HEALTH MAINTENANCE ORGANIZATION

.23

Statements of Cash Flows

Years Ended June 30, 19X5 and 19X4

	19X5	19X4
Cash flows from operating activities		
Cash received from premiums, stop-loss insurance recoveries, and coinsurance	\$ 28,969,000	\$ 24,410,000
Cash paid to employees and to providers of health care services	(26,405,000)	(22,818,000)
Interest received	230,000	90,000
Interest paid	(382,000)	(372,000)
Net cash provided by operating activities	2,412,000	1,310,000
Cash flows from investing activities		
Additions to property and equipment	(497,000)	(121,000)
Net cash used by investing activities	(497,000)	(121,000)
Cash flows from financing activities		
Proceeds from long-term debt	300,000	—
Repayment of long-term debt	(299,000)	(1,000,000)
Net cash provided (used) by financing activities	1,000	(1,000,000)
Net increase in cash and temporary cash investments	1,916,000	189,000
Beginning cash and temporary cash investments	1,021,000	832,000
Ending cash and temporary cash investments	\$ 2,937,000	\$ 1,021,000
 <i>Reconciliation of Income From Operations to Net Cash Provided by Operating Activities</i>		
Income from operations	1,218,000	590,000
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	370,000	339,000
Increase in accounts payable—medical services	774,000	335,000
Increase (decrease) in unearned premium revenue	(61,000)	115,000
Decrease in premiums receivable	49,000	84,000
Net effect of changes in other receivables, supplies, prepaid expenses, and other payables	62,000	(153,000)
Net cash provided by operating activities	\$ 2,412,000	\$ 1,310,000

See accompanying notes to financial statements.

SAMPLE HEALTH MAINTENANCE ORGANIZATION

.24

Notes to Financial Statements

June 30, 19X5 and 19X4

1. Formation and Purpose

Sample Health Maintenance Organization (Sample HMO) was incorporated in 19X0 as a not-for-profit corporation for the purpose of providing comprehensive health care services on a prepaid basis and for the purpose of establishing and operating organized health maintenance and health care delivery systems.

Sample HMO has been determined to be a qualified health maintenance organization (HMO) under Title XIII of the Public Health Service Act.

2. Summary of Significant Accounting Policies

Temporary cash investments

Temporary cash investments at June 30, 19X5 and 19X4, include a repurchase agreement with a bank and certificates of deposit with original maturities of less than ninety days carried at a cost that is equivalent to market.

Premiums revenue

Membership contracts are on a yearly basis subject to cancellation by the employer group or Sample HMO upon thirty days written notice. Premiums are due monthly and are recognized as revenue during the period in which Sample HMO is obligated to provide services to members.

Health care service cost recognition

Sample HMO contracts with various health care providers for the provision of certain medical care services to its members. Sample HMO compensates those providers on a capitation basis. As part of a cost control incentive program, Sample HMO retains up to XX percent of the capitation as a risk-sharing fund. In the event of hospital utilization in excess of budget, those providers bear the risk to the extent of XX percent of the capitation fee. Operating expenses include all amounts incurred by Sample HMO under the aforementioned contracts.

The cost of other health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported to Sample HMO.

Inventories of supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation. Maintenance and repairs are charged to expense, and betterments are capitalized. Property and equipment costing approximately \$700,000 was financed by initial development grants received in 19X1 and 19X2 from the U.S. Department of Health and Human Services. This property will be owned by Sample HMO as long as the equipment and facilities are used for projects related to the objectives of the Public Health Service Act.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Building	40 years
Improvements	20-25 years
Data processing and laboratory equipment and automobiles	3-7 years
Medical equipment	10 years
Office equipment	5-10 years

Amortization of debt issuance costs

Debt issuance costs are deferred and amortized using the interest method over the term of the related debt.

Retirement plan expense

Sample HMO has a retirement plan as more fully described in note 6. Charges to expenses are recognized when Sample HMO makes contributions to the plan.

Federal income tax

Sample HMO is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been made in the accompanying financial statements.

