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## Checklists and illustrative financial statements for health care organizations : a financial accounting and reporting practice aid, May 2003 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Maryann Kasica

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May 2003 Edition

# CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR HEALTH CARE ORGANIZATIONS

*A Financial Accounting and  
Reporting Practice Aid*

Edited By  
**Maryann Kasica, CPA**

Technical Manager,  
Accounting and Auditing Publications

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**AICPA**

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*Checklists and Illustrative Financial Statements  
for Health Care Organizations* has not been  
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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**AICPA**

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## TABLE OF CONTENTS

	PAGE
Checklists and Illustrative Financial Statements for Health Care Organizations . . . . .	1
Instructions . . . . .	3
Financial Statements and Notes Checklist . . . . .	5
Auditors' Reports Checklist . . . . .	77
Auditors' Reports on Audits Performed Under <i>Government Auditing Standards</i> and Under OMB Circular A-133 Checklist . . . . .	85
Illustrative Financial Statements . . . . .	97

# 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 January 1, 2003), 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

providers that receive federal financial assistance may be required to have an audit conducted in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of 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**

<b>Not-for-Profit Business-Oriented Organization</b>	<b>Investor-Owned Organization</b>
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. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee or the AICPA and do not represent official positions or pronouncements of the AICPA.

The checklists have been updated to include relevant accounting and auditing pronouncements issued through May 1, 2003. Those pronouncements include:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*
- FASB Interpretation (FASBI) No. 46, *Consolidation of Variable Interest Entities*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Emerging Issues Task Force (EITF) consensuses adopted through the January 2003 EITF meeting
- AICPA Statement on Auditing Standards (SAS) No. 101, *Auditing Fair Value Measurements and Disclosures*
- AICPA Statement of Position (SOP) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
- AICPA Audit and Accounting Guide *Health Care Organizations* (with conforming changes as of January 1, 2003)

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.

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# 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 January 1, 2003)
AAG-SGA =	AICPA Audit Guide <i>Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards</i> (with conforming changes as of May 1, 2003)
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
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 \_\_\_\_\_
  - C. Consolidated Financial Statements \_\_\_\_\_

*Place ✓ by  
Sections Not Applicable*

- Statement of Financial Position/Balance Sheet
  - A. General \_\_\_\_\_
  - B. Cash and Cash Equivalents \_\_\_\_\_
  - C. Investments \_\_\_\_\_
  - D. Receivables \_\_\_\_\_
  - E. Beneficial Interests in Assets Held by Others \_\_\_\_\_
  - F. Property and Equipment, Supplies, and Other Assets \_\_\_\_\_
  - G. Current Liabilities, Notes Payable, and Other Debt \_\_\_\_\_
  - H. Other Liabilities and Deferred Credits \_\_\_\_\_
  - I. Lessor Leases \_\_\_\_\_
  - J. Lessee Leases \_\_\_\_\_
  - K. Net Assets \_\_\_\_\_
  - L. Restricted Resources \_\_\_\_\_
  
- Statement of Activities/Income Statement/Statement of Operations/Statement of Changes in Net Assets
  - A. General \_\_\_\_\_
  - B. Revenue \_\_\_\_\_
  - C. Income Taxes \_\_\_\_\_
  - D. Extraordinary Items \_\_\_\_\_
  - E. Unusual or Infrequent Items \_\_\_\_\_
  - F. Advertising Costs \_\_\_\_\_
  - G. Donated or Contributed Services \_\_\_\_\_
  - H. Donated Materials and Facilities \_\_\_\_\_
  - 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. Exit or Disposal Activities \_\_\_\_\_
  - F. Derivative Instruments and Hedging Activities \_\_\_\_\_
  - G. 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 \_\_\_\_\_
  - N. Stock-Based Compensation \_\_\_\_\_
  - O. Transfers of Financial Assets \_\_\_\_\_
  - P. Long-Lived Assets and Disposal Groups to Be Disposed Of \_\_\_\_\_
  - Q. Asset Retirement Obligations \_\_\_\_\_

*Place ✓ by  
Sections Not Applicable*

- 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 \_\_\_\_\_
- 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); AAG, par. 1.05, fn. 3] \_\_\_\_\_
- ★◆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.*] \_\_\_\_\_
  - e. Notes to the financial statements?  
[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. If comparative statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance?  
[ARB 43, Ch. 2A, par. 2 (AC F43.102)] \_\_\_\_\_
- ★◆3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?  
[ARB 43, Ch. 2A, par. 3 (AC F43.103)] \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆4. In connection with applying the consensuses in EITF Issue 99-19, <i>Reporting Revenue Gross as a Principal versus Net as an Agent</i>, if it is impracticable to reclassify prior-period financial statements, is disclosure made of both the reasons why reclassification was not made and the effect of the reclassification on the current period? [EITF 99-19]</p>	_____	_____	_____

**C. Consolidated Financial Statements**

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*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 SFAS 94 when PPMs acquire a physician practice.

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<p>★◆1. If the provider and another entity are related and they meet the criteria for consolidation, are consolidated financial statements presented? [AAG, pars. 11.10 and 11.11; ARB 51, as amended (AC C51); SFAS 94 (AC C51)]</p>	_____	_____	_____
<p>★◆2. If consolidated statements are presented:</p>			
<p>a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]</p>	_____	_____	_____
<p>b. When the financial reporting periods of consolidated entities differ, is recognition given, by disclosure or otherwise, to the effect of intervening events that materially affect financial position or results of operations? [ARB 51, par. 4 (AC C51.107)]</p>	_____	_____	_____

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*Note:* FASBI 46, *Consolidation of Variable Interest Entities*, applies immediately to variable interest entities created after January 1, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. See paragraphs 26 through 29 of FASBI 46 for additional effective date and transition information. If the provisions of FASBI 46 are applied, see Questions 3 through 6. See FASBI 46 for information about the applicability of FASBI 46 to not-for-profit organizations. Also, in April 2003, the FASB released a proposed FASB Staff Position, *Applicability of FASB Interpretation No. 46, Consolidation of Variable Interest Entities*, to entities subject to the AICPA Audit and Accounting Guide *Health Care Organizations*.

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<p>◆3. Does the primary beneficiary (an enterprise that consolidates a variable interest entity under the provisions of FASBI 46) of a variable interest entity disclose the following unless the primary beneficiary also holds a majority voting interest:</p>			
<p>a. The nature, purpose, size, and activities of the variable interest entity?</p>	_____	_____	_____
<p>b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations?</p>	_____	_____	_____
<p>c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary? [FASBI 46, par. 23]</p>	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| ◆ 4. Is the following information disclosed if an enterprise holds a significant variable interest in a variable interest entity, but is not the primary beneficiary:                            |            |           |            |
| a. The nature of its involvement with the variable interest entity and when that involvement began?  | _____      | _____     | _____      |
| b. The nature, purpose, size, and activities of the variable interest entity?  | _____      | _____     | _____      |
| c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity?<br>[FASBI 46, par. 24]  | _____      | _____     | _____      |
| ◆ 5. Are disclosures required by SFAS 140 about a variable interest entity included in the same note to the financial statements as the information required by FASBI 46?<br>[FASBI 46, par. 25] | _____      | _____     | _____      |

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**Note:** Information about variable interest entities may be reported in the aggregate for similar entities if separate reporting would not add material information.

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- |   |       |       |       |
|---|-------|-------|-------|
| ◆ 6. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FASBI 46 became effective, has the enterprise disclosed the following information in all financial statements initially issued after January 31, 2003, regardless of the date on which the variable interest entity was created (unless the enterprise holds a majority voting interest): |       |       |       |
| a. The nature, purpose, size, and activities of the variable interest entity?   | _____ | _____ | _____ |
| b. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity?<br>[FASBI 46, par. 26; FASBI 46, par. 23, fn. 12]  | _____ | _____ | _____ |

## Statement of Financial Position/Balance Sheet

### A. General

- |  |       |       |       |
|--|-------|-------|-------|
| ★◆ 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?<br>[ARB 43, Ch. 3A, pars. 2-8; 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)] | _____ | _____ | _____ |
| ★◆ 2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?<br>[ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]   | _____ | _____ | _____ |
| ★ 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?<br>[SFAS 117, pars. 10, 13, and 100 (AC No5.108, .111, and .131, fn. a)]   | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★4. Does the entity provide information about liquidity by one or more of the following presentations:			
a. Sequencing assets according to their nearness of conversion to cash and sequencing liabilities according to the nearness of their maturity and resulting use of cash?	_____	_____	_____
b. Classifying assets and liabilities as current and noncurrent?	_____	_____	_____
c. Disclosing in notes to financial statements relevant information about the liquidity or maturity of assets and liabilities, including restrictions on the use of particular assets? [SFAS 117, par. 12 (AC No5.110)]	_____	_____	_____
★◆5. Are valuation allowances for assets shown as deductions from their related assets with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
★◆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)]	_____	_____	_____
<b>B. Cash and Cash Equivalents</b>			
★◆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]	_____	_____	_____
★◆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)]	_____	_____	_____
★◆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 107, as amended by SFAS 133, par. 531 (AC F25.116A); AAG par. 3.04]	_____	_____	_____
★◆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]	_____	_____	_____
<b>C. Investments</b>			
★◆1. Are investments reported as current or noncurrent assets in conformity with GAAP? [AAG, par. 4.16]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆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, (subject to impairment considerations consistent with SFAS 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> )? [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)]	_____	_____	_____
◆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)]	_____	_____	_____
◆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)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The 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)]	_____	_____	_____
◆ 10. If an option that is not a derivative subject to SFAS 133 (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]	_____	_____	_____
★◆ 11. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed? [SFAS 107, as amended by SFAS 133, par. 531 (AC F25.116A)]	_____	_____	_____
★ 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 other than trading 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 Question 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]	_____	_____	_____
★◆ 20. 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Receivables</b>			
★◆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. 5.08; SFAS 16 (AC A35)]	_____	_____	_____
★◆3. 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, par. 5.21]	_____	_____	_____
★4. When displaying total assets and total liabilities, are interfund assets and liabilities eliminated? <sup>1</sup> [AAG, par. 5.26]	_____	_____	_____
<hr/> <i>Note:</i> Accounting for contributions is an issue primarily for not-for-profit organizations because contributions are a significant source of revenues for many of those organizations. However, SFAS 116 applies to all entities (not-for-profit and business enterprises) that receive or make contributions. [SFAS 116, par.1 (AC C67.101)] <hr/>			
★5. 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)]	_____	_____	_____
★6. 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)]	_____	_____	_____
★◆7. Are all receivables reported net of any related allowance for uncollectible amounts, with appropriate disclosure? [AAG, par. 5.21; APB 12, par. 3 (AC V18.102)]	_____	_____	_____
★◆8. 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)]	_____	_____	_____

<sup>1</sup> 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. [SFAS 117, par. 85, fn. 8 (AC No5.109, fn. 4)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ 9. Are significant concentrations of credit risk arising from receivables disclosed? [SFAS 107, as amended by SFAS 133, par. 531 (AC F25.116A)]</p>	_____	_____	_____
<p>★◆ 10. Are unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.107A, note 3)]</p>	_____	_____	_____
<p>★◆ 11. Does the summary of significant accounting policies include the following disclosures for loans and trade receivables:</p>			
<p>a. The basis of accounting for loans, trade receivables, and lease financings, including those classified as held for sale?</p>	_____	_____	_____
<p>b. The method of determining the lower of cost or fair value of nonmortgage loans held for sale (that is, aggregate or individual asset basis)?</p>	_____	_____	_____
<p>c. The classification and method of accounting for loans and other receivables that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment (applies to instruments within the scope of paragraph 14 of SFAS 140)?</p>	_____	_____	_____
<p>d. The method for recognizing interest income on loan and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs? [SOP 01-6, paragraph 13(a)]</p>	_____	_____	_____
<p>★◆ 12. Does the summary of significant accounting policies include:</p>			
<p>a. The policy for placing loans (and trade receivables, if applicable) on nonaccrual status, recording payments received on nonaccrual loans, and resuming accrual of interest?</p>	_____	_____	_____
<p>b. The policy for charging off uncollectible loans and trade receivables?</p>	_____	_____	_____
<p>c. The policy for determining past due or delinquency status? [SOP 01-6, paragraph 13(c)]</p>	_____	_____	_____
<p>★◆ 13. Is the aggregate amount of gains or losses on sales of loans or trade receivables presented separately in the financial statements or disclosed in the notes? [SOP 01-6, paragraph 13(d)]</p>	_____	_____	_____
<p>★◆ 14. Are loans and trade receivables held for sale presented as a separate balance sheet category? [SOP 01-6, paragraph 13(e)]</p>	_____	_____	_____
<p>★◆ 15. Are major categories of loans and trade receivables presented separately in the balance sheet or in the notes to the financial statements? [SOP 01-6, paragraph 13(e)]</p>	_____	_____	_____
<p>★◆ 16. Are the allowances for credit losses and doubtful accounts disclosed? [SOP 01-6, paragraph 13(e)]</p>	_____	_____	_____
<p>★◆ 17. Is the recorded investment in loans (and trade receivables, if applicable), on nonaccrual status as of each balance sheet date disclosed in the notes to the financial statements? (The recorded investment in loans, and if applicable, trade receivables, past due ninety days or more and still accruing should also be disclosed.) [SOP 01-6, paragraph 13(g)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ 18. Is the carrying amount of loans and trade receivables that serve as collateral for borrowings disclosed pursuant to paragraphs 18 and 19 of SFAS 5? [SOP 01-6, paragraph 13(i)]</p>	_____	_____	_____
<p>★◆ 19. Is a description of the accounting policies and methodology used to estimate the allowance for doubtful accounts, allowance for loan losses and any liability for off-balance-sheet credit losses and related charges for loan, trade receivable or other credit losses included in the notes to the financial statements? (<i>Note:</i> Such description should identify the factors that influenced management’s judgment.) [SOP 01-6, paragraph 13(b)]</p>	_____	_____	_____

**E. Beneficial Interests in Assets Held by Others**

<p>★ 1. If the organization transferred assets to another entity and specified itself or its affiliate as the beneficiary, has it disclosed the following for each period in which a statement of financial position is presented:</p>			
<p>a. The identity of the recipient organization to which the transfer was made?</p>	_____	_____	_____
<p>b. Whether variance power was granted to the recipient organization and, if so, a description of the terms of the variance power?</p>	_____	_____	_____
<p>c. The terms under which amounts will be distributed to the organization or its affiliate?</p>	_____	_____	_____
<p>d. The aggregate amount recognized in the statement of financial position for those transfers and whether that amount is recorded as an interest in the net assets of the recipient organization or as another asset (such as a beneficial interest in assets held by others or as a refundable advance)? [SFAS 136, par. 19 (AC No5.177)]</p>	_____	_____	_____

**F. Property and Equipment, Supplies, and Other Assets**

<p>★◆ 1. Are donor or legal restrictions on the proceeds from the disposition of donated property and equipment (or of property and equipment purchased with cash restricted for acquisition of long-lived assets) disclosed? [AAG, par. 6.07]</p>	_____	_____	_____
<p>★◆ 2. For depreciable assets, do the financial statements or notes disclose:</p>			
<p>a. Depreciation expense for each period?</p>	_____	_____	_____
<p>b. Balances of major classes of depreciable assets by nature or function?</p>	_____	_____	_____
<p>c. Accumulated depreciation, either by major classes of assets or in total?</p>	_____	_____	_____
<p>d. The method or methods used in computing depreciation with respect to major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]</p>	_____	_____	_____

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*Note:* Questions 3 and 4 do not apply if the provisions of SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets*, are applied to the financial statements.

