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AICPA

JULY 1999 EDITION

**CHECKLISTS
AND ILLUSTRATIVE
FINANCIAL STATEMENTS
FOR HEALTH CARE
ORGANIZATIONS**

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR HEALTH CARE ORGANIZATIONS

JULY 1999

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*A Financial Accounting and
Reporting Practice Aid*

Edited by

Maryann Kasica, CPA

Technical Manager, Accounting and Auditing Publications

*Checklists and Illustrative Financial Statements
for Health Care Organizations has not been
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by any senior technical committees of the
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FSP Section 11,000

Checklists and Illustrative Financial Statements for Health Care Organizations

Description

.01 Health care organizations may be classified by sponsorship or legal structure within the following broad categories:

Not-for-profit business-oriented: These are essentially self-sustaining from fees charged for goods and services. The fees charged by such organizations generally are intended to help the organization maintain its self-sustaining status rather than to maximize profits for the owner's benefit. Such organizations often are exempt from federal income taxes and may receive contributions of relatively small amounts from resource providers that do not expect commensurate or proportionate pecuniary returns.

Not-for-profit non-business-oriented: These are voluntary health and welfare organizations as defined in FASB Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Such organizations are within the scope of the AICPA Audit and Accounting Guide *Not-for-Profit Organizations* rather than that of the *Health Care Organizations* Guide.

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

Investor- (or operator-) owned: These organizations operate as stock corporations, partnerships, or sole proprietorships.

.02 Health care organizations 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 companies, holding companies, and other organizations that primarily plan, organize, and oversee health care services

Applicability of This Checklist

.03 This checklist, and the illustrative financial statements included herein, follow the guidance contained in the AICPA Audit and Accounting Guide *Health Care Organizations* (with conforming changes as of May 1, 1998), referred to as "the Guide." The checklist and illustrative financial statements should be used for *not-for-profit business-oriented* and *investor-owned* health care organizations. Not-for-profit health care pro-

viders 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 States, Local Governments, and Non-Profit Organizations*. Section 11,300 includes guidance for auditors' reports for audits performed under OMB Circular A-133.

.04 Although the Guide also applies to state and local government-owned health care providers, this checklist does *not* include disclosures or sample financial statements of *government-owned* providers. Chapter 1 of the Guide discusses the application of generally accepted accounting principles (GAAP) to governmental health care providers.

.05 In addition, this checklist does *not* apply to *not-for-profit non-business-oriented* health care organizations. For these types of organizations, follow the guidance in the AICPA Audit and Accounting Guide *Not-for-Profit Organizations*, and the AICPA's disclosure checklist entitled *Not-for-Profit Organizations*.

Legislation and Regulation

.06 Significant aspects of health care organization 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 organizations to determine compliance with set standards.

Basic Financial Statements

.07 The financial reporting for not-for-profit business-oriented organizations and investor-owned health care enterprises generally is consistent except for transactions that clearly are not applicable. For example, not-for-profit business-oriented organizations, by their nature, do not have shareholders' equity. On the other hand, investor-owned health care enterprises typically do not receive contributions. Throughout this checklist, disclosure/presentation questions are preceded by certain symbols. Not-for-profit business-oriented organizations should complete all disclosure items denoted with a star (★). Investor-owned health care enterprises should complete all disclosure items denoted with a diamond (◆).

.08 The basic financial statements of health care providers generally consist of a statement of financial position or balance sheet, a statement of activities or income statement or statement of operations, a statement of changes in net assets (equity), a statement of cash flows, and notes to the financial statements. The titles of the financial statements will depend upon the business form of the provider (i.e., not-for-profit, investor-owned, etc.). See the chart below.

Basic Financial Statements

Not-for-Profit Business-Oriented Organization	Investor-Owned Organization
Balance Sheet/Statement of Financial Position	Balance Sheet
Statement of Operations/Statement of Activities	Statement of Operations/Income Statement
Statement of Changes in Net Assets (Fund Balance)*	Statement of Changes in Equity*
Statement of Cash Flows	Statement of Cash Flows

* May be combined with the Statement of Operations.

Note: This publication was extracted from sections 11,000 through 11,500 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 11,100

Instructions

Purpose

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids to be used as a memory jogger to aid in the audit of financial statements of health care organizations.

The checklists have been updated to include guidance relevant to health care organizations contained in official pronouncements through:

- FASB Statement of Financial Accounting Standards No. 135, *Rescission of FASB Statement No. 75 and Technical Corrections*
- FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power*
- FASB Technical Bulletin No. 97-1, *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-back Option*
- AICPA Statement on Auditing Standards No. 87, *Restricting the Use of an Auditor's Report*
- AICPA Statement of Position No. 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*
- AICPA Statement on Standards for Accounting and Review Services No. 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*
- AICPA Audit and Accounting Guide *Health Care Organizations* (with conforming changes as of May 1, 1999)
- AICPA Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes*
- FASB EITF consensuses adopted up to and including the January 1999 Emerging Issues Task Force meeting

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.02 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "yes" if the disclosure has been appropriately made, "no" if the disclosure has not been made, or "n/a" if the disclosure is not applicable to the organization. The auditor should consider the effect of a "no" answer on his/her report. A "no" answer that is material to the financial statements may warrant a departure from an unqualified opinion. (See paragraphs

20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–.63].) If a “no” answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write “not material” in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.03 This checklist is applicable to *not-for-profit business-oriented* and *investor-owned* health care organizations. While financial reporting for these types of organizations is generally consistent, there are requirements that apply to only not-for-profit business-oriented organizations and those that apply to only investor-owned enterprises. Symbols have been used to indicate the applicability of presentation and disclosure requirements to these types of organizations. Not-for-profit business-oriented organizations should complete all disclosure items denoted with a star (★). Investor-owned organizations should complete all disclosure items denoted with a diamond (◆).

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Disclosures prescribed by pronouncements deemed remote for health care organizations 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.

.05 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.



FSP Section 11,200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid. The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP; as a result, pronouncements deemed unlikely to be encountered in financial statements of health care providers are not included.

.02 Explanation of References:

★ =	Disclosure applicable for not-for-profit organizations
◆ =	Disclosure applicable for investor-owned organizations
AAG =	AICPA Audit and Accounting Guide <i>Health Care Organizations</i> (with conforming changes as of May 1, 1998)
AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
EITF =	FASB Emerging Issues Task Force consensus
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:

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

*Place ✓ by
Sections Not Applicable*

- General
 - A. Titles and References _____
 - B. Comparative Financial Statements _____
- Statement of Financial Position/Balance Sheet
 - A. General _____

- B. Cash and Cash Equivalents _____
- C. Investments _____
- D. Receivables _____
- E. Property and Equipment, Supplies, and Other Assets _____
- F. Current Liabilities, Notes Payable, and Other Debt _____
- G. Other Liabilities and Deferred Credits _____
- H. Lessor Leases _____
- I. Lessee Leases _____
- J. Net Assets _____
- K. Restricted Resources _____

- Statement of Activities/Income Statement/Statement of Operations/Statement of Changes in Net Assets
 - A. General _____
 - B. Revenue _____
 - C. Income Taxes _____
 - D. Discontinued Operations _____
 - E. Extraordinary Items _____
 - F. Unusual or Infrequent Items _____
 - G. Advertising Costs _____
 - H. Donated or Contributed Services _____
 - I. Fund Raising _____
 - J. Contributions/Pledges _____
 - K. Expenses _____
 - L. Wills _____
 - M. Endowments _____
 - N. Earnings Per Share _____
 - O. Comprehensive Income _____

- Statement of Cash Flows

- Other Financial Statement Disclosures
 - A. Accounting Changes _____
 - B. Accounting Policies _____
 - C. Business Combinations _____
 - D. Commitments and Contingencies _____
 - E. Costs to Exit an Activity _____
 - F. Derivatives _____
 - G./G1. Financial Instruments _____
 - H. Nonmonetary Transactions _____
 - I. Pension and Other Postretirement Benefit Plans _____
 - J. Related Organizations and Economic Dependency _____
 - K. Risks and Uncertainties _____
 - L. Segment Information _____
 - M. Subsequent Events _____

- Continuing Care Retirement Communities (CCRCs)
 - A. Refundable Advance Fees _____
 - B. Fees Refundable to Residents Only From Reoccupancy Proceeds of a Contract Holder's Unit _____
 - C. Nonrefundable Advance Fees _____

- D. Obligation to Provide Future Services and Use of Facilities to Current Residents _____
- E. Costs of Acquiring Initial Continuing-Care Contracts _____
- F. Other _____
- OMB Circular A-133 Presentation Requirements _____
- Exhibit A—Stock-Based Compensation _____
- Auditors’ Reports _____
- Auditors’ Reports on Audits Performed Under *Government Auditing Standards* and Under OMB Circular A-133 _____

Yes No N/A

General

A. Titles and References

- ★◆1. Are the financial statements suitably titled?
[SFAS 62, par. 7 (AU 623.07)] _____
- ★◆2. Does each statement include a general reference that the notes are an integral part of the financial statement presentation?
[Generally Accepted] _____
- ★3. Do the basic financial statements of the health care organization include:
 - a. Statement of financial position (balance sheet)? _____
 - b. Statement of activities (statement of operations/income statement)? _____
 - c. Statement of cash flows? _____
 - d. Statement of changes in net assets (equity)? [Note that this statement may be combined with the statement of activities.]
[SFAS 117, pars. 1 and 6 (AC No5.104); AAG, par. 1.05] _____

B. Comparative Financial Statements

- ★◆1. Has presentation of comparative statements been considered?
[SFAS 117, par. 69; ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)] _____
- ★◆2. Are the disclosures included in the prior year’s financial statements repeated, or at least referred to, to the extent that they continue to be of significance?
[ARB 43, Ch. 2A, par. 2 (AC F43.102)] _____
- ★◆3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?
[ARB 43, Ch. 2A, par. 3 (AC F43.103)] _____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| <p>★4. If comparative annual financial statements are presented for earlier periods, are those financial statements reclassified (or restated) to reflect retroactive application of the provisions of SFAS 116 and SFAS 117?
[SFAS 116, par. 30; SFAS 117, par. 31]</p> | _____ | _____ | _____ |

Statement of Financial Position/Balance Sheet

A. General

- | | | | |
|--|-------|-------|-------|
| <p>★◆1. For classified statements of financial position/balance sheets, are assets and liabilities segregated into current and noncurrent classifications, with totals presented for current assets and current liabilities? [ARB 43, Ch. 3A, par. 3; SFAS 78, pars. 5 and 13 (AC B05.102-.109B); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3, par. 2 (AC B05.501-.503); SFAS 117, par. 12 (AC No5.110)]</p> | _____ | _____ | _____ |
| <p>★◆2. Are assets not expected to be realized during the current operating cycle classified as noncurrent? [ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]</p> | _____ | _____ | _____ |
| <p>★3. Does the statement of financial position/balance sheet report total assets, liabilities, and net assets as well as separate amounts for each of three classes of net assets with captions used to describe their meaning as explained in SFAS 117? [SFAS 117, pars. 10, 13, and 100 (AC No5.108, .111, and .131, fn. a)]</p> | _____ | _____ | _____ |
| <p>★4. Does the entity provide information about liquidity by one or more of the following presentations:</p> <p>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?</p> <p>b. Classifying assets and liabilities as current and noncurrent?</p> <p>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)]</p> | _____ | _____ | _____ |
| <p>★◆5. Are valuation allowances for assets shown as deductions from their related assets with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]</p> | _____ | _____ | _____ |
| <p>★◆6. Is the need for disclosure of the impact of a new FASB Statement, issued but not yet effective where restatement of prior periods is required, considered? [SAS 1, secs. 9410.13-.18 (AU 9410.13-.18)]</p> | _____ | _____ | _____ |

B. Cash and Cash Equivalents

- | | | | |
|---|-------|-------|-------|
| <p>★◆1. Is restricted cash appropriately segregated from cash available for current operations? [ARB 43, Ch. 3A, par. 6 (AC B05.107); AAG, par. 3.01]</p> | _____ | _____ | _____ |
| <p>★◆2. Are restrictions on cash (such as for plant acquisition, debt reduction or working capital maintenance) appropriately disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]</p> | _____ | _____ | _____ |

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| ★◆3. Are personal funds of patients, residents and others under an agency arrangement reported as unrestricted assets and corresponding liabilities in the balance sheet/statement of financial position?
[AAG, par. 3.02] | _____ | _____ | _____ |
| ★◆4. If a concentration of credit risk arises from deposits in excess of federally insured limits, is it disclosed?
[SFAS 105, par. 20 (AC F25.115)] | _____ | _____ | _____ |

Note: SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, supersedes SFAS 105. If SFAS 133 has been adopted, refer to the disclosure requirements listed in the Other Financial Statement Disclosures section G1 of this checklist.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

- | | | | |
|--|-------|-------|-------|
| ★◆5. If the organization has material bank overdrafts or material balance of undelivered checks as of the statement-of-financial-position/balance-sheet date, are: | | | |
| a. Bank overdrafts presented as a separate caption within current liabilities? | _____ | _____ | _____ |
| b. Undelivered checks classified as accounts payable?
[Generally Accepted] | _____ | _____ | _____ |
| ★◆6. Are internally designated funds reported separately from externally designated funds?
[AAG, par. 3.01] | _____ | _____ | _____ |
| ★◆7. Is the policy for determining cash equivalents disclosed?
[SFAS 95, par. 10 (AC C25.108)] | _____ | _____ | _____ |

C. Investments

- | | | | |
|--|-------|-------|-------|
| ★◆1. Are investments reported as current or noncurrent assets in conformity with GAAP?
[AAG, par. 4.14] | _____ | _____ | _____ |
| ★◆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 investments (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. 4.02] | _____ | _____ | _____ |
| ◆4. Are debt and equity securities classified as (a) held-to-maturity, (b) available-for-sale, or (c) trading?
[SFAS 115, par. 6 (AC I80.103)] | _____ | _____ | _____ |

Note: SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, modifies the disclosure requirements of SFAS 115, paragraphs 19, 20, 21, and 22. If SFAS 133 has been adopted, replace Questions 5, 6, 7, 9, and 10 below with those shown in the Other Financial Statement Disclosures section G1 of this checklist.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

- | | | | |
|--|-------|-------|-------|
| ◆ 5. 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? | _____ | _____ | _____ |
| ◆ 6. 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)?
[SFAS 115, par. 20 (AC I80.119)] | _____ | _____ | _____ |
| ◆ 7. 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)] | _____ | _____ | _____ |
| ◆ 8. If an option (to purchase securities that will be accounted for under SFAS 115) is classified as held-to-maturity or available-for-sale, is the accounting policy for the premium paid to acquire the option disclosed?
[EITF 96-11] | _____ | _____ | _____ |
| ◆ 9. For each period for which an earnings statement is presented, are the following disclosures made: | | | |
| a. The proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales? | _____ | _____ | _____ |
| b. The basis on which cost was determined in computing realized gain or loss (i.e., specific 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 other comprehensive income during the period? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____
◆ 10. 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 I80.121)]	_____	_____	_____
★◆ 11. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

Note: SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, supersedes SFAS 105. If SFAS 133 has been adopted, refer to the disclosure requirements listed in the Other Financial Statement Disclosures section G1 of this checklist.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

★ 12. Are realized gains and losses; unrealized gains and losses; dividend, interest, and other similar investment income; and other than temporary impairment losses reported in the statement of activities as increases or decreases in unrestricted net assets or in temporarily restricted net assets or in permanently restricted net assets, depending on the existence of or lack of donor restrictions or law? [SFAS 124, pars. 8 and 9 (AC No5.154 and .155); AAG, pars. 4.07 and 4.08]	_____	_____	_____
★ 13. Are realized gains and losses; dividend, interest and other similar investment income; and other than temporary impairment losses included in the performance indicator within the statement of activities? [SFAS 124, par. 49; AAG, par. 4.07]	_____	_____	_____
★ 14. Are unrealized gains and losses on trading securities (as defined in SFAS 115) included in the performance indicator within the statement of activities? [SFAS 124, par. 49; AAG, par. 4.07]	_____	_____	_____
★ 15. Are unrealized gains and losses on available-for-sale and held-to-maturity securities excluded from the performance indicator within the statement of activities? [SFAS 124, par. 49; AAG, par. 4.07]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★16. If a provider reports gains and investment income that are limited to specific uses by donor-imposed restrictions as increases in unrestricted net assets because the restrictions are met in the same reporting period as the gains and income are recognized, does the provider:			
a. Have a similar policy for reporting contributions received?	_____	_____	_____
b. Report consistently from period to period?	_____	_____	_____
c. Disclose its accounting policy? [SFAS 124, par. 10 (AC No5.156); AAG, par. 4.09]	_____	_____	_____
★17. For each period that a statement of activities is presented, are the following disclosures made on the face of the financial statements or in the notes thereto:			
a. The composition of investment return including, at a minimum, investment income, net realized gains or losses on investments reported at other than fair value, and net gains or losses on investments reported at fair value?	_____	_____	_____
b. A reconciliation of investment return to amounts reported in the statement of activities, if investment return is separated into operating and nonoperating amounts?	_____	_____	_____
c. A description of the policy used to determine the amount of investment return included in the measure of operations, if investment return is separated into operating and nonoperating amounts?	_____	_____	_____
d. A discussion of circumstances leading to a change, if any, in the policy referred to in Step 17c above? [SFAS 124, par. 14 (AC No5.161); AAG, par. 4.11]	_____	_____	_____
★18. For each period for which a statement of financial position is presented, are the following disclosures made on the face of the financial statements or in the notes thereto:			
a. The aggregate carrying amount of investments by major types (e.g., equity securities, corporate debt securities, etc.)?	_____	_____	_____
b. The basis for determining the carrying amount for investments other than equity securities with readily determinable fair values and all debt securities?	_____	_____	_____
c. The methods and assumptions used to estimate the fair values of investments other than financial instruments, if those other investments are reported at fair value?	_____	_____	_____
d. The aggregate amount of the deficiencies for all donor-restricted endowment funds, for which the fair value of the assets at the reporting date is less than the level required by donor stipulations or law? [SFAS 124, par. 15 (AC No5.162); AAG, par. 4.11]	_____	_____	_____
★19. For the most recent period for which a statement of financial position is presented, does the provider disclose the nature of and carrying amount for every individual investment or group of investments that represents a significant concentration of market risk (market risk may result from the nature of the investments, a lack of diversity of industry, currency, or geographic location)? [SFAS 124, pars. 16 and 86 (AC No5.163); AAG, par. 4.11]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★20. In the period that SFAS 124 is first applied, does the provider disclose the nature of any restatements and its effect on the change in net assets and on each class of net assets for each period presented? [SFAS 124, par. 19]	_____	_____	_____
★21. If SFAS 124 is not applied retroactively, is the cumulative effect of the change in accounting on each class of net assets reported in the statement of activities between the captions "extraordinary items," if any, and "change in unrestricted net assets," "change in temporarily restricted net assets," and "change in permanently restricted net assets" ? [SFAS 124, par. 18]	_____	_____	_____
★◆22. Are significant net realized and net unrealized gains and losses that arose after the latest statement of financial position date, but before issuance of the financial statements, disclosed? [SAS 1, sec. 560, pars. 5 and 7 (AU 560.05 and .07)]	_____	_____	_____
D. Receivables			
★◆1. Are charity care revenue and receivables excluded from the financial statements? [AAG, par. 5.03]	_____	_____	_____
★◆2. Are differences between the estimates originally reported and subsequent revisions, including final settlements:			
a. Included in the statement of activities/income statement in the period the revisions are made and disclosed, if material?	_____	_____	_____
b. Reported in the current period unless they meet the criteria for prior-period adjustments? [AAG, par. 5.07; 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. 7.01]	_____	_____	_____
★◆4. Are deposits received from individuals reported as a liability (to the extent that a right of setoff does not exist)? [AAG, par. 7.01]	_____	_____	_____
★◆5. Are receivables (less an allowance for uncollectibles, discounts, and contractual adjustments) reported as current assets?	_____	_____	_____
a. If the terms of payment are extended beyond one year from the balance-sheet date, is that portion classified as noncurrent?	_____	_____	_____
b. Are amounts due from third-party payors for retroactive adjustments of items (such as final settlements or appeals) reported separately in the financial statements? [AAG, pars. 5.17 and 5.18]	_____	_____	_____
★6. When displaying total assets and total liabilities, are interfund assets and liabilities eliminated? ¹	_____	_____	_____

¹ The display of interfund items in a statement of financial position is not prohibited by SFAS 117. However, since interfund items are not organizational assets or liabilities, those interfund items must be clearly labeled and arranged in the statement of financial position to eliminate their amounts when total assets and liabilities are displayed.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★7. Do entities 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)]	_____	_____	_____
★8. Do entities 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)]	_____	_____	_____
★◆9. Are all receivables reported net of any related allowance for uncollectible amounts, with appropriate disclosure? [AAG, par. 5.17; APB 12, par. 3 (AC V18.102)]	_____	_____	_____
★◆10. 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)]	_____	_____	_____
★◆11. Are significant concentrations of credit risk arising from receivables disclosed? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

Note: SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, supersedes SFAS 105. If SFAS 133 has been adopted, refer to the disclosure requirements listed in the Other Financial Statement Disclosures section G1 of this checklist.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

E. Property and Equipment, Supplies, and Other Assets

★1. Is property and equipment that is donor-restricted reported as temporarily or permanently restricted assets? [SFAS 116, par. 14]	_____	_____	_____
★◆2. Are donor or legal restrictions on the proceeds from the disposition of property and equipment disclosed? [AAG, par. 6.07]	_____	_____	_____
★◆3. For depreciable assets, do the financial statements or notes disclose:			
a. Depreciation expense for each period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 and deferred tax liabilities 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)]	_____	_____	_____
b. Are deferred tax assets or liabilities not related to an asset or liability for financial reporting (including those related to carry-forwards) 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 liabilities, (b) all deferred tax assets, and (c) the related valuation allowance recognized in the balance sheet disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
◆7. Is the net change during the year in the total valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
★◆8. Is the amount of interest cost incurred and charged to expense during the period disclosed for an accounting period in which no interest cost is capitalized? [SFAS 34, par. 21a (AC I67.118)]	_____	_____	_____
★◆9. Is the amount of interest cost incurred during the period and the amount that has been capitalized disclosed for an accounting period in which some interest cost is capitalized? [SFAS 34, par. 21b (AC I67.118)]	_____	_____	_____
★◆10. Are material commitments for property expenditures disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ 11. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13]</p>	_____	_____	_____
<p>★◆ 12. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down:</p> <p>a. A description of the impaired assets and the facts and circumstances leading to the impairment?</p> <p>b. The amount of the impairment loss and how fair value was determined?</p> <p>c. The caption in the income statement or statement of activities in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement? [SFAS 121, par. 14 (AC I08.133)]</p>	_____	_____	_____
<p>★◆ 13. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, are all of the following disclosed in financial statements that include a period during which those assets are held:</p> <p>a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?</p> <p>b. The loss resulting from the application of paragraph 15 of SFAS 121?</p> <p>c. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?</p> <p>d. The caption in the statement of activities/income statement in which the gains or losses in b. and c. are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement?</p> <p>e. The results of operations for assets to be disposed of to the extent that those results are included in the entity’s results of operations for the period and can be identified? [SFAS 121, par. 19 (AC I08.138)]</p>	_____	_____	_____
<p>★◆ 14. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes, or similar caption, in the statement of activities or income statement? [SFAS 121, pars. 13 and 18]</p>	_____	_____	_____

