
American Institute of Certified Public Accountants. Technical Information Division

William Rea Lalli

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Disclosure Checklists and Illustrative Financial Statements for Corporations (Product No. 008516)

Disclosure Supplements and Illustrative Financial Statements:
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Disclosure Checklists and Illustrative Financial Statements for Nonprofit Organizations (Product No. 007990)
Disclosure Checklist and Illustrative Financial Statements for Prospective Financial Statement Engagements (Product No. 008555)
Disclosure Checklists and Illustrative Financial Statements for Savings and Loan Associations (Product No. 008480)
Disclosure Checklist and Illustrative Financial Statements for State and Local Governmental Units (Product No. 008501)
Disclosure Checklist and Illustrative Financial Statements for Prospective Financial Statement Engagements

A FINANCIAL REPORTING PRACTICE AID

By:

William Rea Lalli, CPA
Technical Manager
Technical Information Division

This financial reporting practice aid does not represent the opinions of any senior technical committees of the American Institute of Certified Public Accountants or of the Financial Accounting Standards Board and have no official or authoritative status.
The checklist and illustrative financial statements included in this book have been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative technical practice aid. Readers should be aware of the following:

- The checklist and illustrative financial statements have been updated to include FASB Statements through No. 102 and AICPA Statements of Position through No. 90-1. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should be considered.

- The checklist and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, statements on standards for accounting and review services, and statements on standards for attestation engagements.

- The checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standard should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested, and to what extent the disclosure is relevant to the statements being examined.

Users of the checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements. If you have further questions, call the AICPA Technical Hotline (see back cover).

The author wishes to acknowledge the assistance of his colleague, Michael A. Tursi, CPA, who served as a consultant on this project.

John Graves
Director
Technical Services
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INTRODUCTION

General Comments on Prospective Financial Statements

.01 Prospective financial statements are prospective financial information that presents financial position, results of operations, and cash flows. [See paragraph 3 on page 58.] They are either financial forecasts or financial projections including the summaries of significant assumptions and accounting policies. [As discussed further along, partial presentations are considered to be prospective financial statements.]

.02 A financial forecast is prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party's assumption's reflecting conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single-point estimate of forecasted results or as a range, where the responsible party selects key assumptions to form a range within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. When a forecast contains a range, the range is not selected in a biased or misleading manner (e.g., a range in which one end is significantly less expected than the other).

.03 A financial projection is prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question such as "What would happen if...?" A financial projection is based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions. A projection may also contain a range.

.04 Prospective financial information is of interest to a broad spectrum of parties, including management, present or potential owners of equity interests, credit grantors and other informed third parties, government agencies, and the public.

.05 This Checklist was prepared to help accountants prepare and present prospective financial statements (financial forecasts and projections). It is also intended to help accountants report on such statements.
.06 Prospective financial statements are based on assumptions regarding future events. The assumptions are based on a combination of available information and judgment in which both history and plans play a part.

.07 Because no one can know the future and because prospective financial statements may be affected by many factors internal and external to the entity, judgment must be used to estimate when and how conditions are likely to change. These judgments may subsequently prove not to be representative of future conditions; thus, the ability to achieve expected results and the reliability of prospective financial statements can never be guaranteed.

.08 Prospective financial information is less amenable to objective verification than historical data. When working with or using prospective information, it is essential to understand its inherent limitations.

Structure of the Checklist

.09 Although this Checklist covers both financial forecasts and projections, its primary focus is on forecasts because they more closely parallel historical financial statements. Financial forecasts provide a framework for prospective reporting from which principles for financial projections are derived. Thus, this Checklist first presents the principles relating to financial forecasts and then shows how those principles are modified for projections.

.10 The guidance on financial forecasts contained in this Checklist generally also applies to projections. Throughout this Checklist, in instances in which the guidance does not apply (partially or fully) to projections, the reader should refer to the corresponding underlined text and consider the modifications in conjunction with the preceding question(s).

Relationship to Other Literature

.11 In October of 1985, the Auditing Standards Board issued a Statement on Standards for Accountants' Services on Prospective Financial Information entitled, Financial Forecasts and Projections. The AICPA Guide for Prospective Financial Statements incorporates the standards contained in that Statement. Accordingly, an accountant who complies with the Guide will also be in compliance with the Statement. This Checklist is derived from the Guide and contains corresponding references to it.

.12 Additionally, this Checklist derives guidance from two documents pertaining to prospective financial statements that were issued subsequent to the issuance of the Guide: Statement of Position
The Securities and Exchange Commission permits the publication of prospective financial information under certain conditions, and has adopted the general policy of encouraging such publication. The SEC has indicated that companies that include prospective financial information in SEC filings or annual reports should meet certain broad standards and disclosure requirements. In addition, the SEC adopted a rule that essentially provides a safe harbor for statements made by or on behalf of companies that issue prospective information or by an accountant unless such statements were (a) made other than in good faith or (b) disclosed without a reasonable basis. [The SEC Policy on Projections, Guidelines for Disclosure of Projections of Future Economic Performance, and the Safe Harbor Rule for Projections appear in Appendices A through C of the Guide.]

The Department of the Treasury has issued regulations on tax shelter opinions. The regulations provide that when an accountant provides a "tax shelter opinion," he should, when possible, provide an opinion whether or not it is more likely that an investor will prevail on the merits of each material tax issue and an overall evaluation of the extent to which the material tax benefits are likely to be realized in the aggregate. Those regulations indicate that when an accountant provides services on prospective financial statements included in tax shelter offering materials he may be deemed to have issued a tax shelter opinion. [The Treasury Department's regulations in Circular 230 appear in Appendix D of the Guide.]

General Comments on the Use of a Disclosure Checklist

Although authoritative literature does not require the use of a disclosure checklist, many auditors and accountants find it helpful to use as a practice aid in the preparation of financial statements and reports. The format and content of a disclosure checklist often varies. Some firms have developed their own checklists for internal use, and may have also developed specialized checklists to meet the needs of their practices (such as checklists for clients in particular industries or clients that report to the SEC). Some state CPA societies have developed checklists as practice aids that may be available to accountants other than their own members. Various commercial publishers include checklists in some of their publications.

A disclosure checklist typically consists of a number of concise questions accompanied by references to the appropriate, existing authoritative literature. The extent of detail included in a
A checklist varies with the judgment of its authors regarding to what extent to refer to and to elaborate on the reference, without developing a checklist that is too long and unwieldy. Accordingly, a checklist may serve as a convenient memory aid, but it cannot be used as a substitute for direct reference to the existing authoritative literature.

A checklist usually makes a provision for checking off or initialing each question to indicate that it has been answered. The format used in this Checklist provides for a "YES," "NO," and "N/A" (not applicable) response. [Remarks may be written in the margins or on a separate, cross-referenced memorandum.]

Caveats

Use of a checklist requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of particular engagements.

A checklist is neither intended to be all-inclusive; nor to present minimum requirements.

Users need to modify a checklist for any pronouncements issued subsequent to those from which the checklist is derived.

The terms "examine" and "examination" remain relevant to prospective financial statement engagements. Statement on Auditing Standards No. 58, Reports on Audited Financial Statements, does not apply to these engagements.

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

The following is an explanation of the references made:

GUD-PRO = AICPA Prospective Financial Statements Guide
SSAE = Statements on Standards for Attestation Engagements
(AT) = Reference to the AICPA Professional Standards (vol. 1) citing SSAE
SOP = Statement of Position

The questionnaire portion of this Checklist follows:

Questionnaire
I. PREPARATION AND PRESENTATION GUIDELINES

A. Preparation Guidelines (for Compilations, Examinations, and Application of Agreed-Upon Procedures)

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<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>1. Was the financial forecast prepared in good faith?</td>
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<td>2. Was the financial forecast prepared with appropriate care by qualified personnel?</td>
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<td>3. Was the financial forecast prepared using appropriate accounting principles?</td>
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<tr>
<td>4. Did the process used to develop the financial forecast provide for seeking out the best information that was reasonably available at the time?</td>
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<tr>
<td>5. Was the information used in preparing the financial forecast consistent with the plans of the entity?</td>
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<tr>
<td>6. Were key factors identified as a basis for the assumptions used?</td>
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<tr>
<td>7. Were the assumptions used in preparing the financial forecast appropriate?</td>
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<tr>
<td>8. Did the process used to develop the financial forecast provide the means to determine the relative effect of variations in the major underlying assumptions?</td>
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<tr>
<td>9. Did the process used to develop the financial forecast provide adequate documentation of both the financial forecast and the process used to develop it?</td>
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<tr>
<td>10. Did the process used to develop the financial forecast include, where appropriate, the regular comparison of the financial forecast with attained results?</td>
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11. Did the process used to prepare the financial forecast include adequate review and approval by the responsible party at the appropriate level of authority?

[GUD-PRO (1986), sec. 300.08]

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B. Presentation Guidelines (for Compilations, Examinations, and Application of Agreed-Upon Procedures)

1. Uses of a Financial Forecast

a. If the forecast is for limited use, was it submitted only to those who have the opportunity to negotiate directly with the responsible party?
   [GUD-PRO (1986), sec. 400.02]

b. For a projection, is the presentation one of limited use (not submitted to those who do not have the opportunity to negotiate directly with the responsible party)?
   [GUD-PRO (1986), sec. 400.02P]

c. In a partial presentation, has the partial presentation and report only been distributed to third parties who will be negotiating directly with the responsible party?
   [SOP 90-1, part II, par. 3]

d. In a partial presentation, has the responsible party considered whether or not a presentation omitting one or more items required for prospective financial statements will adequately present the information based on its special purpose?
   [SOP 90-1, part II, par. 4]

2. Responsibility for Financial Forecasts

a. Did the responsible party consider whether or not it has a reasonably objective basis to present a financial forecast?
   [GUD-PRO (1986), sec. 400.04]
(1) Did the responsible party consider whether or not sufficiently objective assumptions can be developed for each key factor?  

Yes  No  N/A

(2) In cases in which the nature of one or more assumptions is so subjective that the responsible party could have no reasonably objective basis to present a financial forecast, was it deemed inappropriate to present a forecast?  

[GUD-PRO (1986), sec. 400.04]

(3) For a projection, are the hypothetical assumptions consistent with the purpose of the projection?  

(4) For a projection, did the responsible party consider that as the hypothetical assumptions increase in number or significance, it may not be appropriate to present a projection?  

[GUD-PRO (1986), sec. 400.04P]

3. Title

a. Does the title used for the financial forecast describe the nature of the presentation and include the word "forecast" or "forecasted"?  

[GUD-PRO (1986), sec. 400.05]

b. For a projection, is the title descriptive of the presentation?  

[GUD-PRO (1986), sec. 400.05P]

(1) Does it not imply that the presentation is a forecast?  

(2) Does it describe or refer to any significant hypothetical assumptions?  

[GUD-PRO (1986), sec. 400.05P]
4. Format

a. Is the financial forecast in the format of the historical financial statements that would be issued for the period(s) covered (if there is no agreement between the responsible party and the potential users specifying another format)?

   [GUD-PRO (1986), sec. 400.06]

b. Does the financial forecast take the form of complete basic financial statements (whether or not the details of each statement are summarized or condensed, notes are included, but disclosing significant assumptions and accounting policies)?

   [GUD-PRO (1986), sec. 400.07]

   (1) Does it include (where such items would be presented for historical financial statements for the period(s)):

   (a) Sales or gross revenues?

   (b) Gross profit or cost of sales?

   (c) Unusual or infrequently occurring items?

   (d) Provision for income taxes?

   (e) Discontinued operations or extraordinary items?

   (f) Income from continuing operations?

   (g) Net income?

   (h) Primary and fully diluted earnings per share?
(i) Significant changes in financial position? 

(j) A description of what the responsible party intends the financial forecast to present, a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared, and a caveat that the forecasted results may not be achieved?

(k) Summary of significant assumptions?

(l) Summary of significant accounting policies? [GUD-PRO (1986), sec. 400.06]

(2) Is any one of the disclosure items j, k, or l above omitted?

(a) If so, is the accountant's report modified to reflect this deficiency? [GUD-PRO (1986), sec. 400.08]

(3) If the presentation omits one or more of the applicable items which cannot be derived from the information presented, did the accountant follow the guidance in SOP 90-1? [See sections on partial presentations.]

d. Does each page of the financial forecast contain a statement that directs the reader to the summaries of significant assumptions and accounting policies? [GUD-PRO (1986), sec. 400.10]

5. Date

a. Is the completion date of the preparation of the financial forecast disclosed?
b. Is the responsible party satisfied that the assumptions are appropriate as of the date of completion even though the underlying information may have been accumulated over a period of time?

[GUD-PRO (1986), sec. 400.11]

6. Accounting Principles and Policies

a. Is the summary of significant accounting policies used in preparing the financial forecast disclosed?

[GUD-PRO (1986), sec. 400.12]

b. Was the financial forecast prepared on a basis consistent with the accounting principles expected to be used in the historical financial statements covering the prospective period?

[GUD-PRO (1986), sec. 400.13]

c. For a projection, if accounting principles other than those expected to be used in the historical financial statements are used (perhaps due to the special purpose of a presentation requiring such), is the use of the different accounting principles disclosed?

(1) If deemed appropriate, are differences in financial position and results of operations arising from the use of different accounting principles reconciled and disclosed?