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆3. Do disclosures relating to intangible assets include the method and period of amortization? [APB 16, par. 95e (AC B50.164e); APB 17, par. 30 (AC I60.111); APB 22, par. 13 (AC A10.106)]</p>	_____	_____	_____
<p>★4. Do disclosures relating to intangible assets include the reason for any unusual reduction of the value and future benefits of intangible assets recognized during the period? [APB 17, par. 31 (AC I60.112)]</p>	_____	_____	_____
<p>◆5. In a classified balance sheet:</p>			
<p>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)]</p>	_____	_____	_____
<p>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 pursuant to SFAS 37? [SFAS 109, par. 41 (AC I27.140)]</p>	_____	_____	_____
<p>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)]</p>	_____	_____	_____
<p>d. Are the following items offset and presented as a single amount for a particular taxpaying component and within a particular taxpaying jurisdiction:</p>			
<p>(1) All current deferred tax liabilities and assets?</p>	_____	_____	_____
<p>(2) All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (AC I27.141)]</p>	_____	_____	_____
<p>◆6. Are the components of the net deferred tax liability or asset recognized in the balance sheet disclosed as follows:</p>			
<p>a. The total of all deferred tax liabilities (measured as described in paragraph 17b of SFAS 109)?</p>	_____	_____	_____
<p>b. The total of all deferred tax assets (measured as described in paragraph 17c and 17d of SFAS 109)?</p>	_____	_____	_____
<p>c. The total valuation allowance recognized for deferred tax assets (determined as described in paragraph 17e of SFAS 109)? [SFAS 109, par. 43 (AC I27.142)]</p>	_____	_____	_____
<p>◆7. Is the net change during the year in the total valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]</p>	_____	_____	_____
<p>◆8. If the reporting entity is a <b>public enterprise</b>, is the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed? [SFAS 109, par. 43 (AC I27.142)]</p>	_____	_____	_____
<p>◆9. If the reporting entity is a <b>nonpublic enterprise</b>, are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆ 10. 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)]	_____	_____	_____
★◆ 11. 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)]	_____	_____	_____
★◆ 12. Are material commitments for property expenditures disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
★◆ 13. 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]	_____	_____	_____
★◆ 14. Is the method of determining inventory cost disclosed? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	_____	_____	_____

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*Note:* Questions 15 through 30 apply if the provisions of SFAS 142, *Goodwill and Other Intangible Assets*, are applied to the financial statements. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. The provisions of SFAS 142 should not be applied to goodwill and intangible assets acquired in a combination between not-for-profit organizations or arising from the acquisition of a for-profit business entity by a not-for-profit organization until the FASB completes its project on those types of combinations. (Refer to paragraphs 48 through 61 of SFAS 142 for effective date and transition guidance.)

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★◆ 15. At a minimum, are all intangible assets aggregated and presented as a separate line item in the statement of financial position? (This requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.) [SFAS 142, par. 42 (AC G40.141)]	_____	_____	_____
★◆ 16. Are amortization expense and impairment losses for intangible assets presented in income statement line items within continuing operations as deemed appropriate for each entity? [SFAS 142, par. 42 (AC G40.141)]	_____	_____	_____
◆ 17. Is the aggregate amount of goodwill presented as a separate line item in the statement of financial position? [SFAS 142, par. 43 (AC G40.142)]	_____	_____	_____
◆ 18. Is the aggregate amount of goodwill impairment losses presented as a separate line item in the income statement before the subtotal <i>income from continuing operations</i> (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation? [SFAS 142, par. 43 (AC G40.142)]	_____	_____	_____
◆ 19. Is a goodwill impairment loss associated with a discontinued operation included (on a net-of-tax basis) within the results of discontinued operations? [SFAS 142, par. 43 (AC G40.142)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ 20. For intangible assets acquired either individually or with a group of assets, is the following information disclosed in the notes to the financial statements in the period of acquisition:</p> <p>a. For intangible assets subject to amortization:</p> <p>(1) The total amount assigned and the amount assigned to any major intangible asset class?</p> <p>(2) The amount of any significant residual value, in total and by major intangible asset class?</p> <p>(3) The weighted-average amortization period, in total and by major intangible asset class?</p> <p>b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class?</p> <p>c. The amount of research and development assets acquired and written off in the period and the line item in the income statement in which the amounts written off are aggregated? [SFAS 142, par. 44 (AC G40.143)]</p>	____	____	____
<p>21. Has the following information been disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:</p> <p>★◆ a. For intangible assets subject to amortization:</p> <p>(1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class?</p> <p>(2) The aggregate amortization expense for the period?</p> <p>(3) The estimated aggregate amortization expense for each of the five succeeding fiscal years?</p> <p>★◆ b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class?</p> <p>◆ c. The changes in the carrying amount of goodwill during the period including:</p> <p>(1) The aggregate amount of goodwill acquired?</p> <p>(2) The aggregate amount of impairment losses recognized?</p> <p>(3) The amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit? [SFAS 142, par. 44 (AC G40.144)]</p>	____	____	____
<p>◆ 22. If the entity reports segment information in accordance with SFAS 131, is the above information about goodwill provided in total and for each reportable segment and are any significant changes in the allocation of goodwill by reportable segment disclosed? [SFAS 142, par. 45 (AC G40.144)]</p>	____	____	____
<p>◆ 23. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, is that unallocated amount and the reasons for not allocating that amount disclosed? [SFAS 142, par. 45 (AC G40.144)]</p>	____	____	____
<p>★◆ 24. For each impairment loss recognized related to an intangible asset, is the following information disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:</p>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and the method for determining fair value?	_____	_____	_____
c. The caption in the income statement in which the impairment loss is aggregated?	_____	_____	_____
d. If applicable, the segment in which the impaired intangible asset is reported under SFAS 131? [SFAS 142, par. 46 (AC G40.145)]	_____	_____	_____
◆ 25. For each goodwill impairment loss recognized, is the following information disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:			
a. A description of the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses, a present value or other valuation technique, or a combination thereof)?	_____	_____	_____
c. If a recognized impairment loss is an estimate that has not yet been finalized (refer to SFAS 142, par. 22), that fact and the reasons therefore and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss? [SFAS 142, par. 47 (AC G40.146)]	_____	_____	_____
◆ 26. Upon completion of the first step of the transitional goodwill impairment test, is the reportable segment or segments in which an impairment loss might have to be recognized and the period in which that potential loss will be measured disclosed in any interim financial information? [SFAS 142, par. 60]	_____	_____	_____
◆ 27. In the period of initial application and thereafter until goodwill and all other intangible assets have been accounted for in accordance with SFAS 142 in all periods presented, is the following information displayed either on the face of the income statement or in the notes to the financial statements: income before extraordinary items and net income for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in these periods related to:			
◆ a. Goodwill?	_____	_____	_____
★◆ b. Intangible assets that are no longer being amortized?	_____	_____	_____
◆ c. Any deferred credit related to an excess over cost (amortized in accordance with APB 16)?	_____	_____	_____
◆ d. Equity method goodwill? [SFAS 142, par. 61]	_____	_____	_____
★◆ 28. Does the adjusted income before extraordinary items and net income also reflect any adjustments for changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying SFAS 142 (including any related tax effects)? [SFAS 142, par. 61]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆29. Is a reconciliation of reported net income to the adjusted net income disclosed? [SFAS 142, par. 61]	_____	_____	_____
★◆30. Are adjusted earnings per share amounts for all periods presented in either the face of the income statement or in the notes? [SFAS 142, par. 61]	_____	_____	_____
★◆31. Is an impairment loss recognized for a long-lived asset (asset group) to be held and used included in income from continuing operations before income taxes in the income statement of a business enterprise and in income from continuing operations in the statement of activities of a not-for-profit organization? [SFAS 144, par. 25 (AC I08.160)]	_____	_____	_____
★◆32. Is the following information disclosed in the notes to the financial statements that include the period in which an impairment loss is recognized:			
a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment?	_____	_____	_____
b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or statement of activities that includes that loss?	_____	_____	_____
c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)?	_____	_____	_____
d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under SFAS 131, <i>Disclosures about Segments of an Enterprise and Related Information</i> ? [SFAS 144, par. 26 (AC I08.161)]	_____	_____	_____

**G. Current Liabilities, Notes Payable, and Other Debt**

1. Current liabilities:

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ 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)]</p>	_____	_____	_____
<hr/> <p><i>Note:</i> Current liabilities may include notes payable to banks; the current portion of long-term debt; accounts payable; advances from and amounts payable to third-party payors for estimated and final reimbursement settlements; refunds to and deposits from patients and others; deferred revenue; accrued salaries and payroll taxes; and other accruals. [AAG par. 7.01]</p> <hr/>			
<p>2. Notes payable and other debt:</p>			
<p>★◆ 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)? [SFAS 5, par. 18 (AC C59.120)]</p>	_____	_____	_____
<p>★◆ 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)]</p>	_____	_____	_____
<p>★◆ 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)]</p>	_____	_____	_____
<p>★◆ d. If a note is non-interest-bearing or has an inappropriate stated interest rate:</p>			
<p>(1) Is the discount or premium presented as a deduction from or addition to the face amount of the note?</p>	_____	_____	_____
<p>(2) Does the disclosure include the effective interest rate and face amount of the note?</p>	_____	_____	_____
<p>(3) Is amortization of the discount or premium reported as interest?</p>	_____	_____	_____
<p>(4) Are issue costs reported in the balance sheet/statement of financial position as deferred charges? [APB 21, par. 16 (AC I69.109)]</p>	_____	_____	_____
<p>★◆ e. Are debt conversion features (such as rates and pertinent dates) disclosed? [APB 14 (AC D10)]</p>	_____	_____	_____
<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>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ g. For a troubled debt restructuring occurring during the current period, do disclosures include:</p> <p>(1) Description of the principle changes in terms and/or the major features of settlement?</p> <p>(2) Aggregate gain on restructuring of payables?</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? [SFAS 15, par. 25, as amended by SFAS 145 (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. 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 140, par. 17b (AC L35.109)]</p>	_____	_____	_____
<p>★◆ j. 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 140, par. 17c (AC L35.109)]</p>	_____	_____	_____

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*Note:* SOP 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, addresses the reporting by not-for-profit health care organizations of gains or losses on hedging derivative instruments under SFAS 133, as amended, and requires that not-for-profit health care organizations apply the provisions of SFAS 133, including the provisions pertaining to cash flow hedge accounting, in the same manner as for-profit enterprises. The provisions of SOP 02-2 are effective for fiscal years beginning after June 15, 2003. Earlier application is encouraged but permitted only as of the beginning of any fiscal quarter that begins after issuance of SOP 02-2. See paragraphs 10 and 11 of SOP 02-2 for additional effect date and transition information.

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<p>◆ k. If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under SFAS 133 when the debt is extinguished, is the reclassified amount not classified as extraordinary? [EITF 00-9]</p>	_____	_____	_____
<p>★◆ l. 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</p>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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:			
(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?	_____	_____	_____
(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)]	_____	_____	_____
★◆ <i>m.</i> If an obligation under Question <i>l</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]	_____	_____	_____
★ <i>n.</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. 7.16]	_____	_____	_____
★◆ <i>o.</i> Are disclosures appropriate regarding the provider's tax-exempt status and any other significant tax matters? [AAG, par. 7.12]	_____	_____	_____

**H. 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)]	_____	_____	_____

**I. Lessor Leases**

★◆1. For sales-type and direct financing leases, do disclosures include:			
<i>a.</i> The components of the net investment in sales-type and direct financing leases as of each balance-sheet date:			
(1) Future minimum lease payments to be received, with separate deductions for (a) amounts representing executory costs, including any profit thereon, included in minimum lease payments and (b) the accumulated allowance for uncollectible minimum lease payments receivable?	_____	_____	_____
(2) The unguaranteed residual values accruing to the benefit of the lessor?	_____	_____	_____
(3) For direct financing leases only, initial direct costs?	_____	_____	_____
(4) Unearned income?	_____	_____	_____
<i>b.</i> Future minimum lease payments to be received for each of the five succeeding fiscal years as of the latest balance sheet presented?	_____	_____	_____

	<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 is presented? [SFAS 13, par. 23a, as amended by SFAS 91, par. 25 (AC L10.119a)]	_____	_____	_____
★◆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?	_____	_____	_____
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)]	_____	_____	_____
★◆6. For contingent rental income:			
a. Has disclosure been made of the lessor's accounting policy for contingent rental income?	_____	_____	_____
b. If the lessor accrues contingent rental income prior to the lessee's achievement of the specified target (provided achievement of that target is considered probable), has disclosure been made of the impact on rental income as if the lessor's accounting policy was to defer contingent rental income until the specified target is met? [EITF 98-9]	_____	_____	_____
<b>J. Lessee Leases</b>			
★◆1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes, as of the date of each balance sheet/statement of financial position presented? [SFAS 13, par. 16a.i. (AC L10.112a(1))]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>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, including any profit thereon, included in the minimum lease payments, and for the amount of the imputed interest necessary to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a.ii. (AC L10.106 and .112a(2))]</p>	_____	_____	_____
<p>c. Total future minimum sublease rentals to be received in the future 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))]</p>	_____	_____	_____
<p>d. Total contingent rentals actually incurred for each period presented? [SFAS 13, par. 16a.iv (AC L10.112a(4))]</p>	_____	_____	_____
<p>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(5))]</p>	_____	_____	_____
<p>f. Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]</p>	_____	_____	_____
<p>★◆2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:</p>			
<p>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?</p>	_____	_____	_____
<p>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)]</p>	_____	_____	_____
<p>★◆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)]</p>	_____	_____	_____
<p>★◆4. Do disclosures include a general description of the lessee's leasing arrangements including, but not limited to:</p>			
<p>a. Bases for determination of contingent rentals?</p>	_____	_____	_____
<p>b. Terms of any renewal or purchase options or escalation clauses?</p>	_____	_____	_____
<p>c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d)]</p>	_____	_____	_____
<p>★◆5. Is the nature and extent of leasing transactions with related parties disclosed? [SFAS 13, par. 29 (AC L10.125)]</p>	_____	_____	_____
<p>★◆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]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>K. Net Assets</b>			
◆ 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]	_____	_____	_____
b. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]	_____	_____	_____
c. 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)]	_____	_____	_____
d. 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)]	_____	_____	_____
e. 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)]	_____	_____	_____
f. 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. 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)]	_____	_____	_____
h. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
i. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
j. 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?	_____	_____	_____
k. Are the carrying basis, the cost and the number of shares disclosed for treasury stock? [Generally Accepted]	_____	_____	_____
l. 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)]	_____	_____	_____
m. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made? [APB 6, par. 13 (AC C23.104)]	_____	_____	_____
◆ 6. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:			
a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year?	_____	_____	_____
b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated? [SFAS 16, par. 15 (AC A35.111)]	_____	_____	_____
◆ 7. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of components of an entity, extraordinary, unusual or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year-end adjustments that are material to the results of the quarter disclosed in a note to the financial statements? [APB 28, par. 31 (AC I73.147)]	_____	_____	_____
◆ 8. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23–26 of APB 28 or by paragraphs 9–13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made? [SFAS 3, par. 14 (AC I73.147)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆9. Changes in net assets:			
a. When both financial position and results of operations are presented:			
(1) Are changes in the separate accounts of equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
(2) Are changes in the number of shares of equity securities disclosed for at least the latest year and any subsequent interim periods presented (for-profit only)? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
b. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax applicable to the prior period adjustments) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
c. Is the correction of an error in the financial statements of a prior period discovered subsequent to their issuance reported as a prior period adjustment, with disclosure of the following in the period in which the error was discovered and corrected:			
(1) Nature of the error in previously issued financial statements?	_____	_____	_____
(2) Effect of its correction on income before extraordinary items, net income, and related per-share amounts, if applicable? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

**L. 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)]	_____	_____	_____
★3. Is property and equipment that is donor-restricted reported as temporarily or permanently restricted assets? [SFAS 116, par. 14 (AC No5.143)]	_____	_____	_____

**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)]	_____	_____	_____
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	<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?	_____	_____	_____
d. Gains and losses as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restrict their use? [SFAS 117, pars. 19, 20, and 22 (AC No5.117, .118, and .119); SFAS 116, par. 17 (AC No5.147)]	_____	_____	_____
★4. Are revenues and expenses (arising from ongoing activities associated with health care services) 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. Is management's policy for providing charity care, as well as the level of charity care provided, disclosed? [AAG, par. 10.21]	_____	_____	_____
★10. 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</i> , <i>revenues and gains over expenses and losses</i> , <i>earned income</i> , or <i>performance earnings</i> ? [AAG, par. 10.17]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| ★ 11. Do the notes to the financial statements include a description of the nature and composition of the performance indicator?<br>[AAG, par. 10.17]   | _____      | _____     | _____      |
| ★ 12. Does the not-for-profit provider report the performance indicator in a statement that also presents the total changes in unrestricted net assets? <i>[Note: Other changes in net assets may be presented separately or in the same statement.]</i><br>[AAG, par. 10.17] | _____      | _____     | _____      |

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*Note:* Question 13 is not applicable if SOP 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, is in effect. The provisions of SOP 02-2 are effective for fiscal years beginning after June 15, 2003. Earlier application is encouraged but permitted only as of the beginning of any fiscal quarter that begins after issuance of SOP 02-2. See paragraphs 10 and 11 of SOP 02-2 for additional effect date and transition information. If the provisions of SOP 02-2 are applied, see Question 14.