F. Current Liabilities, Notes Payable, and Other Debt

1. Current liabilities:

<p>★◆ a. For classified balance sheets and classified statements of financial position, do current liabilities include:</p> <p>(1) Obligations for items that entered the operating cycle?</p> <p>(2) Collections received in advance of the performance of services?</p> <p>(3) Debts that arise from operations directly related to the operating cycle?</p>	_____	_____	_____
	_____	_____	_____
	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) Other liabilities whose regular and ordinary liquidation is likely to occur within a relatively short time period?	_____	_____	_____
(5) 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 and 8 (AC B05.108 and .109); SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
★◆ b. 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 B05.113–.116); FASBI 8, pars. 2–4 (AC B05.117, .138, and .139)]	_____	_____	_____
★◆ c. In classified statements of financial position and in classified balance sheets, are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109)]	_____	_____	_____
2. Notes payable and other debt:			
★◆ a. 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)]	_____	_____	_____
★◆ b. 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)]	_____	_____	_____
★◆ c. For unconditional purchase obligations that have been recorded in accordance with SFAS 47, paragraph 6, is the amount of payments due in the aggregate and for every year during the five years following the date of the latest statement of financial position/balance sheet presented disclosed? [SFAS 47, par. 10a (AC C32.105a)]	_____	_____	_____
★◆ d. If a note is non-interest-bearing or has an inappropriate stated interest rate:			
(1) Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
(2) Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
(3) Is amortization of the discount or premium reported as interest?	_____	_____	_____
(4) Are issue costs reported in the balance sheet/statement of financial position as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
★◆ e. Are debt conversion features (such as rates and pertinent dates) disclosed? [FASCON 5, par. 11; APB 14 (AC D10)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ f. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet/statement of financial position, do disclosures include:</p> <p>(1) General description of the financing agreement?</p> <p>(2) 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)]</p>	_____	_____	_____
<p>★◆ g. For troubled debt restructuring occurring during the current period, do disclosures include:</p> <p>(1) Description of the principal changes in terms and/or the major features of settlement?</p> <p>(2) Aggregate gain on restructuring of payables and the related income tax effect?</p> <p>(3) Aggregate net gain or loss on transfers of assets recognized during the period?</p> <p>(4) 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)]</p>	_____	_____	_____
<p>★◆ h. For periods after a troubled debt restructuring, do disclosures include:</p> <p>(1) Extent to which amounts contingently payable are included in the carrying amount of restructured payables?</p> <p>(2) Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]</p>	_____	_____	_____
<p>★◆ i. Are the gains and losses from extinguishment(s) of debt aggregated and, if material, shown as an extraordinary item, net of related income tax effect? (<i>Note:</i> Does not apply to gains and losses from extinguishments of debt made to satisfy sinking fund requirements that the reporting entity must meet within one year of the date of the extinguishment.) [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC L35.107)]</p>	_____	_____	_____
<p>★◆ j. Are gains or losses from extinguishment(s) made to satisfy sinking fund requirements that the reporting entity must meet within one year of the date of the extinguishment aggregated and identified as a separate item? [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC L35.107)]</p>	_____	_____	_____
<p>★◆ k. Do disclosures related to gains and losses classified as extraordinary include the following:</p> <p>(1) A description of the extinguishment transactions, including the sources of any funds used to extinguish debt if it is practicable to identify the sources?</p> <p>(2) The income tax effect in the period of extinguishment?</p> <p>(3) The per-share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC L35.109)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ <i>l.</i> If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:</p> <p>(1) A general description of the transaction?</p> <p>(2) The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [SFAS 125, par. 17b (AC L35.109)]</p>	_____	_____	_____
<p>★◆ <i>m.</i> If assets are set aside after the effective date of SFAS 125 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets? [SFAS 125, par. 17c (AC L35.109)]</p>	_____	_____	_____
<p>★◆ <i>n.</i> 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/statement-of-financial-position 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:</p> <p>(1) 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?</p> <p>(2) 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)]</p>	_____	_____	_____
<p>★◆ <i>o.</i> If an obligation under Question <i>n</i>(2) above is included in long-term liabilities (or in the case of an unclassified balance sheet is included as a long-term liability in the disclosure of debt maturities), are the circumstances disclosed? [SFAS 78, par. 5 (AC B05.118); see also EITF 86-30]</p>	_____	_____	_____
<p>★ <i>p.</i> Does the not-for-profit provider report tax-exempt obligations that were issued for its benefit as liabilities if the provider is responsible for repayment? [AAG, par. 7.15]</p>	_____	_____	_____
<p>★◆ <i>q.</i> 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. 7.11]</p>	_____	_____	_____
<p>★◆ <i>r.</i> Is disclosure considered for any changes in the provider's activities that could affect its tax-exempt status? [AAG, par. 7.11]</p>	_____	_____	_____
<p>★◆ <i>s.</i> Are disclosures appropriate regarding the provider's tax-exempt status and any other significant tax matters? [AAG, par. 7.11]</p>	_____	_____	_____
<p>★◆ <i>t.</i> Is appropriate disclosure made if unrelated business income tax has not been accrued on income from:</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) Debt-financed investments that are not functionally related to the exempt purpose?	_____	_____	_____
(2) Certain related entities not engaged in an exempt activity?	_____	_____	_____
(3) Pharmacy operations in a medical building for the convenience of physicians' private patients?	_____	_____	_____
(4) A gift shop, cafeteria or food shop that the provider encourages the general public (except patients, visitors and employees) to use?	_____	_____	_____
(5) A parking lot available to the general public (except patients, visitors, and employees)? [AAG, pars. 7.10 and 7.11]	_____	_____	_____

G. Other Liabilities and Deferred Credits

★◆1. If the reporting entity has not accrued compensated absences (SFAS 43) because the amount cannot be reasonably estimated, is that fact disclosed? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
★◆2. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 or SFAS 43 only because the amount cannot be reasonably estimated, is the fact that the benefits have not been accrued disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____

H. 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/statement of financial position presented? [SFAS 91, par. 25d (AC L10.119a)]	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the latest balance-sheet/statement-of-financial-position date presented? [SFAS 13, par. 23a (AC L10.119a)]	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement/statement of activities is presented? [SFAS 13, par. 23a (AC L10.119a)]	_____	_____	_____
d. For direct financing leases, the amount of initial direct costs as part of the investment? [SFAS 91, par. 25d (AC L10.119a(1))]	_____	_____	_____
★◆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/statement of financial position 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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Total contingent rentals included in income for each period for which an income statement/statement of operations is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
★◆3. Do disclosures include a general description of the lessor's leasing arrangements? [SFAS 13, par. 23 (AC L10.119c)]	_____	_____	_____
★◆4. For investments in leveraged leases, do disclosures include:			
a. In the balance sheet, the amount of deferred taxes presented separately from the remainder of the net investment?	_____	_____	_____
b. In the income statement or the notes thereto, separate presentation (from each other) of pretax income from the leveraged lease, the tax effect of pretax income, and the amount of investment tax credit recognized as income during the period?	_____	_____	_____
c. When leveraged leasing is a significant part of the lessor's business activities in terms of revenue, net income, or assets, the components of the net investment balance in leveraged leases in the notes to the financial statements? [SFAS 13, par. 47 (AC L10.149)]	_____	_____	_____
★◆5. For leasing transactions with related parties, are the nature and extent of the transaction disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____

I. 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/statement of financial position presented? [SFAS 13, par. 16a.i. (AC L10.112a(1))]	_____	_____	_____
b. Future minimum lease payments, as of the date of the latest balance sheet/statement of financial position 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? [SFAS 13, pars. 10 and 16a.ii. (AC L10.106 and .112a(2))]	_____	_____	_____
c. Total future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet/statement of financial position presented? [SFAS 13, par. 16a.iii (AC L10.112a(3))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period presented? [SFAS 13, par. 16a.iv (AC L10.112a(4))]	_____	_____	_____
e. Assets recorded under capital leases and the related accumulated amortization, and obligations under those leases identified separately in the balance sheet/statement of financial position or a note? [SFAS 13, pars. 13 and 16 (AC L10.112a)]	_____	_____	_____
★◆2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Future minimum rental payments required as of the latest balance sheet/statement of financial position 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/statement of financial position 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)]	_____	_____	_____
★◆5. Is the nature and extent of leasing transactions with related parties disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
★◆6. If material, is the accounting policy used in recognizing amounts related to a modification of an operating lease (that does not change the lease classification) disclosed? [EITF 95-17]	_____	_____	_____
J. Net Assets			
◆1. Are the equity accounts of investor-owned providers presented in a similar fashion as other investor-owned businesses? [AAG, par. 9.01]	_____	_____	_____
★◆2. Is the nature of restrictions on donor-restricted resources disclosed? [AAG, par. 9.07]	_____	_____	_____
★3. Are limits on the use of unrestricted net assets (such as loan covenants and board-designated endowments) and information about the nature and amounts of different types of permanent and temporary restrictions disclosed? [SFAS 117, par. 16 (AC No5.114); AAG, pars. 9.03 and 9.04]	_____	_____	_____
★4. Are net assets released from restriction, such as those related to the fulfillment of time or purpose restrictions, reported separately in the financial statements or disclosed in the notes? [AAG, par. 10.07]	_____	_____	_____
◆5. Shareholders' equity (corporations):			
a. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share and changes therein? [Generally Accepted]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. 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, significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]	_____	_____	_____
c. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]	_____	_____	_____
d. Are the following disclosed on the face of the statement of financial position or in the notes:			
(1) The aggregate or per-share amounts at which preferred stock may be called or is subject to redemption through sinking-fund operations or otherwise?	_____	_____	_____
(2) The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 7 (AC C24.105)]	_____	_____	_____
e. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed? [<i>Note: Disclosure shall be made in the equity section of the statement of financial position in the aggregate, either parenthetically or "in short," rather than on a per-share basis or through disclosure in the notes.</i>] [SFAS 129, par. 6 (AC C24.104)]	_____	_____	_____
f. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates in each of the five years following the date of the latest statement of financial position presented? [SFAS 129, par. 8 (AC C24.106)]	_____	_____	_____
g. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
h. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
i. 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?	_____	_____	_____
◆ j. Are the carrying basis, the cost and the number of shares disclosed for treasury stock? [Generally Accepted]	_____	_____	_____
k. Are preferred stock dividends in arrears and dividend restrictions disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ <i>l.</i> After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10; ARB 46, par. 2 (AC Q15.111)]	_____	_____	_____
◆ <i>m.</i> Are the nature and extent to which retained earnings is restricted indicated? [APB 6, par. 13 (AC C23.104)]	_____	_____	_____
★◆6. Changes in net assets:			
<i>a.</i> 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)]	_____	_____	_____
(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)]	_____	_____	_____
<i>b.</i> 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)]	_____	_____	_____
<i>c.</i> For a correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected?	_____	_____	_____
(1) Nature of the error in previously issued financial statements?	_____	_____	_____
(2) Effect of its correction on income before extraordinary items, net income, and related per-share amounts, if applicable? [APB 20, par. 37 (AC C35.105)]	_____	_____	_____

K. Restricted Resources

★1. Are cash or other assets received with a donor-imposed restriction that limits their use to long-term purposes reported separately from assets that are unrestricted and available for current use? [SFAS 117, par. 11 (AC No5.109)]	_____	_____	_____
★2. Does the entity provide information about the nature and amounts of different types of permanent restrictions and temporary restrictions by reporting their amounts on the face of the statement of financial position or by including relevant details in notes to financial statements? [SFAS 117, par. 14 (AC No5.112)]	_____	_____	_____

Statement of Activities/Income Statement/Statement of Operations/Statement of Changes in Net Assets

A. General

★1. Does the statement of activities/operations or statement of changes in net assets 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" or "change in equity"), and does that amount articulate to the net assets reported in the statement of financial position? [SFAS 117, par. 18 (AC No5.116)]	_____	_____	_____
--	-------	-------	-------

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★2. Does the statement of activities/operations or the statement of changes in net assets report the amount of change in permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets for the period? [SFAS 117, par. 19 (AC No5.117)]	_____	_____	_____
★3. Does the statement of activities/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?	_____	_____	_____
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 and 20 (AC No5.117 and .118); SFAS 116, par. 17 (AC No5.147)]	_____	_____	_____
★4. Are revenues and expenses (arising from ongoing activities associated with health care services) classified as operating and displayed as gross amounts? [SFAS 117, par. 24 (AC No5.121)]	_____	_____	_____
★5. 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 activities or in the notes to the financial statements? [SFAS 117, par. 24 (AC No5.121)]	_____	_____	_____
★6. If the entity 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 entity's use of the term <i>operations</i> is not apparent from the details provided on the face of the statement of activities, does a note to financial statements describe the nature of the reported measure of operations or the items excluded from operations? [SFAS 117, par. 23 (AC No5.120)]	_____	_____	_____
★8. If the entity reports net gains and losses or revenue and expense on its statement of activities/operations, do these net amounts result from peripheral or incidental transactions or from events largely beyond the control of the entity and its management? [SFAS 117, pars. 25 and 138 (AC No5.122)]	_____	_____	_____
★9. Does the not-for-profit provider report total income or loss in a statement that, at a minimum, also presents the total changes in unrestricted net assets? [AAG, par. 10.17]	_____	_____	_____
★◆10. Is management's policy for providing charity care, as well as the level of charity care provided, disclosed? [AAG, par. 10.21]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★11. Does the statement of activities/operations include a performance indicator that reports results of operations and that is clearly labeled with a descriptive term such as <i>revenues over expenses, revenues and gains over expenses and losses, earned income, or performance earnings</i> ? [AAG, par. 10.17]	_____	_____	_____
★12. Do the notes to the financial statements include a description of the nature and composition of the performance indicator? [AAG, par. 10.17]	_____	_____	_____
★◆13. Does the organization report the following items separately from the performance indicator:			
a. Transactions with owners acting in that capacity?	_____	_____	_____
b. Equity transfers involving other entities that control the reporting entity, are controlled by the reporting entity, or are under common control with the reporting entity?	_____	_____	_____
c. Receipt of restricted contributions, including temporary restrictions (such as time or purpose) or permanent restrictions?	_____	_____	_____
d. Contributions of (and assets released from donor restrictions related to) long-lived assets?	_____	_____	_____
e. Unrealized gains and losses on investments not restricted by donors or by law, except for those investments classified as trading securities?	_____	_____	_____
f. Investment returns restricted by donors or by law?	_____	_____	_____
g. Other items that are required by GAAP to be reported separately (such as extraordinary items, the effect of discontinued operations, or the cumulative effect of accounting changes)? [AAG, par. 10.18]	_____	_____	_____
★◆14. 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 and d (AC 182.109c and d)]	_____	_____	_____
★◆15. Are total research and development costs charged to expenses disclosed for each period for which a statement of activities/income statement is presented? [SFAS 2, pars. 12 and 13 (AC R50.108 and .109); FASBI 4, par. 5 (AC B50.152); FASBI 6, par. 8 (AC R50.117); SFAS 86, par. 3 (AC Co2.102)]	_____	_____	_____
★◆16. 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 17. Are the following excluded from the determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the provider's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____
★ 18. Are net assets released from restriction, such as those related to the fulfillment of time or purpose restrictions, reported separately in the financial statements or disclosed in the notes? [AAG, par. 10.07]	_____	_____	_____
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. 10.04]	_____	_____	_____
★◆ 2. Are gains, losses, and interest earned properly classified and reported? [AAG, par. 10.07]	_____	_____	_____
★◆ 3. Is patient service revenue reported net of provisions for contractual charity care and other adjustments? [AAG, par. 10.20]	_____	_____	_____
★◆ 4. Do disclosures include methods of revenue recognition? [AAG, par. 10.20]	_____	_____	_____
★◆ 5. With regard to contractual adjustments and third-party settlements, does the provider identify and explain the estimated amounts payable or receivable? [AAG, par. 10.20]	_____	_____	_____
★ 6. Is significant revenue earned under capitation arrangements reported separately? [AAG, par. 10.20]	_____	_____	_____
C. Income Taxes			
◆ 1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
◆ 2. 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:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. 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?	_____	_____	_____
g. 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?	_____	_____	_____
h. 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?	_____	_____	_____
i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? [SFAS 109, pars. 45 and 48 (AC I27.144 and .147)]	_____	_____	_____
◆ 3. 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)]	_____	_____	_____
◆ 4. a. Is a reconciliation for public enterprises disclosed by the use of percentages or dollars of (i) the reported amount of income tax expense attributable to continuing operations for the year to date to (ii) the amount of income tax expense that would result from applying domestic federal statutory rates to pretax income from operations?	_____	_____	_____
b. Is the nature of significant reconciling items (omission of numerical reconciliation is permitted) for a non-public enterprise disclosed?	_____	_____	_____
c. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods present? [SFAS 109, par. 47 (AC 127.145)]	_____	_____	_____
◆ 5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
◆ 6. 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:			
a. 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?	_____	_____	_____
b. 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)]	_____	_____	_____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| ◆ 7. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the income statement or in related notes?
[APB 30, par. 8 (AC I13.105)] | _____ | _____ | _____ |
| ◆ 8. Are the income taxes applicable to extraordinary events disclosed on the face of the income statement or in related notes?
[APB 30, par. 11 (AC I17.102)] | _____ | _____ | _____ |

D. Discontinued Operations

- | | | | |
|--|-------|-------|-------|
| ★◆ 1. Are operations of a segment that are discontinued or are the subject of a formal plan for disposition: | | | |
| a. Reported separately from continuing operations and as a component (including applicable income taxes) of income before extraordinary items and the cumulative effect of accounting changes (if any)? | _____ | _____ | _____ |
| b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations?
[APB 30, par. 8 (AC I13.105)] | _____ | _____ | _____ |
| ★◆ 2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items and the cumulative effect of accounting changes (if any)?
[APB 30, pars. 8, 13, and 15–18 (AC I13.101–.103, .105, .106, .108, and .109)] | _____ | _____ | _____ |
| ★◆ 3. If a provider has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment write-down of the individual assets classified in continuing operations?
[EITF 90-16] | _____ | _____ | _____ |
| ★◆ 4. If the entity plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net?
[EITF 85-36] | _____ | _____ | _____ |
| ★◆ 5. Are the revenues applicable to the discontinued operations disclosed in the notes to the financial statements?
[APB 30, par. 8 (AC I13.105)] | _____ | _____ | _____ |
| ★◆ 6. For the period encompassing the measurement date, do notes to financial statement disclose: | | | |
| a. Identity of the segment discontinued? | _____ | _____ | _____ |
| b. Expected disposal date, if known? | _____ | _____ | _____ |
| c. Expected manner of disposal? | _____ | _____ | _____ |
| d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date? | _____ | _____ | _____ |
| e. 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)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆7. If the loss on disposal cannot be estimated within reasonable limits, is that fact disclosed? [APB 30, par. 18, fn. 7 (AC I13.109)]</p>	_____	_____	_____
<p>★◆8. For periods subsequent to the measurement date and including the period of disposal, do notes to the financial statements disclose the information listed in Questions 6a, b, c, and d above as well as the information in 6e compared with prior estimates? [APB 30, par. 18 (AC I13.108)]</p>	_____	_____	_____
<p>★◆9. If the entity decides to dispose of a segment of a business and the measurement date occurs after the balance-sheet/statement-of-financial-position date but before the financial statements for the prior period have been issued:</p> <p>a. Are the segment's operating results presented as discontinued operations in the income statement/statement of operations of the not-yet-released financial statements?</p>	_____	_____	_____
<p>b. Is the estimated loss on disposal recognized in the period that includes the measurement date, if the decision to dispose of the segment results from a discrete and identifiable event that occurs unexpectedly after the balance-sheet date?</p>	_____	_____	_____
<p>c. Is the estimated loss on disposal recognized in the period prior to the measurement date, if the decision to dispose of the segment does <i>not</i> result from a discrete and identifiable event that occurs unexpectedly after the balance-sheet date? [EITF 95-18]</p>	_____	_____	_____

E. Extraordinary Items

<p>★◆1. Are extraordinary items segregated and shown (including applicable income taxes) after income before extraordinary items and before net income? [APB 30, pars. 10–12 (AC I17.102 and .103)]</p>	_____	_____	_____
<p>★◆2. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the statement of operations/income statement, if practicable? [APB 30, par. 11 (AC I17.102)]</p>	_____	_____	_____
<p>★◆3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]</p>	_____	_____	_____
<p>★◆4. For an adjustment of an extraordinary item reported in a prior period (except for correction of an error):</p> <p>a. Is the adjustment classified separately as an extraordinary item in the current period?</p>	_____	_____	_____
<p>b. Are the nature, origin, and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]</p>	_____	_____	_____

F. Unusual or Infrequent Items

<p>★◆1. 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):</p>			
---	--	--	--

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 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)] | _____ | _____ | _____ |

G. Advertising Costs

- ★◆1. 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 statement of activities/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/statement of financial position presented?
[SOP 93-7, par. 49] | _____ | _____ | _____ |

H. Donated or Contributed Services

- ★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)? | _____ | _____ | _____ |
| d. Dollar amount of contributions raised by volunteers (optional)?
[SFAS 116, pars. 10 and 123 (AC C67.110)] | _____ | _____ | _____ |

I. Fund Raising

Note: SOP 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, is effective for financial statements for years beginning on or after December 15, 1998. Earlier application is encouraged in fiscal years for which financial statements have not been issued. If comparative financial statements are presented, retroactive application is permitted but not required.

- ★1. Do financial statement disclosures include:
- | | | | |
|--|-------|-------|-------|
| a. The types of activities for which joint costs have been incurred? | _____ | _____ | _____ |
| b. A statement that such costs have been allocated? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The total amount allocated during the period and the portion allocated to each functional expense category? [SOP 98-2, par. 18]	_____	_____	_____

Note: SOP 98-2 encourages, but does not require, that the amount of joint costs for each kind of joint activity be disclosed, if practical.