[GUD-PRO (1986), sec. 400.13P]

d. If the historical financial statements for the prospective period are expected to be prepared on a comprehensive basis of accounting other than generally accepted accounting principles, is the financial forecast prepared on that basis?
1. Materiality

a. Were the provisions of this section not necessarily applied to immaterial items?

[11]
8. Presentation of Amounts

a. If the forecast contains a range, was the range not selected in a biased or misleading manner?
   [GUD-PRO (1986), sec. 400.18]

b. If the forecast contains a range, is the range narrow enough to insure that the presentation is meaningful to users?
   [GUD-PRO (1986), sec. 400.19]

c. If the financial forecast is supplemented by a financial projection (for the same period or for additional periods) are both the forecast and projection clearly labeled?
   [GUD-PRO (1986), sec. 400.20]

d. If the presentation is other than a single-point estimate, is there a clear indication that the presentation does not necessarily represent the best or worst possible alternatives?
   [GUD-PRO (1986), sec. 400.21]

9. Assumptions

a. Were the significant assumptions disclosed?
   [GUD-PRO (1986), sec. 400.22]

   (1) Was the basis or rationale for the assumptions disclosed?
   [GUD-PRO (1986), sec. 400.23]

b. Do the assumptions disclosed include:

   (1) Assumptions about which there is a reasonable possibility of the occurrence of a variation that may significantly affect the prospective results (sensitive assumptions)?

   (2) Assumptions about anticipated conditions expected to be significantly different from
current conditions which are not otherwise reasonably apparent?  

(3) Other matters deemed important to the prospective information or its interpretation?  
[GUD-PRO (1986), sec. 400.23]  

(4) For a projection, did the responsible party identify which assumptions in the projection are hypothetical?  

(5) For a projection, if the hypothetical assumptions are improbable, does the above disclosure so indicate?  
[GUD-PRO (1986, sec. 400.23P]  

c. Does the presentation indicate which assumptions disclosed appeared particularly sensitive at the time of preparation?  
[GUD-PRO (1986), sec. 400.24]  

d. Has an introduction preceding the summary of assumptions been provided?  

(1) Does the introduction:  

(a) Describe what the responsible party intends the financial forecast to present?  

(b) Include a statement that the assumptions are based on the responsible party's judgment at the time the prospective information was prepared?  

(c) Include a caveat that the prospective results may not be attained?  
[GUD-PRO (1986), sec. 400.28]  

(2) For a projection, does the introduction clearly explain any special purpose and limitation
10. Period to Be Covered

a. Did the responsible party consider the needs of the users and its ability to estimate prospective results in determining the period to be covered? [GUD-PRO (1986), sec. 400.32]

b. In industries with a lengthy operating cycle or in situations where long-term results are necessary to evaluate the investment consequences involved and a forecast is presented, is the presentation deemed meaningful?

   No    N/A

   [GUD-PRO (1986), sec. 400.33]

11. Distinguishing From Historical Financial Statements

a. Is the financial forecast clearly labeled to preclude a reader from confusing it with historical financial statements? [GUD-PRO (1986), sec. 400.34]

b. If prior-period information (such as historical results and financial forecasts from prior periods) is presented alongside the financial forecast to facilitate comparison, is the information clearly labeled and distinguished from the financial forecasts? [GUD-PRO (1986), sec. 400.35]
12. Correction and Updating of a Financial Forecast

a. If the responsible party discovers that an error was made in preparing the financial forecast, did it determine if any users are currently relying or are likely to rely on the forecast?

(1) If so, did the responsible party consider whether or not it is necessary to withdraw the forecast?

(2) If it is necessary to withdraw the forecast, did the responsible party make a reasonable effort to inform any such users that the forecast is no longer to be relied upon?

(3) Where practical, did the responsible party issue a corrected forecast?

[GUD-PRO (1986), sec. 400.37]

b. In deciding whether or not to issue an updated financial forecast, did the responsible party consider whether or not users would expect prospective statements to be updated?

(1) If the forecast is updated:

(a) Was another analysis made of key assumptions?

(b) Was a new financial forecast prepared?

(c) Were the reasons for updating the forecast described in a note to the updated presentation?

[GUD-PRO (1986), sec. 400.38]

(2) If the responsible party has decided that an updated forecast is appropriate but cannot be
issued promptly, was appropriate disclosure made to persons currently relying or likely to rely on the forecast? [GUD-PRO (1986) sec. 400.40]

(3) If the responsible party decides that the current forecast should no longer be used for any purpose but it is not appropriate to issue an updated forecast, was the decision and the reason for it disclosed to persons currently relying or likely to rely on the forecast? [GUD-PRO (1986), sec. 400.41]

C. Partial Presentations

1. If a partial presentation was prepared without preparing prospective financial statements, did the responsible party consider key factors affecting elements, accounts, or items of prospective financial statements that are interrelated with those presented?

2. If information in the partial presentation was extracted from the prospective financial statements, have the effects of interrelationships among elements of the prospective financial statements been previously determined? [SOP 90-1, part II, par. 6]

3. Do the titles of the partial presentations clearly describe whether the presentation is of forecasted or of projected information?

4. Do the titles disclose the limited nature of the presentation and specifically not state that the presentation is a "financial forecast" or "financial projection"? [SOP 90-1, part II, par. 7]

Editor's note - Examples of appropriate titles are "forecast of production capacity" and "projected operating income assuming a new plant facility".
5. Does the presentation include the disclosure of the significant accounting policies relevant to the information presented and its intended purpose?  
[SOP 90-1, part II, par. 8]  

6. If a different basis of accounting is used for preparing the partial presentation than that expected to be used in preparing the historical financial statements covering the prospective period, were the resultant differences described (not necessarily quantified)?  
[SOP 90-1 part II, par. 9]  

7. Has the materiality concept been applied to the partial presentation taken as a whole?  
[SOP 90-1, part II, par. 10]  

8. Were the significant assumptions (similar to those for a full presentation) disclosed?  
[SOP 90-1, part II, par. 12]  

9. Does the introduction preceding the summary of assumptions for a partial presentation include a description of the purpose of the presentation and any limitations on the usefulness of the presentation?  
[SOP 90-1, part II, par. 14]  

10. Accountant's involvement with partial presentations  

   a. Has the accountant who has been engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written partial presentation that is the responsibility of another party examined or applied agreed-upon procedures to the presentation?  

   b. Did the accountant who compiled, examined, or applied agreed-upon procedures to a partial presentation, perform the engagement in accordance
with the guidance in part II of the AICPA SOP 90-1 (paragraphs 20 and 21)?
[SOP 89-7, part II, par. 16]

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c. Has the accountant considered whether or not it is appropriate to report on the partial presentation?
[SOP 90-1, part II, par. 18. See questions c & d in part II B of this checklist.]

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<th>Yes</th>
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d. If the accountant was engaged to prepare a financial analysis of a potential project where the engagement includes obtaining the information, making appropriate assumptions, and assembling the presentation, was the analysis not characterized as forecasted or projected information?

<table>
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<th>Yes</th>
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e. Was the above analysis only prepared for general use if the responsible party reviews and adopts the assumptions and presentation?
[SOP 90-1, part II, par. 19 and footnote 14. See pars. 3 & 4 of SOP 90-1.]

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II. PROCEDURES
A. Internal Use Only

1. Are the accountant's procedures consistent with the nature of the engagement?
[SOP 90-1, part I, par. 3]

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</table>

2. When providing other services on a financial forecast for internal use, did the accountant establish an understanding with the client regarding the services to be performed (preferably in writing) and specify in this understanding that the forecast and the report (if any) is not to be distributed to outside users?
[SOP 90-1, part I, par. 4]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>
B. Partial Presentations

1. Did the accountant give appropriate consideration to whether or not key factors affecting elements, accounts, or items that are interrelated with those in the partial presentation he has been engaged to examine or compile have been considered (including key factors that may not necessarily be obvious from the partial presentation)?

2. Did the accountant consider whether or not all significant assumptions have been disclosed?
   [SOP 90-1, part II, par. 20]

3. Did the accountant accept an engagement to apply agreed-upon procedures to a partial presentation only if the specified users involved have participated in establishing the nature and scope of the engagement?

4. Did the accountant take responsibility for the adequacy of the procedures to be performed?

5. Was distribution of the report restricted to the specified users involved?

6. Did the presentation include a summary of significant assumptions?
   [SOP 90-1, part II, par. 21]

III. REPORTS

A. Reports on Compiled Prospective Financial Statements

1. Does the accountant's standard report on a compilation of prospective financial statements include:
   a. An identification of the prospective financial statements presented by the responsible party?
2. If the presentation is a projection, does the accountant's report include a separate paragraph describing the limitations on the usefulness of the presentation?

3. If a range is presented, does the accountant's standard report include a separate paragraph stating that the responsible party has elected to portray the expected results of one or more assumptions as a range?

4. Was the date of completion of the accountant's compilation procedures used as the date of the report?

5. If the accountant has compiled prospective financial statements for an entity with respect to which he is not independent, did he specifically disclose his lack of independence (without describing the reason for the lack of independence) after the last paragraph of the standard compilation report?
6. If the prospective financial statements were included in a document that also contains historical financial statements and the accountant's report thereon or if the historical financial statements that appear in the document were summarized and presented with the prospective financial statements for comparative purposes, was a reference to the accountant's report on the historical financial statements made in the concluding sentence of the last paragraph? [AT sec. 200.22]

7. If the accountant expands his report to emphasize a matter, was the information presented in a separate paragraph of the accountant's report?

a. When emphasizing a matter, was the accountant careful not to give the impression that assurance is being expressed or the degree of responsibility was being expanded concerning such information? [AT sec. 200.23]

8. Modifications of the standard compilation report

a. If the accountant compiled prospective financial statements that contain presentation deficiencies or omit disclosures other than those relating to significant assumptions, is the deficiency or omission clearly indicated in the report (and not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such statements)? [AT sec. 200.24]

b. If the prospective financial statements are presented on a comprehensive basis of accounting other than generally accepted accounting principles and do not include disclosure of the basis of accounting used, is the basis disclosed in the accountant's report? [AT sec. 200.25]
B. Reports on Examined Prospective Financial Statements

1. Does the accountant's standard report on an examination of prospective financial statements include:
   a. An identification of the prospective financial statements presented?  __ __ __
   b. A statement that the examination of the prospective financial statements was made in accordance with AICPA standards and a brief description of the nature of such an examination?  __ __ __
   c. The accountant's opinion that the prospective financial statements are presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast or a reasonable basis for the projection given the hypothetical assumptions?  __ __ __
   d. A caveat that the prospective results may not be achieved?  __ __ __
   e. A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?  __ __ __

[AT sec. 200.31]

2. In the examination of a projection, is the opinion regarding assumptions conditioned on the hypothetical assumptions?  __ __ __

[AT sec. 200.33]

a. Does the report include a separate paragraph that describes the limitations on the usefulness of the presentation?  __ __ __

[AT sec. 200.34]

3. If a range is presented, does the report include a separate paragraph stating that the responsible party has elected to

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<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>4. Is the date of completion of the accountant's examination procedures used as the date of the report?</td>
<td>[AT sec. 200.34]</td>
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<tr>
<td>5. Modifications to the accountant's opinion</td>
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<tr>
<td>a. If, in the accountant's opinion, the prospective financial statements depart from AICPA presentation guidelines, was a qualified or adverse opinion issued?</td>
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<tr>
<td>(1) If the presentation departs from the presentation guidelines because it fails to disclose assumptions that appear to be significant, was an adverse opinion issued?</td>
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<tr>
<td>b. If the accountant believes that one or more significant assumptions do not provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions, was an adverse opinion issued?</td>
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<tr>
<td>c. If the accountant's examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, was an opinion disclaimed and the scope limitation described in the report?</td>
<td>[AT sec. 200.36]</td>
<td></td>
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<tr>
<td>d. In a qualified opinion, did the accountant state all of the substantive reasons for modification of the opinion and describe the departure from AICPA presentation guidelines in a separate paragraph of the report?</td>
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<tr>
<td>(1) Does the opinion include the words &quot;except&quot; or &quot;exception&quot; as the qualifying language?</td>
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</table>
(2) Does the opinion paragraph refer to the separate explanatory paragraph?

[AT sec. 200.37]

Yes  No  N/A

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e. If a measurement departure, an unreasonable assumption, or a limitation on the scope of the accountant's examination has led the accountant to conclude that an unqualified opinion cannot be issued, was an adverse opinion issued or a disclaimer of opinion made?

[AT sec. 200.38]

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f. In an adverse opinion, did the accountant state all of the substantive reasons for the adverse opinion in a separate paragraph?

---

(1) Does the opinion state that the presentation is not in conformity with presentation guidelines?

---

(2) Does the opinion paragraph refer to the explanatory paragraph?

---

(3) When applicable, does the opinion paragraph state that, in the accountant's opinion, the assumptions do not provide a reasonable basis for the prospective financial statements?

[AT sec. 200.39]

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g. If the presentation, including the summary of significant assumptions, fails to disclose significant assumptions, did the accountant describe the assumptions in the report and issue an adverse opinion?

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h. If the presentation omits all disclosures of assumptions, was an examination not made?

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i. If a financial projection omits an identification of the hypothetical assumptions or a description of the
limitations on the usefulness of the presentation, was an examination not made?

[AT sec. 200.40]

j. In a disclaimer of opinion, does the accountant's report indicate in a separate paragraph how the examination did not comply with standards for an examination?

(1) Did the accountant state that the scope of the examination was not sufficient to enable him to express an opinion with respect to the presentation or the underlying assumptions?