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|---|-------|-------|-------|
| ★ 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)?<br>[AAG, par. 10.18] | _____ | _____ | _____ |
| ★ 14. 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. Investment returns restricted by donors or by law?   | _____ | _____ | _____ |
| f. Items that are required to be reported in or reclassified from other comprehensive income, such as minimum pension liabilities in  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
accordance with paragraph 37 of SFAS 87, <i>Employers' Accounting for Pensions</i> ; foreign currency translation adjustments; and the effective portion of the gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments?	_____	_____	_____
g. Items that are required to be reported separately under specialized not-for-profit standards? [SOP 02-2]	_____	_____	_____
★◆ 15. 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 I82.109c and d)]	_____	_____	_____
★◆ 16. 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) (AC B51.145); FASBI 6, par. 8 (AC R50.117); SFAS 86, par. 3 (AC Co2.102)]	_____	_____	_____
★◆ 17. 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)]	_____	_____	_____
◆ 18. 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)]	_____	_____	_____
★ 19. 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>B. Revenue</b>			
★◆ 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 and other adjustments? [AAG, par. 10.20]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆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 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?	_____	_____	_____
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? [SFAS 109, par. 45 (AC I27.144)]	_____	_____	_____
◆2. 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)]	_____	_____	_____
◆3. If the reporting entity is a public enterprise, is a reconciliation in both percentages and dollars of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
◆4. If the reporting entity is a <b>nonpublic enterprise</b> , is there disclosure of the nature of significant items required to reconcile the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| ◆ 5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed?<br>[SFAS 109, par. 48 (AC I27.147)]   | _____      | _____     | _____      |
| ◆ 6. Is the amount of 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 disclosed?<br>[SFAS 109, par. 48 (AC I27.147)]   | _____      | _____     | _____      |
| ◆ 7. 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 statement of earnings presented, and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?   | _____      | _____     | _____      |
| b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in Question 7a above are presented?<br>[SFAS 109, par. 49 (AC I27.148)] | _____      | _____     | _____      |
| ◆ 8. Are the income taxes applicable to extraordinary events disclosed on the face of the income statement or in related notes?<br>[APB 30, par. 11 (AC I17.102)]  | _____      | _____     | _____      |

#### D. Extraordinary Items

- |   |       |       |       |
|---|-------|-------|-------|
| ★◆ 1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?<br>[APB 30, par. 11 (AC I17.102 and .103)]  | _____ | _____ | _____ |
| ★◆ 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?<br>[APB 30, par. 11 (AC I17.102)] | _____ | _____ | _____ |
| ★◆ 3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses?<br>[APB 30, par. 11 (AC I17.102)]   | _____ | _____ | _____ |
| ★◆ 4. For an adjustment of an extraordinary item reported in a prior period (except for correction of an error):  |       |       |       |
| a. Is the adjustment classified separately as an extraordinary item in the current period?  | _____ | _____ | _____ |
| b. Are the nature, year of origin, and amount of the item disclosed?<br>[SFAS 16, par. 16(c) (AC I17.119)]  | _____ | _____ | _____ |

#### E. Unusual or Infrequent Items

- |   |  |  |  |
|---|--|--|--|
| ★◆ 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): |  |  |  |
|---|--|--|--|

	<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)]	_____	_____	_____

**F. 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 of the capitalized advertising costs 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]	_____	_____	_____

**G. 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)]	_____	_____	_____

**H. Donated Materials and Facilities**

★1. If donated materials merely pass through the organization to its charitable beneficiaries, and the organization is only an agent or intermediary for the donors, has that donation been excluded from contribution revenues?  
[SFAS 116, pars. 52 and 53; SFAS 136, pars. 8 and 11 (AC C67.161 and .164)]

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**I. Fund Raising**

★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>
<p>c. The total amount allocated during the period and the portion allocated to each functional expense category? [SOP 98-2, par. 18]</p>	_____	_____	_____

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*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. [SOP 98-2, par. 19]

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<p>★2. If the organization includes within its financial statements a ratio of fundraising expenses to amounts raised, has it disclosed how that ratio was computed? [SFAS 136, par. 20 (AC No5.125A)]</p>	_____	_____	_____
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**J. Contributions/Pledges**

<p>★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)]</p>	_____	_____	_____
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<p>★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)]</p>	_____	_____	_____
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<p>★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)]</p>	_____	_____	_____
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<p>★4. Does an entity that receives gifts of long-lived assets without donor stipulation about how long the donated asset must be used:</p> <p style="margin-left: 20px;">a. Disclose its accounting policy of implying or not implying a time restriction that expires over the useful life of the asset?</p> <p style="margin-left: 20px;">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?</p> <p style="margin-left: 20px;">c. Report such support as unrestricted in the absence of such a policy? [SFAS 116, par. 16 (AC No5.145)]</p>	_____	_____	_____
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<p>★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)]</p>	_____	_____	_____
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<p>★◆6. Are unrestricted pledges/contributions reported in the statement of operations? [AAG, par. 10.08]</p>	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>K. Expenses</b>			
★◆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 C38.101A and .102)]	_____	_____	_____
★◆3. At a minimum, is the following information disclosed in the notes to the financial statements in all periods affected by the September 11, 2001 attacks:			
a. A description of the nature and amounts of losses and costs recognized as a result of the September 11 events and the amount of related insurance recoveries (if any) recognized?	_____	_____	_____
b. A description of contingencies resulting from the September 11 events that have not yet been recognized in the financial statements but that are reasonably expected to impact the entity's financial statements in the near term?	_____	_____	_____
c. Applicable disclosures pursuant to SOP 94-6?	_____	_____	_____
d. Applicable disclosures about environmental obligations (and recoveries) pursuant to SOP 96-1? [EITF 01-10]	_____	_____	_____
★◆4. Are losses and costs incurred as a result of the September 11, 2001 attacks classified as part of income from continuing operations? [EITF 01-10]	_____	_____	_____
★◆5. If the losses and costs incurred as a result of the September 11, 2001 attacks meet the criteria for disclosure of unusual or infrequently occurring items, are they reported as a separate component of income from continuing operations, either on the face of the statement of operations or in the notes to the financial statements? [EITF 01-10]	_____	_____	_____
★◆6. Is the following information disclosed in the notes to the financial statements in the period(s) in which business interruption insurance recoveries are recognized:			
a. Nature of the event resulting in business interruption losses?	_____	_____	_____
b. Aggregate amount of business interruption insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts reported as extraordinary pursuant to APB 30)? [EITF 01-13]	_____	_____	_____
<b>L. Wills</b>			
★◆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)]	_____	_____	_____

Yes      No      N/A

**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)]

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**N. Earnings Per Share**

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*Note:* SFAS 128, *Earnings per Share*, applies only to entities with publicly held common stock or potential common stock.

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- ◆ 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 other than a simple capital structure, 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 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?

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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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**

**Practice Tip**

A listing of items of other comprehensive income under current accounting standards can be found in section C49.106 of the FASB *Current Text*.

◆ 1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
◆ 2. Is a total for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported? [SFAS 130, par. 14 (AC C49.108)]	_____	_____	_____
◆ 3. Is an amount for net income displayed and included as a component of comprehensive income? [SFAS 130, pars. 15 and 22 (AC C49.109 and .116)]	_____	_____	_____
◆ 4. Are items included in 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)]	_____	_____	_____
◆ 5. 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)]	_____	_____	_____
◆ 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)]	_____	_____	_____
◆ 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) disclosed either on the face of the statement in which those components are displayed or 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. Has the enterprise reported a total for comprehensive income in condensed financial statements of interim periods? [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 until realized except as indicated in paragraph 13 of SFAS 115? [SFAS 115, par. 13, as amended by SFAS 130 and SFAS 133 (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)]	_____	_____	_____
◆ 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)]	_____	_____	_____
◆ 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 Flows

- |   |       |       |       |
|---|-------|-------|-------|
| ★◆ 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?<br>[SFAS 95, par. 3, as amended by SFAS 117, par. 30a (AC C25.101); AAG, par. 1.07] | _____ | _____ | _____ |
|---|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆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)]	_____	_____	_____
<hr/> <b>Note:</b> Any change in policy for determining which items are treated as cash equivalents is a change in accounting principle. [SFAS 95, par. 10 (AC C25.108)] <hr/>			
★◆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 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 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 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)]	_____	_____	_____
★◆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. 4.17; SFAS 95, pars. 22 and 23 (AC C25.120 and .121)]	_____	_____	_____
★◆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:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account and from returns of investment in those instruments?	_____	_____	_____
g. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account?	_____	_____	_____
h. Proceeds from maturities of available for sale and held-to-maturity securities?	_____	_____	_____
i. 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. Except for items described in paragraphs 12 and 13 of SFAS 95, are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows? [SFAS 95, pars. 12, 13, and 31 (AC C25.110, .111, and .129)]	_____	_____	_____
★◆ 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?	_____	_____	_____
c. Proceeds from issuing equity instruments?	_____	_____	_____
d. Payment of dividends or other distributions to owners?	_____	_____	_____
e. Other principal payments to creditors who have extended long-term debt? [SFAS 95, pars. 19 and 20 (AC C25.117 and .118)]	_____	_____	_____
f. Cash payments for debt issue costs? [EITF 95-13]	_____	_____	_____
g. Proceeds received (whether at inception or over the term of the derivative instrument) from derivative instruments that include financing elements (other than a financing element inherently included in an at-the-market derivative instrument with no prepayments) at inception?	_____	_____	_____
h. Distributions (whether at inception or over the term of the derivative instrument) to counterparties of derivative instruments that include financing elements (other than a financing element inherently included in an at-the-market derivative instrument with no prepayments) at inception? [SFAS 95, pars. 19 and 20 (C25.117-.118), as amended by SFAS 149]	_____	_____	_____
★◆ 12. Are investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★◆ 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 receivable?	_____	_____	_____
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)]	_____	_____	_____

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

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★◆ 15. Is the reconciliation of net income or change in net assets to net cash flow from operating activities, including separate reporting of all major classes of reconciling items, presented? [SFAS 95, par. 29, as amended by SFAS 117, par. 30 (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)]	_____	_____	_____
★◆ 17. Does the statement of cash flows report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]	_____	_____	_____
★ 18. Are cash receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment classified as cash flows from financing activities? [SFAS 117, par. 30(d) (AC C25.117)]	_____	_____	_____
★◆ 19. Are cash payments made to settle an asset retirement obligation classified in the statement of cash flows as an operating activity? [EITF 02-6]	_____	_____	_____

**Other Financial Statement Disclosures**

**A. Accounting Changes**

★◆ 1. For changes in accounting principle, 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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Effect on income? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
★◆2. For other changes in accounting principle (excluding specific exceptions related to an initial public offering, change in the reporting entity, 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)]	_____	_____	_____
★◆3. Is the correction of an error in the financial statements of a prior period discovered subsequent to their issuance reported as a prior period adjustment, with disclosure of the following in the period in which the error was discovered and corrected:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on 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)]	_____	_____	_____
<b>B. Accounting Policies</b>			
★◆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 the disclosure of accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
★◆3. 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)]	_____	_____	_____
★◆4. Does the disclosure of accounting policies encompass those accounting principles and methods that involve either:			
a. A selection from existing acceptable alternatives?	_____	_____	_____
b. Principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly following in that industry?	_____	_____	_____
c. Unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
★◆5. 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)]	_____	_____	_____

Yes    No    N/A

**C. Business Combinations**

**Notes:** Questions 4 through 13 in this section apply to business combinations that are accounted for following the provisions of SFAS 141, *Business Combinations*. SFAS 141 does not apply to combinations between not-for-profit organizations, nor does it apply to the acquisition of a for-profit business entity by a not-for-profit organization. If the provisions of SFAS 141 are not applicable, refer to Questions 1 through 3 in this section.

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 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)]

\_\_\_\_\_

**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. 1.36 and 1.37]

- ★ 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, par. 95 (AC B50.164); SFAS 38, par. 10 (AC B50.166)]

\_\_\_\_\_

- ★ 3. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:

a. Are the following disclosures made for the period in which a purchase business combination occurs:

- (1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?

\_\_\_\_\_

- (2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntarily terminate (relocate) employees?

\_\_\_\_\_

- (3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?

\_\_\_\_\_

- (4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?

\_\_\_\_\_

b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?	_____	_____	_____
(2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the costs of the acquired company or included in the determination of net income for the period? [EITF 95-3]	_____	_____	_____
◆ 4. Do the notes to the financial statements of a combined entity disclose the following information in the period in which a material business combination is completed:			
a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?	_____	_____	_____
b. The primary reasons for the acquisition, including a description of the factors that contributed to a purchase price that results in recognition of goodwill?	_____	_____	_____
c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?	_____	_____	_____
d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?	_____	_____	_____
e. A condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the acquired entity at the acquisition date?	_____	_____	_____
f. Contingent payments, options, or commitments specified in the acquisition agreement and the accounting treatment that will be followed should any such contingency occur?	_____	_____	_____
g. The amount of purchased research and development assets acquired and written off in the period (refer to paragraph 42 of SFAS 141) and the line item in the income statement in which the amounts written off are aggregated?	_____	_____	_____
h. For any purchase price allocation that has not been finalized, that fact and the reasons therefore?	_____	_____	_____
i. In subsequent periods, the nature and amount of any material adjustments made to the initial allocation of the purchase price? [SFAS 141, par. 51 (AC B51.164)]	_____	_____	_____
◆ 5. Is the following information disclosed in the notes to the financial statements in the period in which a material business combination is completed if the amounts assigned to goodwill or to other intangible assets acquired are significant in relation to the total cost of the acquired entity:			
a. For intangible assets subject to amortization:			
(1) The total amount assigned and the amount assigned to any major intangible asset class?	_____	_____	_____
(2) The amount of any significant residual value, in total and by major intangible asset class?	_____	_____	_____
(3) The weighted-average amortization period, in total and by major intangible asset class?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. For intangible assets <i>not</i> subject to amortization the total amount assigned and the amount assigned to any major intangible asset class?	_____	_____	_____
c. For goodwill:			
(1) The total amount of goodwill and the amount that is expected to be deductible for tax purposes?	_____	_____	_____
(2) The amount of goodwill by reportable segment (if the combined entity is required to disclose segment information in accordance with SFAS 131), unless not practicable? [SFAS 141, par. 52 (AC B51.165)]	_____	_____	_____
◆ 6. If a series of individually immaterial business combinations completed during the period are material in the aggregate, is the following disclosed:			
a. The number of entities acquired and a brief description of those entities?	_____	_____	_____
b. The aggregate cost of the acquired entities, the number of equity interests, (such as common shares, preferred shares, or partnership interests) issued or issuable, and the value assigned to those interests?	_____	_____	_____
c. The aggregate amount of any contingent payments, options, or commitments and the accounting treatment that will be followed should any such contingency occur (if potentially significant in relation to the aggregate cost of the acquired entities)?	_____	_____	_____
d. The information described in Question 5 above, if the aggregate amount assigned to goodwill or to other intangible assets acquired is significant in relation to the aggregate cost of the acquired entities? [SFAS 141, par. 53 (AC B51.166)]	_____	_____	_____
◆ 7. If the combined entity is a public business enterprise, is the following supplemental information on a pro forma basis for the period in which a material business combination occurs (or for the period in which a series of individually immaterial business combinations occur that are material in the aggregate) disclosed:			
a. Results of operations for the current period as though the business combination or combinations had been completed at the beginning of the period unless the acquisition was at or near the beginning of the period?	_____	_____	_____
b. Results of operations for the comparable prior period as though the business combination or combinations had been completed at the beginning of that period if comparative financial statements are presented? [SFAS 141, par. 54 (AC B51.167)]	_____	_____	_____
◆ 8. Does the supplemental pro forma information display revenue, income before extraordinary items and the cumulative effect of accounting changes, net income, and earnings per share at a minimum? ( <i>Note:</i> In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period.) [SFAS 141, par. 55 (AC B51.168)]	_____	_____	_____
◆ 9. Does the supplemental pro forma information disclose the nature and amount of material, nonrecurring items included in the reported pro forma results of operations, if any? [SFAS 141, par. 55 (AC B51.168)]	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| ◆ 10. In the period in which an extraordinary gain is recognized related to a business combination, do the notes to the financial statements disclose the information required by paragraph 11 of APB 30? [SFAS 141, par. 56 (AC B51.169)]           | _____      | _____     | _____      |
| ◆ 11. If a material business combination is completed after the balance sheet date but before the financial statements are issued, is the information required by Questions 4 and 5 above disclosed if practicable? [SFAS 141, par. 57 (AC B51.170)] | _____      | _____     | _____      |

