Checklists and illustrative financial statements for credit unions: a financial accounting and reporting practice aid, September 1991 edition

American Institute of Certified Public Accountants. Technical Information Division

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A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID
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Checklists and Illustrative Financial Statements for Credit Unions

A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID

Edited by

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Technical Manager
Technical Information Division

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- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 66, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, FASB Technical Bulletin No. 90-1 and AICPA Statement of Position 90-11.
- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standard should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent the disclosure is relevant to the statements being examined.

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

The author wishes to acknowledge the assistance of his colleague, Richard V. Rikert, who served as consultant on this project. This checklist is dedicated to the memory of our friend and colleague, the late J. Byrne Kelly, CPA.

John F. Hudson  
Vice President  
Technical Standards and Services
# Checklist and Illustrative Financial Statements for Credit Unions

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INTRODUCTION

Credit unions are cooperatives owned and directed by their members. The credit union industry operates under federal and state supervision and regulation. Those regulations influence the accounting and financial reporting.

Credits unions are subject to periodic examinations by supervisory, agency examiners in addition to examinations by the credit unions' own supervisory committees.

Common accounting and reporting by credit unions include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP, although some credit unions may report certain revenue and expenses items on a cash or modified cash basis.
- Credit unions usually prepare a non-classified statement of financial condition.
- The first item on the asset side of the statement of financial condition is "loans to members."
- For GAAP purposes, members' savings (share) accounts are classified as liabilities. For regulatory purposes those accounts are considered equity.
- Provision for loan losses should be reported as expense.
- Note disclosure should include information on loan maturities and the amount of loans at fixed rates of interest.
- Accrued loan interest can be reported separately or in "other assets."
- Accumulated undistributed earnings should be reported as a single amount captioned "retained earnings."
- Credit unions are exempt from federal income taxes and most are exempt from state and local income taxes.
Checklists--General

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

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

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

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

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

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

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

Explanation of References:

ARB = Accounting Research Bulletin
APB = Accounting Principles Board Opinion
SFAS = Statement of Financial Accounting Standards
SAS = Statement on Auditing Standards
FASBI = Financial Accounting Standards Board Interpretation
TB = Technical Bulletin issued by the staff of the FASB
AC = Reference to section number in FASB Accounting Standards Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
A&AG = Audit and Accounting Guide, Audits of Credit Unions
SOP = AICPA Statement of Position

Checklist Questionnaire

__________________________________________________________________

YES NO N/A

General

A. Titles and Notes to Financial Statements

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

2. Does each statement include a general reference to the notes that is an integral part of the financial statement presentation?  ___ ___ ___
   [ARB 43, Ch. 2A, par. 2 (AC F43.102)]

B. Disclosure of Accounting Policies

1. Is a description of all significant accounting policies of the reporting entity

__________________________________________________________________

1The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.
presented as an integral part of the financial statements?  
[APB 22, par. 8 (AC A10.102)]

2. Does disclosure of significant accounting policies encompass important judgments as to the appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods?  
[APB 22, par. 12 (AC A10.105); TB 82-1, par. 7 (AC I25.506)]

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

4. Does the disclosure of significant accounting policies include an explanation of the accounting policy for debt securities held, including the basis for classification into balance sheet captions, such as investment or trading?  
[SOP 90-11, par. 8]

C. Accounting Changes

1. For all changes in accounting principles, are the following disclosures made in the year of change:

   a. Nature of the change?  
   [APB 20, pars. 17 and 19 (AC A06.113 and .115)]

   b. Justification for the change?  

   c. Effect on income before extraordinary items and on net income?  
   [APB 20, pars. 19-21, 25 (AC A06.115-.118, .121); TB 87-1, pars. 1, 3-5, 17 (AC P50.501-.505)]

2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, have such disclosures been made?  
[APB 20, pars. 19-21, 25 (AC A06.115-.118, .121); TB 87-1, pars. 1, 3-5, 17 (AC P50.501-.505)]
3. For those changes in accounting principles requiring restatement of prior periods, has effect of change on income before extraordinary items and net income been disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 A35.113)]

4. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5-6 (AC A06.112)]

5. For a change in accounting estimate affecting several future periods, is effect of change on income before extraordinary items and on net income disclosed in year of change? [APB 20, par. 33 (AC A06.132)]

6. Is the correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements? [APB 20, pars. 36-37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]
   b. Effect of its correction on income before extraordinary items and net income?