(2) Does the disclaimer of opinion paragraph include a direct reference to the explanatory paragraph?

[AT sec. 200.41]

(3) If there is a scope limitation and the accountant believes there are material departures from the presentation guidelines, are the departures described in the accountant's report?

[AT sec. 200.42]

6. Other modifications to the standard examination report

a. If the accountant wishes to emphasize a matter regarding the prospective financial statements but intends to issue an unqualified opinion, is the information and comments he wishes to include, presented in a separate paragraph of the report?

[AT sec. 200.44]

b. When the principal accountant decides to refer to the report of another accountant as a basis, in part, for his own opinion, did he disclose that fact in stating the scope of the examination and refer
to the report of the other accountant in expressing his opinion?  
[AT sec. 200.45]

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**c.** If the prospective financial statements were included in a document that also contains historical financial statements and the accountant's report thereon (or if the historical financial statements that appear in the document were summarized and presented with the prospective financial statements for comparative purposes), was a reference to the accountant's report on the historical financial statements made in the concluding sentences of the last paragraph?  
[AT sec. 200.46]

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**d.** When the accountant’s examination of prospective financial statements is part of a larger engagement (such as a feasibility study or a business acquisition study), was the report expanded to describe the entire engagement?  
[AT sec. 200.47]

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7. Reports on an Examination of a Financial Forecast Contained in a Public Offering Statement [Applies to financial forecasts only.]

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a. Procedures between the date of the accountant's report and effective date in 1933 Act filings.

(1) Does the report on an examination of a financial forecast indicate that the accountant has no responsibility to update the report for events and circumstances occurring after the date of the report?  

---

(2) Does the accountant have a reasonable basis to consent to the use of his report in a 1933 Act registration statement as of the consent date?  

[GUD-PRO (1986), sec. 730.03]
(3) Did the accountant perform procedures for the period from the date of his examination report up to the consent date as close to the effective date as is reasonable and practicable in the circumstances?  

(a) Did the accountant read the latest available interim financial statements, operating reports, and any relevant prospective information such as budgets; consider the prospective results in relation to the actual results achieved in the interim period; and inquire whether or not the accounting principles used in the preparation of such information are consistent with the principles used in preparing the forecast?  

(b) Did the accountant read the entire prospectus and other pertinent portions of the registration statement and consider that information in relation to the prospective results and the summary of significant assumptions?  

(c) Did the accountant inquire of and obtain written representations from the responsible party, including those individuals responsible for matters significant to the financial forecasts, as to whether or not there are any events, plans, or expectations (whether or not reflected or disclosed in the registration statement) that, in its opinion, may require the forecast to be modified, or that should be disclosed?
in order that the forecast reflect the responsible party's judgment based on present circumstances of the expected conditions and its expected course of action?

(d) Did the accountant read the available minutes of meetings of the board of directors and related committees (or make inquiries of meetings of which no minutes were taken)?

(e) Did the accountant make such additional inquiries or perform such procedures as he considered necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures?

[GUD-PRO (1986), sec. 730.04]

(4) If the accountant believes that the forecast (including the summary of significant assumptions) should be revised as a result of the above procedures, did he request his client to revise its forecast and, if so engaged, examine the revised forecast?

(5) If the client does not make appropriate revision to the forecast, did the accountant refuse to consent to the use of his report in the registration statement?

[GUD-PRO (1986), sec. 730.05]

b. The accountant's consent

(1) Is the accountant's consent to the use of his report and to references to him in the offering material in writing?
(2) Is the accountant's consent for a 1933 Act filing manually signed and dated?
[GUD-PRO (1986), sec. 730.06]

(3) Is the accountant's consent dated at or near the effective date of the registration statement?
[GUD-PRO (1986), sec. 730.07]

c. Experts section of 1933 Act filings

(1) Is the experts section of the registration statement worded so that there is no implication that the forecast has been prepared by the accountant or that the forecast is not the direct responsibility of the responsible party?
[GUD-PRO (1986), sec. 730.09]

d. Description of additional procedures and comfort letters

(1) Was no description of additional procedures or any form of assurance based on those procedures included in the report on the forecast or in any document that includes the report?

(2) Was no such description or assurance contained in a letter to underwriters?
[GUD-PRO (1986), sec. 730.10]

C. Reports on the Results of Applying Agreed-Upon Procedures

1. Does the accountant's standard report on the results of applying agreed-upon procedures:

   a. Indicate the prospective financial statements covered by the accountant's report?
b. Indicate that the report is limited in use, intended solely for the specified users, and should not be used by others?

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c. Enumerate the procedures performed and refer to conformity with the arrangements made with the specified users?

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d. If the agreed-upon procedures are less than those performed in an examination, state that the work performed was less in scope than an examination of prospective financial statements in accordance with AICPA standards and disclaim an opinion on whether or not the presentation of the prospective financial statements is in conformity with AICPA presentation guidelines and on whether or not the underlying assumptions provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions?

---


e. State the accountant's findings?

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f. Include a caveat that the prospective results may not be achieved?

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g. State that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?

[AT sec. 200.54]

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2. If the accountant so wishes, does the report state that he makes no representation about the sufficiency of the procedures for the specified users' purposes?

[AT sec. 200.55]

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3. Did the accountant not express any form of negative assurance on the prospective financial statements taken as a whole?

[AT sec. 200.56]
D. Reports on Tax Shelter Offering Documents
[Applies to financial forecasts only.]

1. If it is not clear whether or not the entity is a "tax shelter," did the accountant refer to IRS Regulation 10.33(c)(2)?
   [GUD-PRO (1986), sec. 510.02 (See also GUD-PRO (1986), Appendix D)]

2. If the accountant was engaged to report on a projection for general use, did he withdraw from the engagement (unless the projection supplements a forecast)?

3. If the accountant was engaged to apply agreed-upon procedures to a financial forecast, was his report on the results distributed only to specified users?
   [GUD-PRO (1986), sec. 510.04]

4. If, in the compilation of a forecast, the accountant relied on the opinion of another practitioner concerning material tax issues, does he have no reason to believe that the Circular 230 standards have not been complied with by the other practitioner?
   [GUD-PRO (1986), sec. 510.05]

5. Does the tax shelter opinion include an overall evaluation as to whether the material benefits in the aggregate more likely than not will be realized?
   [GUD-PRO (1986), sec. 510.06]

6. Does the accountant's report disclose any material tax issue not covered by or incorrectly opined upon in the other practitioner's opinion and set forth his own opinion with respect to each issue in a manner that satisfies the Circular 230 requirements?
7. Has the accountant considered adding a reference to such tax opinion utilizing an emphasis-of-matter paragraph in the report?

[GUD-PRO (1986), sec. 510.07]

8. If the accountant believes that the tax opinion rendered by another practitioner does not fully meet the Treasury standards, did he request the responsible party to secure a revised tax opinion or revise the forecast and its underlying assumptions, accordingly?

[GUD-PRO (1986), sec. 510.08]

9. If, in an examination engagement, the accountant is unable to satisfy himself about the tax assumptions, did he either render an adverse opinion or disclaim an opinion?

10. If, in a compilation engagement, the accountant believes the tax assumptions to be obviously inappropriate, incomplete, or otherwise misleading, did he withdraw from the engagement?

[GUD-PRO (1986), sec. 510.09]

E. Reports on Internal Use Only Prospective Financial Statements

Editor's note — An accountant can submit a computer-generated or manually prepared forecast to a client without reporting on it when the forecast is for internal use only.

[SOP 90-1, part I, par. 5]

1. If the accountant decides to issue a report and purports to have compiled, examined, or applied agreed-upon procedures to a financial forecast for internal use only in conformity with AICPA standards, did he follow the reporting guidance in sections 620, 720, or 820, respectively, in the Guide?

[SOP 90-1, part I, par. 6. See sections IV A, B, and C of this Checklist.]
Editor's note — If the accountant decides to issue a report on other services performed with respect to a forecast for internal use only, the report's form and content are flexible.

2. If the accountant decides to issue a report on other services with respect to the forecast for internal use only, were the summary of significant assumptions included?

[SOP 90-1, part I, par. 6]

a. Is the report addressed to the responsible party?

[SOP 90-1, part I, par. 6a]

b. Does the report identify the statements being reported on?

[SOP 90-1, part I, par. 6b]

c. Is the character of the work performed and the degree of responsibility taken with respect to the forecast described in the report?

[SOP 90-1, part I, par. 6c]

d. Does the report include a caveat that the prospective results may not be achieved?

[SOP 90-1, part I, par. 6d]

e. Does the report indicate the restrictions as to the distribution of the financial forecast and report?

[SOP 90-1, part I, par. 6e]

f. Is the report dated as of the date of the completion of the procedures?

[SOP 90-1, part I, par. 6f]

g. For a projection, (in addition to the above), did the report include a description of the limitations on the usefulness of the presentation?

[SOP 90-1, part I, par. 6P]
h. Where applicable, does the report:

(1) Indicate if the accountant is not independent with respect to an entity on whose financial forecast he is providing services? [SOP 90-1, part I, par. 7a] __ __ __

(2) Describe omitted disclosures that come to his attention or state that there are omissions of disclosures required under the guidelines for presentation of a forecast? [SOP 90-1, part I, par. 7b] __ __ __

i. Did the accountant refuse to provide any assurance on a financial forecast of an entity with respect to which he is not independent? [SOP 90-1, part I, par. 7a] __ __ __

F. Reports on Partial Presentations of Prospective Financial Statements

1. General

a. Does the accountant's standard report on the partial presentation include:

(1) An identification of the partial presentation reported on? __ __ __

(2) A caveat that the forecasted results may not be achieved? __ __ __

(3) A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report? __ __ __

(4) A description of any limitations on the usefulness of the presentation? [SOP 90-1, part II, par. 22] __ __ __

2. For an examination

a. Does the accountant's standard examination report include:
Yes  No  N/A

(1) A statement that the examination of the partial presentation was made in accordance with AICPA standards and a brief description of the nature of such an examination?

(2) For a forecast, the accountant's opinion that the partial presentation is presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast?

(3) For a projection, the accountant's opinion that the partial presentation is presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the projection given the hypothetical assumptions?

[SOP 90-1, part II, par. 22]

3. For an agreed-upon procedures engagement

   a. Does the accountant's standard agreed-upon procedures report include:

   (1) A statement that the report is intended solely for the specified users and should not be used by others?

   (2) An enumeration of the procedures performed and a reference to conformity with the arrangements made with the specified users?

   (3) If the agreed-upon procedures are less than those performed in an examination, a statement that the work performed was less in scope than an examination of a partial presentation in accordance with AICPA standards?

   (4) For a forecast, a disclaimer of opinion on whether or not the presentation is in conformity with AICPA presentation guidelines
and on whether or not the underly-
ing assumptions provide a rea-
sonable basis for the forecast?

(5) For a projection, a disclaimer
of opinion on whether or not the
presentation is in conformity
with AICPA presentation guide-
lines and on whether or not the
underlying assumptions provide a
reasonable basis for the pro-
jection given the hypothetical
assumptions?

(6) A statement of the accountant's
findings?

[SOP 90-1, part II, par. 22]

Editor's note -- The accountant
may wish to state in his report
that he makes no representation
about the sufficiency of the
procedures for the specified
users' purposes.

4. For a compilation engagement

a. Does the accountant's standard com-
   pilation report include:

(1) A statement that the accountant
    has compiled the partial pres-
    entation in accordance with
guidelines established by the
    AICPA?

(2) A statement that a compilation
    is limited in scope and does not
    enable the accountant to express
    an opinion or any other form of
    assurance on the partial presen-
    tation or the assumptions?
    [SOP 90-1, part II, par. 22]
ILLUSTRATIVE REPORTS

Standard Compilation Report

Forecast (that does not contain a range)

We have compiled the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of a forecast information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[AT Sec. 200.17]

Projection (that does not contain a range)

We have compiled the accompanying projected balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX,

1 The forms of reports provided in this section are appropriate whether the presentation is based on generally accepted accounting principles or on another comprehensive basis of accounting.

2 When the presentation is summarized, this sentence might read "We have compiled the accompanying summarized forecast of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants."

3 When the responsible party is other than management, the references to management in the standard reports provided in this section should be changed to refer to the party who assumes responsibility for the assumptions.
and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants.\(^4\)

The accompanying projection and this report were prepared for [state special purpose, for example, "the DEF National Bank for the purpose of negotiating a loan to expand XYZ Company's plant,"] and should not be used for any other purpose.

A compilation is limited to presenting in the form of a projection information that is the representation of management and does not include evaluation of the support for the assumptions underlying the projection. We have not examined the projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, even if [describe hypothetical assumption, for example, "the loan is granted and the plant is expanded,"] there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

\[\text{[AT Sec. 200.18]}\]

Separate Paragraph To Be Added When the Prospective Financial Statements (a forecast in this example) Contain a Range

As described in the summary of significant assumptions, management of XYZ Company has elected to portray forecasted [describe financial statement element or elements for which the expected results of one or more assumptions fall within a range, and identify the assumptions expected to fall within a range, for example, "revenue at the amounts of \$X,XXX and \$Y,YYY, which is predicated upon occupancy rates of XX percent and YY percent of available apartments,"] rather than as a single point estimate. Accordingly, the accompanying forecast presents forecasted financial position, results of operations, and cash flows [describe one or more assumptions expected to fall within a range, for example, "at such occupancy rates."]. However, there is no assurance that the actual results will

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\(^4\) When the presentation is summarized, this sentence might read "We have compiled the accompanying summarized projection of XYZ Company as of December 31, 19XX, and for the year then ending, in accordance with standards established by the American Institute of Certified Public Accountants."
fall within the range of [describe one or more assumptions expected to fall within a range, for example, "occupancy rates"] presented.