Reinsurance (stop-loss insurance)

Reinsurance premiums are reported as health care costs, and reinsurance recoveries are reported as revenue.

3. Property and Equipment

Property and equipment at June 30, 19X5 and 19X4, consists of the following:

	<u>19X5</u>	<u>19X4</u>
Land	\$ 300,000	\$ 300,000
Buildings and improvements	5,473,000	5,459,000
Furniture and equipment	1,786,000	1,303,000
	<u>7,559,000</u>	<u>7,062,000</u>
Less accumulated depreciation	1,803,000	1,436,000
	<u>\$5,756,000</u>	<u>\$5,626,000</u>

4. Long-Term Debt

Long-term debt is collateralized by assets with a depreciated cost at June 30, 19X5, of \$4,943,000. A summary of long-term debt at June 30, 19X5 and 19X4, follows.

	<u>19X5</u>	<u>19X4</u>
HHS loan, interest at 7.5%	\$2,020,000	\$2,111,000
HHS loan, interest at 9.25%	1,658,000	1,694,000
Secured equipment loans	858,000	686,000
	<u>4,536,000</u>	<u>4,491,000</u>
Less portion payable within one year	241,000	109,000
	<u>\$4,295,000</u>	<u>\$4,382,000</u>

Scheduled principal payments on long-term debt are as follows:

<u>Fiscal Year</u>	<u>Scheduled Principal Payments</u>
19X6	\$ 241,000
19X7	259,000
19X8	280,000
19X9	800,000
19Y0	2,956,000
	<u>\$4,536,000</u>

5. State Guarantee Fund Deposit

In August 19X5 the state in which Sample HMO is domiciled enacted legislation specifically governing HMOs. Under this legislation, Sample HMO is required to maintain a deposit of \$150,000 with the director of the division of insurance of the state.

6. Employee Retirement Plan

Sample HMO has a contributory defined contribution retirement plan covering substantially all employees. Expense determined in accordance with the plan formula (4 percent to 10 percent of eligible covered compensation) was \$354,000 for the year ended June 30, 19X5 (\$275,000 for 19X4).

7. Stop-loss Insurance

Sample HMO has entered into a stop-loss insurance agreement with an insurance company to limit its losses on individual claims. Under the terms of this agreement, the insurance company will reimburse Sample HMO approximately XX percent of the cost of each member's annual hospital services, in excess of a \$XXX deductible, up to a lifetime limitation of \$XXX per member. In the event Sample HMO ceases operations, (a) plan benefits will continue for members who are confined in an acute care hospital on the date of insolvency until their discharge and (b) plan benefits will continue for any other member until the end of the contract period for which premiums have been paid.

Stop-loss insurance premiums of approximately \$700,000 and \$500,000 are included in health care costs in 19X5 and 19X4, respectively. Approximately \$600,000 and \$400,000 of stop-loss insurance recoveries are deducted from health care costs in 19X5 and 19X4, respectively.

Included in other receivables is approximately \$50,000 recoverable from insurers.

8. Malpractice Claims

Malpractice claims have been asserted against Sample HMO by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. In the opinion of counsel, the outcome of these actions will not have a significant effect on the financial position, results of operations or cash flows of Sample HMO. Incidents occurring through June 30, 19X5, may result in the assertion of additional claims. Other claims may be asserted arising from past services provided. Management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

9. Concentrations of Credit Risk

[The disclosures contained in this note would be similar to the disclosures contained in note 15 of Sample Hospital.]

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

SAMPLE AMBULATORY CARE, INC.