*Interim Financial Information*

- |   |       |       |       |
|---|-------|-------|-------|
| ◆ 12. For summarized interim financial information of a public business enterprise is the following information disclosed if a material business combination is completed during the current year up to the date of the most recent interim statement of financial position presented:  |       |       |       |
| a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?  | _____ | _____ | _____ |
| b. The primary reasons for the acquisition, including a brief description of the factors that contributed to a purchase price that results in recognition of goodwill?  | _____ | _____ | _____ |
| c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?   | _____ | _____ | _____ |
| d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?  | _____ | _____ | _____ |
| e. Supplemental pro forma information that discloses the results of operations for the current interim period and the current year up to the date of the most recent interim statement of financial position presented (and for the corresponding periods in the preceding year) as though the business combination had been completed as of the beginning of the period reported on? | _____ | _____ | _____ |
| f. The nature and amount of any material, nonrecurring items included in the reported pro forma results of operations?  | _____ | _____ | _____ |
| g. Do the pro forma information disclosures in Question e above display at a minimum, revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share? [SFAS 141, par. 58 (AC B51.171)]   | _____ | _____ | _____ |
| ◆ 13. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:   |       |       |       |
| a. Are the following disclosures made for the period in which a purchase business combination occurs:   |       |       |       |
| (1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?                                      | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntarily terminate (relocate) employees?	_____	_____	_____
(3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?	_____	_____	_____
(4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?	_____	_____	_____
b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:			
(1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?	_____	_____	_____
(2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the costs of the acquired company or included in the determination of net income for the period? [EITF 95-3]	_____	_____	_____

**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]	_____	_____	_____

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Are the nature, amounts, and effects of significant stop-loss insurance contracts disclosed? [AAG, par. 13.08]	_____	_____	_____
<i>c.</i> 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]	_____	_____	_____
<i>d.</i> 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]	_____	_____	_____
<b>6.</b> Other disclosures:			
★◆ <i>a.</i> 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 45, pars. 17 and 18 (AC C59.108–.114)]	_____	_____	_____
★◆ <i>b.</i> 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)]	_____	_____	_____
★◆ <i>c.</i> Are gain contingencies adequately disclosed with care to avoid misleading implications as to the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
★◆ <i>d.</i> Are the nature and amount of guarantees disclosed (for example, of indebtedness of others)? [SFAS 5, par. 12 (AC C59.113); FASBI 45, pars. 17 and 18 (AC C59.114)]	_____	_____	_____
★◆ <i>e.</i> Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:			
(1) The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?	_____	_____	_____
(2) The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?	_____	_____	_____
(3) If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?	_____	_____	_____
(4) The reasons why the guarantor cannot estimate the maximum potential amount of future payments under its guarantee, if the guarantor is unable to develop an estimate?	_____	_____	_____
(5) The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(6) The nature of—			
(i) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee?	_____	_____	_____
(ii) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?	_____	_____	_____
(7) If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FASBI 45, par. 13 (AC G80.112)]	_____	_____	_____
★◆ f. For product warranties and other guarantee contracts, collectively referred to as product warranties, is the following information disclosed if the guarantor is not required to disclose the maximum potential amount of future payments, as provided in FASBI 45, paragraph 14:			
(1) The guarantor's accounting policy and methodology used in determining its liability for product warranties?	_____	_____	_____
(2) A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	_____	_____	_____
(3) Does the tabular reconciliation present—			
(i) The beginning balance of the aggregate product warranty liability?	_____	_____	_____
(ii) The aggregate reductions in that liability for payments made in cash or in kind under the warranty?	_____	_____	_____
(iii) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?	_____	_____	_____
(iv) The ending balance of the aggregate product warranty liability? [FASBI 45, par. 14 (AC G80.113)]	_____	_____	_____
★◆ g. 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)]	_____	_____	_____
★◆ h. For long-term unconditional purchase obligations that are not recorded in the purchaser's balance sheet, are the following disclosed:			
(1) Nature and term of the obligations?	_____	_____	_____
(2) Amount of the fixed and determinable portion of the obligations as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the next five years?	_____	_____	_____
(3) Nature of any variable components of the obligation?	_____	_____	_____
(4) Amounts purchased under the obligations for each period for which an income statement/statement of operations is presented? [SFAS 47, par. 7 (AC C32.102)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ i. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits, job training and counseling, and continuation of health and insurance coverage) 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)]</p>	_____	_____	_____
<p>★◆ j. Are environmental remediation obligations reported and disclosed in accordance with SOP 96-1? [SOP 96-1]</p>	_____	_____	_____

**E. Exit or Disposal Activities**

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*Note:* SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, nullifies EITF 94-3. The provisions of EITF 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF 94-3 prior to SFAS 146's initial application. For the purposes of applying SFAS 146, an exit or disposal activity is initiated when management, having the authority to approve the action, commits to an exit or disposal plan or otherwise disposes of a long-lived asset (disposal group) and, if the activity involves the termination of employees, the criteria for a plan of termination in paragraph 8 of SFAS 146 are met.

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<p>★◆ 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:</p>			
<p>a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement/statement of activities?</p>	_____	_____	_____
<p>b. The number of employees to be terminated?</p>	_____	_____	_____
<p>c. A description of the employee group(s) to be terminated?</p>	_____	_____	_____
<p>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?</p>	_____	_____	_____
<p>e. The amount of any adjustment(s) to the liability? [EITF 94-3, Section A]</p>	_____	_____	_____
<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>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<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>	____	____	____
<p>★◆4. Is the following information disclosed in notes to the financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:</p> <p>a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date?</p> <p>b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):</p> <p>(1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date?</p> <p>(2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor?</p> <p>c. The line item(s) in the income statement or the statement of activities in which the costs in Question 4b are aggregated?</p> <p>d. For each reportable segment:</p> <p>(1) The total amount of costs expected to be incurred in connection with the activity?</p> <p>(2) The amount incurred in the period?</p> <p>(3) The cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor?</p> <p>e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor? [SFAS 146, par. 20 (AC L32.120)]</p>	____	____	____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
◆ 5. Are costs associated with an exit or disposal activity that does not involve a discontinued operation included in income from continuing operations before income taxes in the income statement? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
★ 6. Are costs associated with an exit or disposal activity that does not involve a discontinued operation included in income from continuing operations in the statement of activities? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
★◆ 7. Are costs associated with an exit or disposal activity that involves a discontinued operation included in the results of discontinued operations? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
★◆ 8. If an event or circumstance occurs that discharges or removes an entity's responsibility to settle a liability for a cost associated with an exit or disposal activity recognized in a prior period, is the liability reversed? [SFAS 146, par. 19 (AC L32.119)]	_____	_____	_____
★◆ 9. Are the related costs reversed through the same line item(s) in the income statement (statement of activities) used when those costs were recognized initially? [SFAS 146, par. 19 (AC L32.119)]	_____	_____	_____

**F. 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 D50.141)]	_____	_____	_____
★◆ 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 D50.141)]	_____	_____	_____
★◆ 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 D50.141)]	_____	_____	_____
★◆ 4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity? [SFAS 133, par. 44 (AC D50.141)]	_____	_____	_____
★◆ 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 D50.141)]	_____	_____	_____

Yes      No      N/A

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**Note:** SOP 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, paragraph 8, requires not-for-profit health care organizations to provide disclosures that are analogous to those required by paragraph 45 of SFAS 133, *Accounting for Derivative Financial Instruments and Hedging Activities*, for for-profit enterprises, including the disclosure of anticipated reclassifications into the performance indicator of gains and losses that have been excluded from that measure and reported in accumulated derivative gain or loss as of the reporting date. The provisions of SOP 02-2 are effective for fiscal years beginning after June 15, 2003. Earlier application is encouraged but permitted only as of the beginning of any fiscal quarter that begins after issuance of SOP 02-2. See paragraphs 10 and 11 of SOP 02-2 for additional effect date and transition information. If the provisions of SOP 02-2 are applied, see Questions 8, 9 and 10 for disclosures required for the transition to the provisions of SOP 02-2.

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- ★◆6. Do the entity's disclosures for every reporting period for which a complete set of financial statements is presented also include the following:

*Fair Value Hedges*

- a. 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 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 D50.142)]

*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? \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(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 by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within additional two-month period of time thereafter? [SFAS 133, par. 45b, as amended by SFAS 138, par. 4r (AC D50.142)]	_____	_____	_____

*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 D50.142)]	_____	_____	_____
★◆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? ( <i>Encouraged, but not required.</i> ) [SFAS 133, par. 45 (AC D50.142)]	_____	_____	_____
★8. Are any derivative gains and losses excluded from the performance indicator in the financial statements issued for periods ended before the initial date of application of SOP 02-2 that did not meet the cash flow hedging criteria of SFAS 133:			
a. Not reclassified and included as a component of the performance indicator in any period subsequent to the initial date of application of SOP 02-2?	_____	_____	_____
b. Not included in the disclosure of the accumulated derivative gain or loss as described in paragraph 8 of SOP 02-2? [SOP 02-2, par. 10]	_____	_____	_____
★9. To the extent that derivative gains or losses on cash flow hedges qualifying under SFAS 133 had been reported in a manner consistent with the provisions of SOP 02-2 in financial statements for periods prior to the initial date of application of SOP 02-2, are such amounts included in the disclosure of derivative gain or loss as described in paragraph 8 of SOP 02-2 and reclassified and included in the performance indicator when the hedged transaction affects the performance indicator? [SOP 02-2, par. 10]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
★10. When the financial statements of the year of adoption are presented separately or included in comparative financial statements do the notes to the financial statements disclose:			
a. The fact that SOP 02-2 has been adopted and the effective date of the adoption?	_____	_____	_____
b. The nature of any differences in accounting principles or financial statement presentation applicable to the financial statements presented that resulted from adoption of SOP 02-2 ( <i>disclosure of pro forma amounts is not required</i> )? [SOP 02-2, par. 10]	_____	_____	_____

**G. Financial Instruments**

★◆ *Disclosures About Fair Value of Financial Instruments*

1. 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 F25.115C)]	_____	_____	_____
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*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. [SFAS 107, par. 10 fn\* (AC F25.115C fn. 16a)]

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2. 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 F25.115C)]	_____	_____	_____
3. 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, <i>Offsetting of Amounts Related to Certain Contracts</i> , or the exceptions for master netting arrangements in paragraph 10 of FASBI 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, <i>Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements</i> ? [SFAS 107, par. 14 (AC F25.115I)]	_____	_____	_____
4. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:			
a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____

b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115)]

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

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**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*, other than commitments related to the origination of mortgage loans to be held for sale during the reporting period. [SFAS 126, par. 2 as amended by SFAS 149 (AC F25.105)]

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

5. 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 (*Group concentrations* 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 F25.116A)]

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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*, except for reinsurance receivables and prepaid reinsurance premiums. [SFAS 107, par. 15B (AC F25.116B)]

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6. 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?
- c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information

_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 F25.116A)]	_____	_____	_____
7. 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 F25.116C)]	_____	_____	_____

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**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.  
[SFAS 107, par. 15D (AC F25.116D)]

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8. Are the classification guidelines and disclosures under EITF 00-19, <i>Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock</i> , followed for freestanding contracts that are indexed to, and potentially settled in, the company's own stock? [EITF 00-19]	_____	_____	_____
9. Is disclosure made of the primary geographic sources of patients? [AAG, par. 5.23]	_____	_____	_____

**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)]	_____	_____	_____
◆2. Is the amount of gross operating revenue recognized as a result of nonmonetary transactions addressed by EITF 00-8, <i>Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services</i> , disclosed in each period's financial statements? [EITF Issue 00-8]	_____	_____	_____

Yes    No    N/A

**I. Pension and Other Postretirement Benefit Plans**

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**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.

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- ★◆ 1. If an employer sponsors one or more defined benefit pension plans or one or more 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? \_\_\_\_\_
    - (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 (net assets) recognized pursuant to paragraph 37 of SFAS 87, as amended? \_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 (change in net assets) 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?	_____	_____	_____
m. 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 and P40.169)]	_____	_____	_____
★◆2. Are amounts related to the employer's results of operations disclosed for each period for which an income statement/statement of operations is presented? [SFAS 132, par. 5 (AC P16.150 and P40.169)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆3. Are amounts related to the employer’s statement of financial position disclosed for each balance sheet period? [SFAS 132, par. 5 (AC P16.150 and P40.169)]</p>	_____	_____	_____
<p>★◆4. For employers that sponsor more than one defined benefit pension plan or more than one defined benefit postretirement plan, are the disclosures required by SFAS 132 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 and P40.172)]</p>	_____	_____	_____
<p>★◆5. 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:</p> <p>a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets?</p> <p>b. 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?</p> <p>c. Amounts recognized separately in the statement of financial position as prepaid benefit costs and accrued benefit liabilities? [SFAS 132, par. 6 (AC P16.153 and P40.172)]</p>	_____	_____	_____
<p>★◆6. 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 and P40.173)]</p>	_____	_____	_____

*Reduced Disclosure Requirements for Nonpublic Entities*

<p>★◆7. 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, do disclosures include:</p> <p>a. The benefit obligation, fair value of plan assets, and funded status of the plan?</p> <p>b. Employer contributions, participant contributions, and benefits paid?</p> <p>c. 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 (net assets) recognized pursuant to paragraph 37 of SFAS 87, as amended?</p> <p>d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income (change in net assets) arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended?</p>	_____	_____	_____
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	<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 and P40.169A)]	_____	_____	_____

**Defined Contribution Plans**

★◆8. 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 and P40.198)]	_____	_____	_____

**Multiemployer Plans**

★◆9. 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 and P40.178)]	_____	_____	_____
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 and SFAS 132, par. 11 (AC P16.167)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆ 10. 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:</p> <p>a. An employer would withdraw from the plan under circumstances that would give rise to an obligation?</p> <p>or</p> <p>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 and SFAS 132, par. 11 (AC P40.179)]</p>	_____	_____	_____

**J. Related Organizations and Economic Dependency**

1. Related parties and economic dependency:

<p>★◆ 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, do the notes to the financial statements include the following disclosures:</p> <p>(1) Identification of the other entity and the nature of its relationship with the reporting entity that results in control?</p> <p>(2) Summarized financial data of the other entity, including total assets, liabilities, net assets, revenue, and expenses; and resources that are held for the benefit of the reporting entity or that are under its control?</p> <p>(3) Disclosures set forth in SFAS 57 (see Question 2g below)? [AAG, par. 11.12]</p>	_____	_____	_____
<p>★◆ b. In cases where the entity has control (other than through ownership or sole corporate membership) or an economic interest in another entity, but not both, has the entity made the required disclosures set forth in SFAS 57 (see Question 2g below)? [AAG, par. 11.13]</p>	_____	_____	_____
<p>★◆ c. If consolidated financial statements are presented and they include a controlled not-for-profit organization, are the following disclosed:</p> <p>(1) Restrictions made by entities outside of the reporting entity on distributions from the controlled not-for-profit organization to the reporting entity? and</p> <p>(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]</p>	_____	_____	_____
<p>★◆ 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. 11.34]</p>	_____	_____	_____
<p>e. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. If (a) the reporting entity and one or more other enterprises are under common ownership or management control and (b) the existence of the control could result in operating results or financial position of the reporting entity being significantly different from that if the enterprise were autonomous, is the nature of the controlled relationships disclosed (even if there are no transactions between the enterprises)? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
★◆ g. For related-party transactions, do disclosures include:			
(1) The nature of the relationships involved?	_____	_____	_____
(2) For each period for which an income statement/statement of operations is presented:			
(i) A description of the transaction, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(ii) Other information deemed necessary to an understanding of the effects of the transaction on the financial statements?	_____	_____	_____
(iii) The dollar amount of transactions?	_____	_____	_____
(iv) The effect of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
(3) Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, par. 4 (AC R36.102)]	_____	_____	_____
(4) The information required by paragraph 49 of SFAS 109? [SFAS 109, par. 288(s) (AC R36.102)]	_____	_____	_____

#### 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?	_____	_____	_____
c. If the reporting entity operates in more than one business, is the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, pars. 10 and 11]	_____	_____	_____
★◆ 2. If known information available before the financial statements are issued indicates (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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. That a material change in the estimate could occur in the near term? [SOP 94-6, pars. 12-14]	_____	_____	_____
★◆3. If the estimate in Question 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? <sup>2</sup> [SOP 94-6, par. 14]	_____	_____	_____
★◆4. If, based on information known to management before the financial statements are issued, (1) the concentration existed at the date of the financial statements, (2) the concentration made the enterprise vulnerable to the risk of near-term severe impact, and (3) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:			
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

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*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.