[AT Sec. 200.19]

Sentence To Be Added (after last paragraph) when Not Independent of Entity

We are not independent with respect to XYZ Company.

[AT Sec. 200.21]

Concluding Sentence of Last Paragraph When Prospective Financial Statements Are Included in a Document Containing Historical Financial Statements and the Accountant's Report Thereon or Condensed Historical Financial Statements

The historical financial statements for the year ended December 31, 19XX, (from which the historical data are derived) and our report thereon are set forth on pages xx-xx of this document.

[AT Sec. 200.22]

Modifications

Paragraph To Be Added When Prospective Financial Statements (a forecast in this example) Omit the Summary of Significant Accounting Policies

Management has elected to omit the summary of significant accounting policies required by the guidelines for presentation of a forecast established by the American Institute

5 In making a judgment about whether he is independent, the accountant should be guided by the AICPA Code of Professional Conduct. Also, see the auditing interpretation "Applicability of Guidance on Reporting When Not Independent" (AU section 9504.19—.22).

6 The accountant's responsibility with respect to those historical financial statements upon which he is not engaged to perform a professional service is described in AU section 504, Association With Financial Statements, in the case of public entities, and Statement on Standards for Accounting and Review Services (SSARS) No. 1, Compilation and Review of Financial Statements, paragraphs 5 through 7 [AR section 100.05—.07], in the case of nonpublic entities.

7 AU section 552, Reporting on Condensed Financial Statements and Selected Financial Data, discusses the accountant's report where summarized financial statements are derived from audited statements that are not included in the same document.
of Certified Public Accountants. If the omitted disclosures were included in the forecast, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows for the forecast period. Accordingly, this forecast is not designed for those who are not informed about such matters.

[AT Sec. 200.26]

Standard Examination Report

Forecast (that does not contain a range)

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Our examination was made in accordance with standards for an examination of a forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.32]

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8 The accountant's report need not comment on the consistency of the application of accounting principles as long as the presentation of any change in accounting principle is in conformity with AICPA presentation guidelines as detailed in the AICPA Guide for Prospective Financial Statements.

9 When the presentation is summarized, this sentence might read "We have examined the accompanying summarized forecast of XYZ Company as of December 31, 19XX, and for the year then ending."
We have examined the accompanying projected balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Our examination was made in accordance with standards for an examination of a projection established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the projection.

The accompanying projection and this report were prepared for [state special purpose, for example, "the DEF National Bank for the purpose of negotiating a loan to expand XYZ Company's plant,"] and should not be used for any other purpose.

In our opinion, the accompanying projection is presented in conformity with guidelines for presentation of a projection established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection [describe the hypothetical assumption, for example, "assuming the granting of the requested loan for the purpose of expanding XYZ Company's plant as described in the summary of significant assumptions."] However, even if [describe hypothetical assumption, for example, "the loan is granted and the plant is expanded,"] there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.33]

Modifications

Separate Paragraph To Be Added When the Prospective Financial Statements (a forecast in this example) Contain a Range

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10 When the presentation is summarized, this sentence might read "We have examined the accompanying summarized projection of XYZ Company as of December 31, 19XX, and for the year then ending."
As described in the summary of significant assumptions, management of XYZ Company has elected to portray forecasted [describe financial statement element or elements for which the expected results of one or more assumptions fall within a range, and identify assumptions expected to fall within a range, for example, "revenue at the amounts of SX,XXX and SY,YYY, which is predicated upon occupancy rates of XX percent and YY percent of available apartments,"] rather than as a single point estimate. Accordingly, the accompanying forecast presents forecasted financial position, results of operations and cash flows [describe one or more assumptions expected to fall within a range, for example, "at such occupancy rates."]. However, there is no assurance that the actual results will fall within the range of [describe one or more assumptions expected to fall within a range, for example, "occupancy rates"] presented.

[AT Sec. 200.34]

Qualified Opinion

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Our examination was made in accordance with standards for an examination of a forecast established by the American Institute of Certified Public Accountants and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

The forecast does not disclose reasons for the significant variation in the relationship between income tax expense and pretax accounting income as required by generally accepted accounting principles.

In our opinion, except for the omission of the disclosure of the reasons for the significant variation in the relationship between income tax expense and pretax accounting income as discussed in the preceding paragraph, the accompanying forecast is presented in conformity with guidelines for a presentation of a forecast established by the American Institute of Certified Public Accountants and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.
We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.37]

Adverse Opinion

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Our examination was made in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

As discussed under the caption "Sales" in the summary of significant forecast assumptions, the forecasted sales include, among other things, revenue from the Company's federal defense contracts continuing at the current level. The Company's present federal defense contracts will expire in March 19XX. No new contracts have been signed and no negotiations are under way for new federal defense contracts. Furthermore, the federal government has entered into contracts with another company to supply the items being manufactured under the Company's present contracts.

In our opinion, the accompanying forecast is not presented in conformity with guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants because management's assumptions, as discussed in the preceding paragraph, do not provide a reasonable basis for management's forecast. We have no responsibility to update this report for events or circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.39]

Disclaimer of Opinion

We have examined the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. Except as explained in the following paragraph, our examination was made in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants and, accordingly, included such pro-
cedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

As discussed under the caption "Income From Investee" in the summary of significant forecast assumptions, the forecast includes income from an equity investee constituting 23 percent of forecasted net income, which is management's estimate of the Company's share of the investee's income to be accrued for 19XX. The investee has not prepared a forecast for the year ending December 31, 19XX, and we were therefore unable to obtain suitable support for this assumption.

Because, as described in the preceding paragraph, we were unable to evaluate management's assumption regarding income from an equity investee and other assumptions that depend thereon, we express no opinion with respect to the presentation of or the assumptions underlying the accompanying forecast. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.41]

Other Modifications

Emphasis of Matter

[not illustrated]

Evaluation Based, In Part, on a Report of Another Accountant

[not illustrated]

Comparative Historical Financial Information

[see illustration on page 39]

Reporting When the Examination is Part of a Larger Engagement (in this example, when an accountant chooses to expand his report on a financial feasibility study)

The Board of Directors
Example Hospital
Example, Texas

We have prepared a financial feasibility study of Example Hospital's plans to expand and renovate its facilities. The study was undertaken to evaluate the ability of Example Hospital (the Hospital) to meet the Hospital's operating expenses, working capital needs, and other financial requirements, including the debt service requirements asso-
associated with the proposed $25,000,000 [legal title of bonds] issue, at an assumed average annual interest rate of 10.0 percent during the five years ending December 31, 19X6.

The proposed capital improvements program (the Program) consists of a new two-level addition, which is to provide fifty additional medical-surgical beds, increasing the complement to 275 beds. In addition, various administrative and support service areas in the present facilities are to be remodeled. The Hospital administration anticipates that construction is to begin June 30, 19X2, and to be completed by December 31, 19X3.

The estimated total cost of the Program is approximately $30,000,000. It is assumed that the $25,000,000 of revenue bonds that the Example Hospital Finance Authority proposes to issue would be the primary source of funds for the Program. The responsibility for payment of debt service on the bonds is solely that of the Hospital. Other necessary funds to finance the program are assumed to be provided from the Hospital's funds, from a local fund drive, and from interest earned on funds held by the bond trustee during the construction period.

Our procedures included analysis of—

- Program history, objectives, timing financing.
- The future demand for the Hospital's services, including consideration of—
  
  Economic and demographic characteristics of the Hospital's defined service area.
  
  Locations, capacities, and competitive information pertaining to other existing and planned area hospitals.
  
  Physician support for the Hospital and its programs.
  
  Historical utilization levels.
- Planning agency applications and approvals.
- Construction and equipment costs, debt service requirements, and estimated financing costs.
- Staffing patterns and other operating considerations.
- Third-party reimbursement policy and history.
- Revenue/expense/volume relationships.
We also participated in gathering other information, assisted management in identifying and formulating its assumptions, and assembled the accompanying financial forecast based on those assumptions.

The accompanying financial forecast for the annual periods ending December 31, 19X2, through 19X6, is based on assumptions that were provided by or reviewed with and approved by management.

The financial forecast includes—

- Balance sheets.
- Statements of revenues and expenses.
- Statements of cash flows.
- Statements of changes in fund balance.

We have examined the financial forecast. Our examination was made in accordance with standards for an examination of a financial forecast established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast.

Legislation and regulations at all levels of government have affected and may continue to affect revenues and expenses of hospitals. The financial forecast is based on legislation and regulations currently in effect. If future legislation or regulations related to hospital operations are enacted, such legislation or regulations could have a material effect on future operations.

The interest rate, principal payments, Program costs, and other financing assumptions are described in the section entitled "Summary of Significant Forecast Assumptions and Rationale." If actual interest rates, principal payments, and funding requirements are different from those assumed, the amount of the bond issue and debt service requirements would need to be adjusted accordingly from those indicated in the forecast. If such interest rates, principal payments, and funding requirements are lower than those assumed, such adjustments would not adversely affect the forecast.

Our conclusions are presented below.

- In our opinion, the accompanying financial forecast is presented in conformity with guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants.
In our opinion, the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

The accompanying financial forecast indicates that sufficient funds could be generated to meet the Hospital's operating expenses, working capital needs, and other financial requirements, including the debt service requirements associated with the proposed $25,000,000 bond issue, during the forecast periods. However, the achievement of any financial forecast is dependent on future events, the occurrence of which cannot be assured.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.48]

Standard Agreed-Upon Procedures Report

Exhibit A

Board of Directors - XYZ Corporation

Board of Directors - ABC Company

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the forecasted balance sheet, statements of income, retained earnings and cash flows of DEF Company, a subsidiary of ABC Company, as of December 31, 19XX, and for the year then ending. These procedures, which were specified by the Boards of Directors of XYZ Corporation and ABC Company, were performed solely to assist you in connection with the proposed sale of DEF Company to XYZ Corporation. It is understood that this report is solely for your information and should not be used by those who did not participate in determining the procedures.

a. With respect to forecasted rental income, we compared the assumptions about expected demand for rental of the housing units to demand for similar housing units at similar rental prices in the city area in which DEF Company's housing units are located.

b. We tested the forecast for mathematical accuracy.
Because the procedures described above do not constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that rental income should be adjusted or that the forecast is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.57]

Exhibit B

ABC Trustee

XYZ Company

At your request, we performed the agreed-upon procedures enumerated below with respect to the forecasted balance sheet, statements of income, retained earnings and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. These procedures, which were specified by ABC Trustee and XYZ Company, were performed solely to assist you, and this report is solely for your information and should not be used by those who did not participate in determining the procedures.

a. We assisted the management of XYZ Company in assembling the prospective financial statements.

b. We read the prospective financial statements for compliance in regard to format with the presentation guidelines established by the American Institute of Certified Public Accountants for presentation for a forecast.

c. We tested the forecast for mathematical accuracy.
Because the procedures described above do not constitute an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Accountants, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the format of the forecast should be modified or that the forecast is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[AT Sec. 200.57]

Modifications

When The Summaries of Significant Assumptions and Accounting Policies Have Been Omitted

The accompanying budgeted balance sheet, statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the six months then ending, have not been compiled or examined by us, and, accordingly, we do not express an opinion or any other form of assurance on them.

Management has elected to omit the summaries of significant assumptions and accounting policies required under established guidelines for presentation of prospective financial statements. If the omitted summaries were included in the budgeted information, they might influence the user's conclusions about the company's budgeted information. Accordingly, this budgeted information is not designed for those who are not informed about such matters.

[AT Sec. 200.58]
Standard Compilation Report

Forecast

To Mr. John Doe, President
XYZ Company

We have assembled, from information provided by management, the accompanying forecasted balance sheet, statements of income, retained earnings, and cash flows and summaries of significant assumptions and accounting policies of XYZ Company as of December 31, 19XX, and for the year then ending. (This financial forecast omits the summary of significant accounting policies.)¹¹ We have not compiled or examined the financial forecast and express no assurance of any kind on it. Further, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying forecast are restricted to internal use and may not be shown to any third party for any purpose.

[Date]

[SOP 90-1, part I, par. 8]

¹¹ This sentence would be included, if applicable.
Projection

To Mr. John Doe, President
XYZ Company

We have assembled, from information provided by management, the accompanying projected balance sheet, statements of income, retained earnings, and cash flows and summaries of significant assumptions and accounting policies of XYZ Company as of December 31, 19XX, and for the year then ending. (This financial projection omits the summary of significant accounting policies.) The accompanying projection and this report were prepared for [state special purpose, for example, "presentation to the Board of Directors of XYZ Company for its considerations as to whether to add a third operating shift"] and should not be used for any other purpose. We have not compiled or examined the financial projection and express no assurance of any kind on it. Further, even if [state hypothetical assumption, for example, "the third operating shift is added"] there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying projection are restricted to internal use and may not be shown to any third party for any purpose.

[Date]

[SOP 90-1, part I, par. 8P]

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12 Ibid.
PARTIAL PRESENTATIONS

Standard Compilation Report 13,14

Forecast

We have compiled the accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of AAA Hotel for the year ending December 31, 19X1 (the forecasted statement) in accordance with standards established by the American Institute of Certified Public Accountants.