J. Contributions/Pledges

★1. 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)]	_____	_____	_____
★2. If donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support, is such treatment consistent from period to period and is the policy disclosed? [SFAS 117, par. 21; SFAS 116, par. 14 (AC No5.143)]	_____	_____	_____
★3. Does the 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)]	_____	_____	_____
★4. Does an entity 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 provider'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)]	_____	_____	_____
★5. Does a provider that receives unconditional promises to give, in which cash promised will be received in future periods, measure the fair value of the contribution as the present value of estimated future cash flows, using a discount rate commensurate with the risks involved, and report subsequent accruals of the interest element as contribution income increasing either the temporarily or permanently restricted class of net assets if the underlying promise to give is donor restricted? [SFAS 116, par. 20 (AC C67.116)]	_____	_____	_____
★6. In discounting unconditional promises to give (as described in Step 5), are the provisions of APB 21 applied? [SOP 94-2, par. 20]	_____	_____	_____
★◆7. Are unrestricted pledges/contributions reported in the statement of operations? [AAG, par. 10.08]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
K. Expenses			
★ 1. Does the provider provide information about expenses reported by their functional classification (such as major classes of program services and supporting services) either in the statement of activities or in notes to financial statements? [SFAS 117, par. 26 (AC No5.123)]	_____	_____	_____
★ 2. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6 and 7 (AC C38.101 and .102)]	_____	_____	_____
L. Wills			
★◆ 1. If the entity receives a promise to give conditioned on a future uncertain event that is contained in a will and the will has been declared valid by the probate court, has the provider disclosed the conditional promise to give? [SFAS 116, par. 208 (AC C67.160)]	_____	_____	_____
M. Endowments			
★ 1. Does the provider 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 entity to retain permanently some portion of gains on investments? [SFAS 117, pars. 22 and 129 (AC No5.119)]	_____	_____	_____
b. As an increase or decrease in unrestricted or temporarily restricted net assets, whichever is consistent with the reporting of the endowment's income in the absence of such a law noted in Step a.? [SFAS 117, par. 129 (AC No5.119, fn. 8)]	_____	_____	_____
N. Earnings Per Share			
<hr/> <i>Note: SFAS 128, Earnings per Share, applies only to entities with publicly held common stock or potential common stock.</i> <hr/>			
◆ 1. Are earnings per share (EPS) data presented for all periods for which an income statement or summary of earnings is presented? [SFAS 128, par. 38 (AC E11.133)]	_____	_____	_____
◆ 2. If diluted EPS data are reported for at least one period, are they reported for all periods presented, even if they are the same amounts as basic EPS? [SFAS 128, par. 38 (AC E11.133)]	_____	_____	_____
◆ 3. For entities with only common stock outstanding, are basic EPS amounts for income from continuing operations and for net income presented on the face of the income statement? [SFAS 128, par. 36 (AC E11.131)]	_____	_____	_____
◆ 4. For entities with potential common stock, are basic and diluted EPS amounts for income from continuing operations and for net income presented on the face of the income statement with equal prominence? [SFAS 128, par. 36 (AC E11.131)]	_____	_____	_____
◆ 5. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in a period, are the basic and			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
diluted per share amounts for those line items presented on the face of the income statement or in the notes? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
◆ 6. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax? [SFAS 128, par. 37 (AC E11.132)]	_____	_____	_____
◆ 7. Are the following disclosed for each period for which an income statement is presented:			
a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?	_____	_____	_____
b. The effect that has been given to preferred dividends in arriving at income available to common stockholders in computing basic EPS?	_____	_____	_____
c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? [SFAS 128, par. 40 (AC E11.135)]	_____	_____	_____
◆ 8. For the latest period for which an income statement is presented, do disclosures include a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period? [SFAS 128, par. 41 (AC E11.136)]	_____	_____	_____
O. Comprehensive Income			
◆ 1. If there are components of other comprehensive income (SFAS 130, paragraphs 5 and 10) for the period presented, is comprehensive income reported? [SFAS 130, par. 15 (AC C49.109)]	_____	_____	_____
◆ 2. Is total comprehensive income displayed in the financial statement in which the components of other comprehensive income are reported? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
◆ 3. Is other comprehensive income classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities? [SFAS 130, par. 17 (AC C49.111)]	_____	_____	_____
◆ 4. Are reclassification adjustments presented on the face of the financial statement in which comprehensive income is reported or disclosed in the notes? [SFAS 130, par. 20 (AC C49.114)]	_____	_____	_____
◆ 5. Is net income displayed as a component of comprehensive income? [SFAS 130, par. 22 (AC C49.116)]	_____	_____	_____
◆ 6. <i>(Not required, but encouraged)</i> Are the components of other comprehensive income and total comprehensive income displayed below the total for net income? [SFAS 130, par. 23 (AC C49.117)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 7. Are the components of other comprehensive income displayed either net of related tax effects, or before related tax effects with one amount shown for the aggregate tax effect related to the total of other comprehensive income items? [SFAS 130, par. 24 (AC C49.118)]	_____	_____	_____
◆ 8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) disclosed in the notes? [SFAS 130, par. 25 (AC C49.119)]	_____	_____	_____
◆ 9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in a statement of financial position with a descriptive title such as <i>accumulated other comprehensive income</i> ? [SFAS 130, par. 26 (AC C49.120)]	_____	_____	_____
◆ 10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the statement of financial position, in a statement of changes in equity, or in the notes? [SFAS 130, par. 26 (AC C49.120)]	_____	_____	_____
◆ 11. If condensed interim financial statements are issued, is total comprehensive income reported? [SFAS 130, par. 27 (AC C49.121)]	_____	_____	_____
◆ 12. Are unrealized holding gains and losses for available-for-sale securities, including those classified as current assets, reported in other comprehensive income? [SFAS 115, par. 13, as amended by SFAS 130 (AC I80.110)]	_____	_____	_____
★◆ 13. 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 in other comprehensive income net of any tax benefits that result from considering such losses as temporary differences? [SFAS 87, par. 37, as amended by SFAS 130 (AC P16.131)]	_____	_____	_____

Note: Questions 14 and 15 apply only if SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

◆ 14. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133? [SFAS 133, par. 46 (AC D50.143)]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 15. As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 26 of SFAS 130, <i>Reporting Comprehensive Income</i> , has the entity separately disclosed the beginning and ending accumulated derivative gain or loss, the related net change associated with current period hedging transactions, and the net amount of any reclassification into earnings? [SFAS 133, par. 47 (AC D50.144)]	_____	_____	_____

Statement of Cash Flows²

★◆ 1. Is a statement of cash flows presented as a basic financial statement for each period for which both a statement of financial position/balance sheet and a statement of activities/income statement is presented? [SFAS 95, par. 3, as amended by SFAS 117, par. 30a (AC C25.101); AAG, par. 1.07]	_____	_____	_____
★◆ 2. Does the statement of cash flows show the change in cash and cash equivalents? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
★◆ 3. Is the policy for defining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____

Note: Any change in policy for determining which items are treated as cash equivalents is a change in accounting principle.

★◆ 4. If the direct method is used, is a separate schedule provided to reconcile net income of an investor-owned provider or change in net assets (or excess of revenue and support over expenses) of a not-for-profit provider to net cash flow from operating activities? [SFAS 95, par. 30, as amended by SFAS 117, par. 30f (AC C25.128)]	_____	_____	_____
★◆ 5. If the indirect method is used:			
a. Is the same amount for net cash flow from operating activities reported indirectly by adjusting net income of an investor-owned provider or change in net assets (or excess of revenue and support over expenses) of a not-for-profit provider to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28, as amended by SFAS 117, par. 30f (AC C25.126)]	_____	_____	_____
b. Is the reconciliation of net income of an investor-owned provider or change in net assets (or excess of revenue and support over expenses) of a not-for-profit provider to net cash flows 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, as amended by SFAS 117, par. 30f (AC C25.128)]	_____	_____	_____

² SFAS 95, *Statement of Cash Flows*, and GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, established standards for cash flow reporting for investor-owned organizations and governmental entities, respectively. SFAS 95 excludes not-for-profit organizations from its scope; however, not-for-profit health care entities should apply the provisions of SFAS 95 to ensure that their financial statements are comparable with those of investor-owned entities. The statement of cash flows may be prepared using the direct or indirect method of reporting cash flows. (SFAS 117 amends SFAS 95 to extend its provisions to not-for-profit organizations and to extend its description of cash flows from financing activities to include certain donor-restricted cash that must be used for long-term purposes.)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆6. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
★◆7. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
a. Interest received on loans?	_____	_____	_____
b. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
c. Interest paid to creditors?	_____	_____	_____
d. Payments to suppliers and employees?	_____	_____	_____
e. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
f. Payments to settle lawsuits?	_____	_____	_____
g. Contributions to charities? [SFAS 95, pars. 22 and 23 (AC C25.120 and .121)]	_____	_____	_____
h. Cash flows from purchases, sales, and maturities of trading securities? [SFAS 115, par. 18 (AC I80.117); AAG, par. 4.15]	_____	_____	_____
★◆8. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
★◆9. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Receipts from sales of property?	_____	_____	_____
c. Loans to others?	_____	_____	_____
d. Payments to acquire property?	_____	_____	_____
e. Purchases of and proceeds from sales of available-for-sale securities?	_____	_____	_____
f. Proceeds from maturities of available for sale and held-to-maturity securities?	_____	_____	_____
g. Purchases of held-to-maturity securities? [SFAS 95, pars. 16 and 17 (AC C25.114 and .115); SFAS 115, par. 18 (AC I80.117)]	_____	_____	_____
★◆10. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
★◆11. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	_____	_____	_____
b. Repayments for amounts borrowed? [SFAS 95, pars. 19 and 20 (AC C25.117 and .118)]	_____	_____	_____
c. Cash payments for debt issue costs? [EITF 95-13]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆ 12. Are investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or cash payments disclosed? [SFAS 95, par. 32, as amended by SFAS 117, par. 30g (AC C25.134)]	_____	_____	_____
★◆ 13. In its statement of cash flows, does the organization include in cash flows from financing activities any amounts received with donor-imposed stipulations that they must be used for long-term purposes? [SFAS 117, par. 30c (AC C25.116)]	_____	_____	_____
★◆ 14. Are the following classes of operating cash receipts and payments for providers using the direct method, at a minimum, separately disclosed:			
a. Cash received from service recipients?	_____	_____	_____
b. Cash received from contributors?	_____	_____	_____
c. Interest and dividends received?	_____	_____	_____
d. Cash collected on contributions receivables?	_____	_____	_____
e. Other operating cash receipts, if any?	_____	_____	_____
f. Cash paid to employees and suppliers?	_____	_____	_____
g. Interest paid?	_____	_____	_____
h. Income taxes paid?	_____	_____	_____
i. Grants paid?	_____	_____	_____
j. Other operating cash payments, if any? [SFAS 95, par. 27, as amended by SFAS 117, par. 30e (AC C25.125)]	_____	_____	_____

Note: SFAS 95 encourages enterprises to provide further breakdowns of operating cash receipts and payments that they consider meaningful and feasible.

★◆ 15. Is the reconciliation of net income to net cash flow from operating activities, including separate reporting of all major classes of reconciling items, presented? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
★◆ 16. If the indirect method of reporting net cash flow from operating activities is used, are amounts of interest paid (net of amounts capitalized) and income taxes paid during the period provided in related disclosures? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____

Other Financial Statement Disclosures

A. Accounting Changes

★1. In the initial year of application of SFAS 117, is the nature of any restatement and its effect on the change in net assets for each period presented disclosed? [SFAS 117, par. 31]	_____	_____	_____
★2. For a not-for-profit health care organization, in the initial year of application of SFAS 116, is the nature of any restatement and its effect on the change in net assets for each period presented disclosed? [SFAS 116, par. 30]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 3. For an investor-owned health care organization, in the initial year of application of SFAS 116, is the restatement accounted for as a change in accounting principle applied retroactively in accordance with APB 20, paragraphs 27 and 28? [SFAS 116, par. 30]	_____	_____	_____
★ 4. For a not-for-profit health care organization, if SFAS 116 is not applied retroactively, is the cumulative effect of the change in accounting on each class of net assets reported in the statement of activities between the captions "extraordinary items," if any, and "change in unrestricted net assets," "change in temporarily restricted net assets," and "change in permanently restricted net assets"? [SFAS 116, par. 29]	_____	_____	_____
◆ 5. For an investor-owned health care organization, if SFAS 116 is not applied retroactively, is the cumulative effect of the change in accounting reported in the income statement between the captions "extraordinary items," if any, and "net income"? [SFAS 116, par. 29]	_____	_____	_____
★ 6. For a not-for-profit health care organization, in the initial year of application of the June 1996 Guide, is the nature of any restatement and its effect on the change in net assets for each period presented disclosed? [AAG, Preface]	_____	_____	_____
◆ 7. For an investor-owned health care organization, in the initial year of application of the June 1996 Guide, is the restatement accounted for as a change in accounting principle applied retroactively in accordance with APB 20, paragraphs 27 and 28? [AAG, Preface]	_____	_____	_____
★ 8. For a not-for-profit health care organization, if the June 1996 Guide is not applied retroactively, is the cumulative effect of the change in accounting on each class of net assets reported in the statement of activities between the captions "extraordinary items," if any, and "change in unrestricted net assets," "change in temporarily restricted net assets," and "change in permanently restricted net assets"? [AAG, Preface]	_____	_____	_____
◆ 9. For an investor-owned health care organization, if the June 1996 Guide is not applied retroactively, is the cumulative effect of the change in accounting reported in the income statement between the captions "extraordinary items," if any, and "net income"? [AAG, Preface]	_____	_____	_____
★◆ 10. 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)]	_____	_____	_____
★◆ 11. For other changes in accounting principle (excluding specific exceptions related to an initial public offering, change in the reporting entity,			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
or adoption of certain authoritative pronouncements), is the presentation and disclosure guidance in APB 20 properly applied? [APB 20, pars. 17–22 and 24–26 (AC A06.113–.118, .121, and .122); FASBI 20, par. 5, as amended by SFAS 111 (A06.127)]	_____	_____	_____
★◆12. 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. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]	_____	_____	_____

B. 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 and 9 (AC A10.102 and .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)]	_____	_____	_____

C. Business Combinations

Note: EITF 97-2, *Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements*, provides guidance to assist physician practice management companies (PPMs) in applying APB 16 when PPMs acquire a physician practice.

★◆1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, do the statements and notes include the required disclosures? [APB 16, pars. 63–65 (AC B50.122–.124)]	_____	_____	_____
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Note: Not-for-profit organizations are, under certain circumstances, permitted to use the pooling-of-interests method, even though they generally do not issue common stock. [AAG, pars. 1.33 and 1.34]

★◆2. If a business combination occurred during the period and is to be accounted for under the purchase method, do the statements and notes include the required disclosures? [APB 16, pars. 95 and 96 (AC B50.164 and .165); SFAS 79, par. 6 (AC B50.165); SFAS 38, par. 10 (AC B50.166)]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. Commitments and Contingencies			
1. Uninsured medical malpractice claims:			
★◆ a. 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. 8.07; SFAS 5 (AC C59)]	_____	_____	_____
★◆ b. If a range of loss cannot be reasonably estimated, is a contingency disclosed? [AAG, par. 8.11; SFAS 5 (AC C59)]	_____	_____	_____
★◆ c. Is the program of medical malpractice coverage and basis for loss accruals disclosed? [AAG, par. 8.11]	_____	_____	_____
★◆ d. If the provider discounts accrued malpractice claims, are the following disclosed:			
(1) The carrying amount of the claims?	_____	_____	_____
(2) The interest rates or other rates used to discount the claims? [AAG, par. 8.12]	_____	_____	_____
2. Retrospectively rated premiums:			
★◆ a. If the provider cannot estimate losses from asserted or unasserted malpractice claims, is the existing contingency disclosed? [AAG, par. 8.14; SFAS 5 (AC C59)]	_____	_____	_____
★◆ b. Does the provider disclose that it is insured under a retrospectively rated policy? [AAG, par. 8.15]	_____	_____	_____
★◆ c. 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. 8.15]	_____	_____	_____
3. Medical malpractice claims insured with captive insurance companies (controlled by a parent entity for the main purpose of providing insurance for the parent):			
★◆ a. Does the provider disclose that it is insured under a retrospectively rated policy of a multiprovider captive? [AAG, par. 8.18]	_____	_____	_____
★◆ b. Does the provider disclose that premiums are accrued based on the captive's experience to date? [AAG, par. 8.18]	_____	_____	_____
★◆ c. Is the provider's ownership percentage in the captive disclosed? [AAG, par. 8.19]	_____	_____	_____
★◆ d. Is the method of accounting for its investment in and the operations of the captive disclosed? [AAG, par. 8.19]	_____	_____	_____
★◆ e. If the provider cannot make the necessary estimates of losses from asserted or unasserted claims, does it disclose the existing contingency? [AAG, par. 8.19; SFAS 5 (AC C59)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Trust funds:			
★◆ a. If trust funds (revocable or irrevocable) are included in the provider's financial statements:			
(1) 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/statement of financial position? [AAG, par. 8.20]	_____	_____	_____
(2) Is the balance of the funds, if any, classified as a noncurrent asset in a classified balance sheet/statement of financial position? [AAG, par. 8.20]	_____	_____	_____
(3) Are trust fund revenue and administrative expenses included in the statement of activities (statement of operations)? [AAG, par. 8.20]	_____	_____	_____
(4) Are estimated losses from asserted and unasserted claims reported? [AAG, par. 8.21]	_____	_____	_____
(5) Is the existence of trust funds and whether they are irrevocable disclosed? [AAG, par. 8.22]	_____	_____	_____
5. Prepaid health care services:			
★◆ a. Health care costs:			
(1) Is the basis for accruing health care costs disclosed?	_____	_____	_____
(2) Are significant business and contractual arrangements with hospitals, physicians, and other associated entities disclosed? [AAG, par. 13.04]	_____	_____	_____
★◆ b. Stop-loss insurance:			
(1) Are receivables representing amounts recoverable from insurers reported as assets net of any valuation allowance?	_____	_____	_____
(2) Are the nature, amounts, and effects of significant stop-loss insurance contracts disclosed? [AAG, par. 13.08]	_____	_____	_____
c. Loss contracts:			
(1) Are losses recognized, in accordance with SFAS 5, when it is probable that expected future health care costs and maintenance costs under a group of existing contracts will exceed anticipated future premiums and stop-loss insurance on those contracts? [AAG, par. 13.06]	_____	_____	_____
d. Contract acquisition costs:			
(1) Are acquisition costs of providers of prepaid health care services, other than costs of advertising, expensed as incurred? [AAG, par. 13.10]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Other disclosures:			
★◆ a. 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 and 3 (AC C59.108–.114)]	_____	_____	_____
★◆ b. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
★◆ c. Are gain contingencies adequately disclosed with care to avoid misleading implications as to the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
★◆ d. 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)]	_____	_____	_____
★◆ e. Are the nature and amount of guarantees disclosed (for example, of indebtedness of others)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2 and 3 (AC C59.114)]	_____	_____	_____
★◆ f. Is there adequate disclosure of commitments such as those for plant acquisition or an obligation to reduce debts, maintain working capital, or restrict dividends? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
★◆ g. 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, is the fact of nonaccrual disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
★◆ h. Are environmental remediation obligations reported and disclosed in accordance with SOP 96-1? [SOP 96-1]	_____	_____	_____

E. Costs to Exit an Activity

★◆ 1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement/statement of activities?	_____	_____	_____
b. The number of employees to be terminated?	_____	_____	_____
c. A description of the employee group(s) to be terminated?	_____	_____	_____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	_____	_____	_____
e. The amount of any adjustment(s) to the liability?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:</p> <p>a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?</p> <p>b. No disclosure made on the face of the income statement for earnings per share effect?</p> <p>c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]</p>	____	____	____
<p>★◆3. If the activities that will not be continued are significant to the enterprise's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:</p> <p>a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?</p> <p>b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement/statement of activities?</p> <p>c. A description of the type and amount of exit costs paid and charged against the liability?</p> <p>d. The amount of any adjustment(s) to the liability?</p> <p>e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]</p>	____	____	____

F. Derivatives

Note: If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, the following Questions do not apply. See Section G1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

<p>★◆1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:</p> <p>a. The face or contract amount (or notional principal amount if there is no face or contract amount)?</p> <p>b. The nature and terms, including a discussion of:</p> <p>(1) Credit and market risk?</p> <p>(2) Cash requirements?</p>	____	____	____
	____	____	____
	____	____	____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) Related accounting policy as required by APB 22?	_____	_____	_____
c. Do disclosures in Steps <i>a.</i> and <i>b.</i> above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9 (AC Appendix E, F25.115L–.115M)]	_____	_____	_____
★◆2. Does the provider that holds or issues derivative financial instruments for trading purposes disclose:			
<i>a.</i> The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
<i>b.</i> The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?	_____	_____	_____
(1) If the disaggregation is other than by class, did the provider also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
<i>c.</i> The average fair value for assets and liabilities from the trading of other types of financial instruments or non financial assets? (This disclosure is encouraged but not required.) [SFAS 119, par. 10 (AC Appendix E, F25.115N)]	_____	_____	_____
★◆3. Does a provider that holds or issues derivative financial instruments for purposes other than trading disclose:			
<i>a.</i> A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
<i>b.</i> A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____
<i>c.</i> For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC Appendix E, F25.115O)]	_____	_____	_____
★◆4. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? [SFAS 119, pars. 12 and 13 (AC Appendix E, F25.115P-.115Q)]	_____	_____	_____

G. Financial Instruments

Note: If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, the following Questions do not apply. See Section G1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

★◆1. Except for certain excluded items (SFAS 105, pars. 14 and 15 (AC F25.104 and .105)), are the following disclosed in the financial statements or notes for each category of financial instruments with off-balance-sheet risk (health care organizations that enter into certain types of receivable financing arrangements should disclose their 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, as amended by SFAS 119, par. 14 (AC Appendix E, F25.112-.112A); AAG, par. 5.20]	_____	_____	_____
c. For the disclosures in <i>a.</i> and <i>b.</i> above, distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?	_____	_____	_____
★◆2. For financial instruments with off-balance-sheet credit risk (except for the items excluded in SFAS 105 (AC Appendix E, F25)), are the following			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
disclosed, either in the financial statements or in the notes, by category 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, as amended by SFAS 119, par. 14 (AC Appendix E, 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 excluded items [SFAS 105, par. 14 (AC Appendix E, F25.104)]), include:			
<hr/> <i>Note:</i> Health care providers that enter into certain types of receivable financing arrangements should disclose their off-balance-sheet risk. <hr/>			
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 Appendix E, F25.104 and .115)]	_____	_____	_____
★◆4. Is disclosure made of the primary geographic sources of patients? [AAG, par. 5.19]	_____	_____	_____

Note: SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, states that disclosures about the fair value of financial instruments prescribed in SFAS 107 shall be optional for an entity that meets all of the following criteria:

- a. The entity is a nonpublic company.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has not held or issued any derivative financial instruments as defined in SFAS 119 other than loan commitments, during the reporting period.

Consider this exemption when reviewing items 5 through 10 below.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position? [<i>Note: If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.</i>] [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC Appendix E, F25.115C)]</p>	_____	_____	_____
<p>★◆6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC Appendix E, F25.115C)]</p>	_____	_____	_____
<p>★◆7. Are the methods and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC Appendix E, F25.115C)]</p>	_____	_____	_____
<p>★◆8. If it is not practicable to estimate the fair market value of a financial instrument, do disclosures include:</p> <p style="padding-left: 20px;">a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?</p> <p style="padding-left: 20px;">b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115J)]</p>	_____	_____	_____
<p>★◆9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASBI 39, <i>Offsetting of Amounts Related to Certain Contracts</i>, does the organization, in disclosing the fair value of a derivative financial instrument, <i>not</i>:</p> <p style="padding-left: 20px;">a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?</p> <p style="padding-left: 20px;">b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15 (AC Appendix E, F25.115I)]</p>	_____	_____	_____
<p>★◆10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 107, par. 17]</p>	_____	_____	_____
<p>★◆11. For a written put option involving a reporting entity's own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework? [EITF 96-13]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆ 12. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity's own stock that give the reporting entity a choice of settlement methods? [EITF 96-13]	_____	_____	_____

G1. Financial Instruments

Note: The following disclosures apply only if SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

The FASB has issued an exposure draft dated May 20, 1999 of a proposed Statement titled "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133," which would amend SFAS 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The comment deadline was June 19, 1999. Users of this checklist should be alert to the issuance of a final pronouncement.