D. Business Combinations

1. Is name of acquired credit union disclosed? 

2. Is method of accounting (purchase method) disclosed? 

3. Is cost of combination disclosed? 

4. If fair value of liabilities assumed exceeds fair value of assets acquired, 
are method and period of amortization for unidentified intangible assets disclosed?  ____  ____  ____  
[APB 16, par. 19 (AC B50.164)]

5. If regulatory financial assistance is received, are the nature and amount of such assistance disclosed?  ____  ____  ____  
[SFAS 72, par. 11 (AC B50.158F)]

E. Comparative Financial Statements

1. Have comparative statements been considered?  ____  ____  ____  
[ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-102)]

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

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

F. Related-Party Transactions

1. Do disclosures include:

   a. The nature of the relationship(s) involved?  ____  ____  ____  

   b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?  ____  ____  ____  

   c. The dollar amounts of transactions for each of the periods for which income statements are presented and
the effects of any change in the method of establishing the terms from that used in the preceding period? __ __ __

d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? __ __ __

[SFAS 57, pars. 2-4 (AC R36.102-.104)]

2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? __ __ __

[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

G. Financial Instruments

1. Does the entity have a financial instrument that is:

a. Cash in banks or on hand, or __ __ __

b. Evidence of an ownership interest in an entity, or __ __ __

c. A contract that both:

   (1) Imposes on one entity a contractual obligation (liability)

      (i) To deliver cash or financial instrument to a second entity or __ __ __

      (ii) To exchange financial instruments on potentially unfavorable terms with the second entity? __ __ __
(2) Conveys to that second entity a contractual right:

(i) To receive cash or another financial instrument from the first entity or

(ii) To exchange other financial instruments on potentially favorable terms with the first entity?

[SFAS 105, par. 6 (AC F25.106)]

2. For financial instruments with off-balance-sheet risk (except for those excluded in the statement), was the following disclosed either in the body of the financial statements or in the notes by class of financial statements:

a. The face or contract amount (or notional principal amount if there is no face or contract amount)?

b. The nature and terms, including, at a minimum, a discussion of:

(1) The credit and market risk of those instruments?

(2) The cash requirements of those instruments?

(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"?

[SFAS 105, par. 17 (AC F25.112)]

---

2Practices for grouping and separately identifying--classifying--similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports, have developed and become generally accepted, largely without being codified in authoritative literature. In this statement, class of financial instrument refers to those classifications.
3. For financial instruments with off-balance sheet credit risk, (except as noted above in G.2.), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:

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

b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?  

[SFAS 105, par. 18 (AC F25.113)]

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

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

b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?  

[SFAS 105, par. 20 (AC F25.115)]

H. Lessee Leases

1. For capital leases, do disclosures include:

a. Gross amount of assets recorded by major classes (according to nature or function) as of the date of each balance sheet presented?  

[SFAS 13, par. 16a (AC L10.112a(1)-(4))]  

b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value?  

[SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)-(4))]  

c. The total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?  

[SFAS 13, par. 16a (AC L10.112a(1)-(4))]  

d. Total contingent rentals actually incurred for each period for which an income statement is presented?  