The accompanying forecasted statement presents, to the best of management's knowledge and belief, the net operating income before debt service, depreciation, and income taxes of AAA Hotel for the forecast period. It is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report were prepared for the ABC Bank for the purpose of negotiating a proposed construction loan to be used to finance expansion of the hotel and should not be used for any other purpose.

A compilation is limited to presenting forecasted information that is the representation of management and does not include evaluation of the support for the assumptions underlying such information. We have not examined the forecasted statement and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement or assumptions. Furthermore, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]

13 The accountant may wish to state in his report that he makes no representation about the sufficiency of the procedures for the specified users' purposes.

14 These forms of reports are appropriate whether the presentation is based on generally accepted accounting principles or on another comprehensive basis of accounting.
Projection

We have compiled the accompanying sales projection of XYZ Company for each of the three years in the period ending December 31, 19X1 in accordance with standards established by the American Institute of Certified Public Accountants.

The accompanying sales projection presents, to the best of management's knowledge and belief, the Company's expected sales during the projection period that would result if the Company achieved a 15 percent market share of the electric toaster market, as disclosed in items b and c of the summary of significant assumptions. The sales projection and this report were prepared for presentation to the Board of Directors of XYZ Company for its consideration of what sales would be if a 15 percent market share of the electric toaster market were attained and should not be used for any other purpose.

A compilation is limited to presenting projected information that is the representation of management and does not include evaluation of the support for the assumptions underlying such information. We have not examined the sales projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying sales projection or assumptions. Furthermore, even if the Company attained the 15 percent market share of the electric toaster market, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]
We have examined the accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of the AAA Hotel for the year ending December 31, 19X1 (the forecasted statement). Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasted statement.

The accompanying forecasted statement presents, to the best of management's knowledge and belief, the expected net operating income before debt service, depreciation, and income taxes of AAA Hotel for the forecast period. It is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report were prepared for ABC Bank for the purpose of negotiating a proposed construction loan to be used to finance expansion of the hotel and should not be used for any other purpose.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecasted statement. However, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]
We have examined the accompanying sales projection of XYZ Company for each of the years in the three year period ending December 31, 19X1. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasted statement.

The accompanying sales projection presents, to the best of management's knowledge and belief, the Company's expected sales during the projection period that would result if the Company achieved a 15 percent market share of the electric toaster market, as disclosed in items b and c of the summary of significant assumptions. The sales projection and this report were prepared for presentation to the Board of Directors of XYZ Company for its consideration of what sales would be if a 15 percent market share of the electric toaster market were attained and should not be used for any other purpose.

In our opinion, the sales projection referred to above is presented in conformity with the guidelines for a presentation of projected information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection of expected sales during the period assuming the Company were to achieve a 15 percent market share of the electric toaster market. However, even if the Company achieves a 15 percent market share, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]
Standard Agreed-Upon Procedures Report

Forecast

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the sales forecast of XYZ Company for the year ending December 31, 19X1. These procedures, which were specified by the Board of Directors of XYZ Company, were performed solely to assist you, and this report is solely for your information and should not be used by those who did not participate in determining the procedures.

a. We assisted the management of XYZ Company in assembling the sales forecast.

b. We read the sales forecast for compliance in regard to format with the AICPA guidelines for a partial presentation of forecasted information.

c. We tested the sales forecast for mathematical accuracy.

Because the procedures described above do not constitute an examination of a presentation of prospective financial information in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the presentation is presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the format of the sales forecast should be modified or that the presentation is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the sales forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Date]

[SOP 90-1, part II, par. 23]
Illustrative Financial Statements
ILLUSTRATIVE PROSPECTIVE FINANCIAL STATEMENTS

.01 [Editor's note—This section illustrates prospective financial statements presented in conformity with the presentation guidelines in section 400 of the AICPA Guide for Prospective Financial Statements as amended by SOP 89-3 and SOP 90-1. The examples presented in this section were designed to illustrate forecasts and projections presented as full and minimum presentations, the use of different bases of accounting, the use of a range, and partial presentations. The unique features of each presentation are described below:

a. Exhibits 1 and 2 are financial forecasts for a manufacturing or commercial entity. Although the preferable presentation of prospective financial statements ordinarily consists of a complete set of statements (similar to the entity's historical financial statements) as shown in Exhibit 1, a presentation may be limited to the applicable minimum items as shown in Exhibit 2.

b. Exhibit 3 illustrates a financial forecast presented on the tax basis of accounting typically used for limited partnership ventures. Such ventures do not normally prepare financial statements on other than a tax basis and, accordingly, the minimum presentation items were adapted to coincide with a tax-basis presentation. This Exhibit also includes disclosure of the potential tax consequences if the property were to be sold at the end of the forecast period as an aid to users in evaluating long-term investment consequences, because the forecast does not extend to the period in which the property is expected to be sold.

c. Exhibit 4 illustrates a financial forecast expressed in the form of a range representing two scenarios: one, a continued downturn in the economy, and the other, the beginning of recovery in the economy.

d. Exhibit 5 depicts a financial projection. The example shown is a cash-flow projection that assumes the construction of an additional plant. Because of the hypothetical assumption (the construction of the plant), the presentation can be expected to be useful only to the responsible party and the party with whom the entity is dealing directly in regard to the construction or financing of the plant. This Exhibit also renders a reconciliation from net income using the accrual method of accounting (which is to be used to prepare the historical financial statements for the prospective period) to net increase (decrease) in cash as specified in the Guide.

e. Exhibits 6a and 6b illustrate partial presentations which are in conformity with the Guide, as amended by SOP 90-1 (although other formats could also be consistent with same). Exhibit 6a illustrates a sales forecast prepared for the purpose of negotiating a retail company's lease override provisions. Exhibit 6b illustrates a forecasted statement of net operating income before debt service and depreciation in connection with the contemplated construction of a new sports arena.

.02 As previously stated, the illustrations presented are consistent with the guidance in section 400 of the Guide, as amended by SOP 89-3 and SOP 90-1, although other presentation formats could also be consistent. For instance, although all of the examples present the summary of significant assumptions and accounting policies after the presentation of prospective amounts, it would also be appropriate to present them first. Further, it may be appropriate to present them in a less formal manner than illustrated, such as computer printed output (indicating data and relationships) from "electronic spreadsheet" and general purpose financial modeling software, as long as the responsible party believes that the disclosures and assumptions can be understood by the users. The appropriateness of any format depends upon individual circumstances.

.03 In each of the exhibits, the requirement in section 400 of the Guide to disclose significant changes in financial position is accomplished by presenting a statement of cash flows and its related note disclosures in accordance with SFAS No. 95, Statement of Cash Flows.]
EXHIBIT 1

XYZ COMPANY, INC.

Forecasted Statement of Income and Retained Earnings
Year Ending December 31, 19X3
(in thousands except per-share amounts)

<table>
<thead>
<tr>
<th>Forecasted</th>
<th>Historical Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X3</td>
</tr>
<tr>
<td>Net sales</td>
<td>$101,200</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>77,500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>23,700</td>
</tr>
<tr>
<td>Selling, general, and administrative expenses</td>
<td>15,100</td>
</tr>
<tr>
<td>Operating income</td>
<td>8,600</td>
</tr>
<tr>
<td>Other income (deductions):</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,700</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(2,400)</td>
</tr>
<tr>
<td>(700)</td>
<td>(950)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>7,900</td>
</tr>
<tr>
<td>Income taxes</td>
<td>3,400</td>
</tr>
<tr>
<td>Net income</td>
<td>4,500</td>
</tr>
<tr>
<td>Retained earnings at beginning of year</td>
<td>10,500</td>
</tr>
<tr>
<td>Dividend</td>
<td>(per share 19X3: $1.50; 19X2: $1.35; 19X1: $1.00)</td>
</tr>
<tr>
<td>Retained earnings at end of year</td>
<td>$13,600</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>$4.73</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.
**XYZ COMPANY, INC.**

**Forecasted Statement of Cash Flows**
*Year Ending December 31, 19X3 (in thousands)*

[not illustrated]

**XYZ COMPANY, INC.**

**Forecasted Balance Sheet**
*December 31, 19X3 (in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>19X3</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$3,300</td>
<td>$1,862</td>
<td>$2,196</td>
</tr>
<tr>
<td>Accounts receivable (net)</td>
<td>14,900</td>
<td>12,438</td>
<td>11,008</td>
</tr>
<tr>
<td>Inventory</td>
<td>27,000</td>
<td>26,932</td>
<td>22,937</td>
</tr>
<tr>
<td>Other</td>
<td>3,500</td>
<td>1,813</td>
<td>1,463</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>48,700</td>
<td>43,045</td>
<td>37,604</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>30,900</td>
<td>26,915</td>
<td>22,832</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>17,300</td>
<td>14,912</td>
<td>11,314</td>
</tr>
<tr>
<td><strong>Net property, plant, and equipment</strong></td>
<td>13,600</td>
<td>12,003</td>
<td>11,518</td>
</tr>
<tr>
<td>Other assets</td>
<td>5,000</td>
<td>2,714</td>
<td>2,114</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>67,300</td>
<td>57,762</td>
<td>51,236</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19X3</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and Stockholders’ Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable to bank</td>
<td>$4,600</td>
<td>$3,100</td>
<td>$3,000</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>12,300</td>
<td>11,193</td>
<td>9,497</td>
</tr>
<tr>
<td>Current installments of long-term debt</td>
<td>4,400</td>
<td>3,968</td>
<td>3,010</td>
</tr>
<tr>
<td>Other</td>
<td>900</td>
<td>925</td>
<td>114</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>22,200</td>
<td>19,186</td>
<td>15,621</td>
</tr>
<tr>
<td>Long-term debt, excluding current installments</td>
<td>20,100</td>
<td>16,700</td>
<td>16,400</td>
</tr>
<tr>
<td>Stockholders’ equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock</td>
<td>11,400</td>
<td>11,412</td>
<td>11,412</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>13,600</td>
<td>10,464</td>
<td>7,803</td>
</tr>
<tr>
<td><strong>Total stockholders’ equity</strong></td>
<td>25,000</td>
<td>21,876</td>
<td>19,215</td>
</tr>
<tr>
<td><strong>Total liabilities and stockholders’ equity</strong></td>
<td>67,300</td>
<td>57,762</td>
<td>51,236</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.
Exhibit 1 presents one format for prospective financial statements. However, a more summarized presentation may be given. Following is a summarized presentation that could be used in lieu of the preceding exhibit.

**XYZ COMPANY, INC.**

**EXHIBIT 2**

**Summarized Financial Forecast**

**Year Ending December 31, 19X3**

*(in thousands except per-share amounts)*

<table>
<thead>
<tr>
<th></th>
<th>Forecasted 19X3</th>
<th>Historical Information*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$101,200</td>
<td>$91,449</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>23,700</td>
<td>21,309</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>3,400</td>
<td>3,267</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>4,500</td>
<td>3,949</td>
</tr>
<tr>
<td><strong>Earnings per share</strong></td>
<td>4.73</td>
<td>4.14</td>
</tr>
</tbody>
</table>

**Significant anticipated cash flows:**

- Cash provided by operations: $4,100
- Net increase (decrease) in long-term borrowings: $3,400
- Dividend: $1,400 (per share 19X3: $1.50; 19X2: $1.35; 19X1: $1.00)
- Additions to plant and equipment: $4,400
- Increase (decrease) in cash: $1,400

**Comparative Forecasted Historical Information**

<table>
<thead>
<tr>
<th></th>
<th>19X3</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$101,200</td>
<td>$91,449</td>
<td>$79,871</td>
</tr>
<tr>
<td>Gross profit</td>
<td>23,700</td>
<td>21,309</td>
<td>19,408</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>3,400</td>
<td>3,267</td>
<td>2,929</td>
</tr>
<tr>
<td>Net income</td>
<td>4,500</td>
<td>3,949</td>
<td>3,214</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>4.73</td>
<td>4.14</td>
<td>3.37</td>
</tr>
<tr>
<td>Cash provided by operations:</td>
<td>4,100</td>
<td>3,103</td>
<td>4,426</td>
</tr>
<tr>
<td>Net increase (decrease) in long-term borrowings:</td>
<td>3,400</td>
<td>300</td>
<td>(300)</td>
</tr>
<tr>
<td>Dividend: (per share 19X3: $1.50; 19X2: $1.35; 19X1: $1.00)</td>
<td>1,400</td>
<td>1,288</td>
<td>954</td>
</tr>
<tr>
<td>Additions to plant and equipment:</td>
<td>4,400</td>
<td>2,907</td>
<td>2,114</td>
</tr>
<tr>
<td>Increase (decrease) in cash:</td>
<td>1,400</td>
<td>(334)</td>
<td>1,017</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

*Comparative historical information is not part of the minimum presentation.

**XYZ COMPANY, INC.**

**Summary of Significant Forecast Assumptions and Accounting Policies**

**Year Ending December 31, 19X3**

This financial forecast presents, to the best of management's knowledge and belief, the Company's expected financial position, results of operations, and cash flows for the forecast period. Accordingly, the forecast reflects its judgment as of February 17, 19X3, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. The comparative historical information for 19X1 and 19X2 is extracted from the Company's financial statements for those years. Those financial statements should be read for additional information.