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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?	_____	_____	_____

<sup>2</sup> 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. [SOP 94-6, par. 15]

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

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**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. [SFAS 131, par. 25, as amended by SFAS 135, par. 4(x) (AC S30.124)]

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- |   |       |       |       |
|---|-------|-------|-------|
| 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 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)]  | _____ | _____ | _____ |
| 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 Questions 4a and 4b 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, as amended by SAS 98 (AU 560.05–.07, .09, and 561.01–.09)] | _____ | _____ | _____ |
| ◆ 2. Are subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05–.07, .09, and 561.01–.09, as amended by SAS 98 (AU 560.05–.07, .09, and 561.01–.09)]                      | _____ | _____ | _____ |

Yes      No      N/A

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

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**N. 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) prominently disclosed?  
[SFAS 123, par. 11, SFAS 123, par. 45, as amended by SFAS 148, par. 2(e) (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)]
- ◆ 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 Question 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)]
- ◆ 8. Is the following information disclosed in the “Summary of Significant Accounting Policies” or its equivalent:
  - a. The method used—either the intrinsic value method or the fair value based method—to account for stock-based employee compensation in each period presented?
  - b. For an entity that adopts the fair value recognition provisions of SFAS 148 for all financial statements in which the period of adoption is presented, a description of the method of reporting the change in accounting principle?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of APB 25 for any period for which an income statement is presented, a tabular presentation of the following information for all periods presented—			
(1) Net income and basic and diluted earnings per share as reported?	_____	_____	_____
(2) The stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported?	_____	_____	_____
(3) The stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards?	_____	_____	_____
(4) Pro forma net income as if the fair value based method had been applied to all awards?	_____	_____	_____
(5) Pro forma basic and diluted earnings per share as if the fair value based method had been applied to all awards? [SFAS 123, par. 45, as amended by SFAS 148, par. 2(e) (AC C36.144)]	_____	_____	_____
◆ 9. Is the following information about stock-based employee compensation costs disclosed prominently and in tabular form for all periods presented if awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of APB 25 for any period for which an income statement is presented:			
a. Net income and basic and diluted earnings per share as reported?	_____	_____	_____
b. The stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported?	_____	_____	_____
c. The stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards?	_____	_____	_____
d. Pro forma net income as if the fair value based method had been applied to all awards?	_____	_____	_____
e. Pro forma basic and diluted earnings per share as if the fair value based method had been applied to all awards? [APB 28, par. 30, as amended by SFAS 148, par. 3 (AC I73.146)]	_____	_____	_____
<b>O. Transfers of Financial Assets</b>			
★◆ 1. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140, par. 17d (AC F39.110)]	_____	_____	_____
★◆ 2. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into securities lending transactions? [SFAS 140, par. 17a(1) (AC F39.110)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆3. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140, par. 17a(2) (AC F39.110)]</p>	_____	_____	_____
<p>★◆4. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140, par. 17a(3) (AC F39.110)]</p>	_____	_____	_____
<p>★◆5. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140, par. 17a(3) (AC F39.110)]</p>	_____	_____	_____

**P. Long-Lived Assets and Disposal Groups to Be Disposed Of**

*Reporting Discontinued Operations*

<p>★◆1. Are the results of operations of a <i>component of an entity</i> (as that phrase is defined in SFAS 144) that either has been disposed of or is classified as held for sale reported in discontinued operations in accordance with paragraph 43 of SFAS 144 (Questions 2, 3, 4, and 5 below) if both of the following conditions are met:</p> <p style="margin-left: 20px;">a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction?</p> <p style="margin-left: 20px;">b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction? [SFAS 144, par. 42 (AC I14.102)]</p>	_____	_____	_____
<p>★◆2. In a period in which a component of an entity either has been disposed of or is classified as held for sale, does the income statement of a business enterprise or statement of activities of a not-for-profit organization for current and prior periods report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of SFAS 144, in discontinued operations? [SFAS 144, par. 43 (AC I14.103)]</p>	_____	_____	_____
<p>★◆3. Are the results of operations of a component classified as held for sale reported in discontinued operations in the period(s) in which they occur? [SFAS 144, par. 43 (AC I14.103)]</p>	_____	_____	_____
<p>★◆4. Are the results of discontinued operations, less applicable income taxes (benefit), reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable)? [SFAS 144, par. 43 (AC I14.103)]</p>	_____	_____	_____
<p>★◆5. Is the gain or loss recognized on the disposal disclosed either on the face of the income statement or in the notes to the financial statements? [SFAS 144, par. 43 (AC I14.103)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>★◆6. Are adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period classified separately in the current period in discontinued operations? [SFAS 144, par. 44 (AC I14.104)]</p>	_____	_____	_____
<p>★◆7. Are the nature and amount of such adjustments (as discussed in Question 6 above) disclosed? [SFAS 144, par. 44 (AC I14.104)]</p>	_____	_____	_____
<i>Reporting Disposal Gains or Losses in Continuing Operations</i>			
<p>★◆8. Is a gain or loss, that is recognized on the sale of a long-lived asset (disposal group) that is not a component of an entity, included in income from continuing operations before income taxes in the income statement of a business enterprise and in income from continuing operations in the statement of activities of a not-for-profit organization? [SFAS 144, par. 45 (AC D60.118)]</p>	_____	_____	_____
<p>★◆9. If a subtotal such as "income from operations" is presented, does it include the amounts of those gains or losses considered in Question 8 above? [SFAS 144, par. 45 (AC D60.118)]</p>	_____	_____	_____
<i>Reporting a Long-Lived Asset or Disposal Group Sold or Classified as Held for Sale</i>			
<p>★◆10. If the criteria of paragraph 30 of SFAS 144 are met (and thus a long-lived asset is classified as held for sale) after the balance sheet date but before issuance of the financial statements, does the long-lived asset continue to be classified as held and used in those financial statements when issued and is the information required by paragraph 47(a) of SFAS 144 (Question 15(a) below) disclosed in the notes to the financial statements? [SFAS 144, par. 33 (AC D60.110)]</p>	_____	_____	_____
<p>★◆11. Is a long-lived asset that is classified as held for sale presented separately in the statement of financial position? [SFAS 144, par. 46 (AC D60.119)]</p>	_____	_____	_____
<p>★◆12. Are the assets and liabilities of a disposal group that is classified as held for sale presented separately in the asset and liability sections, respectively, of the statement of financial position? [SFAS 144, par. 46 (AC D60.119)]</p>	_____	_____	_____
<p>★◆13. Are those assets and liabilities considered in Question 12 above, <u>not</u> offset and presented as a single amount? [SFAS 144, par. 46 (AC D60.119)]</p>	_____	_____	_____
<p>★◆14. Are the major classes of assets and liabilities that are classified as held for sale separately disclosed either on the face of the statement of financial position or in the notes to financial statements? [SFAS 144, par. 46 (AC D60.119)]</p>	_____	_____	_____
<p>★◆15. Is the following information disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:</p>			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group?	_____	_____	_____
b. The gain or loss recognized in accordance with paragraph 37 of SFAS 144 and if not separately presented on the face of the income statement, the caption in the income statement or statement of activities that includes that gain or loss?	_____	_____	_____
c. If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations?	_____	_____	_____
d. If applicable, the segment in which the long-lived asset (disposal group) is reported under SFAS 131? [SFAS 144, par. 47 (AC D60.120 and I14.105)]	_____	_____	_____
★◆16. If either paragraph 38 or 40 of SFAS 144 applies, is a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and its effect on the results of operations for the period and any prior periods presented disclosed in the notes to the financial statements that include the period of that decision? [SFAS 144, par. 48 (AC D60.121 and I14.106)]	_____	_____	_____
★◆17. If a long-lived asset is to be disposed of other than by sale, does it continue to be classified as held and used until it is disposed of? [SFAS 144, par. 27 (AC D60.104)]	_____	_____	_____

**Q. Asset Retirement Obligations**

★◆1. Is the following information about its asset retirement obligations disclosed:			
a. A general description of the asset retirement obligations and the associated long-lived assets?	_____	_____	_____
b. The fair value of assets that are legally restricted for purposes of settling asset retirement obligations?	_____	_____	_____
c. A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations showing separately the changes attributable to (1) liabilities incurred in the current period, (2) liabilities settled in the current period, (3) accretion expense, and (4) revisions in estimated cash flows, whenever there is a significant change in one or more of those four components during the reporting period? [SFAS 143, par. 22 (AC A50.122)]	_____	_____	_____
★◆2. If the fair value of an asset retirement obligation cannot be reasonably estimated is that fact and the reasons therefore disclosed? [SFAS 143, par. 22 (AC A50.122)]	_____	_____	_____
★◆3. In addition to the disclosures required by paragraphs 19 (c), 19 (d), and 21 of APB 20, is the liability for the asset retirement obligation computed on a pro forma basis disclosed in the footnotes for the beginning of the earliest year presented and at the end of all years presented as if SFAS 143 had been applied during all periods affected? [SFAS 143, par. 27]	_____	_____	_____

Yes    No    N/A

**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 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:
  - 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 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]

Yes      No      N/A

\_\_\_\_\_

**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?  
[AAG-SGA, par. 5.5]

\_\_\_\_\_

- 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?  
[AAG-SGA, 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?  
[AAG-SGA, par. 5.9]

\_\_\_\_\_

Health Care Organizations

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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? [AAG-SGA, par. 5.10]	_____	_____	_____

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# 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. This checklist contains the basic requirements for reporting on an audit of the financial statements in accordance with GAAS. It does not contain all requirements for reports required to be issued in audits in accordance with government auditing standards ("Yellow Book") or with the audit requirements of OMB Circular A-133 ("Single Audits").

.02 Explanation of References:

SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SSARS =	AICPA Statements on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA <i>Professional Standards</i> (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. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statement presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
5. Does the auditor's report include:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the United States of America as the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards)? [SAS 58, par. 8d, as amended by SAS 93 (AU 508.08d)]	_____	_____	_____
e. 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? [SAS 58, par. 8e, as amended by SAS 93 (AU 508.08e)]	_____	_____	_____
f. 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)]	_____	_____	_____
g. 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)]	_____	_____	_____
h. 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? The opinion should include an identification of the United States of America as the country of origin of those accounting principles (for example, accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles). [SAS 58, par. 8h, as amended by SAS 93 (AU 508.08h)]	_____	_____	_____
i. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____
j. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____
6. If a subsequent event disclosed in the financial statements occurs after completion of fieldwork but before the issuance of the related financial statements, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5, as amended (AU 530.03–.05)]	_____	_____	_____
7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 21 and 37 (AR 100.19 and .39)]	_____	_____	_____
8. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]</p>	_____	_____	_____
<p>9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]</p>	_____	_____	_____
<p>10. If there is substantial doubt about the entity's ability to continue as a going concern:</p> <p>a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?</p>	_____	_____	_____
<p>b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]</p>	_____	_____	_____

**Practice Tip**

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.

<p>11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:</p> <p>a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?</p>	_____	_____	_____
<p>b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]</p>	_____	_____	_____
<p>c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? <i>[Note: A change in the reporting entity resulting from a transaction or event, such as a pooling of interests, or the creation, cessation, or complete or partial purchase or disposition of a subsidiary or other business unit, does not require that an explanatory paragraph about consistency be included in the auditor's report.]</i> [SAS No. 88, par. 8, AU 420.08]</p>	_____	_____	_____
<p>12. If in an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:</p> <p>a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____
13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
14. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.43)]	_____	_____	_____
<hr/> <b>Note:</b> SAS 100, <i>Interim Financial Information</i> , supersedes SAS 71. SAS 100 is effective for interim periods within fiscal years beginning after December 15, 2002. Earlier application is permitted. If the provisions of SAS 100 are applied, see paragraph 50 of SAS 100. <hr/>			
15. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8, as amended by SAS 98 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"?	_____	_____	_____
[SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]			
18. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?	_____	_____	_____
[SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]			
19. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> ?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself?	_____	_____	_____
[SAS 58, as amended by SAS 79, pars. 21–27 (AU 508.21–.27)]			

**Practice Tip**

Scope limitations include situations in which 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, as amended by SAS 79, par. 31]

SOP 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables*, discusses auditing matters to consider in testing third-party revenues and related receivables, and provides guidance regarding the sufficiency of evidential matter (SOP 00-1, pars. 16–21).

**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.

20. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the report avoid identifying procedures that were performed?	_____	_____	_____
d. Is the scope paragraph omitted?	_____	_____	_____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report?	_____	_____	_____
[SAS 58, as amended by SAS 79, pars. 62 and 63 (AU 508.62–.63)]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
21. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____

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**Note:** SOP 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables*, discusses auditing matters to consider in testing third-party revenues and related receivables, and provides guidance regarding the sufficiency of evidential matter and reporting on financial statements of health care entities exposed to material uncertainties. Paragraphs 22–37 specifically address potential departures from GAAP related to estimates and uncertainties that fall into three categories: unreasonable accounting estimates; inappropriate accounting principles; and inadequate disclosure.

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22. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 21, 37, and 38 (AU 508.21, .37, and .38)]	_____	_____	_____
23. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____

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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.

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24. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Specifically identifies the accompanying information?	_____	_____	_____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	_____	_____	_____

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**Practice Tip**

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.

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# FSP Section 11,400

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

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

.02 This checklist has two parts: Part I is for auditors' reports on financial audits performed under *Government Auditing Standards* (GAS, which is also known as the *Yellow Book*). (This checklist does not address the performance auditing standards of GAS.) Part II contains the additional requirements for auditors' reports on audits performed under the Single Audit Act Amendments of 1996 in accordance with OMB Circular A-133. For audits performed under Circular A-133, both Parts I and II of this checklist must be completed. Illustrative auditors reports on financial audits performed under *Government Auditing Standards* are in the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units (Non-GASB 34 Edition)*, appendix A. Illustrative auditor's reports and an illustrative schedule of findings and questioned costs for OMB Circular A-133 audits are in the AICPA Audit Guide *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, appendixes D and E.

### .03 Explanation of References:

A-133 =	Office of Management and Budget (OMB) Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> (June 1997 Revision)
GAS =	General Accounting Office 1994 revision to <i>Government Auditing Standards</i> , as amended through Amendment 3, <i>Independence</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
AAG-SGA =	AICPA Audit Guide <i>Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards</i> (with conforming changes as of May 1, 2003)

### .04 Checklist Questionnaire:

Yes    No    N/A

### **Part I—Reports on Audits Performed in Accordance with *Government Auditing Standards***

1. In a financial audit performed in accordance with GAS, are the following reports issued:

a. A report on the entity's financial statements?<sup>1</sup>

\_\_\_\_\_

<sup>1</sup> See the checklist for auditor's reports on the financial statements at section 11,300.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. A report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with GAS? [GAS, Ch. 5, pars. 2 and 15; AAG-SGA, par. 10.15]	_____	_____	_____

**Report on the Financial Statements**

2. Does the auditor’s report on the financial statements:			
a. Contain a statement that the audit was conducted in accordance with GAAS (with an identification of the United States of America as the country of origin of those standards) and with the standards applicable to financial audits contained in <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States? <sup>2,*</sup> [GAS, Ch. 5, par. 11; AAG-SGA, pars. 10.16a and 10.35]	_____	_____	_____
b. Either describe the scope of the auditors’ testing of compliance with laws and regulations and internal controls and present the results of these tests or refer to separate reports containing that information? [GAS, Ch. 5, par. 15; AAG-SGA, pars. 10.16b and 10.35]	_____	_____	_____
3. If parent-only financial statements are presented because of federal regulations and if consolidated financial statements are not also prepared as required by generally accepted accounting principles, has the auditor considered whether to express other than an unqualified opinion due to departure from GAAP on the parent-only financial statements? [AAG-SGA, par. 10.34]	_____	_____	_____

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

4. Does the report on compliance and on internal control over financial reporting conform to the standard reports illustrated in examples 2 and 2a in AAG-SGA? [AAG-SGA, App. D]	_____	_____	_____
5. Does the report contain the following elements:			
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 (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors)? [AAG-SGA, par. 10.39 and App. D, Ex. 2, fn. 23]	_____	_____	_____
b. A statement that the audit was conducted in accordance with GAAS (with an identification of the United States of America as the country of origin of those standards) and with the standards applicable to financial audits contained in <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States? <sup>*</sup>	_____	_____	_____

<sup>2</sup> GAS must be referenced when the report on the financial statements is submitted to comply with a legal, regulatory, or contractual requirement for an audit in accordance with GAS.