[SFAS 13, par. 16a (AC L10.112a(1)-(4)) amended 10/1/79 by SFAS 29, par. 12]  

e. Amount of accumulated amortization as of the date of each balance sheet
f. Amount of amortization charged to expense or disclosure that amortization included in depreciation expense for each period for which an income statement is presented?
[SFAS 13, par. 16a (AC L10.112a (5))]

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

a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?

b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?
[SFAS 13, par. 16b (AC L10.112b)]

3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals?
[SFAS 13, par. 16c (AC L10.112c)]

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

a. Basis for determination of contingent rentals?

b. Terms of any renewal or purchase options or escalation clauses?

c. Restrictive covenants?
[SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13 see SFASs 17, 22, 23, 26, 27, 28, 29, 76, 77, 91, 94, 96, and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical
bulletins see TBs 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]

I. Contingencies and Commitments

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

2. For loss contingencies not accrued do disclosures indicate:
   a. Nature of the contingency?  
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?  
   [SFAS 5, par. 10 (AC C59.109 and .111)]

3. Are the nature and amount of material violations of applicable laws and regulations either reflected or disclosed in financial statements?  
   [A&AG, page 14]

4. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, and guarantees to repurchase loans that have been sold)?  
   [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]

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

6. Is there adequate disclosure of commitments such as those for capital expenditures and for funding of loans?  
   [SFAS 5, pars. 18-19 (AC C59.120) FASB 80 (AC F80); A&AG, pages 50 and 79]

J. Subsequent Events

1. Are the financial statements adjusted for
any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, .07 and 561.01-.09 (AU 560.03-.04, .07 and 561.01-.09)]

2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05-.07, .09 and 561.01-.09 (AU 560.05-.07, .09 and 561.01-.09)]

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

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

   a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant non-benefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?

   b. The amount of net periodic pension cost for the period and showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?

   Note: The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:

(1) The fair value of plan assets? ___  ___  ___

(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation? ___  ___  ___

(3) The amount of unrecognized prior service cost? ___  ___  ___

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

(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]? ___  ___  ___

(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16. 130]? ___  ___  ___
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 [AC P16.129-.130] (which is the net result of combining the preceding six items)?

YES NO N/A

d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?

YES NO N/A

e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?

YES NO N/A

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

YES NO N/A

2. If there is a defined contribution plan, do disclosures include:

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

YES NO N/A

b. Amount of cost recognized during the period?

[SFAS 87, par. 65 (AC P16.162)]

YES NO N/A

c. If the pension plan has characteristics of both a defined benefit plan

YES NO N/A
and a defined contribution plan:

(1) Is the substance of the plan to provide a defined benefit?   YES NO N/A

(2) If answer is yes, have disclosures required for a defined benefit plan been made?   YES NO N/A

[SFAS 87, par. 66 (AC P16.163)]

3. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such a plan, do disclosures include:

   a. A description of the nature of the event(s)?   YES NO N/A

   b. The amount of gain or loss recognized?   YES NO N/A

   [SFAS 88, par. 17 (AC P16.187)]

L. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:

   a. Description of benefits and employee groups covered?   YES NO N/A

   b. Description of accounting and funding policies?   YES NO N/A

   c. Cost of benefits recognized during the period?   YES NO N/A

   d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?   YES NO N/A

   [SFAS 81, par. 6 (AC P50.102)]

Statement of Financial Condition

A. Loans to Members

1. Are amounts for the following accounts shown separately and deducted from loans to members:
a. Undisbursed portion of mortgage loans?  
[A&AG, pages 38 and 76] 

b. Allowance for loan losses?  
[A&AG, pages 38 and 76] 

c. Unamortized balance of net deferred fees or costs?  
[SFAS 91, pars. 21 and 65 (AC L20.120 and .124); A&AG, page 38] 

2. Are the following disclosures made in notes to financial statements:

a. Carrying basis of loans?  
[A&AG, page 75] 

b. Method of recognizing loan income (including non-accrual policy) and, if significant, loan fees?  
[A&AG, page 75] 

c. Composition of loan portfolio by major types of lending activities?  
[A&AG, pages 38 and 76] 

d. Maturities for significant categories?  
[A&AG, pages 38 and 76] 

e. Amount of loans at fixed interest rates?  
[A&AG, page 38] 

f. Amount of loans at floating interest rates?  
[A&AG, page 38] 

g. Principal amount of loans on which accrual of interest was discontinued or reduced?  
[A&AG, pages 38 and 76] 

h. Interest income that would have been recorded if loans in item g had been current per original terms?  
[A&AG, page 76]
i. Interest income recorded for item g loans?
   [A&AG, page 76]

j. Loans to related parties?
   [SFAS 57, par. 2 (AC R36.102); A&AG, page 38]