**a. Summary of Significant Accounting Policies.** (not illustrated)

---

1 For the presentation illustrated in exhibit 2, this would read "...summary of the Company's expected results of operations and cash flows..."
b. **Sales.** The overall market for the Company's products has grown over the past five years at an average rate of 2 percent above the actual increase in gross national product, and the Company's market share has remained steady at 14 to 16 percent. Based on a recent market study of demand for the Company's products, sales are forecasted to increase 11 percent from 19X2 (which is 2 percent above the Department of Commerce Bureau of Economic Analysis estimate of the rise in gross national product in the forecast period), with a market share of 15 percent and unit price increased to cover a significant portion of forecasted increases in cost of manufacturing.

c. **Cost of Sales**

**Materials.** Materials used by the Company are expected to be readily available, and the Company has generally used producer associations' estimates of prices in the forecast period to forecast material costs. The price for copper, a major raw material in the Company's products, recently has been disrupted by political events in certain principal producer countries. As a result, industry estimates of copper prices in the forecast period range from 15 to 30 percent above 19X2 prices. The Company expects to be able to assure sufficient supplies and estimates that the cost of copper will increase by 22 percent over 19X2. However, due to the uncertainties noted above, the realization of the forecast is particularly sensitive to the actual price increase. A variation of five percentage points in the actual increase above or below the assumed increase would affect forecasted net earnings by approximately $485,000.

**Labor.** The Company's labor union contract, which covers substantially all manufacturing personnel, was negotiated in 19X2 for a three-year period. Labor costs are forecasted based upon the terms of that contract.

d. **Plant and Equipment and Depreciation Expense.** Forecasted additions to plant and equipment, $4.4 million, comprise principally the regular periodic replacement of manufacturing plant and vehicles at suppliers' quoted estimated prices and do not involve a significant change in manufacturing capacity or processes. Depreciation is forecasted on an item-by-item basis.

e. **Selling, General, and Administrative Expenses.** The principal types of expense within this category are salaries, transportation costs, and sales promotion. Salaries are forecasted on an individual-by-individual basis, using expected salary rates in the forecast period. Transportation costs comprise principally the use of contract carriers; volume is forecasted based upon the sales and inventory forecasts (including forecasts by sales outlet), and rates are forecasted to rise by 16 percent over 19X2, based upon trucking industry forecasts. Sales promotion costs are expected to increase by approximately 14 percent above the level of 19X2 in order to meet increased competition and maintain market share. The level of other expenses is expected to remain the same as in 19X2, adjusted for expected increases in line with the consumer price index (assumed to rise 9 percent on the mean of [several widely used estimates]).

f. **Miscellaneous Income.** The forecast assumes royalty income of $950,000 will be received based on an agreement under which the Company is to receive a minimum of $950,000 for the first 10,000,000 units produced under its patented die casting process and $.05/unit above that level. Management believes it is unlikely that production will exceed 10,000,000 units. The balance of miscellaneous income is assumed to come from investment of excess cash and other sources.

g. **Bank Borrowings and Interest Expenses.** The forecast assumes that the Company will obtain an extension of existing short-term lines of credit at terms comparable to those in effect in 19X2 (2 percent over prime rate). The Company used the arithmetic mean of [three widely used estimates] of bank prime rate during the forecast period (ranging from 12 percent to 14 percent) to estimate prime rate at 13 percent. However, because of recent volatility in the financial markets, short-term interest rates have been very unstable, ranging from 12 percent to 17 percent during 19X2.

The Company has forecasted additional long-term borrowings of $6 million and has entered into preliminary negotiations with its bankers for this financing. The borrowings are principally to fund purchases of plant and equipment and additions to other long-term assets and will be secured by such additions. Based upon the preliminary negotiations, the Company has assumed that the additional long-term financing will bear interest at 14 percent.

h. **Income Taxes.** The provision for income taxes is computed using the statutory rates in effect during 19X2, which are not expected to change, and assuming investment tax credit on qualifying investments at rates in effect in 19X2.

i. **Dividend.** The Company's normal dividend policy is to pay out the previous year's dividend increased to the extent of at least one-third of any increase in profits over the previous year, provided the board of directors considers that the Company's cash and working capital position will not be adversely affected. The dividend has been forecasted at $1.50 per share, assuming an increased payout over 19X2 of one-third of the excess of forecasted net earnings for the year ending December 31, 19X3, above those of 19X2.
### DEF ASSOCIATES, LTD.

**EXHIBIT 3**

**(A Limited Partnership)**

**Statement of Forecasted Taxable Income (Loss) Eight Years Ending December 31, 19X8**

<table>
<thead>
<tr>
<th>Rental income</th>
<th>Reference</th>
<th>19X1</th>
<th>19X2</th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
<th>19X8</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>d</td>
<td></td>
<td>$105,000</td>
<td>$378,000</td>
<td>$438,165</td>
<td>$468,837</td>
<td>$501,655</td>
<td>$536,771</td>
<td>$574,345</td>
</tr>
</tbody>
</table>

**Expenses**

| Preoccupancy rental and advertising expenses | e | 7,000 | 33,800 |      |      |      |      |      |      |
| Operating expenses | f | 46,216 | 133,596 | 144,426 | 149,947 | 155,854 | 162,175 | 168,938 |      |
| Mortgage interest | h | 83,950 | 172,003 | 185,500 | 183,000 | 180,000 | 176,800 | 173,310 |      |

| Amortization of construction period interest and taxes | g | 1,765 | 22,865 | 22,865 | 22,865 | 22,865 | 22,865 | 22,865 | 22,865 |
| Depreciation | g | 41,898 | 100,556 | 100,556 | 100,556 | 100,556 | 100,556 | 100,556 | 100,556 |


| Taxable income (loss) for year | (8,765) | (123,729) | (51,020) | (15,182) | 12,469 | 42,380 | 74,375 | 108,676 |

| Percentage of interest of limited partners | c | 95% | 95% | 95% | 95% | 95% | 95% | 95% | 95% |

| Limited partners’ share of taxable income (loss) | $(8,327) | $(117,543) | $(48,469) | $(14,423) | $11,846 | $40,261 | $70,656 | $103,242 |

| Cumulative | $(8,327) | $(125,870) | $(174,339) | $(188,762) | $(176,916) | $(136,655) | $(65,655) | $(37,243) |

### (A Limited Partnership)

**Statement of Forecasted Sources and Uses of Cash Eight Years Ending December 31, 19X8**

<table>
<thead>
<tr>
<th>Sources of cash</th>
<th>Reference</th>
<th>19X1</th>
<th>19X2</th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
<th>19X8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment of general partner</td>
<td>b</td>
<td>$20,000</td>
<td>$30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment by limited partners</td>
<td>b</td>
<td>500,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside financing</td>
<td>h</td>
<td>129,000</td>
<td>1,421,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total sources | 642,000 | 1,392,034 | 72,401 | 108,239 | 135,890 | 165,801 | 197,796 | 232,097 |

| Uses of cash |         |      |      |      |      |      |      |      |      |
| Syndication costs |   | 21,500 |      |      |      |      |      |      |      |
| Construction costs |   | 587,850 | 1,192,150 | 30,000 |      |      |      |      |      |
| Construction period interest and taxes | e | 17,650 | 211,000 |      |      |      |      |      |      |
| Repayment of mortgage principal | h |      |      | 14,862 | 18,355 | 20,888 | 23,771 | 27,055 | 30,588 |
| Distributions to limited partners | c |      |      | 24,474 | 89,894 | 115,002 | 142,030 | 153,686 |      |
| Initial return | c |      |      |      |      |      |      | 27,386 | 130,981 |
| Distributions to general partner | c |      |      |      |      |      |      |      | 14,745 |

| Total uses | 627,000 | 1,403,150 | 69,336 | 108,239 | 135,890 | 165,801 | 197,796 | 232,097 |

| Change in cash | 15,000 | 11,116 | 3,065 |      |      |      |      |      |
| Cash balance, beginning of year |      |      |      |      |      |      |      |      |
| Cash balance, end of year | $15,000 | $3,884 | $6,949 | $6,949 | $6,949 | $6,949 | $6,949 | $6,949 |

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.
### DEF ASSOCIATES, LTD.

EXHIBIT 3 (cont.)

**A Limited Partnership**

**Forecasted Statement of Allocation of Limited Partner Interest Per $5,000 Unit and Presentation of Tax Effects Assuming a 50% Tax Bracket**

Eight Years Ending December 31, 19X8

<table>
<thead>
<tr>
<th>Reference</th>
<th>19X1</th>
<th>19X2</th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
<th>19X8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Limited partner investment per unit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>$5,000</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>Share of taxable income (loss)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>$(83)</td>
<td>$(1,175)</td>
<td>$(485)</td>
<td>$(144)</td>
<td>$118</td>
<td>$403</td>
<td>$707</td>
<td>$1,032</td>
</tr>
<tr>
<td><strong>Assumed tax bracket</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Tax benefit (cost)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>42</td>
<td>588</td>
<td>242</td>
<td>72</td>
<td>(59)</td>
<td>(201)</td>
<td>(353)</td>
<td>(516)</td>
</tr>
<tr>
<td><strong>Cash distributions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>—</td>
<td>—</td>
<td>245</td>
<td>899</td>
<td>1,150</td>
<td>1,420</td>
<td>1,560</td>
<td>1,310</td>
</tr>
<tr>
<td><strong>Total tax benefits and cash distributions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$42</td>
<td>$588</td>
<td>$487</td>
<td>$971</td>
<td>$1,091</td>
<td>$1,219</td>
<td>$1,207</td>
<td>$794</td>
</tr>
<tr>
<td><strong>Cumulative cash flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$(4,958)</td>
<td>$(4,370)</td>
<td>$(3,883)</td>
<td>$(2,912)</td>
<td>$(1,821)</td>
<td>$(602)</td>
<td>$605</td>
<td>$1,399</td>
</tr>
<tr>
<td><strong>Cumulative taxable income (loss)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$(83)</td>
<td>$(1,258)</td>
<td>$1,743</td>
<td>$(1,887)</td>
<td>$(1,769)</td>
<td>$(1,366)</td>
<td>$(659)</td>
<td>$373</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

### DEF ASSOCIATES, LTD.

Summary of Significant Forecast Assumptions and Accounting Policies

Eight Years Ending December 31, 19X8

This financial forecast presents, to the best of management’s knowledge and belief, the Partnership’s expected results of operations and sources and uses of cash for the forecast period presented on the tax basis of accounting. Accordingly, the forecast reflects its judgment as of June 30, 19X1, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

The body of tax law is in a continuous state of change. Accordingly, there could be developments, statutory or otherwise, that would alter the forecast. Because transactions are susceptible to varying interpretations under income tax law, rulings, and regulations, the Internal Revenue Service may not concur with the determinations of the factual issues and the interpretations of existing law, rulings, and regulations that served as the basis for the assumptions used by management to prepare the forecast. Such differences might alter the forecast. (See other comments on this subject on pages aa-bb of this offering memorandum.)

**a. Summary of Significant Accounting Policies.** (not illustrated)

**b. Description of the Project.** The proposed development, DEF Gardens, is a seventy-unit apartment complex to be constructed on an eight-and-one-quarter acre residentially zoned parcel of land in Phoenix, Arizona, to be leased from the General Partner (see note f). Construction of the development is anticipated to begin on July 15, 19X1, and be completed by August 1, 19X2, (see note e). Equity financing is proposed to be obtained from the sale of 100 limited partnership units at $5,000 per unit in July 19X1. The proceeds from the sale, together with anticipated bank financing, are expected to provide the necessary funding requirements for the project (see note h).
c. **Allocation of Income, Losses, and Cash Distributions.** The Partnership Agreement provides that the limited partners (as a group) are to (1) share in 95 percent of the Partnership’s net income or loss, and (2) receive 100 percent of all cash distributions from operations until such time as the limited partners have received back their original investments. Thereafter, all distributions are to be allocated 65 percent to the limited partners (as a group) and 35 percent to the General Partner, including distributions, if any, on the refinancing, sale, or disposition of the partnership properties. Cash available for distributions will be reserved to the extent necessary to provide for normal operating needs. The initial cash distribution is forecasted to occur in 19X3 and annually thereafter. Income or losses of the Partnership for a year are allocable to the partners pro rata to the portions of the year in which the respective partners were members of the Partnership. The forecast of the allocation of the net loss to be sustained for the year 19X2 is based on the assumption that all limited partners will acquire their interest in the partnership as of July 1, 19X1.

d. **Rental Income.** Rental income is based upon the General Partner’s estimates that the apartment building will be available for occupancy on or before August 1, 19X2, and the number of units occupied, average rent per unit, and percentage occupancy will be as follows.