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Balance Sheets

December 31, 19X5 and 19X4

<i>Assets</i>	<i>19X5</i>	<i>19X4</i>	<i>Liabilities and Fund Balance</i>	<i>19X5</i>	<i>19X4</i>
Current assets			Current liabilities		
Cash	\$ 65,000	\$ 76,000	Notes payable (note 3)	\$ 138,000	\$ 144,000
Patient accounts receivable less allowance for uncollectible accounts 19X5—\$15,000; 19X4— \$5,000	290,000	278,000	Accounts payable	52,000	87,000
Estimated retroactive adjustments—third-party payors (note 4)	19,000	32,000	Accrued payroll, benefits, and taxes	33,000	22,000
Accounts receivable—other	13,000	8,000	Estimated retroactive adjustments—third-party payors (note 4)	30,000	24,000
Supplies	21,000	18,000	Financing advance from third-party payor	—	1,000
Prepaid expenses and deposits	5,000	9,000	Total current liabilities ...	253,000	278,000
Total current assets	413,000	421,000			
Property and equipment, at cost					
Land	100,000	100,000	Commitment (note 5)	—	—
Land improvements	322,000	322,000	Fund balance	2,451,000	2,541,000
Buildings	682,000	682,000	Total liabilities and fund balance	\$2,704,000	\$2,819,000
Equipment	1,390,000	1,389,000			
	2,494,000	2,493,000			
Less accumulated depreciation	217,000	100,000			
Net property and equipment	2,277,000	2,393,000			
Advances receivable (note 5) .	14,000	5,000			
Total assets	\$2,704,000	\$2,819,000			

See accompanying notes to financial statements.

SAMPLE AMBULATORY CARE, INC.

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Statements of Revenue and Expenses and Changes in Fund Balances

Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Net patient service revenue (note 7)	\$ 860,000	\$ 357,000
Operating gains	26,000	14,000
Total operating revenue and gains	<u>886,000</u>	<u>371,000</u>
Expenses		
Salaries and wages	425,000	184,000
Employee benefits	77,000	54,000
Supplies	107,000	52,000
Purchased services	177,000	109,000
Insurance	34,000	22,000
Professional fees	27,000	1,000
Interest	15,000	17,000
Depreciation	117,000	100,000
Total expenses	<u>979,000</u>	<u>539,000</u>
Loss from operations	(93,000)	(168,000)
Nonoperating gain—interest income	3,000	11,000
Expenses in excess of revenue and gains	(90,000)	(157,000)
Fund balance at beginning of period	2,541,000	2,698,000
Fund balance at end of period	<u><u>\$2,451,000</u></u>	<u><u>\$2,541,000</u></u>

See accompanying notes to financial statements.

SAMPLE AMBULATORY CARE, INC.

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Statements of Cash Flows

Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Cash flows from operating activities and gains		
Cash received from patients and third-party payors	\$ 866,000	\$ 368,000
Cash received from others	21,000	6,000
Interest received	3,000	11,000
Interest paid	(15,000)	(16,000)
Cash paid to employees and suppliers	(870,000)	(432,000)
Net cash provided from (used for) operating activities and gains	<u>5,000</u>	<u>(63,000)</u>
Cash flows from investing activities		
Purchase of equipment	(1,000)	(4,000)
Advances made	(9,000)	(5,000)
Net cash used for investing activities	<u>(10,000)</u>	<u>(9,000)</u>
Cash flows from financing activities		
Proceeds from notes payable	—	144,000
Payments on notes payable	(6,000)	—
Net cash provided from (used for) financing activities	<u>(6,000)</u>	<u>144,000</u>
Net increase (decrease) in cash	(11,000)	72,000
Cash at beginning of year	<u>76,000</u>	<u>4,000</u>
Cash at end of year	<u>\$ 65,000</u>	<u>\$ 76,000</u>
<i>Reconciliation of Expenses in Excess of Revenues and Gains to Net Cash Provided</i>		
<i>From (Used For) Operating Activities and Gains</i>		
Net Loss	(90,000)	(157,000)
Adjustments to reconcile expenses in excess of revenues and gains to net cash provided from (used for) operating activities and gains		
Depreciation	117,000	100,000
Provision for bad debts	14,000	4,000
Net increase in receivables and net third-party payor adjustments	(12,000)	(19,000)
Net decrease (increase) in inventories of supplies, prepaid expenses and deposits	1,000	(2,000)
Net increase (decrease) in accounts payable, accrued expenses and advances from Blue Cross	<u>(25,000)</u>	<u>11,000</u>
Net cash provided from (used for) operating activities and gains	<u>\$ 5,000</u>	<u>\$ (63,000)</u>

See accompanying notes to financial statements.