3. For loans sold with recourse, are the following disclosures made:
   a. For each period for which an income statement is presented, the amount of proceeds?
   [SFAS 77, par. 9 (AC R20.109)]

4. For loans to be sold subsequent to balance sheet date:
   a. Has an allowance been established for expected losses?
   [A&AG, pages 36-37]

   b. Is such an allowance disclosed and deducted from related loans?
      [A&AG, page 36]

5. If loans are sold at servicing fee rates significantly different from current rates, are such loans accounted for in accordance with SFAS 65, par. 11 (AC Mo4.112)?
   [A&AG, page 36]

6. Is accrued loan interest receivable presented in caption "Other Assets" or as a separate category of assets?
   [A&AG, page 38]

7. Are credit card fees deferred and amortized over the term to which the fees relate?
   [A&AG, page 35; SFAS 91, par. 10 (L20.109)]
B. Allowance for Loan Losses

1. Is allowance deducted from related assets?  
   [A&AG, page 43]  
   YES  NO  N/A

2. Do notes to the financial statements include a summary of activity in the allowance?  
   [A&AG, pages 43 and 76]  
   YES  NO  N/A

3. Are the policy and method for providing for loan losses disclosed in the footnotes?  
   [A&AG, page 75]  
   YES  NO  N/A

C. Cash and Cash Equivalents

1. Are restricted amounts segregated in the statement of financial condition?  
   [A&AG, page 18]  
   YES  NO  N/A

2. Is the definition of cash equivalents disclosed?  
   YES  NO  N/A

D. Investments

1. Is carrying basis disclosed?  
   [A&AG, page 75]  
   YES  NO  N/A

2. Is market value disclosed?  
   [A&AG, pages 25 and 75]  
   YES  NO  N/A

3. Are separate amounts disclosed for major types of investments?  
   [A&AG, pages 25 and 75]  
   YES  NO  N/A

4. Are investments expected to be held until maturity carried at amortized cost?  
   [A&AG, page 21]  
   YES  NO  N/A

5. Are investments not expected to be held until maturity and mutual fund investments carried at lower of cost or market?  
   [A&AG, pages 21 and 22]  
   YES  NO  N/A

6. For each balance sheet presented are the amortized cost, estimated market values, gross unrealized gains and gross unrealized losses disclosed for each pertinent
category of investments in debt securities? [SOP 90-11, par. 9]

7. For the most recent balance sheet, was disclosure made of the amortized cost and estimated market values of debt securities due:
   a. In one year or less? [SOP 90-11, par. 9]
   b. After one year through five years? [SOP 90-11, par. 9]
   c. After five years through ten years? [SOP 90-11, par. 9]
   d. After ten years? [SOP 90-11, par. 9]

8. For each period for which results of operations are presented, are the proceeds from sales of debt securities and gross realized gains and gross realized losses on such sales disclosed? [SOP 90-11, par. 9]


10. Is trade date, rather than settlement date, used to record the purchase and sale of investment securities? [A&AG, page 21]

11. Are premiums or discounts disclosed and amortized or accreted over a period from purchase date to maturity date using the interest method? [A&AG, pages 22-23]

12. If material, are short-term repurchase agreements classified separately? [A&AG, page 25]

13. Is the following end-of-period information about securities purchased under agreements to resell disclosed:
   a. A description of the securities underlying the agreements?
b. The cost of the agreements, including accrued interest?  YES NO N/A

c. The market value of the securities underlying any agreement if less than the cost of that agreement?  YES NO N/A

d. The maturity of the agreements?  YES NO N/A

e. The dollar amount of agreements to resell the same securities?  YES NO N/A

f. The dollar amount of agreements to resell substantially identical securities?  YES NO N/A

g. The dollar amount of assets at risk under agreements outstanding?  YES NO N/A

[SOP 86-1, par. 31]