<table>
<thead>
<tr>
<th>8/1/X2 to 12/31/X2</th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
<th>19X8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of units occupied</td>
<td>40</td>
<td>60</td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Average monthly rental per unit</td>
<td>$525</td>
<td>$525</td>
<td>$562</td>
<td>$601</td>
<td>$643</td>
<td>$688</td>
</tr>
<tr>
<td>Average percentage</td>
<td>57%</td>
<td>86%</td>
<td>93%</td>
<td>93%</td>
<td>93%</td>
<td>93%</td>
</tr>
</tbody>
</table>

The average monthly rental per unit is forecasted to increase 7 percent per year from 19X4 through 19X8 based upon the most recent experience in the area. Occupancy percentage is based upon the General Partner’s consideration of demand for the forecast period and is consistent with percentages currently obtained in similar apartment complexes managed by the General Partner. For each 30-day period subsequent to August 2, 19X2, that occupancy is delayed, if any, rental income for 19X2 will be reduced by approximately $21,000.

e. **Construction Period Expenses.** Expenses expected to be incurred during the construction period (July 15, 19X1, to August 1, 19X2) consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>19X1</th>
<th>19X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on construction loan</td>
<td>$16,900</td>
<td>$203,000</td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>750</td>
<td>8,000</td>
</tr>
<tr>
<td>Amortizable over 10 years</td>
<td>$17,650</td>
<td>$211,000</td>
</tr>
<tr>
<td>Rental and advertising expenses</td>
<td>$7,000</td>
<td>$33,800</td>
</tr>
</tbody>
</table>

Such expenses are based upon the General Partner’s most recent experience in similar apartment complexes in the area. Interest on the construction loan and real estate taxes incurred during the construction period will be amortized on a straight-line basis over ten years, in accordance with IRS regulations. For each thirty-day period subsequent to August 2, 19X2, that construction continues, construction period expenses for 19X2 (primarily interest) will increase by approximately $25,000.

f. **Operating Expenses.** Annual expenses for the operating of the Partnership’s property are based on the General Partner’s experience in similar apartment complexes. Operating expenses include salaries for the apartment manager, repairs and maintenance, cleaning, insurance, real estate taxes, and utilities. They also include a management fee of $10,000 per year to the General Partner and lease payments to the General Partner of $4,630 per month for the use of the land on which the apartment complex is to be constructed. The initial fixed term of the lease is for twenty-five years with an option to renew for an additional twenty-five years.
g. **Construction Costs and Depreciation.** The forecasted construction costs are based on a fixed-price contract with the general contractor. The total estimated cost of constructing the project is $1,810,000, excluding capitalized construction period interest and taxes. Depreciation is computed using the straight-line method based on an Accelerated Cost Recovery System (ACRS) useful life of eighteen years.

h. **Financing Arrangements.** Construction of the seventy-unit apartment project and construction period expenses are to be financed by a $1,550,000 construction loan and capital contributions of $500,000 by the limited partners and $50,000 by the General Partner. It is anticipated that the loan will bear interest at an annual interest rate of 14 percent. Upon completion of construction, a permanent thirty-year nonrecourse mortgage loan will become effective at an anticipated annual interest rate of 13 percent, payable interest only for one year and principal amortization and interest payments thereafter. For each .25 percent variance in the actual interest rates obtained, the dollar amount of interest expense, and the resulting taxable income or loss will vary by approximately $2,000 in 19X2 and $4,000 in 19X3 through 19X8.

i. **Tax Matters.** The Partnership is relying on an opinion from its legal counsel (included on pages xx-yy of this offering memorandum) that it is more likely than not that the investors will prevail on the merits of each material tax issue and that the material tax benefits in the aggregate are likely to be realized.

State and local income taxes are not provided for in this forecast. Each partner may be liable for state and local income taxes on his portion of the Partnership's profits and should consult his personal tax advisor in this regard.

j. **Analysis of the Tax Effect and Cash Flow on the Sale of the Property at the End of the Forecast Period.** The following table illustrates the effect on limited partners of a hypothetical sale of the apartment complex at December 31, 19X8, given two different hypothetical sales prices, and the subsequent liquidation of the partnership. This table is presented for analysis purposes only because it is not expected that the property will be sold at that date or for those hypothetical amounts. These illustrations are based on the following:

1. Column A is based on the hypothetical assumption that the property will be sold (or foreclosed) for the balance of the mortgage at December 31, 19X8.
2. Column B is based on the hypothetical assumption that the property will be sold for $500,000 net cash (the limited partners' original capital contributions) subject to the existing mortgage.
3. These illustrations do not reflect the effect of (a) capital losses from other transactions or (b) the alternative minimum tax in the year of sale, if any, since these factors would be dependent upon each individual partner's tax situation.
### EXHIBIT 3 (cont.)

**Def Associates, Ltd.**  
**Effect on Limited Partners of Hypothetical Sale of Property**  
**December 31, 19X8**

<table>
<thead>
<tr>
<th></th>
<th><strong>A</strong></th>
<th><strong>B</strong></th>
<th><strong>Sale for Existing Mortgage Balance</strong></th>
<th><strong>Sale for Existing Mortgage Balance and Original Capital Contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross sales price</strong></td>
<td>$1,414,481</td>
<td>$1,914,481</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less mortgage balance</strong></td>
<td>(1,414,481)</td>
<td>(1,414,481)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Proceeds available for distribution</strong></td>
<td>—</td>
<td>500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Limited partners’ share of proceeds</strong></td>
<td>65%</td>
<td>65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total distribution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Distribution per $5,000 unit</strong></td>
<td>$—</td>
<td>$325,000</td>
<td></td>
<td>$3,250</td>
</tr>
<tr>
<td><strong>Limited partners’ share of long-term capital gain on sale and dissolution:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative taxable gains</td>
<td>$37,246</td>
<td>$37,246</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Write-off of unamortized construction period interest and taxes</td>
<td>63,489</td>
<td>63,489</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash distributions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual amounts</td>
<td>658,366</td>
<td>658,366</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remaining working capital</td>
<td>4,517</td>
<td>4,517</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From sale</td>
<td>—</td>
<td>325,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less original capital contribution</td>
<td>689,126</td>
<td>1,014,126</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gain from sale and liquidation</strong></td>
<td>$189,126</td>
<td>$514,126</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Long-term capital gain per $5,000 unit</strong></td>
<td>$1,891</td>
<td>$5,141</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax on long-term capital gain (per unit) assuming 50% tax bracket (20%)</strong></td>
<td>$378</td>
<td>$1,028</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net after tax cash flow (deficiency) per unit from sale and dissolution</strong></td>
<td>$(378)</td>
<td>$2,222</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net after tax operating cash flow per unit</strong></td>
<td>6,399</td>
<td>6,399</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Remaining working capital distribution per unit</strong></td>
<td>45</td>
<td>45</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax savings from write-off of unamortized construction period interest and taxes per unit</strong></td>
<td>317</td>
<td>317</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>After tax return on $5,000 investment per unit</strong></td>
<td>$6,383</td>
<td>$8,983</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
JMK COMPANY, INC.
Consolidated Statements of Income and Retained Earnings
For Years Ending December 31, 19X8 (forecasted)
and December 31, 19X7 and 19X6 (historical)
(in thousands except per-share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Forecasted 19X8</th>
<th>Comparative Historical Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Economy Begins Recovery</td>
<td>Continued Downturn in the Economy</td>
</tr>
<tr>
<td></td>
<td>19X7</td>
<td>19X6</td>
</tr>
<tr>
<td>Net sales</td>
<td>$639,000</td>
<td>$599,000</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of sales</td>
<td>510,000</td>
<td>488,500</td>
</tr>
<tr>
<td>Selling and advertising</td>
<td>31,420</td>
<td>32,060</td>
</tr>
<tr>
<td>General and administrative</td>
<td>33,600</td>
<td>33,500</td>
</tr>
<tr>
<td>Interest</td>
<td>1,700</td>
<td>1,650</td>
</tr>
<tr>
<td>Other (net)</td>
<td>1,030</td>
<td>1,030</td>
</tr>
<tr>
<td>Total</td>
<td>577,750</td>
<td>556,740</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>61,250</td>
<td>42,260</td>
</tr>
<tr>
<td>Income taxes</td>
<td>27,125</td>
<td>18,390</td>
</tr>
<tr>
<td>Net income</td>
<td>34,125</td>
<td>23,870</td>
</tr>
<tr>
<td>Retained earnings beginning of year</td>
<td>237,698</td>
<td>237,698</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>16,758</td>
<td>15,613</td>
</tr>
<tr>
<td>Retained earnings end of year</td>
<td>$255,065</td>
<td>$245,955</td>
</tr>
<tr>
<td>Net income per common share</td>
<td>$ 3.50</td>
<td>$ 2.45</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.
This financial forecast presents, to the best of management’s knowledge and belief, the Company’s expected consolidated statements of income and retained earnings and cash flows for the forecast period assuming either a recovery in the economy or a continued downturn in the economy. Accordingly, the forecast reflects its judgment as of January 31, 19X8, the date of this forecast, of the expected conditions and its expected course of action under each scenario. The assumptions disclosed herein are those that management believes are significant to the forecast. Management reasonably expects, to the best of its knowledge and belief, that the level of economic activity will be within the range shown; however, there can be no assurance that it will. Further, even if the level of economic activity is within the range shown, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material, and the actual results may be outside the ranges presented.

a. **Summary of Significant Accounting Policies.** (not illustrated)

b. **Sales.** The sales of the Company have been closely related to the level of activity in the economy. Economists are currently divided in their forecasts of overall economic activity for 19X8. Consequently, management has prepared its forecast in the form of alternative scenarios: one, representing a continued downturn in the economy based on a 2 percent decrease in real GNP for the forecast period, and the other, a beginning of economic recovery based on a 2 percent increase in real GNP for the period. It is anticipated that much of the differences between the two scenarios would be concentrated in the automotive sector of the Company’s business.

c. **Cost of Sales.** The forecast assumes that management is able to maintain tight controls over manufacturing costs and inventory levels. If the downturn in the economy continues, management plans to continue substantial reduction in inventory levels. However, if the economy recovers, the Company will begin rebuilding the level of inventories.

d. **Selling and Advertising.** The forecast assumes that cost control measures will allow the Company to maintain selling costs at a relatively constant level. The Company plans to spend more on promotional campaigns if the economic downturn persists.

e. **General and Administrative Expense.** The forecast anticipates a $1.7 million increase in the level of general and administrative expense due primarily to the development of new computer-based information systems to better control the Company’s performance.

f. **Income Taxes.** The provision for income taxes is computed using the rates currently in effect for 19X8.

g. **Long-Term Debt.** The Company anticipates a modest reduction in long-term debt if the decline in the economy persists. However, if the economy turns around, the Company expects to increase long-term debt at an interest rate of 1 point above prime.

h. **Dividend.** The Company’s policy is to pay out a predetermined portion of net income, and the forecasted dividend assumes continuation of that policy.
**ABC COMPANY, INC.**

*Statement of Projected Results of Operations and Cash Flows Assuming Construction of an Additional Plant*

*For the Five Years Ending December 31, 19X7*

*(in thousands except per-share amounts)*

<table>
<thead>
<tr>
<th></th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
<th>19X6</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>$101,200</td>
<td>$112,300</td>
<td>$142,000</td>
<td>$156,200</td>
<td>$173,400</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>77,500</td>
<td>86,100</td>
<td>109,300</td>
<td>120,100</td>
<td>133,300</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>23,700</td>
<td>26,200</td>
<td>32,700</td>
<td>36,100</td>
<td>40,100</td>
</tr>
<tr>
<td><strong>Selling, general, and administrative expenses</strong></td>
<td>15,100</td>
<td>16,500</td>
<td>19,500</td>
<td>21,400</td>
<td>23,400</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>8,600</td>
<td>9,700</td>
<td>13,200</td>
<td>14,700</td>
<td>16,700</td>
</tr>
<tr>
<td><strong>Other income (deductions):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,700</td>
<td>1,200</td>
<td>1,000</td>
<td>1,300</td>
<td>1,800</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(2,400)</td>
<td>(3,500)</td>
<td>(3,400)</td>
<td>(3,200)</td>
<td>(3,000)</td>
</tr>
<tr>
<td><strong>Income before taxes</strong></td>
<td>(700)</td>
<td>(2,300)</td>
<td>(2,400)</td>
<td>(1,900)</td>
<td>(1,200)</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>7,900</td>
<td>7,400</td>
<td>10,800</td>
<td>12,800</td>
<td>15,500</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>4,500</td>
<td>4,600</td>
<td>6,100</td>
<td>7,300</td>
<td>8,800</td>
</tr>
<tr>
<td><strong>Add noncash expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,800</td>
<td>2,800</td>
<td>3,400</td>
<td>3,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>500</td>
<td>450</td>
<td>550</td>
<td>600</td>
<td>650</td>
</tr>
<tr>
<td><strong>Add (deduct):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan proceeds for additional plant facility</td>
<td>8,500</td>
<td>1,500</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Increase in excess of receivables and other assets over payables</td>
<td>(1,000)</td>
<td>(1,000)</td>
<td>(2,000)</td>
<td>(3,000)</td>
<td>(3,500)</td>
</tr>
<tr>
<td>Cash requirements for building costs</td>
<td>(8,200)</td>
<td>(1,800)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other additions to plant and equipment</td>
<td>(3,400)</td>
<td>(2,200)</td>
<td>(2,200)</td>
<td>(2,200)</td>
<td>(2,200)</td>
</tr>
<tr>
<td>Cash requirements for repayment of debt</td>
<td>(2,600)</td>
<td>(2,600)</td>
<td>(3,700)</td>
<td>(3,500)</td>
<td>(3,500)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(1,400)</td>
<td>(1,400)</td>
<td>(1,900)</td>
<td>(2,200)</td>
<td>(2,700)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash</strong></td>
<td>(300)</td>
<td>350</td>
<td>250</td>
<td>500</td>
<td>1,050</td>
</tr>
<tr>
<td><strong>Cash beginning of year</strong></td>
<td>3,300</td>
<td>3,000</td>
<td>3,350</td>
<td>3,600</td>
<td>4,100</td>
</tr>
<tr>
<td><strong>Cash end of year</strong></td>
<td>$ 3,000</td>
<td>$ 3,350</td>
<td>$ 3,600</td>
<td>$ 4,100</td>
<td>$ 5,150</td>
</tr>
<tr>
<td><strong>Earnings per share</strong></td>
<td>$ 4.80</td>
<td>$ 4.92</td>
<td>$ 6.51</td>
<td>$ 7.79</td>
<td>$ 9.39</td>
</tr>
<tr>
<td><strong>Dividends per share</strong></td>
<td>$ 1.50</td>
<td>$ 1.50</td>
<td>$ 2.03</td>
<td>$ 2.35</td>
<td>$ 2.88</td>
</tr>
</tbody>
</table>

See accompanying Summary of Significant Forecast Assumptions and Accounting Policies.
This financial projection of operations and cash flow assuming construction of an additional plant present, to the best of management's knowledge and belief, the expected results of operations and cash flows for the projection period if a plant were constructed to increase production capacity by approximately 20 percent. Accordingly, the projection reflects its judgment as of October 24, 19X2, the date of this projection, of the expected conditions and its expected course of action if such a plant were constructed. The presentation is designed to provide information for potential bank financing of the construction of the additional plant and cannot be considered to be a presentation of expected future results. Accordingly, this projection may not be useful for other purposes. The assumptions disclosed herein are those that management believes are significant to the projection; however, management has not decided that it will construct such a plant. Even if the plant were constructed, there will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

a. **Summary of Significant Accounting Policies.** (not illustrated)

b. **Hypothetical Assumption—Increase in Production Capacity by Construction of a New Plant.** The projection is based on the assumption that production capacity will be increased by approximately 20 percent by the construction of a 160,000 square foot production facility in Richmond, Virginia.