★◆ *Derivative Instruments and Hedging Activities*

1. If an entity holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
3. Does the description also indicate the entity's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
5. Qualitative disclosures about an entity's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of an entity's overall risk management profile. If appropriate, an entity is encouraged, but not required, to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133, par. 44 (AC D50)]	_____	_____	_____
6. Do the entity's disclosures for every reporting period for which a complete set of financial statements is presented also include the following: <i>Fair Value Hedges</i>			
a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
under SFAS 52, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:			
(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?	_____	_____	_____
(2) The amount of net gain or loss recognized in earnings when a hedged firm commitment no longer qualifies as a fair value hedge? [SFAS 133, par. 45a (AC D50)]	_____	_____	_____

Cash Flow Hedges

b. For derivative instruments that have been designated and have qualified as cash flow hedging instruments and for the related hedged transactions:

(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?	_____	_____	_____
(2) A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months?	_____	_____	_____
(3) The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments?	_____	_____	_____
(4) The amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur? [SFAS 133, par. 45b (AC D50)]	_____	_____	_____

Note: SFAS 133, paragraph 43, states that an entity that does not report earnings as a separate caption in a statement of financial performance (for example, a not-for-profit organization) shall recognize the gain or loss on a hedging instrument and a nonhedging derivative instrument as a change in net assets in the period of change unless the hedging instrument is designated as a hedge of the foreign currency exposure of a net investment in a foreign operation. Entities that do not report earnings shall recognize the changes in the carrying amount of the hedged item pursuant to paragraph 22 of SFAS 133 in a fair value hedge as a change in net assets in the period of change. Those entities are not permitted to use cash flow hedge accounting because they do not report earnings separately.

Yes No N/A

Hedges of the Net Investment in a Foreign Operation

c. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period?
[SFAS 133, par. 45c (AC D50)]

7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the entity presented a more complete picture of its activities by disclosing that information? (*Encouraged, but not required.*)
[SFAS 133, par. 45 (AC D50)]

★◆ *Disclosures About Fair Value of Financial Instruments*

8. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value?
[SFAS 107, par. 10 (AC F25)]

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

9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position?
[SFAS 107, par. 10 (AC F25)]

10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASBI 39, *Offsetting of Amounts Related to Certain Contracts*, or the exceptions for master netting arrangements in paragraph 10 of 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*?
[SFAS 107, par. 14 (AC F25)]

11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____

Note: SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, makes the disclosures about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- Are nonpublic entities,
 - Have total assets of less than \$100 million on the date of the financial statements, and
 - Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, during the reporting period.
-

★◆ Disclosure About Concentrations of Credit Risk of All Financial Instruments

12. Except as indicated in paragraph 15B of SFAS 107, has the entity disclosed all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (<i>Group concentrations</i> of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A (AC F25)]	_____	_____	_____
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Note: SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

- a. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (Financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
 - b. The financial instruments described in paragraphs 8(a), 8(c), 8(e), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Postemployment Benefits*, SFAS 123, *Accounting for Stock Based Compensation*, and SFAS 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, except for reinsurance receivables and prepaid reinsurance premiums.
-

13. Has the entity made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements for which the entity is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the entity's maximum amount of loss due to credit risk? [SFAS 107, par. 15A (AC F25)]	_____	_____	_____
14. Has the entity disclosed quantitative information about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? (<i>Encouraged, but not required.</i>) [SFAS 107, par. 15C (AC F25)]	_____	_____	_____

Note: Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate repricing or maturity dates, (d) the duration of the financial instruments, or (e) the entity's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.

15. For a written put option involving a reporting entity's own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework? [EITF 96-13]	_____	_____	_____
16. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity's own stock that give the reporting entity a choice of settlement methods? [EITF 96-13]	_____	_____	_____

Note: If SFAS 133 has been adopted, replace questions 5, 6, 7, 9, and 10 in Section C of the Balance Sheet section with the following Questions:

◆ 5. For securities classified as available-for-sale, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:			
a. Aggregate fair value?	_____	_____	_____
b. Total gains for securities with net gains in accumulated other comprehensive income?	_____	_____	_____
c. Total losses for securities with net losses in accumulated other comprehensive income? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 6. For securities classified as held-to-maturity, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrecognized holding gains or losses?	_____	_____	_____
c. Net carrying amount?	_____	_____	_____
d. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
◆ 7. For investments in debt securities classified as available-for-sale or held-to-maturity:			
a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
◆ 8. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales?	_____	_____	_____
b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (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 amount of the net unrealized holding gain or loss on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period?	_____	_____	_____
e. The portion of trading gains and losses for the period that relates to trading securities still held at the reporting date? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
◆ 9. 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. Net carrying amount of the sold or transferred security?	_____	_____	_____
b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security?	_____	_____	_____
c. Related realized or unrealized gain or loss?	_____	_____	_____
d. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	_____	_____	_____

Yes No N/A

H. Nonmonetary Transactions

★◆ 1. Do disclosures include:

- | | | | |
|---|-------|-------|-------|
| a. Nature of the transactions? | _____ | _____ | _____ |
| b. Basis of accounting for the assets transferred? | _____ | _____ | _____ |
| c. Gains or losses recognized on the transfers?
[APB 29, par. 28 (AC C11.102 and N35.120)] | _____ | _____ | _____ |

I. Pension and Other Postretirement Benefit Plans

Note: The disclosures required by SFAS 132 may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7 of the Statement. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for postretirement plans. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions. A nonpublic entity, as defined by SFAS 132, may elect the reduced disclosure requirements permitted by the Statement.

★◆ 1. If there is a defined benefit pension plan or a defined benefit postretirement plan, do disclosures include:

- | | | | |
|---|-------|-------|-------|
| a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits? | _____ | _____ | _____ |
| b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements? | _____ | _____ | _____ |
| c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including: | | | |
| (1) The amount of any unamortized prior service cost? | _____ | _____ | _____ |
| (2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)? | _____ | _____ | _____ |
| (3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of SFAS 87 or SFAS 106? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(4) The net pension or other postretirement benefit prepaid assets or accrued liabilities?	_____	_____	_____
(5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended?	_____	_____	_____
d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment?	_____	_____	_____
e. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended?	_____	_____	_____
f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets?	_____	_____	_____
g. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved?	_____	_____	_____
h. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (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.)?	_____	_____	_____
i. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period?	_____	_____	_____
j. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106?	_____	_____	_____
k. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation?	_____	_____	_____
l. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>m.</i> An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132? [SFAS 132, par. 5 (AC P16.150)]	_____	_____	_____
★◆2. For employers that sponsor more than one defined benefit pension plan or more than one defined benefit postretirement plan, are the disclosures required by Step I.2 above aggregated for all of the employer's defined benefit pension plans and for all of the employer's defined benefit postretirement plans or disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7 of SFAS 132? [SFAS 132, par. 6 (AC P16.153)]	_____	_____	_____
★◆3. For employers that have aggregated disclosures about postretirement plans with assets in excess of the accumulated benefit obligations with disclosures about postretirement plans with accumulated benefit obligations in excess of assets, do disclosures include:			
<i>a.</i> The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets?	_____	_____	_____
<i>b.</i> The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets?	_____	_____	_____
<i>c.</i> Amounts recognized separately in the statement of financial position as prepaid benefit costs and accrued benefit liabilities? [SFAS 132, par. 6 (AC P16.153)]	_____	_____	_____
★◆4. Are disclosures about pension or postretirement benefit plans outside the United States separate from those for U.S. plans when the plans outside the United States have benefit obligations that are significant relevant to the total benefit obligation and use significantly different assumptions? [SFAS 132, par. 7 (AC P16.153A)]	_____	_____	_____
★◆5. For a nonpublic entity that has elected the reduced disclosure requirements for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of SFAS 132 (Step I.2.), do disclosures include:			
<i>a.</i> The benefit obligation, fair value of plan assets, and funded status of the plan?	_____	_____	_____
<i>b.</i> Employer contributions, participant contributions, and benefits paid?	_____	_____	_____
<i>c.</i> The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended?	_____	_____	_____
<i>d.</i> The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets?	_____	_____	_____
f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved?	_____	_____	_____
g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period?	_____	_____	_____
h. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements? [SFAS 132, par. 8 (AC P16.150A)]	_____	_____	_____
★◆6. If there are one or more defined contribution plans:			
a. Is the amount of cost recognized for the defined contribution pension or other postretirement benefit plans during the period disclosed separately from the amount of cost recognized for defined benefit plans?	_____	_____	_____
b. Do disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 9 (AC P16.162)]	_____	_____	_____
★◆7. If there are one or more multiemployer plans:			
a. Do disclosures include the amount of contributions to the multiemployer plan(s) during the period?	_____	_____	_____
b. If the employer discloses total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits, do the disclosures include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employee contributions, a business combination, or a divestiture? [SFAS 132, par. 10 (AC P16.166)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
★◆8. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation and it is probable or reasonably possible that:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. An employer would withdraw from the plan under circumstances that would give rise to an obligation?	_____	_____	_____
or			
b. An employer's contribution to the fund would be increased during the remainder of the shortfall in the funds necessary to maintain the negotiated level of benefit coverage? [SFAS 106, par. 83 (AC P40.179)]	_____	_____	_____

J. Related Organizations and Economic Dependency

1. Consolidation and combination:

★◆ a. If the provider and another entity are related and they meet the criteria for consolidation or combination ("consolidation"), are consolidated or combined ("consolidated") financial statements presented? [AAG, pars. 11.10 and 11.11; ARB 51 (AC C51); SFAS 94 (AC C51)]	_____	_____	_____
★◆ b. If consolidated statements are presented:			
(1) Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
(2) 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. 4 (AC C51.107)]	_____	_____	_____
★◆ c. 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? [SFAS 94, par. 14 (AC C51.120A)]	_____	_____	_____

2. Related parties and economic dependency:

★◆ a. If the reporting entity controls a separate not-for-profit entity through a form other than majority ownership or voting interest, has an economic interest in that other entity, and consolidated financial statements are not presented, is identification of the other entity and the nature of its relationship with the reporting entity disclosed; and is summarized financial data of the related organization disclosed? [AAG, par. 11.12]	_____	_____	_____
★◆ b. If the reporting entity has control over a related party, or has an economic interest in a related party, but the related party is not consolidated, are the following disclosures made:			
(1) The nature of the relationship between the entity and the related party?	_____	_____	_____
(2) If there are material transactions between the entity and the related party:			
(i) A description of the transactions, including transactions to which nominal or no amounts were ascribed?	_____	_____	_____
(ii) The amount of such transactions?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(iii) Amounts due from or to the related party and, if not apparent, the terms and manner of settlement?	_____	_____	_____
(iv) The information required by paragraph 49 of SFAS 109? [AAG, par. 11.13; SFAS 13, par. 29 (AC L10.125); SFAS 57, pars. 2–4, as amended by SFAS 109, paragraph 288(s) (AC R36.102–.104)]	_____	_____	_____
★◆ c. If consolidated financial statements are presented and they include a controlled not-for-profit organization, are the following disclosed:			
(1) Restrictions made by entities outside of the reporting entity on distributions from the controlled not-for-profit organization to the reporting entity?	_____	_____	_____
and			
(2) Any resulting unavailability of the net assets of the controlled not-for-profit organization for use by the reporting entity? [AAG, par. 11.14]	_____	_____	_____
★◆ d. Are significant relationships and transactions not in the ordinary course of business with directors, management, medical staff, etc. disclosed in the financial statements? [AAG, par. 11.25]	_____	_____	_____

K. Risks and Uncertainties

★◆ 1. Are the following disclosed:			
a. A description of the principal services performed by the health care provider and the revenue sources for the entity's services?	_____	_____	_____
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 (1) 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?	_____	_____	_____
b. That a material change in the estimate could occur in the near term? [SOP 94-6, pars. 12–14]	_____	_____	_____
★◆ 3. If the estimate in Step 2 above involves a loss contingency covered by SFAS 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? ³ [SOP 94-6, par. 14]	_____	_____	_____
★◆ 4. If (1) concentrations exist at the financial statement date, and (2) the concentrations could cause the provider a near-term severe impact, are the following disclosed:			

³ If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Concentrations in the volume of the 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]	_____	_____	_____

L. Segment Information

Note: Public business enterprises are required to provide the disclosures described in SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, and nonpublic business enterprises are encouraged to do so.

1. Are the following items disclosed for each reportable segment for each period for which an income statement is presented:			
a. General information as described in SFAS 131, paragraph 26?	_____	_____	_____
b. Information about profit or loss (including certain revenues and expenses included in profit or loss), segment assets, and the basis of measurement, as described in SFAS 131, paragraphs 27–31?	_____	_____	_____
c. Reconciliations of the totals of segment revenues, reported profit or loss, assets, and other significant items to corresponding enterprise amounts as described in SFAS 131, paragraph 32?	_____	_____	_____
d. Interim period information as described in SFAS 131, paragraph 33? [SFAS 131, pars. 25–33, as amended by SFAS 135, par. 4 (AC S30.124–.132)]	_____	_____	_____

Note: Reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented.

2. If an enterprise changes the structure of its internal organization in a manner that changes the composition of its reportable segments, has it disclosed whether it has restated the corresponding items of segment information for earlier periods? [SFAS 131, par. 34 (AC S30.133)]	_____	_____	_____
3. If segment information is not restated to reflect a change in the composition of reportable segments, is current year segment information disclosed under both the old basis and the new basis of segmentation disclosed, unless it is impracticable to do so? [SFAS 131, par. 35 (AC S30.134)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For all enterprises subject to SFAS 131, including those that have a single reportable segment, are the following enterprise-wide items disclosed:			
a. Revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so?	_____	_____	_____
b. Geographic information as described in paragraph 38 unless it is impracticable to do so?	_____	_____	_____
c. Information about the extent of the enterprise's reliance on its major customers as described in paragraph 39? [SFAS 131, pars. 36–39 (AC S30.135–.138)]	_____	_____	_____
5. If the information described in items 4.a. and 4.b. above has not been disclosed because it is impracticable, is that fact disclosed? [SFAS 131, pars. 37 and 38 (AC S30.136–.137)]	_____	_____	_____

M. Subsequent Events

★◆1. 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)]	_____	_____	_____
--	-------	-------	-------

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? [AAG, par. 14.22]	_____	_____	_____
★◆2. Is the remaining amount of advance fees reported in the balance sheet as deferred revenue? [AAG, par. 14.22]	_____	_____	_____
★◆3. Are the following disclosed:			
a. The gross amount of contractual refund obligations under existing contracts?	_____	_____	_____
b. The CCRC's refund policy? [AAG, par. 14.22]	_____	_____	_____
★◆4. Are amounts refunded disclosed in the statement of cash flows as a financing transaction? [AAG, par. 14.22]	_____	_____	_____
★◆5. Is the method of accounting, including the amortization method, for deferred revenue disclosed? [AAG, par. 14.23]	_____	_____	_____

B. Fees Refundable to Residents Only From Reoccupancy Proceeds of a Contract Holder's Unit

★◆1. Are the following reported as deferred revenue:			
--	--	--	--

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 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?
[AAG, par. 14.25] | _____ | _____ | _____ |

C. Nonrefundable Advance Fees

- | | | | |
|--|-------|-------|-------|
| ★◆1. Are nonrefundable advance fees reported as deferred revenue?
[AAG, par. 14.26] | _____ | _____ | _____ |
| ★◆2. Is unamortized deferred revenue reported as revenue upon a resident's death or contract termination?
[AAG, par. 14.23] | _____ | _____ | _____ |

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 that is presented at present value in the financial statements (if not separately disclosed in the balance sheet/statement of financial position)? | _____ | _____ | _____ |
| b. The interest rate used to discount that liability?
[AAG, par. 14.31] | _____ | _____ | _____ |

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?
[AAG, par. 14.33] | _____ | _____ | _____ |
| ★◆2. Are continuing-care contract acquisition costs expensed if incurred after (a) the CCRC is substantially occupied or (b) one year following completion?
[AAG, par. 14.33] | _____ | _____ | _____ |

F. Other

- | | | | |
|--|-------|-------|-------|
| ★◆1. Do the notes to the financial statements of the CCRC include a description of the CCRC and the nature of the related continuing-care contracts entered into by the CCRC?
[AAG, par. 14.35] | _____ | _____ | _____ |
| ★◆2. Do the notes to the financial statements of the CCRC include the statutory escrow or similar requirements?
[AAG, par. 14.35] | _____ | _____ | _____ |

OMB Circular A-133 Presentation Requirements

- | | | | |
|---|-------|-------|-------|
| 1. Does the schedule of expenditures of federal awards disclose the basis of accounting and the significant accounting policies used in preparing the schedule?
[SOP 98-3, par. 5.5] | _____ | _____ | _____ |
|---|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Did the auditee prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements that, at a minimum:			
a. Lists individual federal programs by federal agency?	_____	_____	_____
b. Include, for federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity?	_____	_____	_____
c. Provide the total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available?	_____	_____	_____
d. Include notes that describe the significant accounting policies used in preparing the schedule?	_____	_____	_____
e. Identify, to the extent practical, the total amount provided to subrecipients by pass-through entities from each federal program?	_____	_____	_____
f. Include, in either the schedule or a note to the schedule, the value of federal awards expended in the form of noncash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end? [SOP 98-3, par. 5.6]	_____	_____	_____
3. If nonfederal data are presented in the schedule of expenditures of federal awards:			
a. Are the nonfederal data segregated and clearly designated as nonfederal?	_____	_____	_____
b. Is the title of the schedule modified to indicate that nonfederal awards are included? [SOP 98-3, par. 5.9]	_____	_____	_____
4. If the auditee is unable to obtain the CFDA number, does the schedule include:			
a. A statement that the CFDA number is not available?	_____	_____	_____
b. The program's name and, if available, other identifying numbers? [SOP 98-3, par. 5.10]	_____	_____	_____

Exhibit A

Stock-Based Compensation

◆1. If an entity continues to apply APB 25 in accounting for its stock-based compensation arrangements, is the pro forma net income and, if presented, earnings per share (determined as if the fair value based method had been applied in measuring compensation cost) disclosed? [SFAS 123, pars. 11 and 45 (AC C36.110 and .144)]	_____	_____	_____
◆2. If an entity has one or more stock-based compensation plans, is a description of the plan(s), including the general terms of awards under the plan(s), disclosed? [SFAS 123, par. 46 (AC C36.145)]	_____	_____	_____
◆3. Is the information in paragraph 47 of SFAS 123 disclosed for each year for which an income statement is presented? [SFAS 123, par. 47a-f (AC C36.146)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆4. If an entity grants options under multiple stock-based employee compensation plans, are the items in paragraph 47 disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the entity's use of stock-based compensation? [SFAS 123, par. 47 (AC C36.146)]	_____	_____	_____
◆5. Are the following disclosed for options outstanding at the date of the latest statement of financial position presented:			
a. The range of exercise prices?	_____	_____	_____
b. The weighted-average exercise price?	_____	_____	_____
c. The weighted-average remaining contractual life? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____
◆6. If the range of exercise prices is wide, are they segregated into ranges? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____
◆7. Are the following disclosed for each range identified in Step 6:			
a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?	_____	_____	_____
b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48 (AC C36.147)]	_____	_____	_____

FSP Section 11,300

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

- SAS = AICPA Statement on Auditing Standards
 AU = Reference to section number in AICPA *Professional Standards* (vol. 1)
 SSARS = AICPA 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. Is each financial statement audited specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Does the auditor's report include:			
a. Appropriate 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)]	_____	_____	_____
d. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
e. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____
f. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]	_____	_____	_____
g. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
h. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
i. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
j. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par.8h (AU 508.08h)]	_____	_____	_____
k. The manual or printed signature of the auditor's firm? [SAS 58, par.8i (AU 508.08i)]	_____	_____	_____
3. 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)]	_____	_____	_____
4. 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)]	_____	_____	_____
5. 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, pars. 33 and 34, as amended by SAS 79 (AU 508.33 and .34)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	_____	_____	_____
6. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. 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 and .13)]	_____	_____	_____
b. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 16–18, as amended by SAS 79 (AU 508.16–.18)]	_____	_____	_____
c. 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. 68, 69, 72, and 73, as amended by SAS 79 (AU 508.68, .69, .72, and .73)]	_____	_____	_____
d. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 64, par. 2 (AU 508.74)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12 and 13 (AU 508.12 and .13)]	_____	_____	_____
f. 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 and 15 (AU 508.14 and .15)]	_____	_____	_____
g. 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)]	_____	_____	_____
h. The auditor decides to emphasize a matter in the report? [SAS 58, par. 19, as amended by SAS 79 (AU 508.19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____

Note: In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for an example.

7. 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? ¹ [SAS 58, pars. 22–27 (AU 508.22–.27); SAS 31, par. 22 (AU 326.23); SAS 84, par. 18 (AU 315.18); SAS 85, par. 13.14 (AU 333.14)]	_____	_____	_____
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Note: Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

8. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? ² [SAS 58, pars. 35–57, as amended by SAS 79 (AU 508.35–.59); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
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Note: Consult the Topical Index to the AICPA *Professional Standards* under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

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. 21, 59, 60, and 62, as amended by SAS 79 (AU 508.21, .59, .60, and .62)]	_____	_____	_____
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¹ This includes when the auditor is unable to obtain sufficient, evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, par. 31, as amended by SAS 79]

² The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management's estimate is unreasonable and its effect is to cause the financial statements to be materially misstated. [SAS 58, pars. 46–49, as amended by SAS 79]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. 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?	_____	_____	_____
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)]	_____	_____	_____
11. Is the reporting form and content of SAS 60, paragraphs 9–19, followed when communicating internal control related matters noted in an audit? ³ [SAS 60, pars. 9–19, as amended by SAS 87 (AU 325.09–.19)]	_____	_____	_____
<hr/> <i>Note:</i> SAS 87, <i>Restricting the Use of an Auditor's Report</i> , provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report. SAS 87 is effective for reports issued after December 31, 1998. <hr/>			
12. Is the reporting form and content of SAS 72, as amended by SAS 76 and SAS 86, followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings? [SAS 72, as amended by SAS 76 and SAS 86 (AU 634)]	_____	_____	_____
13. If, during a GAAS audit of the financial statements, the auditor becomes aware that the entity is subject to an audit requirement of legal, regulatory, or contracted nature not encompassed in the engagement, did the auditor consider the client's actions in response to such requirement including the potential effect on the financial statements and the auditor's report? [SAS 74, par. 23 (AU 801.22 and .23)]	_____	_____	_____

³ Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

FSP Section 11,400

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

.01 This checklist, developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid, addresses the auditor's reporting requirements addressed by AICPA Statement of Position (SOP) 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*. SOP 98-3 was issued in March of 1998. It provides guidance on the auditor's responsibilities when conducting a single audit or program-specific audit in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133.