14. Is the following additional information about securities purchased under agreements to resell disclosed:

a. The maximum amount of outstanding agreements at any month-end during the period?  YES NO N/A

b. The average amount of outstanding agreements for the period?  YES NO N/A

c. A statement of whether the securities underlying the agreements were under the credit union's control?  YES NO N/A

[SOP 86-1, par. 31]

E. Mortgage Loans and Mortgage-Backed Securities

1. For securities held for investment:

a. Are mortgage loans and mortgage-backed securities held for investment reported separately in the statement of financial condition?  YES NO N/A

b. Is the market value disclosed in the statement of financial condition or in the notes?  YES NO N/A

[SOP 86-1, par. 31]
2. For securities held for sale:

a. Are mortgage loans and mortgage-backed securities held for sale reported separately in the statement of financial condition? YES NO N/A

   [SFAS 65, par. 28 (AC Mo4.129)]

b. Are the mortgage loans and mortgage-backed securities reported at the lower of cost or market value? YES NO N/A

   [SFAS 65, par. 4 (AC Mo4.105)]

   (1) Is the method used in determining lower of cost or market value disclosed (i.e. individual vs. aggregate method)? YES NO N/A

   [SFAS 65, par. 29 (AC Mo4.130)]

c. If the right to service mortgage loans was acquired, is the following disclosed:

   (1) The amount capitalized during the period in acquiring the right to service? YES NO N/A

   (2) The method of amortizing the capitalized amount? YES NO N/A

   (3) The amount of amortization for the period? YES NO N/A

   [SFAS 65, par. 30 (AC Mo4.131)]

F. Real Estate Acquired in Settlement of Loans

1. If material, is real estate acquired in settlement of loans shown separately on the statement of financial condition? YES NO N/A

2. Is such real estate stated at lower of fair value at acquisition date or net realizable value? YES NO N/A

3. If appropriate, is activity in the allowance for loss account disclosed? YES NO N/A

   [SFAS 15, par. 28 (AC D22.124)]
G. Accrued Interest Receivable

- Is accrued interest receivable presented in the caption "Other Assets" or as a separate category of assets? [A&AG, page 38]

H. Property and Equipment

1. Is property shown on the statement of financial condition net of accumulated depreciation? [A&AG, page 50]

2. Is carrying basis disclosed? [A&AG, pages 50 and 75]

3. Are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b)]

4. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]

5. Are material commitments for property expenditures disclosed? [A&AG, page 50]

6. For property being constructed, is the amount of capitalized interest disclosed? [SFAS 34, par. 21 (AC I67.118)]

I. Investment in Central Liquidity Facility

1. If material, is the Investment in Central Liquidity Facility separately disclosed? [A&AG, page 72]

J. Other Assets

1. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible
assets acquired from a combination initiated after September 30, 1982:

a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired?

   YES  NO  N/A

b. Is the interest method used as the amortization method?

   YES  NO  N/A

c. Is the interest method applied to outstanding balances of interest-bearing assets?

   [SFAS 72, pars. 5 and 6 (I60.133-.134)]

   YES  NO  N/A

d. Is method and period of amortization disclosed?

   [APB 17, par. 30 (AC I60.111)]

   YES  NO  N/A

2. If individually material in amount, are the following assets presented separately under the caption "Other Assets":

   a. Property acquired in satisfaction of members' loan obligations?

   YES  NO  N/A

   b. Accounts receivable?

   YES  NO  N/A

   c. Prepaid expenses?

   YES  NO  N/A

   d. Payroll deductions receivable?

   YES  NO  N/A

   e. Investment in data service centers?

   YES  NO  N/A

   f. Investment in service organizations?

   YES  NO  N/A

   g. Monetary control reserve deposits?

   YES  NO  N/A

   h. Accrued income accounts?

   [A&AG, pages 48 and 50]

   YES  NO  N/A

K. Savings Accounts

1. Are savings accounts unequivocally classified as liabilities on the statement of financial condition?

   YES  NO  N/A

25
(Note - The emerging Issues Task Force of the FASB in Issue No. 89-3 stated that for a credit union to be in compliance with the AICPA Audit Guide, savings accounts must be unequivocally shown on the face of the statement of financial condition as liabilities, the savings accounts must be presented as the first item in the liabilities and equity section or include the savings accounts within a caption subtotal for total liabilities.)