<sup>\*</sup> *Government Auditing Standards* Amendment No. 3, *Independence*, par. 3.13, states that when personal, external, or organizational independence is impaired, a government auditor who cannot decline to perform the work because of a legislative requirement or other reasons should report the impairment in the scope section of the auditor’s report. Amendment No. 3, as affected by *Government Auditing Standards: Answers to Independence Questions*, applies to all audits of financial statements performed in accordance with GAS for periods beginning on or after January 1, 2002. GAO encourages early implementation of the provisions of the amendment.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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?	_____	_____	_____
e. A statement that notes whether the results of tests disclosed instances of noncompliance that are required to be reported under GAS and, if they are, describes the instances of noncompliance or refers to the schedule of findings and questioned costs in which they are described? <sup>3</sup>	_____	_____	_____
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 reportable conditions noted or a reference to the schedule of findings and questioned costs in which the reportable conditions are described? <sup>4</sup>	_____	_____	_____
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? <sup>5</sup> (If there are no reportable conditions, a statement should be made that no material weaknesses were noted.)	_____	_____	_____

<sup>3</sup> For an audit that is not subject to Circular A-133 (that is, in accordance with GAS only), any reportable instances of noncompliance, reportable conditions, and material weaknesses can either be described in the body of the report or in a separate schedule referred to in the report that summarizes the findings noted. This statement should be modified accordingly. For an audit in accordance with Circular A-133, all findings, including those required to be reported under GAS, must be included in the schedule of findings and questioned costs. [AAG-SGA, Ch. 10, fn. 22]

<sup>4</sup> See footnote 3.

<sup>5</sup> See footnote 3.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<i>m.</i> If applicable, a statement that other matters involving the internal control over financial reporting were communicated to management in a separate letter?	_____	_____	_____
<i>n.</i> A separate paragraph at the end of the report stating that the report is intended solely for the information and use of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and (if applicable) pass-through entities and is not intended to be and should not be used by anyone other than these specified parties? <sup>6,7</sup>	_____	_____	_____
<i>o.</i> The manual or printed signature of the auditor's firm?	_____	_____	_____
<i>p.</i> The date of the auditor's report? [AAG-SGA, par. 10.39]	_____	_____	_____
6. If a material component unit or fund of the reporting entity is not required to have a GAS audit, has the scope paragraph of the report on compliance and on internal control over financial reporting been modified to indicate the portion of the reporting entity that was not audited in accordance with GAS? [AAG-SGA, par. 10.33]	_____	_____	_____
7. Do the reported instances of noncompliance include all instances of fraud and illegal acts (unless clearly inconsequential) and other non-compliance that is material to the financial statements? [GAS, Ch. 5, par. 18; AAG-SGA, par. 10.21]	_____	_____	_____
8. If the report contains material instances of noncompliance or fraud and illegal acts that are not clearly inconsequential, is the effect of such instances on the auditor's report on the financial statements considered? [SAS 74, par. 20 (AU 801.20)]	_____	_____	_____
9. Do the findings presented in or referred to from the report include all essential elements, including information to place the finding in proper perspective, condition, cause, criteria, effect, and the views of responsible officials? [GAS, Ch. 5, par. 19 and fn. 5; AAG-SGA, pars. 10.58–10.61]	_____	_____	_____
10. Does the report disclose the status of uncorrected material findings and recommendations from prior audits that affect the current financial statement audit? [GAS, Ch. 4, par. 10; AAG-SGA, par. 10.62]	_____	_____	_____
11. Does the report carry the same date as the report on the financial statements? [AAG-SGA, par. 10.50]	_____	_____	_____
<b>Other Matters</b>			
12. Are instances of fraud and illegal acts communicated directly to outside parties if such reporting is required by law or regulation or involves financial assistance received directly or indirectly from a government agency? [GAS, Ch. 5, pars. 21–25; AAG-SGA, pars. 10.23–10.25]	_____	_____	_____

<sup>6</sup> This paragraph conforms to SAS 87, *Restricting the Use of an Auditor's Report* (AU 532). See SAS 87 for additional guidance on restricted use reports.

<sup>7</sup> For an audit that is not subject to Circular A-133 (that is, in accordance with GAS only), the reference to federal awarding agencies and pass-through entities should be deleted. [AAG-SGA, Ch. 10, fn. 27]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
13. If the audit disclosed immaterial instances of noncompliance or deficiencies in internal control were not considered reportable conditions (referred to as "nonreportable conditions"), are those matters communicated to the entity in writing or orally, and included in the audit documentation? [GAS, Ch. 5, pars. 20 and 28; AAG-SGA, pars. 10.22 and 10.29]	_____	_____	_____
14. Has the auditor communicated the following information—in writing or orally and included in the audit documentation—to the organization or entity being audited, the individuals contracting for or requesting audit services, and the audit committee during the planning stages of the audit:			
<i>a.</i> The auditor's responsibilities in a financial statement audit, including his or her responsibilities for testing and reporting on compliance with laws and regulations and internal control over financial reporting?	_____	_____	_____
<i>b.</i> The nature of any additional testing of compliance and internal control required by laws and regulations or otherwise requested, and whether the auditor is planning on providing an opinion on compliance with laws and regulations and internal control over financial reporting?	_____	_____	_____
<i>c.</i> A contrasting of the information in Questions <i>a</i> and <i>b</i> above with other financial related audits of compliance and controls? [GAS, Ch. 4, pars. 4.6.3–4.6.7; AAG-SGA, pars. 3.18 and 3.19]	_____	_____	_____

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

1. If the entity is subject to the requirements of Circular A-133, are the following reports (in addition to those in Part I of this checklist) issued:			
<i>a.</i> A report on the supplementary schedule of expenditures of federal awards?	_____	_____	_____
<i>b.</i> A report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with Circular A-133?	_____	_____	_____
<i>c.</i> A schedule of findings and questioned costs? [AAG-SGA, par. 10.8]	_____	_____	_____

**Report on the Supplementary Schedule of Expenditures of Federal Awards**

2. Is the report on the supplementary schedule of expenditures of federal awards ( <i>a</i> ) included in the auditors' report on the financial statements, ( <i>b</i> ) included in the report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with Circular A-133, or ( <i>c</i> ) issued as a stand-alone report? [AAG-SGA, pars. 10.36, 10.47, and 10.52]	_____	_____	_____
3. Does the report conform to the standard reports illustrated in Example 1b, Example 3 (footnote 43), or Example 3a (footnote 48) of AAG-SGA? [AAG-SGA, pars. 10.36 and 10.37 and App. D]	_____	_____	_____
4. Does the report contain the following elements:			
<i>a.</i> A statement that the supplementary schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements?	_____	_____	_____
<i>b.</i> An opinion on whether the schedule is fairly stated in all material respects in relation to the financial statements taken as a whole? [AAG-SGA, par. 10.35]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 5. If the report on the financial statements refers to the work of other auditors, has the auditor considered the need to refer to the programs audited by other auditors in the report on the supplementary schedule of expenditures of federal awards?<br>[AAG-SGA, par. 3.51]                                  | _____      | _____     | _____      |
| 6. Does the report carry the same date as the report on the financial statements, even if that requires a dual date on the report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with Circular A-133?<br>[AAG-SGA, pars. 10.50 and 10.52] | _____      | _____     | _____      |
| 7. If the report on the schedule of expenditures of federal awards is issued as a stand-alone report (instead of being included in the report on the financial statements), has the guidance in SAS No. 58 been followed in issuing that report?<br>[AAG-SGA, par. 10.52]   | _____      | _____     | _____      |

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

- |   |       |       |       |
|---|-------|-------|-------|
| 8. Does the report conform to the standard reports illustrated in Examples 3–5 of AAG-SGA?<br>[AAG-SGA, App. D]   | _____ | _____ | _____ |
| 9. Does the report contain the following elements:  |       |       |       |
| 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 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?                             | _____ | _____ | _____ |
| d. A statement that the audit of compliance was conducted in accordance with GAAS (with an identification of the United States of America as the country of origin of those standards), the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, and A-133? | _____ | _____ | _____ |
| e. A statement that those standards and 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 such other procedures as the auditor considered necessary in the circumstances?  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 on 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 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 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 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 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)?	_____	_____	_____
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). If there are no reportable conditions, a statement is made that no material weaknesses were noted?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
s. A separate paragraph at the end of the report stating that the report is intended solely for the information and use of the audit committee, management, specified legislative or regulatory bodies, federal awarding agencies, and (if applicable) pass-through entities and is not intended to be and should not be used by anyone other than these specified parties? <sup>8</sup>	_____	_____	_____
t. The manual or printed signature of the auditor’s firm?	_____	_____	_____
u. The date of the auditor’s report? [AAG-SGA, par. 10.46]	_____	_____	_____
10. If the audit of the entity’s compliance with requirements applicable to major programs detects material instances of noncompliance with those requirements, does the auditors’ report express a qualified or adverse opinion? [AAG-SGA, par. 10.42]	_____	_____	_____
11. Have scope limitations on the auditor’s testing of an auditee’s compliance with laws, regulations, and the provisions of contracts or grant agreements been considered in the opinion on compliance with requirements applicable to each major programs? [AAG-SGA, pars. 10.43–10.45]	_____	_____	_____
12. Have the cumulative effects of all instances of noncompliance with federal programs and scope limitations been considered in the opinion on the financial statements? [AAG-SGA, pars. 10.42 and 10.43]	_____	_____	_____
13. Does the report <i>not</i> refer to a management letter with findings that are not required to be reported in the schedule of findings and questioned costs? [AAG-SGA, par. 10.48]	_____	_____	_____
14. Is the report dated the same as or later than the date of the auditors’ report on the financial statements? [AAG-SGA, par. 10.51]	_____	_____	_____
15. If the report is dated later than the date of the auditors’ reports on the financial statements, have appropriate subsequent events procedures been performed? [AAG-SGA, par. 10.51]	_____	_____	_____
16. If the audit of federal awards did not encompass the entirety of the auditee’s operations expending federal awards, are the operations that are not included identified in a separate paragraph following the first paragraph of the report? [AAG-SGA, par. 10.54]	_____	_____	_____
17. If the report on the financial statements refers to the work of other auditors, has the auditor considered the need to refer to the programs audited by other auditors in this report on compliance and on internal control? [AAG-SGA, par. 3.51]	_____	_____	_____

<sup>8</sup> This paragraph conforms to SAS 87, *Restricting the Use of an Auditor’s Report* (AU 532). See SAS 87 for additional guidance on restricted use reports.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>Schedule of Findings and Questioned Costs</b>			
18. Does the report conform to the standard report illustrated in Appendix E of AAG-SGA? [AAG-SGA, App. E]	_____	_____	_____
19. Is the report presented even if there are no findings to report? [AAG-SGA, par. 10.66]	_____	_____	_____
20. Does the report contain the following three sections:			
a. A summary of the auditor's results?	_____	_____	_____
b. Findings related to the financial statements that are required to be reported in accordance with GAS?	_____	_____	_____
c. Findings and questioned costs for federal awards? [AAG-SGA, par. 10.55]	_____	_____	_____
21. Does the summary of auditor's result include:			
a. The type of report the auditor issued on the financial statements (that is, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion)?	_____	_____	_____
b. 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?	_____	_____	_____
c. A statement on whether the audit disclosed any noncompliance that is material to the financial statements?	_____	_____	_____
d. 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 relative to internal control over major programs?	_____	_____	_____
e. The type of report the auditor issued on compliance for major programs (that is, unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion)?	_____	_____	_____
f. A statement as to whether the audit disclosed any audit findings that the auditor is required to report under A-133? (See Question 24 below.)	_____	_____	_____
g. An identification of major programs?	_____	_____	_____
h. The dollar threshold used to distinguish between Type A and Type B programs?	_____	_____	_____
i. A statement as to whether the auditee qualified as a low-risk auditee? [AAG-SGA, par. 10.56a]	_____	_____	_____
22. Are audit findings that relate to the same issue presented as a single audit finding? [AAG-SGA, par. 10.56c]	_____	_____	_____
23. If audit findings relate to both the financial statements and the federal awards, are they reported in both sections of the schedule (one in summary form with a reference to the detailed finding in the other section)? [AAG-SGA, par. 10.56c]	_____	_____	_____
24. Are the following reported as audit findings related to federal awards: including:			
a. Reportable conditions and material weaknesses in internal control over major programs?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Material noncompliance relating to a major program?	_____	_____	_____
c. Known and likely questioned costs that are greater than \$10,000 for a major program?	_____	_____	_____
d. Known questioned costs that are greater than \$10,000 for a federal program that is not audited as a major program?	_____	_____	_____
e. The circumstances concerning why the report on compliance for major programs is other than an unqualified opinion?	_____	_____	_____
f. Known fraud affecting a federal award? (An audit finding is not required if the fraud was reported outside the entity as required by GAS.)	_____	_____	_____
g. Instances of material misrepresentation by the auditee of the status of any prior audit findings? [AAG-SGA, par. 10.63]	_____	_____	_____
25. Does the audit finding detail include, as applicable:			
a. A reference number?	_____	_____	_____
b. Identification of the federal program and award, including CFDA title and number, federal award number and year, name of federal agency, and name of pass-through entity? <sup>9</sup>	_____	_____	_____
c. The criteria or specific requirement upon which the audit finding is based, including the statutory, regulatory, or other citation?	_____	_____	_____
d. The condition found, including facts that support the deficiency identified?	_____	_____	_____
e. Identification of questioned costs and how they were computed?	_____	_____	_____
f. Information to put the finding in proper perspective for judging the prevalence and consequences of audit findings? <sup>10</sup>	_____	_____	_____
g. The possible asserted effect of the condition?	_____	_____	_____
h. Recommendations to prevent future occurrence of the deficiency?	_____	_____	_____
i. Views of responsible officials of the auditee when there is disagreement with the audit finding, to the extent practical? <sup>11</sup>	_____	_____	_____
j. If the auditor disagrees with the auditees position concerning a finding, a statement of his or her reasons for rejecting it? [AAG-SGA, pars. 10.64 and 10.65]	_____	_____	_____
<b>Data Collection Form<sup>12</sup></b>			
26. Has the auditor completed the appropriate parts of the data collection form? [AAG-SGA, par. 10.72]	_____	_____	_____

<sup>9</sup> When information such as the CFDA title and number or federal award number is not available, the auditor should provide the best information available to describe the federal award. [AAG-SGA, par. 10.64a]

<sup>10</sup> Where appropriate the instances identified should be related to the universe and the number of cases examined and be quantified in terms of the dollar value. [AAG-SGA, par. 10.64e]

<sup>11</sup> If the auditee's corrective action plan is available and contains the views of the responsible officials, the auditor can indicate in the finding that the auditee disagreed with the finding and refer to the details of the auditee's position in the plan. [AAG-SGA, par. 10.64h]

<sup>12</sup> The Federal Audit Clearinghouse accepts online submission of all data collection forms. The data collection forms and related instructions can be obtained from the Clearinghouse web site or calling (888) 222-9907.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
27. Has the auditor signed the form and dated it as of the date on which he or she completes and signs the form? [AAG-SGA, par. 10.72]	_____	_____	_____
28. Does the information on the data collection form agree to the information on the auditor's reports and the summary of auditor's results in the schedule of findings and questioned costs? [Federal Audit Clearinghouse, Data Collection Form, No. SF-SAC]	_____	_____	_____
<b>Program-Specific Audits</b>			
29. In a program-specific audit performed in accordance with A-133, are the following reports issued: <sup>13</sup>			
a. A report 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 Circular A-133?	_____	_____	_____
c. A schedule of findings and questions costs for the federal program? [AAG-SGA, pars. 11.8 and 11.9]	_____	_____	_____
30. Does the report on compliance and on internal control for a program-specific audit conform to the standard reports illustrated in Examples 6 and 6a in AAG-SGA? [AAG-SGA, par. 11.10 and App. D]	_____	_____	_____

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<sup>13</sup> If the financial statement(s) of the program only present the activity of the federal program, the auditor is not required to issue a separate report to meet the financial reporting requirements of GAS. This is because, in many cases, by definition the financial statements of the program consist only of the schedule of expenditures of federal awards. See the further discussion in paragraph 11.10 of AAG-SGA.



# 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* with conforming changes as of January 1, 2003 (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.