.02 Explanation of References:

SOP =	AICPA Statement of Position
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
GAAP =	Generally accepted accounting principles
GAAS =	Generally accepted auditing standards
OMB =	Office of Management and Budget

.03 Checklist questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General			
Circular A-133 Requirements			
1. Does the auditor's report include:			
a. An opinion (or disclaimer of opinion) on whether the financial statements are presented fairly in all material respects in conformity with GAAP and an opinion (or a disclaimer of opinion) on whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole?	_____	_____	_____
b. A report on the internal control related to the financial statements and on the internal control related to major programs?	_____	_____	_____
c. A report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements, including an opinion (or a disclaimer of opinion) on whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program, and, where applicable, refers to the separate schedule of findings and questioned costs?	_____	_____	_____
d. A schedule of findings and questioned costs? [SOP 98-3, par. 10.3]	_____	_____	_____

Yes No N/A

Reporting on the Financial Statements and Supplementary Schedule of Expenditures of Federal Awards in Accordance With Government Auditing Standards

Government Auditing Standards Requirements

2. Does the auditor's report on the audit of the financial statements:
 - a. Include a statement that the audit was made in accordance with generally accepted government auditing standards?
[SOP 98-3, par. 10.16b] _____
 - b. Describe the scope of the auditor's testing of compliance with laws and regulations and internal control and present the results of those tests?

or
refer to separate reports containing that information?
[SOP 98-3, par. 10.16c] _____
 - c. State the nature of information omitted and the requirement that makes the omission necessary when certain information is prohibited from general disclosure?
[SOP 98-3, par. 10.16d] _____

3. Did the auditor communicate certain information related to the conduct and reporting of the audit to the audit committee or to the individuals with whom he or she has contracted for the audit, including the auditor's responsibility in a financial statement audit and the nature of any additional testing of internal control and compliance required by laws or regulations?
[SOP 98-3, par. 10.16a] _____

4. Were written audit reports:
 - a. Submitted to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audit (including external funding organizations), unless legal restrictions prevent it? _____
 - b. Sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and others authorized to receive such reports? _____
 - c. Made available for public inspection unless restricted by law or regulation?
[SOP 98-3, par. 10.16e] _____

Fraud, Illegal Acts, and Other Noncompliance

5. If a report presenting fraud, illegal acts, or other noncompliance that are required to be reported is prepared, have the report contents standards in chapter 7 of *Government Auditing Standards* been followed?
[SOP 98-3, par. 10.21] _____

6. If the auditor detected fraud, illegal acts, or other noncompliance that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*:
 - a. Did he or she communicate those findings to the auditee, preferably in writing? _____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| b. If those findings were communicated in a management letter, was the management letter referred to in the report on compliance?
[SOP 98-3, par. 10.22] | _____ | _____ | _____ |
| 7. If applicable, did the auditor comply with the guidance in paragraphs 5.21 through 5.25 of <i>Government Auditing Standards</i> on direct reporting of fraud and illegal acts?
[SOP 98-3, par. 10.23] | _____ | _____ | _____ |

Internal Control Over Financial Reporting

- | | | | |
|--|-------|-------|-------|
| 8. Does the auditor's report on internal control matters: | | | |
| a. Describe the extent of the work performed, as required by SAS No. 55? | _____ | _____ | _____ |
| b. Include the report requirements of SAS No. 60 and separately identify material weaknesses? | _____ | _____ | _____ |
| c. Follow the report contents standards in chapter 7 of <i>Government Auditing Standards</i> when reporting reportable conditions and material weaknesses? | _____ | _____ | _____ |
| d. Report to the auditee detected deficiencies in the internal control that are not reportable conditions, preferably in writing? | _____ | _____ | _____ |
| e. If a management letter was used to report the nonreportable conditions, was that letter referred to in the report on internal control?
[SOP 98-3, pars. 10.27–10.29] | _____ | _____ | _____ |

Implementing Regulations of Certain Federal Awarding Agencies May Define Entity to Be Audited Differently Than GAAP

- | | | | |
|--|-------|-------|-------|
| 9. Where parent-only financial statements have been audited because the regulations of the federal agency that provides federal awards to a parent company define the entity for single audit purposes to consist of only the parent, and consolidated financial statements are not also prepared as required by GAAP, has the auditor's report been modified due to a material departure from GAAP, if necessary?
[SOP 98-3, par. 10.34] | _____ | _____ | _____ |
|--|-------|-------|-------|

Opinion on the Financial Statements and on the Supplementary Schedule of Expenditures of Federal Awards

- | | | | |
|--|-------|-------|-------|
| 10. Does the auditor's standard report on the financial statements and on the supplementary schedule of expenditures of federal awards include the following: | | | |
| a. Identification of the financial statements audited in an opening (introductory) paragraph? | _____ | _____ | _____ |
| b. A description of the nature of an audit in a scope paragraph? | _____ | _____ | _____ |
| c. An expression of the auditor's opinion on the financial statements and supplementary schedule of expenditures of federal awards in separate opinion paragraphs?
[SOP 98-3, par. 10.35] | _____ | _____ | _____ |
| d. A title that includes the word independent?
[SOP 98-3, par. 10.35a] | _____ | _____ | _____ |
| e. A statement that the financial statements identified in the report were audited?
[SOP 98-3, par. 10.35b] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. A statement that the financial statements are the responsibility of the auditee's management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SOP 98-3, par. 10.35c]	_____	_____	_____
g. A statement that the audit was conducted in accordance with GAAS and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States? ¹ [SOP 98-3, par. 10.35d]	_____	_____	_____
h. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SOP 98-3, par. 10.35e]	_____	_____	_____
i. A statement that an audit includes—			
(1) Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements?	_____	_____	_____
(2) Assessing the accounting principles used and significant estimates made by management?	_____	_____	_____
(3) Evaluating the overall financial statement presentation? [SOP 98-3, par. 10.35f]	_____	_____	_____
j. A statement that the auditor believes that the audit provides a reasonable basis for his or her opinion? [SOP 98-3, par. 10.35g]	_____	_____	_____
k. An opinion on whether the financial statements for a not-for-profit organization present fairly, in all material respects, the financial position of the auditee as of the date of the statement of financial position, and the changes in its net assets and its cash flows for the period then ended in conformity with GAAP; or, for a government, the financial position of the auditee as of the balance sheet date, and the results of its operations and cash flows for the period then ended in conformity with GAAP? [SOP 98-3, par. 10.35h]	_____	_____	_____

Note: If an auditee prepares financial statements in conformity with a comprehensive basis of accounting other than GAAP, the auditor is still required to express or disclaim an opinion and should follow the reporting in SAS 62, *Special Reports*.

l. A reference to the separate report on compliance with certain provisions of laws, regulations, contracts, and grant agreements and on the internal control over financial reporting prepared in accordance with <i>Government Auditing Standards</i> , if this reporting is not included in the report on the financial statement? (SOP 98-3 recommends separate reporting.) [SOP 98-3, par. 10.35i]	_____	_____	_____
m. A description of the accompanying supplementary information (for example, the schedule of expenditures of federal awards) by descriptive title or by page number of the document? [SOP 98-3, par. 10.35j]	_____	_____	_____

¹ The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
n. A statement that the accompanying supplementary information, including the schedule of expenditures of federal awards required by Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements? [SOP 98-3, par. 10.35k]	_____	_____	_____
o. An opinion on whether the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole? [SOP 98-3, par. 10.35l]	_____	_____	_____
p. The manual or printed signature of the auditor's firm? [SOP 98-3, par. 10.35m]	_____	_____	_____
q. The date of the audit report? [SOP 98-3, par. 10.35n]	_____	_____	_____
11. If a separate single audit package is issued for the schedule of expenditure of federal awards, is the required reporting on the schedule incorporated in the report issued to meet the requirements of Circular A-133? [SOP 98-3, par. 10.36]	_____	_____	_____

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

12. Is the reporting on the scope of the auditor's testing of compliance and on the internal control over financial reporting based on an audit of the financial statements as required by <i>Government Auditing Standards</i> combined in one report? (This is encouraged but not required by SOP 98-3.) [SOP 98-3, par. 10.38]	_____	_____	_____
13. Does the auditor's standard report on compliance and on the internal control over financial reporting based on an audit of the financial statements in accordance with <i>Government Auditing Standards</i> include:			
a. A statement that the auditor has audited the financial statements of the auditee and a reference to the auditor's report on the financial statements, including a description of any departure from the standard report?	_____	_____	_____
b. A statement that the audit was conducted in accordance with GAAS and with the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States?	_____	_____	_____
c. A statement that as part of obtaining reasonable assurance about whether the auditee's financial statements are free of material misstatement, the auditor performed tests of the auditee's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts?	_____	_____	_____
d. A statement that providing an opinion on compliance with those provisions was not an objective of the audit and that, accordingly, the auditor does not express such an opinion?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. A statement that notes whether the results of tests disclosed instances of noncompliance that are required to be reported under <i>Government Auditing Standards</i> and, if they are, describes the instances of noncompliance or refers to the schedule of findings and questioned costs in which they are described?	_____	_____	_____
f. If applicable, a statement that certain immaterial instances of noncompliance were communicated to management in a separate letter?	_____	_____	_____
g. A statement that in planning and performing the audit, the auditor considered the auditee's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting?	_____	_____	_____
h. If applicable, a statement that reportable conditions were noted and the definition of a reportable condition?	_____	_____	_____
i. If no reportable conditions are noted, a statement that the auditor's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses; if reportable conditions are noted, a statement that the auditor's consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses?	_____	_____	_____
j. If applicable, a description of the reportable condition noted or a reference to the schedule of findings and questioned costs in which the reportable conditions are described?	_____	_____	_____
k. The definition of a material weakness?	_____	_____	_____
l. If applicable, a statement about whether the auditor believes any of the reportable conditions noted are material weaknesses and, if they are, describes the material weaknesses noted or refers to the schedule of findings and questioned costs in which they are described?	_____	_____	_____
m. If reportable conditions are not noted, a statement that no material weaknesses were noted?	_____	_____	_____
n. If applicable, a statement that other matters involving the internal control over financial reporting were communicated to management in a separate letter?	_____	_____	_____
o. A statement that the report is intended for the information of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and (if applicable) pass-through entities?	_____	_____	_____

Note: SAS 87, Restricting the Use of an Auditor's Report, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report. SAS 87 is effective for reports issued after December 31, 1998.

p. If the report is a matter of public record, a statement that the report is a matter of public record and its distribution is not limited?	_____	_____	_____
q. The manual or printed signature of the auditor's firm?	_____	_____	_____
r. The date of the auditor's report? [SOP 98-3, par. 10.39]	_____	_____	_____

Yes No N/A

Reporting on a Compliance Audit of Major Federal Programs in Accordance With Circular A-133

Material Instances of Noncompliance

- | | | | |
|---|-------|-------|-------|
| 14. If an audit of compliance with requirements applicable to a major program detects material instances of noncompliance with those requirements: | | | |
| a. Is a qualified or adverse opinion expressed? | _____ | _____ | _____ |
| b. Does the report state the basis for such an opinion?
[SOP 98-3, par. 10.42] | _____ | _____ | _____ |
| 15. If the scope of an audit of compliance with laws, regulations, and the provisions of contracts or grant agreements is restricted so as to impair the auditor's ability to form an opinion on compliance with requirements governing each major program: | | | |
| a. Is a qualified opinion or disclaimer of opinion expressed? | _____ | _____ | _____ |
| b. Are the reasons for such a qualification or disclaimer of opinion described in the auditor's report?
[SOP 98-3, pars. 10.43 and 10.44] | _____ | _____ | _____ |
| 16. When disclaiming an opinion because of a scope limitation, does the auditor's report: | | | |
| a. Include a separate paragraph that indicates all of the substantive reasons for the disclaimer? | _____ | _____ | _____ |
| b. State that the scope of the audit was not sufficient to warrant the expression of an opinion? | _____ | _____ | _____ |
| c. Exclude the scope paragraph (identification of the procedures that were performed or a description of the characteristics of an audit) so as not to overshadow the disclaimer? | _____ | _____ | _____ |
| d. Disclose any reservations the auditor has regarding compliance with applicable laws and regulations?
[SOP 98-3, par. 10.45] | _____ | _____ | _____ |

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With Circular A-133

- | | | | |
|---|-------|-------|-------|
| 17. Does the auditor's standard report on compliance with requirements applicable to each major program and on the internal control over compliance in accordance with Circular A-133 include: | | | |
| a. A statement that the auditor has audited the compliance of the auditee with the types of compliance requirements described in the <i>OMB Circular A-133 Compliance Supplement</i> that are applicable to each of its major programs? | _____ | _____ | _____ |
| b. A statement that the auditee's major programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs? | _____ | _____ | _____ |
| c. A statement that compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the auditee's major federal programs is the responsibility of the auditee's management, and that the auditor's responsibility is to express an opinion on the auditee's compliance based on the audit? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A statement that the audit of compliance was conducted in accordance with GAAS, the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, and Circular A-133?	_____	_____	_____
e. A statement that those standards and Circular A-133 require that the auditor plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program occurred?	_____	_____	_____
f. A statement that an audit includes the examining, on a test basis, evidence about the auditee's compliance with those requirements and performing of such other procedures as the auditor considered necessary in the circumstances?	_____	_____	_____
g. A statement that the auditor believes that the audit provides a reasonable basis for the auditor's opinion?	_____	_____	_____
h. A statement that the audit does not provide a legal determination of the auditee's compliance with those requirements?	_____	_____	_____
i. If instances of noncompliance are noted that result in an opinion modification, a reference to a description in the accompanying schedule of findings and questioned costs, including:			
(1) The reference number(s) of the finding(s)?	_____	_____	_____
(2) An identification of the type(s) of compliance requirements and related major program(s)?	_____	_____	_____
(3) A statement that compliance with such requirements is necessary, in the auditor's opinion, for the auditee to comply with the requirements applicable to the program(s)?	_____	_____	_____
j. An opinion on whether the auditee complied, in all material respects, with the types of compliance requirements that are applicable to each of its major federal programs?	_____	_____	_____
k. If applicable, a statement that the results of the auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with Circular A-133 and a reference to the schedule of findings and questioned costs in which they are described?	_____	_____	_____
l. A statement that the auditee's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs?	_____	_____	_____
m. A statement that in planning and performing the audit, the auditor considered the auditee's internal control over compliance with requirements that could have a direct and material effect on a major federal program, to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with Circular A-133?	_____	_____	_____
n. If applicable, a statement that reportable conditions were noted and the definition of a reportable condition?	_____	_____	_____
o. If applicable, a reference to a description of reportable conditions noted in the accompanying schedule of findings and questioned costs, including the reference number of the finding(s)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
p. If no reportable conditions are noted, a statement that the auditor's consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses; if reportable conditions are noted, a statement that the auditor's consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses?	_____	_____	_____
q. The definition of a material weakness?	_____	_____	_____
r. If applicable, a statement about whether the auditor believes any of the reportable conditions noted are material weaknesses and, if they are, a reference to a description of the material weaknesses in the schedule of findings and questioned costs, including the reference number of the finding(s)?	_____	_____	_____
s. If there are no reportable conditions, a statement that no material weaknesses were noted?	_____	_____	_____
t. A statement that the report is intended for the information of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and (if applicable) pass-through entities?	_____	_____	_____
u. If the report is a matter of public record, a statement that the report is a matter of public record and its distribution is not limited?	_____	_____	_____
v. The manual or printed signature of the auditor's firm?	_____	_____	_____
w. The date of the auditor's report? [SOP 98-3, par. 10.46]	_____	_____	_____
18. Are all audit findings required to be reported under Circular A-133 included in the schedule of findings and questioned costs? [SOP 98-3, par. 10.48]	_____	_____	_____

Other Reporting Considerations:

Dating of Reports

19. Do the report on the supplementary schedule of expenditures of federal awards and the report on compliance and internal control over financial reporting, as required by <i>Government Auditing Standards</i> , carry the same date as that on the report on the basic financial statements? [SOP 98-3, par. 10.50]	_____	_____	_____
20. Does the auditor's report on compliance and on the internal control over compliance related to major programs, as required by Circular A-133:			
a. Carry the same date as that of other reports?	_____	_____	_____
b. Because some of the audit work to satisfy Circular A-133 requirements was done subsequent to the work on the financial statements, carry the date when the fieldwork required to support the report on the audit of compliance is completed? [SOP 98-3, par. 10.51]	_____	_____	_____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 21. If the schedule of expenditures of federal awards is reported on in the report on compliance and the internal control over compliance issued to meet Circular A-133 requirements, but using the same dates for reporting on the schedule and the report on the financial statements is not possible, has the auditor: | | | |
| a. Dual dated the report issued to meet Circular A-133 requirements? | _____ | _____ | _____ |
| b. Issued a separate report on the schedule of expenditures of federal awards, dated the same date as that of the financial statement report?
[SOP 98-3, par. 10.52] | _____ | _____ | _____ |

Other Auditors

- | | | | |
|--|-------|-------|-------|
| 22. If the auditor is engaged to issue a stand-alone opinion on the schedule of expenditures of federal awards either as part of the report issued to meet the requirements of Circular A-133 or separately (dated the same as the Circular A-133 report), has the guidance in SAS No. 58 been followed?
[SOP 98-3, par. 10.52] | _____ | _____ | _____ |
|--|-------|-------|-------|

When the Audit of Federal Awards Does Not Encompass the Entirety of the Auditee's Operations

- | | | | |
|--|-------|-------|-------|
| 23. If the audit of federal awards did not encompass the entirety of the auditee's operations expending federal awards, were the operations that were not included identified in a separate paragraph following the first paragraph of the report on major programs?
[SOP 98-3, par. 10.54] | _____ | _____ | _____ |
|--|-------|-------|-------|

Schedule of Findings and Questioned Costs

- | | | | |
|--|-------|-------|-------|
| 24. Does the schedule of findings and questioned costs include the following sections: | | | |
| a. A summary of the auditor's results, including: | | | |
| (1) The type of report the auditor issued on the financial statements of the auditee (that is, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion)? | _____ | _____ | _____ |
| (2) Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses? | _____ | _____ | _____ |
| (3) A statement on whether the audit disclosed any noncompliance that is material to the financial statement of the auditee? | _____ | _____ | _____ |
| (4) Where applicable, a statement that reportable conditions in the internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses? | _____ | _____ | _____ |
| (5) The type of report the auditor issued on compliance for major programs (that is, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion)? | _____ | _____ | _____ |
| (6) A statement on whether the audit disclosed any audit findings that the auditor is required to report under section 510(a) of Circular A-133? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(7) An identification of major programs?	_____	_____	_____
(8) The dollar threshold used to distinguish between type A and type B programs as described in section 520(b) of Circular A-133?	_____	_____	_____
(9) A statement on whether the auditee qualified as a low-risk auditee under section 530 of Circular A-133? [SOP 98-3, par. 10.56]	_____	_____	_____
b. Findings relating to the financial statements which are required to be reported in accordance with <i>Government Auditing Standards</i> including:			
(1) All reportable conditions in the internal control over financial reporting and other findings relative to the audit of the financial statements that are required to be reported by GAAS and <i>Government Auditing Standards</i> , including those that do not affect federal awards?	_____	_____	_____
(2) All but clearly inconsequential fraud and illegal acts that the auditor concludes, based on the evidence obtained, either occurred or are likely to have occurred?	_____	_____	_____
(3) Other noncompliance (for example, violations of the provisions of contract or grant agreements) that is material to the financial statements? [SOP 98-3, par. 10.57]	_____	_____	_____
c. Findings and questioned costs for federal awards as defined in section 510(a) of Circular A-133, that:			
(1) Present audit findings (for example, internal control findings, compliance findings, questioned costs, or fraud) that relate to the same issue as a single audit finding?	_____	_____	_____
(2) Where practical, are audit findings organized by federal agency or pass-through entity?	_____	_____	_____
(3) Report audit findings that relate to both the financial statements and the federal awards in both sections of the schedule? (The reporting in one section of the schedule may be in summary form, with a reference to a detailed reporting in the other section of the schedule.) [SOP 98-3, par. 10.56]	_____	_____	_____
25. Are reportable conditions that are—individually or in the aggregate—material weaknesses so identified? [SOP 98-3, par. 10.58]	_____	_____	_____
26. Do the findings identify at least the criteria (what should be), condition (what is), and possible asserted effect (the difference between what is and what should be) and, if known, the cause (why it happened)? [SOP 98-3, pars. 10.59–10.65]	_____	_____	_____
27. In presenting reportable conditions, fraud, illegal acts, and other noncompliance, were the report content standards in chapter 7 of <i>Government Auditing Standards</i> that pertain to objectives, scope, and methodology; audit results; the views of responsible officials; and the reports presentation standards (as appropriate) followed? [SOP 98-3, par. 10.61]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
28. With respect to uncorrected material findings and recommendations from prior audits that affect the financial statement audit:			
a. Have such uncorrected items been reported?	_____	_____	_____
b. Have those material findings and recommendations from previous audits that are repeated identified as repeat findings?	_____	_____	_____
c. Has the status of uncorrected findings from previous audits that are not repeated as current-year findings been reported? [SOP 98-3, par. 10.62]	_____	_____	_____

Audit Findings Reported—Federal Awards

29. As required by section 510(a) of Circular A-133, have the following items been reported as audit findings in the schedule of findings and questioned costs:			
a. Reportable conditions in the internal control over major programs?	_____	_____	_____
b. Reportable conditions that are individually or cumulatively material weaknesses?	_____	_____	_____
c. Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements that are related to a major program?	_____	_____	_____
d. Known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program?	_____	_____	_____
e. Known questioned costs when likely questioned costs are greater than \$10,000 for a type compliance requirement for a major program, including information to provide proper perspective for judging the prevalence and consequences of the questioned costs?	_____	_____	_____
f. Known questioned costs that are greater than \$10,000 for programs that are not audited as major, if the auditor becomes aware of such questioned costs?	_____	_____	_____
g. The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards (for example, a scope limitation that is not otherwise reported as a finding)?	_____	_____	_____
h. Known fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for federal awards? (The auditor is not required to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of <i>Government Auditing Standards</i> .)	_____	_____	_____
i. Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with section 315(b) of Circular A-133 materially misrepresents the status of any prior audit finding? [SOP 98-3, par. 10.63]	_____	_____	_____

Detail of Audit Findings—Federal Awards

30. In accordance with section 510(b) of Circular A-133, do audit findings present:			
a. Identification of the federal program and specific federal award including the CFDA title and number, the federal award number and year, the name of federal agency, and the name of the applicable pass-through entity or, if certain information is not available, the best information available to describe the federal award?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The criteria or specific requirement upon which the audit finding is based, including the statutory, regulatory, or other citation?	_____	_____	_____
c. The condition found, including facts that support the deficiency identified in the audit finding?	_____	_____	_____
d. Identification of questioned costs and how they were computed?	_____	_____	_____
e. Information to provide a proper perspective for judging the prevalence and consequences of the audit findings (for example, whether the audit findings represent an isolated instance or a systemic problem) and, where appropriate, the instances identified are related to the universe and the number of cases examined and quantified in terms of the dollar value?	_____	_____	_____
f. The possible asserted effect to provide sufficient information to the auditee and federal agency (or pass-through entity, in the case of a subrecipient) to permit them to determine the cause and effect, to facilitate prompt and proper corrective action?	_____	_____	_____
g. Recommendations to prevent future occurrences of the deficiency identified in the audit finding?	_____	_____	_____
h. To the extent practical, the views of responsible officials of the auditee when there is disagreement with the audit findings?	_____	_____	_____
i. If the auditor does not agree with the auditee's position in the corrective action plan, a statement of the auditor's reasons for rejecting it? [SOP 98-3, par. 10.64]	_____	_____	_____

Other Preparation Guidance

31. Does each audit finding in the schedule of findings and questioned costs include a reference number to allow for easy referencing of the audit findings during follow-up? [SOP 98-3, par. 10.65]	_____	_____	_____
32. In a situation where there are no findings or questioned costs, has the summary of auditor's results section of the schedule of findings and questioned costs been prepared and indication been made in the other required sections that no matters were reportable? [SOP 98-3, par. 10.66]	_____	_____	_____

Summary Schedule of Prior Audit Findings and Corrective Action Plan

33. Has the auditor reported, as a current year audit finding, any instances where the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding in accordance with the requirements of section 500(e) of Circular A-133? [SOP 98-3, par. 10.69]	_____	_____	_____
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Data Collection Form

34. With respect to the data collection form required by Circular A-133, has the auditor:			
a. Completed required sections of the form, including information on the auditor and information on the results of the financial statement audit and the audit of federal programs?	_____	_____	_____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| b. Signed a statement in the form that indicates, at a minimum, the source of the information included in the form, the auditor's responsibility for the information, that the form is not a substitute for the reporting package, and that the content of the form is limited to the data elements prescribed by the OMB? | _____ | _____ | _____ |
| c. Dated the form as of the date on which he or she completes and sign the form?
[SOP 98-3, par. 10.72] | _____ | _____ | _____ |

Program-Specific Audits

Circular A-133 Requirements

- | | | | |
|--|-------|-------|-------|
| 35. Is the auditor's report in the form of either combined or separate reports?
[SOP 98-3, par. 11.8] | _____ | _____ | _____ |
| 36. Does the auditor's report state that the audit was conducted in accordance with GAAS, <i>Government Auditing Standards</i> , and Circular A-133?
[SOP 98-3, par. 11.8] | _____ | _____ | _____ |
| 37. Does the auditor's report include the following: | | | |
| a. An opinion (or disclaimer of opinion) on whether the financial statement(s) of the federal program are presented fairly in all material respects in conformity with the stated accounting policies? | _____ | _____ | _____ |
| b. A report on the internal control related to the federal program, which describes the scope of the testing of the internal control and the results of the tests? | _____ | _____ | _____ |
| c. A report on compliance, which includes an opinion (or a disclaimer of opinion) on whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on the federal program? | _____ | _____ | _____ |
| d. A schedule of findings and questioned costs for the federal program, which includes a summary of the auditor's results relative to the audit of the federal program in a format consistent with the requirements for the summary of auditor's results in section 505(d)(1) of the circular, as well as findings and questioned costs for federal awards consistent with the requirements of section 505(d)(3) of the circular?
[SOP 98-3, par. 11.8] | _____ | _____ | _____ |

Note: The following auditor's reports are suggested for program specific audits.