2. Are savings accounts summarized by type and by maturity in notes to financial statements?  

   [A&AG, pages 54 and 77]

L. Borrowed Funds

1. Are types of borrowed funds disclosed on the statement of financial condition or in a note to financial statements?  

2. Do notes to financial statements disclose:
   a. Interest rates?  
   b. Due dates?  
   c. Pledged collateral?  
   d. Compensating balance agreements?  
   e. Significant restrictive loan agreement covenants?  
   f. Five-year maturity schedule as required by SFAS 47, paragraph 10b (AC C32.105)?  

   [A&AG, pages 59, 60, 77 and 78]

3. Is the amount of debt considered extinguished because of "in-substance defeasance" disclosed so long as that debt remains outstanding?  

   [SFAS 76, par. 6 (AC D14.108)]
M. Securities Sold Under Agreements to Repurchase

1. Is the following end-of-period information disclosed:
   a. A description of the securities underlying the agreements? 
      __ __ __
   b. The book value, including accrued interest, of the securities underlying the agreements? 
      __ __ __
   c. The market value of the securities underlying the agreements? 
      __ __ __
   d. The maturity of the agreements? 
      __ __ __
   e. The weighted-average interest rate of the agreements? 
      __ __ __
   f. The dollar amount of agreements to repurchase the same securities? 
      __ __ __
   g. The dollar amount of agreements to repurchase substantially identical securities? 
      __ __ __
   h. The dollar amount of assets at risk under agreements outstanding? 
      [SOP 86-1, par. 31] 
      __ __ __

2. Is the following additional information disclosed:
   a. The maximum amount of outstanding agreements at any month-end during the period? 
      __ __ __
   b. The average amount of outstanding agreements for the period? 
      __ __ __
   c. A statement of whether the securities underlying the agreements were under the credit union's control? 
      [SOP 86-1, par. 31] 
      __ __ __
N. Other Liabilities

1. For loans transferred with recourse which are not reported as sales, is the amount of proceeds from the transfer reported as a liability?
   [SFAS 77, par. 8 (AC R20.109)]

2. For employee compensated absences:
   a. If conditions for accrual are met, is liability for compensated absences accrued?
      [SFAS 43, par. 6 (AC C44.104)]

3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably determined?
   [SFAS 88, par. 15 (AC P16.185)]

4. If individually material, are the following liabilities stated separately in the statement of financial condition or related notes:
   a. Accounts payable?
   b. Accrued interest (dividend) payable?
   c. Accrued wages?
   d. Accrued payroll taxes?
   e. Accrued audit and supervisory agency fees?
   f. Accrued pension costs?
   g. Accrued data processing charges?
   h. Liability for travelers' checks and money orders sold?
i. Liability to the Federal Reserve Bank for savings bonds sold?  

j. Advance payments by borrowers for taxes and insurance?  

k. Other accrued expenses?  

l. Suspense accounts (items recorded and held subject to clarification and transfer to the proper account, such as unapplied loan payments and savings deposits)?  

[A&AG, page 61]  

O. Retained Earnings  

1. Are retained earnings shown separately on the statement of financial condition?  

[A&AG, pages 64 and 72]  

2. Are significant restrictions on the use of retained earnings for payment of dividends disclosed?  

[SFAS 5, par. 18 (AC C59.120); A&AG, pages 64 and 78]  

3. If significant restrictions exist, does the caption for retained earnings indicate that retained earnings are "substantially restricted"?  

[A&AG, pages 64 and 72]  

4. Are any appropriations of retained earnings for loss contingencies and general reserves clearly identified and included in retained earnings?  