SAMPLE AMBULATORY CARE, INC.

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Notes to Financial Statements

December 31, 19X5 and 19X4

1. Summary of Significant Accounting Policies

Net patient service revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Third-party contractual adjustments

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements.

Charity care

Sample Ambulatory Care, Inc. has a policy of providing charity care to patients who are unable to pay. Such patients are identified and related charges are estimated, based on financial information obtained from the patient and subsequent analysis. Since management does not expect payment for charity care, the estimated charges are excluded from revenue.

Supplies

Supplies are stated at the lower of cost (first-in, first-out) or net realized value.

Depreciation

Depreciation of property and equipment is computed on the straight-line method over the estimated lives of depreciable assets.

Investment income

Investment income and gains on investment transactions are recorded as nonoperating revenue.

2. Formation and Scope of Operations

Sample Ambulatory Care, Inc. was incorporated on September 7, 19X3, to operate an ambulatory care health facility to treat or prevent injury and disease, to provide funds or to expend funds to further the treatment or prevention of injury or disease, and to develop and participate in activities designed to promote the general health of the community.

Three area hospitals—ABC Hospital and Health Center, DEF Hospital, and GHI Hospital—entered into a members' agreement to develop this ambulatory care center. In accordance with this agreement, each hospital contributed capital of \$947,000 to Sample Ambulatory Care, Inc.

Sample Ambulatory Care, Inc. began operations in October 19X3.

3. Related Party Transactions

During 19X3, Sample Ambulatory Care, Inc. entered into a contract with one of the member hospitals (managing hospital) for the management of the business and affairs of Sample Ambulatory Care, Inc. Under this agreement, Sample Ambulatory Care, Inc. pays \$4,000 per month to the managing hospital. The

agreement with the managing hospital was to remain in effect through December 31, 19X5, but has been extended on a month-to-month basis.

In addition, during 19X4, each hospital loaned \$48,000 to Sample Ambulatory Care, Inc. in the form of promissory notes at an interest rate of prime plus one percent (effective rates of 10 percent and 9 percent in 19X5 and 19X4, respectively). Of the total \$144,000 liability, \$48,000 is payable on demand after November 28, 19X5, to one member hospital, with the remaining portion (\$96,000) payable on demand after December 8, 19X5, to the other two member hospitals. During 19X5, Sample Ambulatory Care, Inc. paid \$2,000 to each member hospital, thereby reducing the obligation to \$138,000

4. Revenue From Contracting Agencies

Sample Ambulatory Care, Inc. participates as provider of health care services to Blue Cross, Medicare, and County Indigent Plan patients. Reimbursement for covered services is based on tentative payment rates. Final reimbursement rates are determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. Provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are rendered.

5. Advances Receivable

In May 19X4 Sample Ambulatory Care, Inc. entered into a five-year agreement with XYZ Affiliates (XYZ). Under this agreement, XYZ is to provide emergency medical services as well as charge and bill each patient treated at Sample Ambulatory Care, Inc. Sample Ambulatory Care, Inc. has guaranteed that XYZ will collect at least \$18,000 per month during the term of this agreement. In any month in which XYZ does not collect the minimum guarantee, Sample Ambulatory Care, Inc. advances funds to XYZ to cover the deficiency. Such advances are to be repaid to the extent XYZ's net cash collections exceed the minimum guarantee amount. Management estimates that the advances will be fully recovered in 19X6.

6. Income Taxes

Sample Ambulatory Care, Inc. is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

7. Charity Care

Sample Ambulatory Care, Inc. has a policy of providing charity care to indigent patients in emergency situations. These services, which are excluded from revenues, amounted to \$27,000 and \$13,000 in 19X3 and 19X4, respectively, when measured at Sample Ambulatory Care, Inc.'s established rates.

8. Concentrations of Credit Risk

[The disclosures contained in this note would be similar to the disclosures contained in note 15 of Sample Hospital.]

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