Construction on the new plant is projected to begin in February 19X3 and be completed by June 30, 19X4, at a total cost of $10,000,000 including construction-period interest of $1,300,000. Production cost estimates and the projected completion date have been estimated based on competitive bids received.

The decision to proceed with the project and awarding of contracts will depend on the completion of financing arrangements.

c. **Sales.** The overall market for the Company's products has grown over the past five years at an average rate of 2 percent above the actual increase in gross national product, and the Company's market share has remained steady at 14 to 16 percent. Based upon a recent market study of demand for the Company's products, sales are projected to increase 11 percent per annum from 19X2 to 19X4 (which is consistent with a rate 2 percent above the Department of Commerce Bureau of Economic Analysis' estimate of the rise in gross national product in the projection period), with a market share of 15 percent and unit prices increased to cover projected increases in cost of manufacturing. Based upon the study, an additional 15 percent increase in sales is projected to occur beginning in 19X5 and will be met by the added capacity resulting from the plant expansion.

d. **Cost of Sales**

   **Materials.** Materials used by the Company are expected to be readily available, and the Company has generally used producer associations' estimates of prices in the projection period to project material costs. The Company expects to be able to assure a sufficient supply of materials and estimates that the cost of materials will increase by 12 percent per annum.

   **Labor.** The Company's labor union contract, which covers substantially all manufacturing personnel, will be subject to renegotiation in 19X6. Labor costs until that time are projected based on the existing contract. For 19X7, labor costs, including fringe benefits, are projected to increase 19 percent per year above the 19X6 level. The outcome of the projection is particularly sensitive to variances in such labor costs. For each percentage point variance from the projected increase, net income and cash will vary by approximately $380,000.
e. Plant and Equipment and Depreciation Expense. Projected additions to plant and equipment, other than the assumed plant expansion, are principally the regular periodic replacement of manufacturing plant and vehicles at suppliers' quoted estimated prices and do not involve any significant changes in manufacturing capacity or processes. Depreciation is projected on an item-by-item basis. Depreciation on the new facility is projected on a straight-line basis over twenty years.

f. Selling, General, and Administrative Expense. The principal types of expense within this category are salaries, transportation costs, and sales promotion. Salaries are projected on an individual-by-individual basis, using expected salary rates in the projection period. Transportation costs are principally for contract carriers; volume is projected based upon the sales and inventory projections, and rates are forecasted to rise by 16 percent per year based upon trucking industry forecasts. Sales promotion costs are expected to increase in line with the consumer price index, as is the level of other expenses.

g. Bank Borrowing and Interest Expense. The projection assumes that the Company will obtain an extension of existing short-term lines of credit at terms comparable to those in effect in 19X2 (2 percent over prime rate). The Company used the arithmetic mean of [three widely used estimates] of bank prime rate during the projection period (ranging from 12 percent to 14 percent) to estimate prime rate at 13 percent. The Company projects additional long-term borrowing of $10 million to finance the planned plant expansion (including $1,300,000 of construction-period capitalized interest) and has entered into preliminary negotiations with its bankers for this financing. Based upon the preliminary negotiations, the Company has assumed that the additional long-term financing will bear interest at 14 percent.

h. Miscellaneous Income. The projection assumes that royalty income of $950,000 will be received annually based on an agreement under which the Company is to receive a minimum of $950,000 for the first 10,000,000 units produced under its patented die casting process and $.05/unit above that level. Management believes it is unlikely that production will exceed 10,000,000 units in any of the projection periods.

i. Income Taxes. The provision for income taxes is computed using the statutory rates in effect during 19X2, which are not expected to change. The Company anticipates that it will take investment tax credits on the machinery and equipment to be installed in the new plant when the plant is placed in service in 19X4.

j. Dividend. The Company's normal dividend policy is to pay out the previous year's dividend increased to the extent of at least one-third of any increase in profits over the previous year, provided the board of directors considers that the Company's cash and working-capital position will not be adversely affected.
ABC RETAIL COMPANY

Statement of Forecasted Sales
for the Five Years Ending December 31, 19X5*

Years Ending December 31,

<table>
<thead>
<tr>
<th></th>
<th>19X1</th>
<th>19X2</th>
<th>19X3</th>
<th>19X4</th>
<th>19X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$629,000</td>
<td>$692,000</td>
<td>$761,000</td>
<td>$837,000</td>
<td>$921,000</td>
</tr>
</tbody>
</table>

This sales forecast presents, to the best of management’s knowledge and belief, expected sales during the forecast period. Accordingly, the sales forecast reflects its judgment as of (date), the date of this forecast, of the expected conditions and its expected course of action. The sales forecast is designed to present the Company’s sales for the purpose of negotiating its lease override provisions and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the sales forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The Company’s sales are forecasted at a ten percent increase over the prior year for each of the five years forecasted. This sales forecast is based upon an expected average rate of overall increase in market demand for the Company’s products (sporting goods equipment) of three percent per year. During the past five years, market demand for sporting goods equipment has increased approximately four percent per year and the Company expects this rate of industry growth to remain steady throughout the forecast period. The sales forecast is also based upon an expected increase in the Company’s market share in its geographical selling region to 23 percent in 19X5, which represents a six to seven percent increase in market share over the forecast period. The Company’s market share during the past three years has increased one to two percentage points each year and the Company expects this rate of increase to continue during the forecast period. The sales forecast is also based upon an expected four to five percent increase in the rate of inflation for each of the next five years. The Company expects that it will be able to increase the prices of its products to cover increased costs due to inflation without adversely affecting its sales.

The Company plans to maintain its advertising and marketing programs at current levels and has retail-floor space available to provide for the increase in the number of products it expects to sell.

*The summary of significant accounting policies is not illustrated.*
The accompanying forecasted statement presents, to the best of management’s knowledge and belief, MARS Arena’s expected net operating income before debt service and depreciation for the two year period ending December 31, 19X2. Accordingly, the forecasted statement reflects management’s judgment as of August 19, 19X0, the date of this forecasted statement, of the expected conditions and its expected course of action. This presentation is intended for use by the City of MARS in connection with the contemplated construction of the new arena and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecasted statement. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The forecasted statement does not include expenses related to debt service and depreciation, or disclosure of changes in financial position. Accordingly, it is not intended to be a forecast of financial position, results of operations, or cash flows.

A. Description of the Project

The City of MARS plans to build a new 10,000 seat arena at the southeast intersection of Maxwell Road and Rugby Road to replace their existing 8,000 seat arena (the City’s existing arena). MARS Arena will have 3,000 available parking spaces.

B. Summary of Significant Accounting Policies

C. Operating Revenues

There are four basic types of events forecasted to generate income: sporting events, family shows (for example, circuses and ice shows), concerts, and exhibitions. The significant sources of revenue for each type of event include arena rental, parking fees, food and beverage concessions, novelty and souvenir income, and advertising. Attendance during the initial year of operations is forecasted to be greater than the second year based on the "bonus" a new arena can enjoy as patrons come to see the new facility as well as to see the event. A summary of operating revenue by type of event follows.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Average</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Days</td>
<td>Attendance</td>
<td>Attendance</td>
<td>Revenue</td>
</tr>
<tr>
<td>Sporting events</td>
<td>70</td>
<td>4,000</td>
<td>280,000</td>
<td>$860,000</td>
</tr>
<tr>
<td>Family shows</td>
<td>45</td>
<td>4,500</td>
<td>202,500</td>
<td>515,000</td>
</tr>
<tr>
<td>Concerts</td>
<td>30</td>
<td>8,500</td>
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<td>62,500</td>
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<tr>
<td>Totals</td>
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The bases for the significant income assumptions are discussed below.
**Arena Rental**

Management estimates that the new arena could schedule approximately 170 event days in a representative year consisting of 70 sporting events, 45 family shows, 30 concerts, and 25 exhibitions. Event days were forecasted based on discussions with users (such as, sporting teams and event sponsors) and market research and analysis performed by an independent consultant. Also, the City of MARS recently obtained a commitment from the local minor league hockey team to play their home games in MARS Arena.

MARS Arena will be rented out on the basis of a percentage of the dollars generated by ticket sales (called a “percentage of gross receipts”) or a fixed rent (called a “flat rate”). The percentage of gross gate receipts accruing to the facility are based on current average percentages retained by the City’s existing arena. These percentages range from 10 to 50 percent depending on the type of event. Management expects ticket prices to increase between 5 and 15 percent over prices at the City’s existing arena, depending on the type of event, as a result of the new modernized facility. Ticket prices forecasted for each type of event have been compared with those received by other facilities for similar events. Flat rate rentals are usually negotiated by users who do not charge an admission price or have a series of events. The flat rate rental for MARS Arena is forecasted to be between $1,000 and $4,000 and is based on an analysis of rates charged by other comparable arenas for the types of events forecasted. Management does not anticipate an increase in ticket prices or flat rate rentals during the second year of operations.

**Parking Fees**

Management will operate and maintain the parking facility and, accordingly, all revenues accrue to MARS Arena. Consistent with experience at the City’s existing arena, management estimates that 75 percent of all patrons will arrive by car for each event. The forecasted information assumes each car will carry 2.7 persons and average parking rates will be $3.50 per car.

**Food and Beverage Concessions**

Management has negotiated a contract with ABC Company to supply and manage the food and beverage concessions. Concession income is forecasted to be 30 percent of gross concession revenue generated at each event, based on the contractual agreement with ABC Company. MARS Arena will provide all equipment and personnel necessary to operate the concessions. Patron’s forecasted average expenditure per type of event ranges from $0.75 to $3.00 and is based on an analysis of data for comparable events and facilities, including the City’s existing arena.

**Novelty and Souvenir Income**

Similar to food and beverage concessions, management has negotiated a contract with ABC Company to supply and manage the novelty and souvenir concessions. Novelty and souvenir income is forecasted to be 30 percent of gross novelty revenue based on the contractual agreement. MARS Arena will provide all equipment and personnel necessary to operate the novelty and souvenir stands. Patron’s forecasted average expenditure per type of events ranges from $0.00 to $5.25 and is based on an analysis of data for comparable events and facilities.

**Advertising**

Advertising income will be generated primarily from signage on the interior and exterior of MARS Arena. Revenues included in the forecasted information are based on the signage capacity of MARS Arena, contract negotiations to date, and advertising revenues at the City’s existing arena.

**D. Salaries and Wages**

The forecasted information assumes that management will make maximum use of full-time staff rather than subcontract out services, such as facility management and security. Personnel requirements are based on staffing organizations at similar sports arenas and public assembly facilities. Pay for hourly workers is based on local wage levels and wage rates being paid to employees of the City’s existing arena. Wage levels are expected to increase approximately 4 percent in the second year.

Salaries are forecasted on an individual by individual basis using expected salary rates during the forecast period. Part-time salaries and wages are assumed to be event-related expenses and passed through to tenants, except for 15 percent, which is absorbed by MARS Arena.
E. Office and General Expenses

Office and general expenses consist of insurance, advertising, fees for services, and other office and general expenses. Insurance expense is based on costs at the City’s existing arena and a review of insurance coverage proposals that include estimates of general liability, fire, workers compensation, auto-business, liquor liability and boiler-machinery coverage. Advertising expenses are based on costs incurred by the City’s existing arena, the number and type of forecasted events, and expected price increases from advertising agencies. Advertising expenses are expected to be higher in the first year of operations in order to promote the new facility. Fees for services include, but are not limited to, consulting fees, legal fees, and accounting and auditing fees. These fees are estimated based on expenses of the City’s existing arena and plans by management to engage consultants to assist in starting up operations. Other office and general expenses are based on experience at comparable facilities and on costs incurred by the City’s existing arena.

F. Utilities

Utility costs have been estimated by the project team architects and engineers. Utilities expense includes fuel and gas, electricity, water, and sewer costs.

G. Operations and Maintenance Expense

Operations and maintenance expense was estimated based on the requirements of facilities similar in construction and design, age, and intended use.
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