This section contains illustrative financial statements, prepared using the illustrative financial statements in the AICPA Audit and Accounting Guide *Health Care Organizations* (with conforming changes as of January 1, 2003), 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, 20X7 and 20X6

(in thousands)

	<u>20X7</u>	<u>20X6</u>
<b>Assets</b>		
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 20X7 and \$2,400 in 20X6	15,100	14,194
Other current assets	<u>2,670</u>	<u>2,856</u>
Total current assets	<u>39,334</u>	<u>34,967</u>
Interest in net assets of Sample Hospital Foundation*	510	462
Assets limited as to use:		
Internally designated for capital acquisition	12,000	12,500
Held by trustee	<u>6,949</u>	<u>7,341</u>
	18,949	19,841
Less amount required to meet current obligations	<u>(970)</u>	<u>(1,300)</u>
	<u>17,979</u>	<u>18,541</u>
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	<u>1,185</u>	<u>908</u>
Total assets	<u>\$115,046</u>	<u>\$110,570</u>

(continued)

\* These illustrative financial statements include a presentation of an interest in the net assets of a financially interrelated foundation that is based on the particular fact pattern described in Note 12 to the illustrative financial statements and the following additional facts:

- Sample Not-for-Profit Hospital can influence the financial decisions of Sample Hospital Foundation to such an extent that it can determine the timing and amount of distributions from the Foundation. Thus, it is inappropriate for the Hospital to imply a time restriction on amounts held by the Foundation.
- Contributions to Foundation are restricted by donors for property acquisitions. Those restrictions have been met by the Hospital even though the net assets remain at the Foundation. Thus, the net assets related to the interest in the Foundation are classified as unrestricted in the Hospital's financial statements.
- The Hospital's policy is to report restricted revenues as unrestricted if the restriction is met in the same period as the revenues are recognized.

Because the change in the interest in net assets of the foundation results from contributions restricted to property acquisitions, this presentation shows the change in that interest reported separately from the performance indicator, in the spirit of the guidance in paragraph 10.18 for contributions restricted to property acquisitions. Readers should be aware that SFAS 136 is silent on this classification. The AICPA is considering addressing the classification of the change in interest in a financially interrelated organization and related issues in Technical Practice Aids (TPAs). TPAs are nonauthoritative and are not sources of established accounting principles as described in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

	<u>20X7</u>	<u>20X6</u>
<b>Liabilities and Net Assets</b>		
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	<u>1,969</u>	<u>2,114</u>
Total current liabilities	<u>11,400</u>	<u>11,188</u>
Long-term debt, net of current portion	23,144	24,014
Other liabilities	<u>3,953</u>	<u>3,166</u>
Total liabilities	<u>38,497</u>	<u>38,368</u>
Net assets:		
Unrestricted	70,846	66,199
Temporarily restricted	2,115	2,470
Permanently restricted	<u>3,588</u>	<u>3,533</u>
Total net assets	<u>76,549</u>	<u>72,202</u>
Total liabilities and net assets	<u>\$115,046</u>	<u>\$110,570</u>

See accompanying notes to financial statements.

**Sample Not-for-Profit Hospital**  
**Statements of Operations**  
**Years Ended December 31, 20X7 and 20X6**  
**(in thousands)**

	20X7	20X6
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	99,207	95,104
Expenses:		
Operating expenses	88,521	80,585
Depreciation and amortization	4,782	4,280
Interest	1,752	1,825
Allowance for bad debts	1,000	1,300
Other	2,000	1,300
Total expenses	98,055	89,290
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	
Change in interest in net assets of Sample Hospital Foundation <sup>*</sup>	283	536
Transfers to parent	(688)	(3,051)
Increase in unrestricted net assets, before extraordinary item	5,147	6,699
Extraordinary loss from extinguishment of debt	(500)	
Increase in unrestricted net assets	\$ 4,647	\$ 6,699

See accompanying notes to financial statements.

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\* These illustrative financial statements include a presentation of an interest in the net assets of a financially interrelated foundation that is based on the particular fact pattern described in Note 12 to the illustrative financial statements and the following additional facts:

- Sample Not-for-Profit Hospital can influence the financial decisions of Sample Hospital Foundation to such an extent that it can determine the timing and amount of distributions from the Foundation. Thus, it is inappropriate for the Hospital to imply a time restriction on amounts held by the Foundation.
- Contributions to Foundation are restricted by donors for property acquisitions. Those restrictions have been met by the Hospital even though the net assets remain at the Foundation. Thus, the net assets related to the interest in the Foundation are classified as unrestricted in the Hospital's financial statements.
- The Hospital's policy is to report restricted revenues as unrestricted if the restriction is met in the same period as the revenues are recognized.

Because the change in the interest in net assets of the foundation results from contributions restricted to property acquisitions, this presentation shows the change in that interest reported separately from the performance indicator, in the spirit of the guidance in paragraph 10.18 for contributions restricted to property acquisitions. Readers should be aware that SFAS 136 is silent on this classification. The AICPA is considering addressing the classification of the change in interest in a financially interrelated organization and related issues in Technical Practice Aids (TPAs). TPAs are nonauthoritative and are not sources of established accounting principles as described in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

.04

FORMAT B

**Sample Not-for-Profit Hospital**  
**Statements of Operations**  
**Years Ended December 31, 20X7 and 20X6**  
**(in thousands)**

	<u>20X7</u>	<u>20X6</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
Allowance 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	
Change in interest in net assets of Sample Hospital Foundation*	283	536
Transfers to parent	<u>(688)</u>	<u>(3,051)</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.

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\* These illustrative financial statements include a presentation of an interest in the net assets of a financially interrelated foundation that is based on the particular fact pattern described in Note 12 to the illustrative financial statements and the following additional facts:

- Sample Not-for-Profit Hospital can influence the financial decisions of Sample Hospital Foundation to such an extent that it can determine the timing and amount of distributions from the Foundation. Thus, it is inappropriate for the Hospital to imply a time restriction on amounts held by the Foundation.
- Contributions to Foundation are restricted by donors for property acquisitions. Those restrictions have been met by the Hospital even though the net assets remain at the Foundation. Thus, the net assets related to the interest in the Foundation are classified as unrestricted in the Hospital's financial statements.
- The Hospital's policy is to report restricted revenues as unrestricted if the restriction is met in the same period as the revenues are recognized.

Because the change in the interest in net assets of the foundation results from contributions restricted to property acquisitions, this presentation shows the change in that interest reported separately from the performance indicator, in the spirit of the guidance in paragraph 10.18 for contributions restricted to property acquisitions. Readers should be aware that SFAS 136 is silent on this classification. The AICPA is considering addressing the classification of the change in interest in a financially interrelated organization and related issues in Technical Practice Aids (TPAs). TPAs are nonauthoritative and are not sources of established accounting principles as described in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

.05

**Sample Not-for-Profit Hospital**  
**Statements of Changes in Net Assets**  
**Years Ended December 31, 20X7 and 20X6**  
**(in thousands)**

	<u>20X7</u>	<u>20X6</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 5,052	\$ 8,839
Net unrealized gains on investments, other than trading securities	300	375
Change in interest in net assets of Sample Hospital Foundation*	283	536
Transfers to parent	(688)	(3,051)
Net assets released from restrictions used for purchase of property and equipment	200	—
Increase in unrestricted net assets before extraordinary item	5,147	6,699
Extraordinary loss from extinguishment of debt	(500)	—
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	(500)	—
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	5	2
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.

\* These illustrative financial statements include a presentation of an interest in the net assets of a financially interrelated foundation that is based on the particular fact pattern described in Note 12 to the illustrative financial statements and the following additional facts:

- Sample Not-for-Profit Hospital can influence the financial decisions of Sample Hospital Foundation to such an extent that it can determine the timing and amount of distributions from the Foundation. Thus, it is inappropriate for the Hospital to imply a time restriction on amounts held by the Foundation.
- Contributions to Foundation are restricted by donors for property acquisitions. Those restrictions have been met by the Hospital even though the net assets remain at the Foundation. Thus, the net assets related to the interest in the Foundation are classified as unrestricted in the Hospital's financial statements.
- The Hospital's policy is to report restricted revenues as unrestricted if the restriction is met in the same period as the revenues are recognized.

Because the change in the interest in net assets of the foundation results from contributions restricted to property acquisitions, this presentation shows the change in that interest reported separately from the performance indicator, in the spirit of the guidance in paragraph 10.18 for contributions restricted to property acquisitions. Readers should be aware that SFAS 136 is silent on this classification. The AICPA is considering addressing the classification of the change in interest in a financially interrelated organization and related issues in Technical Practice Aids (TPAs). TPAs are nonauthoritative and are not sources of established accounting principles as described in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

.06

**Sample Not-for-Profit Hospital**  
**Statements of Cash Flows (Indirect Method)**  
**Years Ended December 31, 20X7 and 20X6**  
**(in thousands)**

	<u>20X7</u>	<u>20X6</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)
Undistributed portion of change in interest in net assets of Sample Hospital Foundation	(48)	(51)
Transfers to parent	688	3,051
Allowance 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	(277)	(190)
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>10,026</u>	<u>11,600</u>
Cash flows from investing activities:		
Purchase of investments	(3,769)	(2,150)
Capital expenditures	(4,728)	(5,860)
Net cash used in investing activities	<u>(8,497)</u>	<u>(8,010)</u>
Cash flows from financing activities:		
Transfers to parent	(688)	(3,051)
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	22,600	500
Net cash used in financing activities	<u>(2,648)</u>	<u>(3,042)</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 20X7.

Cash paid for interest (net of amount capitalized) in 20X7 and 20X6 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, 20X7 and 20X6**

**1. Description of Organization and Summary of Significant Accounting Policies<sup>1</sup>**

*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 20X1 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, 20X7 and 20X6.

*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

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<sup>1</sup> Paragraph 13 of SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, provides guidance on disclosures that should be included in the summary of significant accounting policies, including accounting policies for loans, trade receivables, and doubtful accounts. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001.

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 and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute 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 20X3, 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 20X7, the intermediary accepted the claims and paid the outstanding claims, including \$950,000 applicable to 20X6 and \$300,000 applicable to 20X5 and prior, which has been included in 20X7 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.

Revenue from the Medicare and Medicaid programs accounted for approximately XX percent and XX percent, respectively, of the Hospital’s net patient revenue for the year ended 20X7, and XX percent and XX percent, respectively, of the Hospital’s net patient revenue, for the year ended 20X6. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 20X6 net patient service revenue increased approximately \$XXX due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations. The 20X7 net patient service revenue decreased approximately \$XXX due to prior-year retroactive adjustments in excess of amounts previously estimated.

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, 20X7 and 20X6, is set forth in the following table. Investments are stated at fair value.

	<u>20X7</u>	<u>20X6</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, 20X7 and 20X6, include:

	<u>20X7</u>	<u>20X6</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, 20X7 and 20X6:

	<u>20X7</u>	<u>20X6</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	165,000	100,000
	<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, 20X7 and 20X6, follows:

	<u>20X7</u>	<u>20X6</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	2,851,000	2,752,000
	<u>82,365,000</u>	<u>79,120,000</u>
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, 20X7 and 20X6 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, 20X7 and 20X6, respectively. Construction contracts of approximately \$7,885,000 exist for the remodeling of Hospital facilities. At December 31, 20X7, 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, 20X7 and 20X6, follows:

	<u>20X7</u>	<u>20X6</u>
7.25 percent 20X7 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 20X2 Tax-Exempt Revenue Bonds, principal maturing in varying annual amounts, due June 1, 20XX		\$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 20XX, 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 20X7 and 20X2 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>
20X8	\$ 970,000	\$ 550,000
20X9	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 20X7 and 20X2 revenue bond indentures during the years ended December 31, 20X7 and 20X6, follows:

	<u>20X7</u>	<u>20X6</u>
Interest cost:		
Capitalized	\$ 740,000	\$ 700,000
Charged to operations	1,752,000	1,825,000
Total	<u>\$2,492,000</u>	<u>\$2,525,000</u>
Investment income:		
Capitalized	\$ 505,000	\$ 663,000
Credited to other revenue	330,000	386,000
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, 20X7 and 20X6:

	<u>20X7</u>	<u>20X6</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, 20X9	<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, 20X7 and 20X6, are restricted to:

	<u>20X7</u>	<u>20X6</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 20X7, 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, 20X7, 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.*

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\* SFAS 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*, an amendment of SFASs 87, 88, and 106, permits reduced disclosures for nonpublic entities. This note to the financial statements illustrates the financial statement disclosures about pension and postretirement benefit plans for a public entity. Readers should refer to SFAS 132 when considering disclosure requirements for nonpublic entities.

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 20X7, 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 20X7, 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>20X7</u>	<u>20X6</u>	<u>20X7</u>	<u>20X6</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	759	810	4	4
Employer contribution	866	790	39	19
Plan participants' contributions			34	34
Benefits paid	(375)	(1,410)	(66)	(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 20X8. The rate was assumed to decrease gradually to 5 percent over the next five years.

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>20X7</u>	<u>20X6</u>	<u>20X7</u>	<u>20X6</u>
Components of net periodic benefit cost:				
Service cost	\$ 905	\$ 770	\$14	\$15
Interest cost	700	650	50	44
Expected return on plan assets	(784)	(769)	(6)	(3)
Amortization of prior service cost	5	7	3	2
Recognized net actuarial gain	(5)	(2)	(15)	(1)
Amortization of transition obligation			25	25
Amortization of transition asset	(5)	(1)		
Net periodic benefit cost	<u>\$ 816</u>	<u>\$ 655</u>	<u>\$71</u>	<u>\$82</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, 20X7 and 20X6, was as follows:

	<u>20X7</u>	<u>20X6</u>
Medicare	51%	53%
Medicaid	17	14
Blue Cross	18	17
Other third-party payors	7	9
Patients	7	7
	<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 20Y2. Total rental expense in 20X7 and 20X6 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, 20X7, that have initial or remaining lease terms in excess of one year.

<u>Year Ending December 31,</u>	<u>Amount</u>
20X8	\$517,000
20X9	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 20X5, 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 20X7, the Hospital advance refunded its 20X2 Revenue Bonds in the amount of \$22 million by issuing 20X7 Revenue Bonds. As a result of this transaction, an extraordinary loss totaling \$500,000 was recorded. As of December 31, 20X7, \$21 million of advance refunded bonds, which are considered extinguished, remain outstanding.

### 12. Related Party Transactions

During the years ended December 31, 20X7 and 20X6, the Hospital contributed capital to Sample Health System, an affiliate with some board members in common with the Hospital, in the amounts of \$688,000 and \$3,051,000, respectively.

The Sample Hospital Foundation (the Foundation), which is controlled by Sample Health System, was established to solicit contributions from the general public solely for the funding of capital acquisitions by 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. The Hospital's interest in the net assets of the Foundation is reported as a non-current asset in the balance sheets.

	<i>December 31,</i>	
	<u>20X6</u>	<u>20X7</u>
Assets, principally cash and cash equivalents	\$521,000	\$472,000
Liabilities	11,000	10,000
Unrestricted net assets	510,000	462,000
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
Unrestricted net assets, beginning of year	462,000	411,000
Unrestricted 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):

	<i>December 31,</i>	
	<u>20X7</u>	<u>20X6</u>
Health care services	\$86,000	\$78,647
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, 20X7 and 20X6, are as follows (In thousands):

	20X7		20X6	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
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, 20X7, 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, 20X7.

**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 20X7 and 20X6, respectively.

**17. Subsequent Event**

On February 9, 20X8, 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, 20X5 and 20X4

	<u>20X5</u>	<u>20X4</u>
<b>Assets</b>		
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 20X5 and \$5,300 in 20X4	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	<u>210,000</u>	<u>141,000</u>
Property and equipment, net	<u>1,659,000</u>	<u>1,684,000</u>
Other assets	<u>150,000</u>	<u>127,000</u>
Total assets	<u><u>\$2,579,000</u></u>	<u><u>\$2,413,000</u></u>
<b>Liabilities and Shareholders' Equity</b>		
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	<u>6,000</u>	<u>14,000</u>
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	<u>376,000</u>	<u>229,000</u>
Total shareholders' equity	<u>446,000</u>	<u>299,000</u>
Total liabilities and shareholders' equity	<u><u>\$2,579,000</u></u>	<u><u>\$2,413,000</u></u>

See accompanying notes to financial statements.

.09

**Sample For-Profit Nursing Home, Inc.**  
**Statements of Income and Retained Earnings**  
**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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	147,000	43,000
Retained earnings, beginning of year	229,000	186,000
Retained earnings, end of year	<u>\$ 376,000</u>	<u>\$ 229,000</u>

See accompanying notes to financial statements.

**Sample For-Profit Nursing Home, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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.

.11

**Sample For-Profit Nursing Home, Inc.**  
**Notes to Financial Statements**  
**December 31, 20X5 and 20X4**

**1. Description of Organization and Summary of Significant Accounting Policies<sup>2</sup>**

*Organization.* The Sample Nursing Home, Inc. (the Company) was incorporated in New State in 20X1 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 20X1 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.

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<sup>2</sup> Paragraph 13 of SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, provides guidance on disclosures that should be included in the summary of significant accounting policies, including accounting policies for loans, trade receivables, and doubtful accounts. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001.

**2. Assets Limited as to Use**

Assets limited as to use include:

Assets held by trustee under the Series 20X1 note indenture agreement at December 31, 20X5 and 20X4.