- | | | | |
|--|-------|-------|-------|
| 38. Are the following reports issued: | | | |
| a. An opinion on the financial statement(s) of the federal program? | _____ | _____ | _____ |
| b. A report on compliance with requirements applicable to the federal program and on the internal control over compliance in accordance with the program-specific audit option under OMB Circular A-133? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>c. If the financial statements of the program only present the activity of the federal program, a separate <i>Government Auditing Standards</i> report? [SOP 98-3, pars. 11.8–11.10]</p>	_____	_____	_____
<p>39. If the financial statements of the program present more than the program's activity, is a separate <i>Government Auditing Standards</i> report, modified so that it refers only to the financial statement(s) of the federal program, issued? [SOP 98-3, par. 11.10]</p>	_____	_____	_____

FSP Section 11,500

Illustrative Financial Statements

.01 The following illustrative financial statements demonstrate the practical applications of the reporting practices discussed in the June 1996 AICPA Audit and Accounting Guide *Health Care Organizations* (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.

The illustrative financial statements are reproduced from the May 1998 AICPA Audit and Accounting Guide *Health Care Organizations*, and are in conformity with accounting standards issued up to and including FASB Statement SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. Preparers and auditors of financial statements should refer to subsequent FASB Statements and other GAAP for additional requirements.

This section contains illustrative financial statements for the following types of health care organizations:

- Not-for-Profit Hospital
- For-Profit Nursing Home
- Not-for-Profit Continuing Care Retirement Community
- Not-for-Profit Home Health Agency
- Not-for-Profit Health Maintenance Organization
- Not-for-Profit Ambulatory Care Organization

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

ILLUSTRATIVE FINANCIAL STATEMENTS FOR A NOT-FOR-PROFIT HOSPITAL

.02

Sample Not-for-Profit Hospital

Balance Sheets

December 31, 19X7 and 19X6

(in thousands)

	19X7	19X6
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,758	\$ 5,877
Short-term investments	15,836	10,740
Assets limited as to use	970	1,300
Patient accounts receivable, net of allowance for doubtful accounts of \$2,500 in 19X7 and \$2,400 in 19X6	15,100	14,194
Other current assets	2,670	2,856
Total current assets	39,334	34,967
Assets limited as to use:		
Internally designated for capital acquisition	12,000	12,500
Held by trustee	6,949	7,341
	18,949	19,841
Less amount required to meet current obligations	(970)	(1,300)
	17,979	18,541
Long-term investments	4,680	4,680
Long-term investments restricted for capital acquisition	320	520
Property and equipment, net	51,038	50,492
Other assets	1,695	1,370
Total assets	\$115,046	\$110,570
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 1,470	\$ 1,750
Accounts payable and accrued expenses	5,818	5,382
Estimated third-party payor settlements	2,143	1,942
Other current liabilities	1,969	2,114
Total current liabilities	11,400	11,188
Long-term debt, net of current portion	23,144	24,014
Other liabilities	3,953	3,166
Total liabilities	38,497	38,368
Net assets:		
Unrestricted	70,846	66,199
Temporarily restricted	2,115	2,470
Permanently restricted	3,588	3,533
Total net assets	76,549	72,202
Total liabilities and net assets	\$115,046	\$110,570

See accompanying notes to financial statements.

Sample Not-for-Profit Hospital
Statements of Operations
Years Ended December 31, 19X7 and 19X6
(in thousands)

	<u>19X7</u>	<u>19X6</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$85,156	\$78,942
Premium revenue	11,150	10,950
Other revenue	2,601	5,212
Net assets released from restrictions used for operations	300	
Total revenues, gains and other support	<u>99,207</u>	<u>95,104</u>
Expenses:		
Operating expenses	88,521	80,585
Depreciation and amortization	4,782	4,280
Interest	1,752	1,825
Provision for bad debts	1,000	1,300
Other	2,000	1,300
Total expenses	<u>98,055</u>	<u>89,290</u>
Operating income	1,152	5,814
Other income:		
Investment income	3,900	3,025
Excess of revenues over expenses	5,052	8,839
Change in net unrealized gains and losses on other than trading securities	300	375
Net assets released from restrictions used for purchase of property and equipment	200	
Contributions from Sample Hospital Foundation for property acquisitions	235	485
Transfers to parent	(640)	(3,000)
Increase in unrestricted net assets, before extraordinary item	<u>5,147</u>	<u>6,699</u>
Extraordinary loss from extinguishment of debt	(500)	
Increase in unrestricted net assets	<u>\$ 4,647</u>	<u>\$ 6,699</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Hospital
Statements of Operations
Years Ended December 31, 19X7 and 19X6
(in thousands)

	<u>19X7</u>	<u>19X6</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$85,156	\$78,942
Premium revenue	11,150	10,950
Other, primarily investment income	6,501	8,237
Net assets released from restrictions used for operations	300	
Total revenues, gains and other support	<u>103,107</u>	<u>98,129</u>
Expenses:		
Salaries and benefits	53,900	49,938
Medical supplies and drugs	26,532	22,121
Insurance	8,089	8,526
Depreciation and amortization	4,782	4,280
Interest	1,752	1,825
Provision for bad debts	1,000	1,300
Other	2,000	1,300
Total expenses	<u>98,055</u>	<u>89,290</u>
Excess of revenues, gains, and other support over expenses	5,052	8,839
Change in net unrealized gains and losses on other than trading securities	300	375
Net assets released from restrictions used for purchase of property and equipment	200	
Contributions from Sample Hospital Foundation for property acquisitions	235	485
Transfers to parent	<u>(640)</u>	<u>(3,000)</u>
Increase in unrestricted net assets, before extraordinary item	5,147	6,699
Extraordinary loss from extinguishment of debt	<u>(500)</u>	
Increase in unrestricted net assets	<u>\$ 4,647</u>	<u>\$ 6,699</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Hospital
Statements of Changes in Net Assets
Years Ended December 31, 19X7 and 19X6
(in thousands)

	<u>19X7</u>	<u>19X6</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 5,052	\$ 8,839
Net unrealized gains on investments, other than trading securities	300	375
Contributions from Sample Hospital Foundation for property acquisitions	235	485
Transfers to parent	(640)	(3,000)
Net assets released from restrictions used for purchase of property and equipment	<u>200</u>	<u> </u>
Increase in unrestricted net assets before extraordinary item	5,147	6,699
Extraordinary loss from extinguishment of debt	<u>(500)</u>	<u> </u>
Increase in unrestricted net assets	<u>4,647</u>	<u>6,699</u>
Temporarily restricted net assets:		
Contributions for charity care	140	996
Net realized and unrealized gains on investments	5	8
Net assets released from restrictions	<u>(500)</u>	<u> </u>
Increase (decrease) in temporarily restricted net assets	<u>(355)</u>	<u>1,004</u>
Permanently restricted net assets:		
Contributions for endowment funds	50	411
Net realized and unrealized gains on investments	<u>5</u>	<u>2</u>
Increase in permanently restricted net assets	<u>55</u>	<u>413</u>
Increase in net assets	4,347	8,116
Net assets, beginning of year	<u>72,202</u>	<u>64,086</u>
Net assets, end of year	<u>\$76,549</u>	<u>\$72,202</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Hospital
Statements of Cash Flows (Indirect Method)
Years Ended December 31, 19X7 and 19X6
(in thousands)

	<u>19X7</u>	<u>19X6</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,347	\$ 8,116
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Extraordinary loss from extinguishment of debt	500	
Depreciation and amortization	4,782	4,280
Net realized and unrealized gains on investments, other than trading	(450)	(575)
Transfers to parent	640	3,000
Provision for bad debts	1,000	1,300
Restricted contributions and investment income received	(290)	(413)
(Increase) decrease in:		
Patient accounts receivable	(1,906)	(2,036)
Trading securities	215	
Other current assets	186	(2,481)
Other assets	(325)	(241)
Increase (decrease) in:		
Accounts payable and accrued expenses	436	679
Estimated third-party payor settlements	201	305
Other current liabilities	(145)	(257)
Other liabilities	787	(128)
Net cash provided by operating activities	<u>9,978</u>	<u>11,549</u>
Cash flows from investing activities:		
Purchase of investments	(3,769)	(2,150)
Capital expenditures	<u>(4,728)</u>	<u>(5,860)</u>
Net cash used in investing activities	<u>(8,497)</u>	<u>(8,010)</u>
Cash flows from financing activities:		
Transfers to parent	(640)	(3,000)
Proceeds from restricted contributions and restricted investment income	290	413
Payments on long-term debt	(24,700)	(804)
Payments on capital lease obligations	(150)	(100)
Proceeds from issuance of long-term debt	<u>22,600</u>	<u>500</u>
Net cash used in financing activities	<u>(2,600)</u>	<u>(2,991)</u>
Net (decrease) increase in cash and cash equivalents	(1,119)	548
Cash and cash equivalents, beginning of year	<u>5,877</u>	<u>5,329</u>
Cash and cash equivalents, end of year	<u>\$ 4,758</u>	<u>\$ 5,877</u>

Supplemental Disclosures of Cash Flow Information:

The Hospital entered into capital lease obligations in the amount 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.

Sample Not-for-Profit Hospital
Notes to Financial Statements
December 31, 19X7 and 19X6

1. Description of Organization and Summary of Significant Accounting Policies

Organization. The Sample Not-for-Profit Hospital (the Hospital), located in Tulsa, Oklahoma, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for residents of northeastern Oklahoma. Admitting physicians are primarily practitioners in the local area. The Hospital was incorporated in Oklahoma in 19X1 and is affiliated with the Sample Health System.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents. Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

The Hospital routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Assets limited as to use. Assets limited as to use primarily include assets held by trustees under indenture agreements and designated 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. Amounts required to meet current liabilities of the hospital have been reclassified in the balance sheet at December 31, 19X7 and 19X6.

Property and equipment. Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations 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. 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Temporarily and permanently restricted net assets. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Excess of revenues over expenses. The statement of operations includes excess of *revenues over expenses*. Changes in unrestricted net assets which are excluded from excess of *revenues over expenses*, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

Premium revenue. The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

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.

Donor-restricted gifts. Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

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

Income taxes. The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

2. 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 pa-

tient 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 on 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. Beginning in 19X3, the Hospital claimed Medicare payments based on an interpretation of certain "disproportionate share" rules. The intermediary disagreed and declined to pay the excess reimbursement claimed under that interpretation. Through 1996, the Hospital has not included the claimed excess in net patient revenues pending resolution of the matter. In 19X7, the intermediary accepted the claims and paid the outstanding claims, including \$950,000 applicable to 19X6 and \$300,000 applicable to 19X5 and prior, which has been included in 19X7 net revenues.

- *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 also has 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.

3. Investments

Assets Limited as to Use

The composition of assets limited as to use at December 31, 19X7 and 19X6, is set forth in the following table. Investments are stated at fair value.

	<u>19X7</u>	<u>19X6</u>
Internally designated for capital acquisition:		
Cash	\$ 545,000	\$ 350,000
U.S. Treasury obligations	11,435,000	12,115,000
Interest receivable	20,000	35,000
	<u>12,000,000</u>	<u>12,500,000</u>
Held by trustee under indenture agreement:		
Cash and short-term investments	352,000	260,000
U.S. Treasury obligation	6,505,000	7,007,000
Interest receivable	92,000	74,000
	<u>6,949,000</u>	<u>7,341,000</u>
	<u>\$18,949,000</u>	<u>\$19,841,000</u>

Other Investments

Other investments, stated at fair value, at December 31, 19X7 and 19X6, include:

	<u>19X7</u>	<u>19X6</u>
Trading:		
U.S. Corporate Bonds	\$ 1,260,000	\$ 1,475,000
Other:		
U.S. Treasury obligations	\$19,266,000	\$14,233,000
Interest receivable	310,000	232,000
	<u>20,836,000</u>	<u>15,940,000</u>
Less:		
Long-term investments	4,680,000	4,680,000
Long-term investments restricted for capital acquisitions	320,000	520,000
Short-term investments	<u>\$15,836,000</u>	<u>\$10,740,000</u>

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending December 31, 19X7 and 19X6:

	<u>19X7</u>	<u>19X6</u>
Income:		
Interest income	\$3,585,000	\$2,725,000
Realized gains on sales of securities	150,000	200,000
Unrealized gains on trading securities	<u>165,000</u>	<u>100,000</u>
	<u>\$3,900,000</u>	<u>\$3,025,000</u>
Other Changes in Unrestricted Net Assets:		
Unrealized gains on other than trading securities	<u>\$ 300,000</u>	<u>\$ 375,000</u>

4. 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 lease obligations	<u>2,851,000</u>	<u>2,752,000</u>
	82,365,000	79,120,000
Less accumulated depreciation and amortization	<u>34,928,000</u>	<u>30,661,000</u>
	47,437,000	48,459,000
Construction in progress	<u>3,601,000</u>	<u>2,033,000</u>
Property and equipment, net	<u>\$51,038,000</u>	<u>\$50,492,000</u>

Depreciation expense for the years ended December 31, 19X7 and 19X6 amounted to approximately \$4,782,000 and \$4,280,000. Accumulated amortization for equipment under capital lease obligations was \$689,000 and \$453,000 at December 31, 19X7 and 19X6, respectively. 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.

5. Long-Term Debt

A summary of long-term debt and capital lease obligations at December 31, 19X7 and 19X6, follows:

	<u>19X7</u>	<u>19X6</u>
7.25 percent 19X7 Tax-Exempt Revenue Bonds, principal maturing in varying annual amounts, due November 1, 20XX, collateralized by a pledge of the Hospital's gross receipts	\$21,479,000	
8.50 percent 19X2 Tax-Exempt Revenue Bonds, principal maturing in varying annual amounts, due June 1, 19XX		\$22,016,000
7.75 percent mortgage loan, principal maturing in varying annual amounts, due January 20XX, collateralized by a mortgage on certain property and equipment	2,010,000	2,127,000
7.75 percent note payable, payable in monthly installments of \$12,000, including interest, due March 19XX, unsecured	125,000	671,000
Capital lease obligations, at varying rates of imputed interest from 6.8 percent to 9.3 percent collateralized by leased equipment	<u>1,000,000</u>	<u>950,000</u>
	24,614,000	25,764,000
Less current portion	<u>1,470,000</u>	<u>1,750,000</u>
	<u>\$23,144,000</u>	<u>\$24,014,000</u>

Under the terms of the 19X7 and 19X2 revenue bond indentures, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. 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 are as follows:

<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Capital Leases Obligations</u>
19X8	\$ 970,000	\$ 550,000
19X9	912,000	260,000
20Y0	983,000	260,000
20Y1	1,060,000	45,000
20Y2	1,143,000	—
Thereafter	<u>18,546,000</u>	—
	<u>\$23,614,000</u>	1,115,000
Less amount representing interest under capital leases obligations		<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 19X7 and 19X2 revenue bond indentures during the years ended December 31, 19X7 and 19X6, follows:

	<u>19X7</u>	<u>19X6</u>
Interest cost:		
Capitalized	\$ 740,000	\$ 700,000
Charged to operations	<u>1,752,000</u>	<u>1,825,000</u>
Total	<u>\$2,492,000</u>	<u>\$2,525,000</u>
Investment income:		
Capitalized	\$ 505,000	\$ 663,000
Credited to other revenue	<u>330,000</u>	<u>386,000</u>
Total	<u>\$ 835,000</u>	<u>\$1,049,000</u>

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31, 19X7 and 19X6:

	<u>19X7</u>	<u>19X6</u>
Health care services		
Purchase of equipment	\$ 320,000	\$ 520,000
Indigent care	840,000	950,000
Health education	350,000	400,000
For periods after December 31, 19X9	<u>605,000</u>	<u>600,000</u>
	<u>\$2,115,000</u>	<u>\$2,470,000</u>

Permanently restricted net assets at December 31, 19X7 and 19X6, are restricted to:

	<u>19X7</u>	<u>19X6</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income)	\$2,973,000	\$2,923,000
Endowment requiring income to be added to original gift until fund value is \$1,500,000	<u>615,000</u>	<u>610,000</u>
	<u>\$3,588,000</u>	<u>\$3,533,000</u>

During 19X7, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care and health care education in the amounts of \$250,000 and \$50,000, respectively.

7. Medical Malpractice Claims

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses have been discounted at 7 percent and in management's opinion provide an adequate reserve for loss contingencies.

On March 15, 19X7, a patient filed a suit against the Hospital for malpractice during care received as an inpatient. The Hospital believes it has meritorious defenses against the suit; however, the ultimate resolution of the matter could result in a loss. The patient has claimed \$16 million in actual damages. Under state law, punitive damages are determined at trial. The Hospital maintains insurance coverage for malpractice claims. The coverage does not include punitive damages awards. Trial is scheduled to occur within the next year.

8. Pension and Other Postretirement Benefit Plans

The Hospital has a defined benefit pension plan covering substantially all of its employees. The plan benefits are based on years of service and the employees' compensation during the last five years of covered employment. 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.

Note: The following paragraph is encouraged but not required.

The Hospital also sponsors two defined benefit postretirement plans that cover both salaried and nonsalaried employees. One plan provides medical and dental benefits, and the other provides for the payment of life insurance premiums. The postretirement health care plan is contributory, with retiree contributions adjusted annually; the life insurance plan is noncontributory. The accounting for the health care plan anticipates future cost-sharing changes to the written plan that are consistent with the Hospital's expressed intent to increase retiree contributions each year to 50 percent of the excess of the expected general inflation rate over 6 percent. Beginning in 19X7, the Hospital adopted a funding policy for its postretirement health care plan similar to its funding policy for its life insurance plan—an amount equal to a level percentage of the employees' salaries is contributed to the plan annually. For 19X7, that percentage was 4.25, and the aggregate contribution for both plans was \$34,000.

The following table sets forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit cost for both the pension plan and the other postretirement benefit plans:

	<i>Pension Benefits</i>		<i>Other Benefits</i>	
	<u>19X7</u>	<u>19X6</u>	<u>19X7</u>	<u>19X6</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 9,710	\$ 9,700	\$ 585	\$ 500
Service cost	905	770	14	15
Interest cost	700	650	50	44
Plan participants' contributions			34	34
Actuarial gain	(20)		(7)	
Benefits paid	(375)	(1,410)	(66)	(8)
Benefit obligation at end of year	<u>10,920</u>	<u>9,710</u>	<u>610</u>	<u>585</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	9,800	9,610	89	40
Actual return on plan assets	950	800	4	4
Employer contribution	750	620	40	19
Plan participants' contributions			34	34
Benefits paid	(450)	(1,230)	(67)	(8)
Fair value of plan assets at end of year	<u>11,050</u>	<u>9,800</u>	<u>100</u>	<u>89</u>
Funded status	130	90	(510)	(496)
Unrecognized net actuarial gain	(30)	(40)	(30)	(40)
Unrecognized prior service cost	50	55	16	19
Unrecognized transition obligation			445	470
Unrecognized transition asset	(15)	(20)		
Prepaid (accrued) benefit cost	<u>\$ 135</u>	<u>\$ 85</u>	<u>\$ (79)</u>	<u>\$ (47)</u>
Weighted-average assumptions as of December 31:				
Discount rate	7.00%	7.00%	7.00%	7.00%
Expected return on plan assets	8.00%	8.00%	6.60%	6.60%
Rate of compensation increase	6.00%	6.00%		

For measurement purposes, a 7 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X8. The rate was assumed to decrease gradually to 5 percent over the next five years.

	<i>Pension Benefits</i>		<i>Other Benefits</i>	
	<u>19X7</u>	<u>19X6</u>	<u>19X7</u>	<u>19X6</u>
Components of net periodic benefit cost:				
Service cost	\$ 906	\$ 771	\$14	\$15
Interest cost	700	650	50	44
Expected return on plan assets	(885)	(725)	(3)	(4)
Amortization of prior service cost	7	7	2	2
Recognized net actuarial gain	(2)	(2)	(2)	(1)
Amortization of transition obligation			25	25
Amortization of transition asset	(1)	(1)		
Net periodic benefit cost	<u>\$ 725</u>	<u>\$ 700</u>	<u>\$86</u>	<u>\$81</u>

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost components	\$13	\$(11)
Effect on postretirement benefit obligation	73	(67)

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 19X7 and 19X6, was as follows:

	<u>19X7</u>	<u>19X6</u>
Medicare	51%	53%
Medicaid	17	14
Blue Cross	18	17
Other third-party payors	7	9
Patients	<u>7</u>	<u>7</u>
	<u>100%</u>	<u>100%</u>

10. Commitments and Contingencies

Operating leases. The Hospital leases various equipment and facilities under operating leases expiring at various dates through April 20X2. Total rental expense in 19X7 and 19X6 for all operating leases was approximately \$859,000 and \$770,000, respectively.

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.

<u>Year Ending December 31,</u>	<u>Amount</u>
19X8	\$517,000
19X9	506,000
20Y0	459,000
20Y1	375,000
20Y2	343,000

Litigation. The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Allowance for doubtful accounts. Beginning in 19X5, the Hospital has provided care under an agreement with Associated HMO. The HMO currently owes the Hospital \$950,000, substantially all of which is overdue. The Hospital has notified the HMO that further services under the contract cannot be provided without payment on the outstanding balance. The HMO has assured the Hospital that additional funds are being obtained in order to pay the overdue balance and continue service under the agreement, however, if the HMO is unable to make payments, additional allowances for bad debts would need to be accrued.

11. Extraordinary Loss

In 19X7, the Hospital advance refunded its 19X2 Revenue Bonds in the amount of \$22 million by issuing 19X7 Revenue Bonds. As a result of this in-substance defeasance transaction, an extraordinary loss totaling \$500,000 was recorded. As of December 31, 19X7, \$21 million of advance refunded bonds, which are considered extinguished, remain outstanding.

12. Related Party Transactions

During the years ended December 31, 19X7 and 19X6, the Hospital contributed capital to Sample Health System, an affiliate with some board members in common with the Hospital, in the amounts of \$640,000 and \$3 million, respectively.

The Sample Hospital Foundation (the Foundation), which is controlled by Sample Health System, was established to solicit contributions from the general public and to support the Hospital. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. A summary of the foundation's assets, liabilities, net assets, results of operations, and changes in net assets follows.

	<u>December 31,</u>	
	<u>19X6</u>	<u>19X7</u>
Assets, principally cash and cash equivalents	<u>\$521,000</u>	<u>\$472,000</u>
Liabilities	11,000	10,000
Net assets	<u>510,000</u>	<u>462,000</u>
Total liabilities and net assets	<u>\$521,000</u>	<u>\$472,000</u>
Support and revenue	<u>\$269,000</u>	<u>\$535,000</u>
Expenses		
Distributions to Sample Hospital for property acquisitions	235,000	485,000
Other	13,000	16,000
Total expenses	<u>248,000</u>	<u>501,000</u>
Excess of support and revenue over expenses	21,000	34,000
Other changes in net assets	27,000	17,000
Net assets, beginning of year	<u>462,000</u>	<u>411,000</u>
Net assets, end of year	<u>\$510,000</u>	<u>\$462,000</u>

Liabilities include \$10,000 payable at the end of each year to Sample Hospital. These amounts were paid after the end of each year.

13. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows (in thousands):

	<u>December 31,</u>	
	<u>19X7</u>	<u>19X6</u>
Health care services	<u>\$86,000</u>	<u>\$78,647</u>
General and administrative	12,055	10,643
	<u>\$98,055</u>	<u>\$89,290</u>

14. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Assets limited as to use: These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Hospital's financial instruments at December 31, 19X7 and 19X6, are as follows (In thousands):

	19X7		19X6	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 4,758	\$ 4,758	\$ 5,877	\$ 5,877
Short-term investments	15,836	15,836	10,740	10,740
Assets limited as to use	18,949	18,949	19,841	19,841
Long-term investments	4,680	4,680	4,680	4,680
Long-term investments restricted for capital acquisition	320	320	520	520
Accounts payable and accrued expenses	5,818	5,818	5,382	5,382
Estimated third-party payor settlements	2,143	2,143	1,942	1,942
Long-term debt	24,614	23,980	25,764	24,918

15. Promises to Contribute

At December 31, 19X7, the Hospital had received \$1,500,000 of conditional promises to contribute to the building of a new facility for outpatient services. These contributions will be recorded as temporarily restricted support when received. The Hospital had no material outstanding unconditional promises of support at December 31, 19X7.

16. Charity Care

The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$4,500,000 and \$4,100,000 in 19X7 and 19X6, respectively.

17. 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.

ILLUSTRATIVE FINANCIAL STATEMENTS FOR A NURSING HOME

.08

Sample For-Profit Nursing Home, Inc.

Balance Sheets

December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 95,000	\$ 129,000
Investments	150,000	
Assets limited as to use	50,000	50,000
Patient accounts receivable, net of allowance for doubtful accounts of \$6,700 in 19X5 and \$5,300 in 19X4	162,000	152,000
Estimated third-party payor settlements	71,000	62,000
Interest receivable	7,000	
Supplies	47,000	43,000
Prepaid expenses	3,000	2,000
Deferred tax asset	12,000	14,000
Total current assets	<u>597,000</u>	<u>452,000</u>
Assets limited as to use, net of amount required for current liabilities	<u>173,000</u>	<u>150,000</u>
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
	<u>1,869,000</u>	<u>1,825,000</u>
Less accumulated depreciation	210,000	141,000
Property and equipment, net	<u>1,659,000</u>	<u>1,684,000</u>
Other assets	150,000	127,000
Total assets	<u>\$2,579,000</u>	<u>\$2,413,000</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 50,000	\$ 50,000
Accounts payable	78,000	52,000
Accrued expenses	175,000	188,000
Deposits from patients	50,000	45,000
Other current liabilities	74,000	15,000
Total current liabilities	<u>427,000</u>	<u>350,000</u>
Deferred tax liability	6,000	14,000
Long-term debt, net of current maturities	<u>1,700,000</u>	<u>1,750,000</u>
Shareholders' equity:		
Common stock, \$20 par value; authorized 5,000 shares; issued and outstanding 3,500 shares	70,000	70,000
Retained earnings	376,000	229,000
Total shareholders' equity	<u>446,000</u>	<u>299,000</u>
Total liabilities and shareholders' equity	<u>\$2,579,000</u>	<u>\$2,413,000</u>

See accompanying notes to financial statements.

Sample For-Profit Nursing Home, Inc.
Statements of Income and Retained Earnings
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Revenue:		
Net patient service revenue	\$2,163,000	\$1,949,000
Other revenue	67,000	22,000
Interest on investments held by trustee	13,000	7,000
Total revenue	<u>2,243,000</u>	<u>1,978,000</u>
Expenses:		
Salaries and benefits	969,000	919,000
Medical supplies and drugs	511,000	499,000
Insurance and other	216,000	176,000
Provision for bad debts	92,000	83,000
Depreciation	69,000	57,000
Interest	164,000	172,000
Total expenses	<u>2,021,000</u>	<u>1,906,000</u>
Operating income	222,000	72,000
Nonoperating income:		
Other interest income	5,000	
Income before provision for income taxes	227,000	72,000
Provision for income taxes	80,000	29,000
Net income	<u>147,000</u>	<u>43,000</u>
Retained earnings, beginning of year	<u>229,000</u>	<u>186,000</u>
Retained earnings, end of year	<u><u>\$ 376,000</u></u>	<u><u>\$ 229,000</u></u>

See accompanying notes to financial statements.

Sample For-Profit Nursing Home, Inc.
Statements of Cash Flows
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Cash flows from operating activities:		
Cash received from residents and third-party payors	\$2,019,000	\$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	<u>233,000</u>	<u>128,000</u>
Cash flows from investing activities:		
Purchase of investments	(150,000)	
Proceeds from sale of property		2,000
Capital expenditures	(44,000)	(79,000)
Purchase of assets limited as to use	(23,000)	
Net cash used in investing activities	<u>(217,000)</u>	<u>(77,000)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(50,000)	(50,000)
Net cash used in financing activities	<u>(50,000)</u>	<u>(50,000)</u>
Net increase (decrease) in cash and cash equivalents	(34,000)	1,000
Cash and cash equivalents, beginning of year	<u>129,000</u>	<u>128,000</u>
Cash and cash equivalents, end of year	<u>\$ 95,000</u>	<u>\$ 129,000</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 147,000	\$ 43,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	69,000	57,000
Provision for bad debts	92,000	83,000
Loss on sale of property	—	11,000
Change in deferred income taxes	(6,000)	(14,000)
(Increase) decrease in:		
Patient accounts receivable	(102,000)	(41,000)
Other current assets	(21,000)	(15,000)
Estimated third-party payor settlements	(9,000)	(10,000)
Interest receivable	(7,000)	(3,000)
Other assets	(7,000)	(10,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	13,000	43,000
Deposits from patients	5,000	(5,000)
Other current liabilities	59,000	(11,000)
Net cash provided by operating activities	<u>\$ 233,000</u>	<u>\$ 128,000</u>

See accompanying notes to financial statements.

Sample For-Profit Nursing Home, Inc.
Notes to Financial Statements
December 31, 19X5 and 19X4

1. Description of Organization and Summary of Significant Accounting Policies

Organization. The Sample Nursing Home, Inc. (the Company) was incorporated in New State in 19X1 and operates a 128-bed nursing home in Abacus, New State. A summary of the Company's significant accounting policies follows:

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Investments. Investments in debt instruments, including assets limited as to use, are classified as held-to-maturity because the Company has the positive intent and ability to hold the securities until maturity. Held-to-maturity securities are carried at cost adjusted for amortization of premiums and accretion of discounts.

Assets limited as to use. Assets deposited with a trustee under terms of the note indenture and assets set aside by the Board of Directors for capital improvements are classified as assets limited as to use. Amounts required to meet current liabilities have been reclassified in the balance sheet.

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 the Series 19X1 bonds are being amortized based on the effective interest method.

Net patient service revenue. Net 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.

Income taxes. The provisions for income taxes are based on amounts estimated to be currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. These differences consist principally of bad debts and depreciation.

2. Assets Limited as to Use

Assets limited as to use include:

Assets held by trustee under the Series 19X1 note indenture agreement at December 31, 19X5 and 19X4.

	<u>19X5</u>	<u>19X4</u>
U.S. Government obligations	\$150,000	\$130,000
Cash	24,000	21,000
Accrued interest income	<u>2,000</u>	<u>2,000</u>
	<u>176,000</u>	<u>153,000</u>
Internally designated by the Board of Directors for capital improvements		
Certificate of deposit	\$ 45,000	\$ 45,000
Accrued interest	<u>2,000</u>	<u>2,000</u>
	<u>47,000</u>	<u>47,000</u>
	<u>\$223,000</u>	<u>\$200,000</u>

3. Investments

The amortized cost and approximate fair value of held-to-maturity securities at December 31, 19X5 and 19X4, are as follows:

	<u>December 31, 19X5</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Approximate Fair Value</u>
U.S. Treasury obligations	\$150,000	\$11,000	\$(16,000)	\$145,000
U.S. Government agency obligations	83,000		(7,000)	76,000
Other debt securities	<u>67,000</u>		<u>(18,000)</u>	<u>49,000</u>
	<u>\$300,000</u>	<u>\$11,000</u>	<u>\$(41,000)</u>	<u>\$270,000</u>
	<u>December 31, 19X4</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Approximate Fair Value</u>
U.S. Treasury obligations	\$103,000	\$	\$(10,000)	\$ 93,000
U.S. Government agency obligations	<u>27,000</u>	<u>2,000</u>		<u>29,000</u>
	<u>\$130,000</u>	<u>\$2,000</u>	<u>\$(10,000)</u>	<u>\$122,000</u>

Maturities of held-to-maturity securities at December 31, 19X5, are as follows:

	<u>Amortized Cost</u>	<u>Approximate Fair Value</u>
One year or less	\$131,000	\$126,000
After one through five years	31,000	29,000
After five through ten years	68,000	62,000
After ten years	<u>70,000</u>	<u>53,000</u>
	<u>\$300,000</u>	<u>\$270,000</u>

4. Long-Term Debt

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

	<u>19X5</u>	<u>19X4</u>
9.5 percent bonds payable to the City of Abacus, maturing \$50,000 annually through November 1, 19YY, with a final maturity of \$1 million on November 1, 19YY	\$1,750,000	\$1,800,000
Less current maturities	<u>50,000</u>	<u>50,000</u>
	<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 limited as to use.

Future maturities of long-term debt as of December 31, 19X5, follow:

<u>Year ending December 31,</u>	<u>Amount</u>
19X6	\$ 50,000
19X7	50,000
19X8	50,000
19X9	50,000
19Y0	50,000
Thereafter	<u>1,500,000</u>
Total	<u>\$1,750,000</u>

5. Income Taxes

The provisions for income taxes are as follows:

	<u>19X5</u>	<u>19X4</u>
Current:		
Federal	\$72,000	\$15,000
State	<u>2,000</u>	
Total current	<u>74,000</u>	<u>15,000</u>
Deferred:		
Federal	6,000	13,000
State		<u>1,000</u>
Total deferred	<u>6,000</u>	<u>14,000</u>
Total provision for income taxes	<u>\$80,000</u>	<u>\$29,000</u>

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

For the years ended December 31, 19X5 and 19X4, the effective tax rate approximated the statutory rate of 34 percent and 40 percent, respectively.

The net current and noncurrent components of deferred income taxes recognized in the balance sheet at December 31, 19X5 and 19X4, follows:

	<u>19X5</u>	<u>19X4</u>
Net current assets	\$12,000	\$14,000
Net noncurrent liabilities	<u>6,000</u>	<u>14,000</u>
	<u>\$ 6,000</u>	<u>\$ 0</u>

Management has determined that no valuation allowance related to deferred tax assets is necessary at December 31, 19X5 and 19X4, respectively.

6. Concentration in State Medicaid Program

The Company has 100 of its 128 beds designated for care of patients under the state's Medicaid program. The current funding of that program is 90 days behind filed claims. The current state budget has no provision for reducing that lag and, while the proposed budget for 19X6 includes additional funding, there is no assurance that the final budget will include the needed additional funds.

7. Risks and Uncertainties Disclosures*

8. Pension and Other Postretirement Benefit Plans*

9. Fair Values of Financial Instruments*

10. Concentrations of Credit Risk*

* The disclosures contained in these notes would be similar to the disclosures contained in the notes to the financial statements for not-for-profit hospital and, therefore, are not repeated here.

**ILLUSTRATIVE FINANCIAL STATEMENTS
FOR A CONTINUING CARE RETIREMENT COMMUNITY**

.12

Sample Not-for-Profit Continuing Care Retirement Community

Balance Sheets

December 31, 19X5 and 19X4

	19X5	19X4
Assets		
Current assets:		
Cash	\$ 375,000	\$ 330,000
Assets limited as to use	265,000	170,000
Accounts receivable, net of allowance for doubtful accounts of \$4,000 in 19X5 and \$5,000 in 19X4	187,000	197,000
Supplies	40,000	21,000
Prepaid expenses	115,000	73,000
Total current assets	982,000	791,000
Assets limited as to use, net of amount required for current liabilities	1,865,000	1,583,000
Property and equipment, net	14,893,000	15,280,000
Deferred financing costs, net of accumulated amortization of \$28,000 in 19X5 and \$21,000 in 19X4	83,000	90,000
Total assets	\$17,823,000	\$17,744,000
Liabilities and Net Assets		
Liabilities:		
Current maturities of long-term debt	\$ 90,000	\$ 77,000
Accounts payable	180,000	174,000
Accrued expenses	161,000	178,000
Deposits on unoccupied units	22,000	40,000
Total current liabilities	453,000	469,000
Long-term debt, less current maturities	8,871,000	8,935,000
Refundable fees	59,000	144,000
Estimated obligation to provide future services, in excess of amounts received or to be received	88,000	100,000
Deferred revenue from advance fees	6,304,000	6,585,000
Total liabilities	15,775,000	16,233,000
Net assets:		
Unrestricted	1,286,000	833,000
Temporarily restricted	311,000	294,000
Permanently restricted	451,000	384,000
Total net assets	2,048,000	1,511,000
Total liabilities and net assets	\$17,823,000	\$17,744,000

See accompanying notes to financial statements.

Sample Not-for-Profit Continuing Care Retirement Community
Statements of Operations
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Revenue, gains, and other support:		
Resident services, including amortization of advance fees of \$935,000 in 19X5 and \$915,000 in 19X4	\$3,946,000	\$3,152,000
Patient revenue from nonresidents	249,000	275,000
Change in obligation to provide future services	12,000	(82,000)
Contributions	54,000	39,000
Net assets released from restrictions used for operations	24,000	50,000
Investment income	29,000	30,000
Other	75,000	68,000
Total revenue, gains, and other support	<u>4,389,000</u>	<u>3,532,000</u>
Expenses:		
Salaries and benefits	1,708,000	1,250,000
Medical supplies and drugs	543,000	742,000
Insurance	291,000	311,000
Depreciation	452,000	447,000
Interest	967,000	955,000
Total expenses	<u>3,961,000</u>	<u>3,705,000</u>
Operating income (loss)	428,000	(173,000)
Net assets released from restriction— purchase of equipment	<u>25,000</u>	<u>45,000</u>
Increase (decrease) in unrestricted net assets	<u>\$ 453,000</u>	<u>\$ (128,000)</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Continuing Care Retirement Community

Statements of Changes in Net Assets

Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Unrestricted net assets:		
Operating income (loss)	\$ 428,000	\$ (173,000)
Net assets released from restriction— purchase of equipment	<u>25,000</u>	<u>45,000</u>
Increase (decrease) in unrestricted net assets	<u>453,000</u>	<u>(128,000)</u>
Temporarily restricted net assets:		
Contributions	40,000	15,000
Net assets released from restrictions used for operations	(24,000)	(50,000)
Net assets released from restriction— purchase of equipment	(25,000)	(45,000)
Investment income	<u>26,000</u>	<u>15,000</u>
Increase (decrease) in temporarily restricted net assets	<u>17,000</u>	<u>(65,000)</u>
Permanently restricted net assets:		
Contributions	<u>67,000</u>	<u>52,000</u>
Increase in permanently restricted net assets	<u>67,000</u>	<u>52,000</u>
Increase (decrease) in net assets	537,000	(141,000)
Net assets, beginning of year	<u>1,511,000</u>	<u>1,652,000</u>
Net assets, end of year	<u><u>\$2,048,000</u></u>	<u><u>\$1,511,000</u></u>

See accompanying notes to financial statements.

Sample Not-for-Profit Continuing Care Retirement Community

Statements of Cash Flows

Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Cash flows from operating activities:		
Cash received from residents and third-party payors	\$3,252,000	\$2,341,000
Advance fees received	654,000	857,000
Other receipts from operations	75,000	68,000
Investment income received	68,000	53,000
Contributions received	51,000	44,000
Cash paid to employees and suppliers	(2,576,000)	(2,040,000)
Interest paid	<u>(950,000)</u>	<u>(945,000)</u>
Net cash provided by operating activities	<u>574,000</u>	<u>378,000</u>
Cash flows from investing activities:		
Purchase of property and equipment	(65,000)	(250,000)
Purchase of assets limited as to use	<u>(377,000)</u>	<u>229,000</u>
Net cash used in investing activities	<u>(442,000)</u>	<u>(21,000)</u>
Cash flows from financing activities:		
Permanently restricted funds received	67,000	52,000
Refunds of deposits and refundable fees	(103,000)	(52,000)
Proceeds from issuance of long-term debt	26,000	
Principal payments of long-term debt	<u>(77,000)</u>	<u>(307,000)</u>
Net cash used in financing activities	<u>(87,000)</u>	<u>(307,000)</u>
Net increase in cash	45,000	50,000
Cash, beginning of year	<u>330,000</u>	<u>280,000</u>
Cash, end of year	<u>\$ 375,000</u>	<u>\$ 330,000</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 537,000	\$ (141,000)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Advance fees received	654,000	857,000
Restricted net assets received	(67,000)	(52,000)
Amortization of advance fees	(935,000)	(915,000)
Loss (gain) on obligation to provide future services	(12,000)	82,000
Depreciation	452,000	447,000
Amortization of deferred financing costs	7,000	34,000
Provision for bad debts	3,000	3,000
(Increase) decrease in:		
Accounts receivable	7,000	(33,000)
Other assets	<u>(61,000)</u>	<u>(4,000)</u>
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(11,000)</u>	<u>100,000</u>
Net cash provided by operating activities	<u>\$ 574,000</u>	<u>\$ 378,000</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Continuing Care Retirement Community
Notes to Financial Statements
December 31, 19X5 and 19X4

1. Description of Organization and Summary of Significant Accounting Policies¹

Organization. The Sample Continuing Care Retirement Community (the CCRC) is a nonprofit organization that principally provides housing, health care, and other related services to residents through the operation of a retirement facility containing 249 apartments and a 78-bed health care facility located in Evergreen Park, Illinois. The CCRC was incorporated in Illinois in 19X1. A summary of significant accounting policies follows.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments. Investments, which consist of U.S. Treasury obligations, are measured at fair value in the balance sheet. Investment income (including realized gains and losses on investments, interest, and dividends) is included in operating income (loss) unless restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from operating income (loss).

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

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. The CCRC annually calculates the present value of the net cost of future services and the 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 the use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services and use of facilities) 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.

Donor restrictions. The CCRC reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

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

¹ Does not include all disclosures common to all health care entities.

Income taxes. The CCRC has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes pursuant to Sec. 501(a) of the IRC.

Property and equipment. Property and equipment are stated at cost. Donated property is recorded at its estimated fair value at the date of receipt. 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

Operating income (loss). The statement of operations includes *operating income (loss)*. Changes in unrestricted net assets which are excluded from operating income (loss), consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

2. Property and Equipment

A summary of property and equipment at December 31, 19X5 and 19X4, follows:

	<u>19X5</u>	<u>19X4</u>
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
	<u>16,087,000</u>	<u>16,022,000</u>
Less: accumulated depreciation	<u>(1,194,000)</u>	<u>(742,000)</u>
	<u>\$14,893,000</u>	<u>\$15,280,000</u>

3. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>19X5</u>	<u>19X4</u>
Purchase of equipment	\$169,000	\$152,000
Charity care	142,000	142,000
	<u>\$311,000</u>	<u>\$294,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>19X5</u>	<u>19X4</u>
Charity care	<u>\$24,000</u>	<u>\$50,000</u>
Purchase of equipment	<u>\$25,000</u>	<u>\$45,000</u>

4. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>19X5</u>	<u>19X4</u>
Charity care	\$168,000	\$168,000
Community activities	283,000	216,000
	<u>\$451,000</u>	<u>\$384,000</u>

5. Long-Term Debt

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

	<u>19X5</u>	<u>19X4</u>
10.75 percent 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 cost at December 31, 19X5, of \$14,893,000 and by a pledge of all operating revenue.

As required by the mortgage note agreement, the 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, the CCRC has been 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 and 19X4, the trustee held investments aggregating \$2,130,000 and \$1,753,000, respectively. Such amount has been classified as assets limited as to use.

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

<u>Year ending December 31,</u>	<u>Amount</u>
19X6	\$ 90,000
19X7	90,000
19X8	95,000
19X9	105,000
20Y0	105,000

6. Classification of Expenses

	<u>19X5</u>	<u>19X4</u>
Program activities	3,368,000	3,135,000
General and administrative	<u>593,000</u>	<u>570,000</u>
	<u>\$3,961,000</u>	<u>\$3,705,000</u>

7. Assets Limited as to Use*

8. Risks and Uncertainties Disclosures*

9. Pension and Other Postretirement Benefit Plans*

10. Fair Values of Financial Instruments*

11. Concentrations of Credit Risk*

12. Investments*

* The disclosures contained in these notes would be similar to the disclosures contained in the notes to the financial statements for the not-for-profit hospital and, therefore, are not repeated here.