	<u>20X5</u>	<u>20X4</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\*****4. Long-Term Debt**

Long-term debt at December 31, 20X5 and 20X4, was as follows:

	<u>20X5</u>	<u>20X4</u>
9.5 percent bonds payable to the City of Abacus, maturing \$50,000 annually through November 1, 20YY, with a final maturity of \$1 million on November 1, 20YY	\$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, 20X5, follow:

<u>Year ending December 31,</u>	<u>Amount</u>
20X6	\$ 50,000
20X7	50,000
20X8	50,000
20X9	50,000
20Y0	50,000
Thereafter	<u>1,500,000</u>
Total	<u>\$1,750,000</u>

\* In reporting disclosures about investments in securities, entities should comply primarily with the requirements of paragraphs 6, 17, 19, 20, 21, and 22 of SFAS 115, as amended. Other disclosure requirements may also be applicable.

**5. Income Taxes**

The provisions for income taxes are as follows:

	<u>20X5</u>	<u>20X4</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, 20X5 and 20X4, 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, 20X5 and 20X4, follows:

	<u>20X5</u>	<u>20X4</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, 20X5 and 20X4, 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 20X6 includes additional funding, there is no assurance that the final budget will include the needed additional funds.

**7. Third Party Rate Adjustments and Revenue**

Revenue from the Medicaid program accounted for approximately XX percent for the year ended 20X5, and XX percent for the year ended 20X4, of the Company’s net patient revenue. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 20X5 net patient service revenue increased approximately \$XXX due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations. The 20X4 net patient service revenue decreased approximately \$XXX due to prior-year retroactive adjustments in excess of amounts previously estimated.

**8. Risks and Uncertainties Disclosures\***

**9. Pension Plan\***

**10. Postretirement Benefits\***

**11. Fair Values of Financial Instruments\***

**12. Concentrations of Credit Risk\***

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\* 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, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</u>
<b>Assets</b>		
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 20X5 and \$5,000 in 20X4	187,000	197,000
Supplies	40,000	21,000
Prepaid expenses	115,000	73,000
Total current assets	<u>982,000</u>	<u>791,000</u>
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 20X5 and \$21,000 in 20X4	83,000	90,000
Total assets	<u>\$17,823,000</u>	<u>\$17,744,000</u>
<b>Liabilities and Net Assets</b>		
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	<u>453,000</u>	<u>469,000</u>
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	<u>15,775,000</u>	<u>16,233,000</u>
Net assets:		
Unrestricted	1,286,000	833,000
Temporarily restricted	311,000	294,000
Permanently restricted	451,000	384,000
Total net assets	<u>2,048,000</u>	<u>1,511,000</u>
Total liabilities and net assets	<u>\$17,823,000</u>	<u>\$17,744,000</u>

See accompanying notes to financial statements.

.13

**Sample Not-for-Profit Continuing Care Retirement Community**  
**Statements of Operations**  
**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</u>
Revenue, gains, and other support:		
Resident services, including amortization of advance fees of \$935,000 in 20X5 and \$915,000 in 20X4	\$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	<u>75,000</u>	<u>68,000</u>
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	<u>967,000</u>	<u>955,000</u>
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.

.14

**Sample Not-for-Profit Continuing Care Retirement Community**

**Statements of Changes in Net Assets**

**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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.

.15

**Sample Not-for-Profit Continuing Care Retirement Community**  
**Statements of Cash Flows**  
**Years Ended December 31, 20X5 and 20X4**

	20X5	20X4
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	(950,000)	(945,000)
Net cash provided by operating activities	574,000	378,000
Cash flows from investing activities:		
Purchase of property and equipment	(65,000)	(250,000)
Purchase of assets limited as to use	(377,000)	229,000
Net cash used in investing activities	(442,000)	(21,000)
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	(77,000)	(307,000)
Net cash used in financing activities	(87,000)	(307,000)
Net increase in cash	45,000	50,000
Cash, beginning of year	330,000	280,000
Cash, end of year	\$ 375,000	\$ 330,000
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	(61,000)	(4,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	(11,000)	100,000
Net cash provided by operating activities	\$ 574,000	\$ 378,000

See accompanying notes to financial statements.

.16

## Sample Not-for-Profit Continuing Care Retirement Community

### Notes to Financial Statements<sup>3</sup>

December 31, 20X5 and 20X4

#### 1. Description of Organization and Summary of Significant Accounting Policies<sup>\*4</sup>

*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 20X1. 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

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<sup>3</sup> SOP 00-1 provides auditors with guidance regarding uncertainties in health care revenue recognition and includes a sample disclosure in paragraph 37 of the SOP for material differences between an original estimate and subsequent revisions regarding third-party payments. SOP 00-1 is included in Appendix E to the Guide.

<sup>\*</sup> Does not include all disclosures common to all health care entities.

<sup>4</sup> Paragraph 13 of SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, provides guidance on disclosures that should be included in the summary of significant accounting policies, including accounting policies for loans, trade receivables, and doubtful accounts. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001.

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.

*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, 20X5 and 20X4, follows:

	<u>20X5</u>	<u>20X4</u>
Land	\$ 557,000	\$ 557,000
Land improvements	205,000	203,000
Buildings and improvements	14,573,000	14,564,000
Furniture and equipment	<u>752,000</u>	<u>698,000</u>
	16,087,000	16,022,000
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>20X5</u>	<u>20X4</u>
Purchase of equipment	\$169,000	\$152,000
Charity care	<u>142,000</u>	<u>142,000</u>
	<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>20X5</u>	<u>20X4</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>20X5</u>	<u>20X4</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, 20X5 and 20X4, is as follows:

	<u>20X5</u>	<u>20X4</u>
10.75 percent mortgage note payable	\$8,901,000	\$8,965,000
Notes payable to bank—unsecured	34,000	14,000
Other	26,000	33,000
	<u>8,961,000</u>	<u>9,012,000</u>
Less current maturities	90,000	77,000
	<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, 20X5, 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, 20X3. 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, 20X4, 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, 20X5 and 20X4, 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>
20X6	\$ 90,000
20X7	90,000
20X8	95,000
20X9	105,000
20Y0	105,000

## 6. Classification of Expenses

	<u>20X5</u>	<u>20X4</u>
Program activities	3,368,000	3,135,000
General and administrative	593,000	570,000
	<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

.17

## Sample Not-for-Profit Home Health Agency

## Balance Sheets

December 31, 20X5 and 20X4

	<u>20X5</u>	<u>20X4</u>
<b>Assets</b>		
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 20X5 and \$30,000 in 20X4	752,000	476,000
Other receivables	27,000	22,000
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	50,000	37,000
	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 20X5 and \$10,000 in 20X4	<u>20,000</u>	<u>25,000</u>
Total assets	<u><u>\$1,181,000</u></u>	<u><u>\$853,000</u></u>
<b>Liabilities and Net Assets</b>		
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	70,000	66,000
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	90,000	80,000
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, 20X5 and 20X4**

	20X5	20X4
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	27,000	32,000
Total revenue, gains, and other support	4,092,000	2,747,000
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	16,000	19,000
Total expenses	3,929,000	2,648,000
Excess of revenue over expenses and change in unrestricted net assets	\$ 163,000	\$ 99,000

See accompanying notes to financial statements.

.19

FORMAT B

**Sample Not-for-Profit Home Health Agency**  
**Statements of Operations**  
**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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, 20X5 and 20X4**

	20X5	20X4
Unrestricted net assets:		
Excess of revenue over expenses	\$163,000	\$ 99,000
Increase in unrestricted net assets	163,000	99,000
Temporarily restricted net assets:		
Contributions	9,000	5,000
Net assets released from restrictions	(5,000)	—
Increase in temporarily restricted net assets	4,000	5,000
Permanently restricted net assets:		
Contributions	10,000	6,000
Increase in permanently restricted net assets	10,000	6,000
Increase in net assets	177,000	110,000
Net assets, beginning of year	252,000	142,000
Net assets, end of year	\$429,000	\$252,000

See accompanying notes to financial statements.

.21

**Sample Not-for-Profit Home Health Agency**  
**Statements of Cash Flows**  
**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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, 20X5 and 20X4**

**1. Description of Organization and Summary of Significant Accounting Policies<sup>5</sup>**

*Organization.* The Sample Home Health Agency (the Agency) was incorporated in 20X0 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.

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<sup>5</sup> Paragraph 13 of SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, provides guidance on disclosures that should be included in the summary of significant accounting policies, including accounting policies for loans, trade receivables, and doubtful accounts. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001.

*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>20X5</u>	<u>20X4</u>
Charity care	\$ —	\$5,000
Purchase of equipment	9,000	—
	<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>20X5</u>	<u>20X4</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>20X5</u>	<u>20X4</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 20X5 and 37 percent in 20X4 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. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 20X5 net patient service revenue increased approximately \$XXX due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations. The 20X4 net patient service revenue decreased approximately \$XXX due to prior-year retroactive adjustments in excess of amounts previously estimated.

**5. Internally-Designated Assets**

The Board of Directors has designated investments aggregating \$100,000 to be used for future major capital improvements. Those assets are classified in the balance sheet as long-term investments.

## 6. Long-Term Debt

Long-term debt at December 31, 20X5 and 20X4, is as follows:

	<u>20X5</u>	<u>20X4</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, 20X5, are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
20X6	\$ 13,000
20X7	13,000
20X8	13,000
20X9	13,000
20Y0	13,000
Thereafter	<u>53,000</u>
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, 20X5, 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, 20X4, 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 20X5 and 20X4, 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\*

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\* 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, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$2,937,000	\$1,021,000
Premiums receivable, net of allowance for doubtful accounts of \$36,000 in 20X5 and \$42,000 in 20X4	358,000	407,000
Other receivables	263,000	261,000
Supplies	190,000	184,000
Prepaid expenses	197,000	99,000
Total current assets	<u>3,945,000</u>	<u>1,972,000</u>
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 20X5 and \$39,000 in 20X4	18,000	21,000
Total assets	<u>\$9,869,000</u>	<u>\$7,769,000</u>
<b>Liabilities and Net Assets</b>		
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	<u>3,456,000</u>	<u>2,487,000</u>
Long-term debt, less current maturities	<u>4,295,000</u>	<u>2,382,000</u>
Total liabilities	<u>7,751,000</u>	<u>4,869,000</u>
Net assets—unrestricted	<u>2,118,000</u>	<u>2,900,000</u>
Total liabilities and net assets	<u>\$9,869,000</u>	<u>\$7,769,000</u>

See accompanying notes to financial statements.

.24

**Sample Not-for-Profit Health Maintenance Organization**  
**Statements of Operations and Changes in Net Assets**  
**Years Ended June 30, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</u>
Revenue:		
Premiums earned	\$27,682,000	\$22,500,000
Coinsurance	689,000	500,000
Interest and other income	<u>242,000</u>	<u>100,000</u>
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	<u>385,000</u>	<u>375,000</u>
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, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</u>
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	<u>412,000</u>	<u>1,310,000</u>
Cash flows from investing activities:		
Capital expenditures	(497,000)	(121,000)
Net cash used in investing activities	<u>(497,000)</u>	<u>(121,000)</u>
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	<u>2,001,000</u>	<u>(1,000,000)</u>
Net increase in cash and cash equivalents	1,916,000	189,000
Cash and cash equivalents, beginning of year	<u>1,021,000</u>	<u>832,000</u>
Cash and cash equivalents, end of year	<u>\$ 2,937,000</u>	<u>\$ 1,021,000</u>
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	<u>\$ 412,000</u>	<u>\$ 1,310,000</u>

See accompanying notes to financial statements.

.26

## Sample Not-for-Profit Health Maintenance Organization

### Notes to Financial Statements<sup>6</sup>

June 30, 20X5 and 20X4

#### 1. Organization

The Sample Health Maintenance Organization (the HMO) was incorporated in 20X0 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<sup>7</sup>

*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 20X1 and 20X2 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

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<sup>6</sup> SOP 00-1 provides auditors with guidance regarding uncertainties in health care revenue recognition and includes a sample disclosure in paragraph 37 of the SOP for material differences between an original estimate and subsequent revisions regarding third-party payments. SOP 00-1 is included in appendix E to the Guide.

<sup>7</sup> Paragraph 13 of SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, provides guidance on disclosures that should be included in the summary of significant accounting policies, including accounting policies for loans, trade receivables, and doubtful accounts. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001.

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, 20X5 and 20X4, consists of the following:

	<u>20X5</u>	<u>20X4</u>
Land	\$ 300,000	\$ 300,000
Buildings and improvements	5,473,000	5,459,000
Furniture and equipment	1,786,000	1,303,000
	<u>7,559,000</u>	<u>7,062,000</u>
Less accumulated depreciation	(1,803,000)	(1,436,000)
	<u>\$5,756,000</u>	<u>\$5,626,000</u>

### 4. Long-Term Debt

Long-term debt is collateralized by assets with a depreciated cost of \$4,943,000. A summary of long-term debt at June 30, 20X5 and 20X4, follows.

	<u>20X5</u>	<u>20X4</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>
20X6	\$ 241,000
20X7	259,000
20X8	280,000
20X9	800,000
20Y0	2,956,000
	<u>\$4,536,000</u>

**5. State Guarantee Fund Deposit**

In August 20X4 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, 20X5 and 20X4, 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 20X5 and 20X4, respectively. Approximately \$600,000 and \$400,000 in stop-loss insurance recoveries are deducted from insurance expense in 20X5 and 20X4, 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, 20X5, 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>20X5</u>	<u>20X4</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\*

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\* 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**

.27

**Sample Not-for-Profit Ambulatory Care, Inc.**

**Balance Sheets**

**December 31, 20X5 and 20X4**

	20X5	20X4
<b>Assets</b>		
Current assets:		
Cash	\$ 65,000	\$ 76,000
Patient accounts receivable, net of allowance for doubtful accounts of \$15,000 in 20X5 and \$5,000 in 20X4	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
<b>Liabilities and Net Assets</b>		
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, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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>\$2,451,000</u>	<u>\$2,541,000</u>

See accompanying notes to financial statements.

.29

**Sample Not-for-Profit Ambulatory Care, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 20X5 and 20X4**

	<u>20X5</u>	<u>20X4</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	(870,000)	(432,000)
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	(9,000)	(5,000)
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	(6,000)	—
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	76,000	4,000
Cash, end of year	<u>\$ 65,000</u>	<u>\$ 76,000</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	(1,000)	1,000
Net cash provided by (used in) operating activities	<u>\$ 5,000</u>	<u>\$ (63,000)</u>

See accompanying notes to financial statements.

**Sample Not-for-Profit Ambulatory Care, Inc.**  
**Notes to Financial Statements**  
**December 31, 20X5 and 20X4**

**1. Description of Organization and Summary of Significant Accounting Policies<sup>8</sup>**

*Organization.* Ambulatory Care, Inc. was incorporated on September 7, 20X3, 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 20X3.

*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<sup>\*</sup>**

In May 20X4, 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

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<sup>8</sup> Paragraph 13 of SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, provides guidance on disclosures that should be included in the summary of significant accounting policies, including accounting policies for loans, trade receivables, and doubtful accounts. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001.

<sup>\*</sup> FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. That Interpretation also clarifies that a guarantor is required to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. Initial recognition and initial measurement provisions apply on a prospective basis to certain guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. Conforming changes identified for these illustrative financial statements in Appendix A of this Guide to reflect the issuance of FASB Interpretation No. 45 will be made in a future edition of this Guide.

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 20X8.

**3. Related-Party Transactions**

During 20X3, 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, 20X5, but has been extended on a month-to-month basis.

In addition, during 20X4 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 20X5 and 20X4, respectively). Of the total \$144,000 liability, \$48,000 is payable on demand after November 28, 20X5, to one member hospital, with the remaining portion (\$96,000) payable on demand after December 8, 20X5, to the other two member hospitals. During 20X5, 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.

Revenue from the Medicare program accounted for approximately XX percent for the year ended 20X5, and XX percent for the year ended 20X4, of Ambulatory Care, Inc.'s net patient revenue. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 20X5 net patient service revenue increased approximately \$XXX due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations. The 20X4 net patient service revenue decreased approximately \$XXX due to prior-year retroactive adjustments in excess of amounts previously estimated.

**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 20X5 and 20X4, respectively, when measured at Ambulatory Care, Inc.'s established rates.

**6. Classification of Expenses**

	<i>Total</i>	<i>Program</i>			<i>General and Administrative</i>
		<i>A</i>	<i>B</i>	<i>C</i>	
Expenses incurred for the year ended December 31, 20X5, 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>

(continued)

	<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, 20X4, 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\***

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\* 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.

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