ILLUSTRATIVE FINANCIAL STATEMENTS FOR A HOME HEALTH AGENCY

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Sample Not-for-Profit Home Health Agency

Balance Sheets

December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,000	\$ 41,000
Investments	147,000	137,000
Accounts receivable, net of allowance for doubtful accounts of \$61,000 in 19X5 and \$30,000 in 19X4	752,000	476,000
Other receivables	<u>27,000</u>	<u>22,000</u>
Total current assets	<u>1,000,000</u>	<u>676,000</u>
Investments	<u>100,000</u>	<u>100,000</u>
Equipment:		
Medical and office equipment	56,000	39,000
Vehicles	<u>50,000</u>	<u>37,000</u>
	106,000	76,000
Less accumulated depreciation	<u>(45,000)</u>	<u>(24,000)</u>
Equipment, net	<u>61,000</u>	<u>52,000</u>
Deferred finance charges, net of accumulated amort- ization of \$15,000 in 19X5 and \$10,000 in 19X4	<u>20,000</u>	<u>25,000</u>
Total assets	<u><u>\$1,181,000</u></u>	<u><u>\$853,000</u></u>
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt	\$ 13,000	\$ 13,000
Accounts payable	40,000	21,000
Accrued payroll and vacation costs	496,000	352,000
Estimated third-party payor settlements	28,000	31,000
Advances from third-party payors	<u>70,000</u>	<u>66,000</u>
Total current liabilities	<u>647,000</u>	<u>483,000</u>
Long-term debt, less current maturities	<u>105,000</u>	<u>118,000</u>
Total liabilities	<u>752,000</u>	<u>601,000</u>
Net assets:		
Unrestricted	330,000	167,000
Temporarily restricted	9,000	5,000
Permanently restricted	<u>90,000</u>	<u>80,000</u>
Total net assets	<u>429,000</u>	<u>252,000</u>
Total liabilities and net assets	<u><u>\$1,181,000</u></u>	<u><u>\$853,000</u></u>

See accompanying notes to financial statements.

Sample Not-for-Profit Home Health Agency
Statements of Operations
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Revenue, gains, and other support:		
Net patient service revenue	\$4,042,000	\$2,687,000
Contributions	5,000	22,000
Net assets released from restrictions	5,000	—
Investment income	13,000	6,000
Other revenue	<u>27,000</u>	<u>32,000</u>
Total revenue, gains, and other support	<u>4,092,000</u>	<u>2,747,000</u>
Expenses:		
Salaries and benefits	2,714,000	1,835,000
Medical supplies and drugs	1,042,000	675,000
Insurance and other	90,000	83,000
Provision for bad debts	46,000	21,000
Depreciation	21,000	15,000
Interest	<u>16,000</u>	<u>19,000</u>
Total expenses	<u>3,929,000</u>	<u>2,648,000</u>
Excess of revenue over expenses and change in unrestricted net assets	<u>\$ 163,000</u>	<u>\$ 99,000</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Home Health Agency
Statements of Operations
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Revenue, gains, and other support:		
Net patient service revenue	\$4,042,000	\$2,687,000
Contributions	5,000	22,000
Net assets released from restrictions	5,000	—
Other revenue	<u>27,000</u>	<u>32,000</u>
Total revenue, gains, and other support	<u>4,079,000</u>	<u>2,741,000</u>
Expenses:		
Salaries and benefits	2,714,000	1,835,000
Medical supplies and drugs	1,042,000	675,000
Insurance and other	90,000	83,000
Provision for bad debts	46,000	21,000
Depreciation	21,000	15,000
Interest	<u>16,000</u>	<u>19,000</u>
Total expenses	<u>3,929,000</u>	<u>2,648,000</u>
Operating income	150,000	93,000
Other income:		
Investment income	<u>13,000</u>	<u>6,000</u>
Excess of revenue over expenses and change in unrestricted net assets	<u>\$ 163,000</u>	<u>\$ 99,000</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Home Health Agency
Statements of Changes in Net Assets
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Unrestricted net assets:		
Excess of revenue over expenses	\$163,000	\$ 99,000
Increase in unrestricted net assets	<u>163,000</u>	<u>99,000</u>
Temporarily restricted net assets:		
Contributions	9,000	5,000
Net assets released from restrictions	<u>(5,000)</u>	<u>—</u>
Increase in temporarily restricted net assets	<u>4,000</u>	<u>5,000</u>
Permanently restricted net assets:		
Contributions	<u>10,000</u>	<u>6,000</u>
Increase in permanently restricted net assets	<u>10,000</u>	<u>6,000</u>
Increase in net assets	177,000	110,000
Net assets, beginning of year	<u>252,000</u>	<u>142,000</u>
Net assets, end of year	<u>\$429,000</u>	<u>\$252,000</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Home Health Agency
Statements of Cash Flows
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$3,721,000	\$2,542,000
Other receipts from operations	22,000	32,000
Cash paid to employees and suppliers	(3,679,000)	(2,541,000)
Interest paid	(11,000)	(14,000)
Nonoperating revenue	23,000	22,000
Net cash provided by operating activities	<u>76,000</u>	<u>41,000</u>
Cash flows from investing activities:		
Purchase of equipment	(30,000)	(19,000)
Purchase of investments	(10,000)	(15,000)
Net cash used in investing activities	<u>(40,000)</u>	<u>(34,000)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Endowment	10,000	6,000
Other financing activities:		
Payment of long-term debt	(13,000)	—
Net cash provided by (used in) financing activities	<u>(3,000)</u>	<u>6,000</u>
Net increase in cash and cash equivalents	33,000	13,000
Cash and cash equivalents, beginning of year	41,000	28,000
Cash and cash equivalents, end of year	<u>\$ 74,000</u>	<u>\$ 41,000</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 177,000	\$ 110,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Increase in permanently restricted net assets	(10,000)	(6,000)
Provision for bad debts	46,000	21,000
Depreciation	21,000	15,000
Amortization of deferred financing charges	5,000	5,000
(Increase) decrease in:		
Accounts receivable	(322,000)	(150,000)
Other receivables	(5,000)	4,000
Increase (decrease) in:		
Accounts payable, accrued payroll, and vacation costs	163,000	38,000
Estimated third-party payor settlements	1,000	4,000
Net cash provided by operating activities	<u>\$ 76,000</u>	<u>\$ 41,000</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Home Health Agency
Notes to Financial Statements
Years Ended December 31, 19X5 and 19X4

1. Description of Organization and Summary of Significant Accounting Policies

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

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments. Investments, which consist of U.S. Treasury obligations, are measured at fair value in the balance sheet. Investment income (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from excess of revenues over expenses.

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

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

Donor restrictions. The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, restricted and unrestricted. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

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

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

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.

Income taxes. The Agency has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Sec. 501(a) of the IRC.

Excess of revenue over expenses. The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

2. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>19X5</u>	<u>19X4</u>
Charity care	\$ —	\$5,000
Purchase of equipment	<u>9,000</u>	<u>—</u>
	<u>\$9,000</u>	<u>\$5,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>19X5</u>	<u>19X4</u>
Charity care expenditures	<u>\$5,000</u>	<u>\$ —</u>

3. Permanently Restricted Net Assets

Permanently restricted net assets are restricted in perpetuity, the income from which is expendable to support:

	<u>19X5</u>	<u>19X4</u>
Program A activities	\$10,000	\$ —
Any activities of the Agency	<u>80,000</u>	<u>80,000</u>
	<u>\$90,000</u>	<u>\$80,000</u>

4. 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 or results of operations of the Agency.

5. Internally-Designated Assets

The Board of Directors has designated investments aggregating \$135,000 to be used for future major capital improvements. Those assets are classified in the balance sheet as investments.

6. 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 percent, payable in monthly installments of \$2,200 per month, including interest, collateralized by equipment with a depreciated cost of \$42,000	\$118,000	\$131,000
Less current maturities	<u>13,000</u>	<u>13,000</u>
	<u>\$105,000</u>	<u>\$118,000</u>

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

<u>Year ending December 31,</u>	<u>Amount</u>
19X6	\$ 13,000
19X7	13,000
19X8	13,000
19X9	13,000
20Y0	13,000
Thereafter	53,000
Total	<u>\$118,000</u>

7. Classification of Expenses

	<u>Total</u>	<u>Program</u>			<u>General and Administrative</u>
		<u>A</u>	<u>B</u>	<u>C</u>	
Expenses incurred for the year ended December 31, 19X5, were for:					
Salaries and benefits	\$2,714,000	\$1,363,000	\$699,000	\$363,000	\$289,000
Medical supplies and drugs	1,042,000	511,000	246,000	285,000	
Insurance and other	90,000	58,000			32,000
Provision for bad debts	46,000	16,000	30,000		
Depreciation	21,000	5,000			16,000
Interest	16,000	10,000	3,000		3,000
Total expenses	<u>\$3,929,000</u>	<u>\$1,963,000</u>	<u>\$978,000</u>	<u>\$648,000</u>	<u>\$340,000</u>
Expenses incurred for the year ended December 31, 19X4, were for:					
Salaries and benefits	\$1,835,000	\$ 915,000	\$463,000	\$216,000	\$241,000
Medical supplies and drugs	675,000	335,000	211,000	129,000	
Insurance and other	83,000	64,000			19,000
Provision for bad debts	21,000	21,000			
Depreciation	15,000	6,000			9,000
Interest	19,000	12,000	5,000		2,000
Total expenses	<u>\$2,648,000</u>	<u>\$1,353,000</u>	<u>\$679,000</u>	<u>\$345,000</u>	<u>\$271,000</u>

(The preparer of the financial statements may wish to include a brief description of the types of programs.)

8. Charity Care

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

9. Risks and Uncertainties Disclosures*

10. Pension and Other Postretirement Benefit Plans*

11. Fair Value of Financial Statements*

12. Concentrations of Credit Risk*

13. Investments*

* The disclosures contained in these notes would be similar to the disclosures contained in the notes to the financial statements for the not-for-profit hospital and, therefore, are not repeated here.

**ILLUSTRATIVE FINANCIAL STATEMENTS
FOR A HEALTH MAINTENANCE ORGANIZATION**

.23

Sample Not-for-Profit Health Maintenance Organization

Balance Sheets

June 30, 19X5 and 19X4

	<i>19X5</i>	<i>19X4</i>
Assets		
Current assets:		
Cash and cash equivalents	\$2,937,000	\$1,021,000
Premiums receivable, net of allowance for doubtful accounts of \$36,000 in 19X5 and \$42,000 in 19X4	358,000	407,000
Other receivables	263,000	261,000
Supplies	190,000	184,000
Prepaid expenses	197,000	99,000
Total current assets	3,945,000	1,972,000
Property and equipment, net	5,756,000	5,626,000
State guaranty fund deposit	150,000	150,000
Debt issuance costs, net of accumulated amortization of \$42,000 in 19X5 and \$39,000 in 19X4	18,000	21,000
Total assets	\$9,869,000	\$7,769,000
Liabilities and Net Assets		
Current liabilities:		
Unsecured 12 percent note payable to a bank	\$ —	\$ 44,000
Current maturities of long-term debt	241,000	109,000
Accounts payable—medical services	2,245,000	1,471,000
Other accounts payable and accrued expenses	829,000	661,000
Unearned premium revenue	141,000	202,000
Total current liabilities	3,456,000	2,487,000
Long-term debt, less current maturities	4,295,000	2,382,000
Total liabilities	7,751,000	4,869,000
Net assets—unrestricted	2,118,000	2,900,000
Total liabilities and net assets	\$9,869,000	\$7,769,000

See accompanying notes to financial statements.

Sample Not-for-Profit Health Maintenance Organization
Statements of Operations and Changes in Net Assets
Years Ended June 30, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Revenue:		
Premiums earned	\$27,682,000	\$22,500,000
Coinsurance	689,000	500,000
Interest and other income	242,000	100,000
Total revenue	<u>28,613,000</u>	<u>23,100,000</u>
Expenses:		
Salaries and benefits	16,154,000	13,328,000
Medical supplies and drugs	8,507,000	5,988,000
Insurance	3,963,000	2,463,000
Provision for bad debts	19,000	20,000
Depreciation	367,000	336,000
Interest	385,000	375,000
Total expenses	<u>29,395,000</u>	<u>22,510,000</u>
Operating income (loss)	(782,000)	590,000
Net assets, beginning of year	<u>2,900,000</u>	<u>2,310,000</u>
Net assets, end of year	<u>\$ 2,118,000</u>	<u>\$ 2,900,000</u>

See accompanying notes to financial statements.

Sample Not-for-Profit Health Maintenance Organization

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	(28,405,000)	(22,818,000)
Interest and other income received	230,000	90,000
Interest paid	(382,000)	(372,000)
Net cash provided by operating activities	412,000	1,310,000
Cash flows from investing activities:		
Capital expenditures	(497,000)	(121,000)
Net cash used in investing activities	(497,000)	(121,000)
Cash flows from financing activities:		
Proceeds from long-term debt	2,300,000	—
Principal payments on long-term debt	(255,000)	(1,000,000)
Principal payments on note payable	(44,000)	—
Net cash provided by (used in) financing activities	2,001,000	(1,000,000)
Net increase in cash and cash equivalents	1,916,000	189,000
Cash and cash equivalents, beginning of year	1,021,000	832,000
Cash and cash equivalents, end of year	\$ 2,937,000	\$ 1,021,000
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (782,000)	\$ 590,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	370,000	339,000
Provision for bad debts	19,000	20,000
(Increase) decrease in:		
Premiums receivables	30,000	64,000
Other current assets	230,000	(93,000)
Increase (decrease) in:		
Accounts payable—medical services	774,000	335,000
Other accounts payable and accrued expenses	(168,000)	(60,000)
Unearned premium revenue	(61,000)	115,000
Net cash provided by operating activities	\$ 412,000	\$ 1,310,000

See accompanying notes to financial statements.

Sample Not-for-Profit Health Maintenance Organization
Notes to Financial Statements
June 30, 19X5 and 19X4

1. Organization

The Sample Health Maintenance Organization (the HMO) was incorporated in 19X0 in New State 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.

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

2. Summary of Significant Accounting Policies

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

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. Maintenance and repairs are charged to expense, and betterments are capitalized. Property and equipment costing approximately \$700,000 was financed by health maintenance organization initial development grants received in 19X1 and 19X2 from the U.S. Department of Health and Human Services (HHS). This property will be owned by the 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 effective interest method over the term of the related debt.

Health care service cost recognition. The HMO contracts with various health care providers for the provision of certain medical care services to its members. The HMO compensates these providers on a capitation basis. As part of a cost control incentive program, the HMO retains up to 20 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 15 percent of the capitation fee. Operating expenses include all amounts incurred by the 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 the HMO.

Premiums revenue. Membership contracts are on a yearly basis subject to cancellation by the employer group or the HMO upon 30 days written notice. Premiums are due monthly and are recognized as revenue during the period in which the HMO is obligated to provide services to members.

Reinsurance (stop-loss insurance). Reinsurance premiums are reported as health care costs, and reinsurance recoveries are reported as a reduction of related health care costs.

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

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	<u>1,786,000</u>	<u>1,303,000</u>
	7,559,000	7,062,000
Less accumulated depreciation	<u>(1,803,000)</u>	<u>(1,436,000)</u>
	<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 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 percent, payable in monthly installments of \$50,000, including interest	\$2,020,000	\$ 111,000
HHS loan, interest at 9.25 percent, payable in monthly installments of \$10,000, including interest	1,658,000	1,694,000
Secured equipment loans, payable in monthly installments of \$15,000, including interest	<u>858,000</u>	<u>686,000</u>
	4,536,000	2,491,000
Less current maturities	<u>241,000</u>	<u>109,000</u>
	<u>\$4,295,000</u>	<u>\$2,382,000</u>

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

<u>Year ending December 31,</u>	<u>Amount</u>
19X6	\$ 241,000
19X7	259,000
19X8	280,000
19X9	800,000
20Y0	<u>2,956,000</u>
	<u>\$4,536,000</u>

5. State Guarantee Fund Deposit

In August 19X4 the state in which the HMO is domiciled enacted legislation specifically governing HMOs. Under this legislation, the corporation is required to maintain a deposit of \$150,000 with the director of the division of insurance of the state.

6. Employee Retirement Plan

The 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 and \$275,000 for the years ended June 30, 19X5 and 19X4, respectively.

7. Stop-Loss Insurance

The HMO 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 the HMO approximately 25 percent of the cost of each member's annual hospital services, in excess of a \$1,000 deductible, up to a lifetime limitation of \$500,000 per member. In the event the 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 insurance expense (Note 9) in 19X5 and 19X4, respectively. Approximately \$600,000 and \$400,000 in stop-loss insurance recoveries are deducted from insurance expense 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 the 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 or the operating income of the 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. Classification of Expenses

	<u>19X5</u>	<u>19X4</u>
Program activities	26,921,000	20,909,000
General and administrative	2,474,000	1,601,000
	<u>\$29,395,000</u>	<u>\$22,510,000</u>

10. Risks and Uncertainties Disclosures*

11. Pension and Other Postretirement Benefit Plans*

12. Fair Value of Financial Instruments*

13. Concentrations of Credit Risk*

* The disclosures contained in these notes would be similar to the disclosures contained in the notes to the financial statements for the not-for-profit hospital and, therefore, are not repeated here.

**ILLUSTRATIVE FINANCIAL STATEMENTS
FOR AN AMBULATORY CARE ORGANIZATION**

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Sample Not-for-Profit Ambulatory Care, Inc.

Balance Sheets

December 31, 19X5 and 19X4

	19X5	19X4
Assets		
Current assets:		
Cash	\$ 65,000	\$ 76,000
Patient accounts receivable, net of allowance for doubtful accounts of \$15,000 in 19X5 and \$5,000 in 19X4	290,000	278,000
Estimated retroactive adjustments—third-party payors	19,000	32,000
Accounts receivable—other	13,000	8,000
Supplies	21,000	18,000
Prepaid expenses and deposits	5,000	9,000
Total current assets	413,000	421,000
Property and equipment, at cost:		
Land	100,000	100,000
Land improvements	322,000	322,000
Buildings	682,000	682,000
Equipment	1,390,000	1,389,000
	2,494,000	2,493,000
Less accumulated depreciation	217,000	100,000
Property and equipment, net	2,277,000	2,393,000
Other assets:		
Advances receivable	14,000	5,000
Total assets	\$2,704,000	\$2,819,000
Liabilities and Net Assets		
Current liabilities:		
Notes payable	\$ 138,000	\$ 144,000
Accounts payable	52,000	87,000
Accrued payroll, benefits, and taxes	33,000	22,000
Estimated retroactive adjustments—third-party payors	30,000	24,000
Financing advance from third-party payors	—	1,000
Total current liabilities	253,000	278,000
Net assets—unrestricted	2,451,000	2,541,000
Total liabilities and net assets	\$2,704,000	\$2,819,000

See accompanying notes to financial statements.

Sample Not-for-Profit Ambulatory Care, Inc.
Statements of Operations and Changes in Net Assets
Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Revenue and gains:		
Net patient service revenue	\$ 860,000	\$ 357,000
Other	29,000	15,000
Total revenue and gains	<u>889,000</u>	<u>372,000</u>
Expenses:		
Salaries and benefits	485,000	243,000
Medical supplies and drugs	189,000	66,000
Insurance	154,000	98,000
Provision for bad debts	14,000	4,000
Depreciation	117,000	100,000
Interest	20,000	18,000
Total expenses	<u>979,000</u>	<u>529,000</u>
Operating loss	(90,000)	(157,000)
Net assets, beginning of year	<u>2,541,000</u>	<u>2,698,000</u>
Net assets, end of year	<u><u>\$2,451,000</u></u>	<u><u>\$2,541,000</u></u>

See accompanying notes to financial statements.

Sample Not-for-Profit Ambulatory Care, Inc.

Statements of Cash Flows

Years Ended December 31, 19X5 and 19X4

	<u>19X5</u>	<u>19X4</u>
Cash flows from operating activities:		
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	<u>(870,000)</u>	<u>(432,000)</u>
Net cash provided by (used in) operating activities	<u>5,000</u>	<u>(63,000)</u>
Cash flows from investing activities:		
Purchase of equipment	(1,000)	(4,000)
Advances made to XYZ Affiliate	<u>(9,000)</u>	<u>(5,000)</u>
Net cash used in 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	<u>(6,000)</u>	<u>—</u>
Net cash provided by (used in) financing activities	<u>(6,000)</u>	<u>144,000</u>
Net increase (decrease) in cash	(11,000)	72,000
Cash, beginning of year	<u>76,000</u>	<u>4,000</u>
Cash, end of year	<u><u>\$ 65,000</u></u>	<u><u>\$ 76,000</u></u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$(90,000)	\$(157,000)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	117,000	100,000
Provision for bad debts	14,000	4,000
(Increase) decrease in:		
Patient accounts receivable	(12,000)	(19,000)
Other current assets	1,000	(2,000)
Increase (decrease) in:		
Accounts payable and accrued payroll, benefits, and taxes	(24,000)	10,000
Other current liabilities	<u>(1,000)</u>	<u>1,000</u>
Net cash provided by (used in) operating activities	<u><u>\$ 5,000</u></u>	<u><u>\$ (63,000)</u></u>

See accompanying notes to financial statements.

Sample Not-for-Profit Ambulatory Care, Inc.
Notes to Financial Statements
December 31, 19X5 and 19X4

1. Description of Organization and Summary of Significant Accounting Policies

Organization. Ambulatory Care, Inc. was incorporated on September 7, 19X3, in New State, 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 Ambulatory Care, Inc. Ambulatory Care, Inc. began operations in October 19X3.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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.

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.

Charity care. 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.

Income taxes. Ambulatory Care, Inc. has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Sec. 501(a) of the IRC.

2. Advances Receivable

In May 19X4, 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 Ambulatory Care, Inc. 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, 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 19X8.

3. Related-Party Transactions

During 19X3, Ambulatory Care, Inc. entered into a contract with one of the member hospitals (the managing hospital) for the management of the business and affairs of Ambulatory Care, Inc.

Under this agreement, 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 Ambulatory Care, Inc. in the form of promissory notes at an interest rate of prime rate plus 1 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, Ambulatory Care, Inc. paid \$2,000 to each member hospital, thereby reducing the obligation to \$138,000.

4. Revenue From Contracting Agencies

Ambulatory Care, Inc. participates as a 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 is 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. Charity Care

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 19X5 and 19X4, respectively, when measured at Ambulatory Care, Inc.'s established rates.

6. Classification of Expenses

	<u>Total</u>	<u>Program</u>			<u>General and Administrative</u>
		<u>A</u>	<u>B</u>	<u>C</u>	
Expenses incurred for the year ended December 31, 19X5, were for:					
Salaries and benefits	\$485,000	\$216,000	\$102,000	\$121,000	\$46,000
Medical supplies and drugs	189,000	98,000	43,000	48,000	—
Insurance	154,000	79,000	45,000	14,000	16,000
Provision for bad debts	14,000	9,000	—	5,000	—
Depreciation	117,000	100,000	—	17,000	—
Interest	20,000	9,000	—	—	11,000
Total expenses	<u>\$979,000</u>	<u>\$511,000</u>	<u>\$190,000</u>	<u>\$205,000</u>	<u>\$73,000</u>
Expenses incurred for the year ended December 31, 19X4, were for:					
Salaries and benefits	\$243,000	\$111,000	\$ 46,000	\$ 57,000	\$29,000
Medical supplies and drugs	66,000	31,000	15,000	20,000	—
Insurance	98,000	45,000	19,000	26,000	8,000
Provision for bad debts	4,000	—	4,000	—	—
Depreciation	100,000	56,000	—	44,000	—
Interest	18,000	7,000	—	—	11,000
Total expenses	<u>\$529,000</u>	<u>\$250,000</u>	<u>\$ 84,000</u>	<u>\$147,000</u>	<u>\$48,000</u>

(The preparer of the financial statements may wish to include a brief description of the types of programs.)

7. Risks and Uncertainties Disclosures*

8. Pension and Other Postretirement Benefit Plans*

9. Fair Value of Financial Instruments*

10. Concentrations of Credit Risk*

* The disclosures contained in these notes would be similar to the disclosures contained in the notes to the financial statements for the not-for-profit hospital and, therefore, are not repeated here.

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA Accounting and Auditing Publications Team, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

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