[SFAS 5, par. 15 (AC C59.117); A&AG, pages 64 and 74]  

Statement of Income  

A. Interest on Loans  

1. Is interest on loans shown separately on the statement of income?  

[A&AG, pages 66 and 73]
2. Is the revenue recognition basis disclosed?  
   [A&AG, page 75]  

3. For amortization of net deferred loan origination and/or loan commitment fees and costs which are being recognized as an adjustment of yield:
   a. Is such amortization reported as interest income?  
      [SFAS 91, par. 22 (AC L20.121)]  
   b. Except as specified in SFAS 91, paragraph 20 [AC L20.119], is the interest method used as the method of amortization?  
      [SFAS 91, par. 18 (AC L20.117)]

B. Loan Fees
   • Is amortization of commitment fees being amortized on the straight-line basis over the commitment period, or included in income when the commitment expires, reported as service fee income?  
      [SFAS 91, par. 22 (AC L20.121)]  

C. Interest on Investments
   • Is the amount for investment income shown separately on the statement of operations?  
      [A&AG, pages 66 and 73]

D. Interest (Dividends) on Savings Accounts
   • Is the amount shown separately on the statement of income?  
      [A&AG, pages 66 and 73]

E. Interest on Borrowings
   1. Is the amount shown separately on the statement of income?  
      [A&AG, pages 66 and 73]  
   2. Is interest relating to dollar reverse repurchase agreements reported as an expense?  
      [A&AG, page 25]
3. Is the amount of capitalized interest disclosed in the footnotes? [SFAS 34, par. 21 (AC 167.118)]

F. Provision for Loan Losses

- Is provision shown separately on the statement of income? [A&AG, pages 66 and 73]

G. General and Administrative Expenses

1. Salaries:

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

2. Employee Benefits:

   a. Is the amount of net periodic pension costs and its components disclosed? [SFAS 87, par. 54b (AC P16.150b)]

   b. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]

3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20-34, 39-53 and 77? [SFAS 87, pars. 20-34, 39-53 and 77 (AC P16.114-.128, .133-.138 and .141-.149)]

4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3-5 and 9-11? [SFAS 88, pars. 3-5 and 9-11 (AC P16.172, .177-.179 and .181)]

---

3Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.
5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12-14?  
   [SFAS 88, pars. 6 and 12-14 (AC P16.173 and .182-.184)]
   - Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7-8?  
     [SFAS 88, pars. 7-8 (AC P16.174-.175)]

6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15?  
   [SFAS 88, par. 15 (AC P16.185)]

7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30?  
   [SFAS 88, pars. 9-10, 12-13 and 15 (AC P16.177, .179, .182-.183 and .185)]

8. Operating Leases:
   - Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals, disclosed?  
     [SFAS 13, par. 16c (AC L10.112c)]

9. Depreciation:
   - Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets?  
     [APB 12, par. 5 (AC D40.105)]

H. Other Income (Expense)

1. Securities gains (losses)
   a. Are gains (losses) from sales of
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<th>Investment securities shown separately on the statement of income?</th>
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<td>[A&amp;AG, pages 25 and 73]</td>
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b. Is the basis for determining gains (losses) disclosed?  
[A&AG, page 75]  

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2. Gains (losses) on property sales  
- Are gains (losses) on property sales shown separately on the statement of income?  
[A&AG, page 73]  

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3. Gains (losses) on pension plan settlements or curtailments or termination benefits  
- Are such gains (losses) disclosed?  
[SFAS 88, par. 17 (AC P16.187)]  

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I. Extraordinary Items  
1. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence?  
[APB 30, pars. 19-24 (AC I17.106-.111 and .118)]  

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2. Are extraordinary items segregated and shown following income before extraordinary items and before net income?  
[APB 30, pars. 10-12 (AC I17.102-.103)]  

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3. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable?  
[APB 30, par. 11 (AC I17.102)]  

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4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)?  
[APB 30, par. 11 (AC I17.102)]  

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5. Are material events or transactions that are either unusual in nature, or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):
   a. Reported separately on the statement of income?  
   b. Accompanied by disclosure of the nature and financial effects of each event?
      [APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I25.505)]

J. Other
   • Are transfers to and from accounts properly designated as appropriated retained earnings excluded from the determination of net income?
      [APB 9, par. 28 (AC C08.101)]

Statement of Changes in Retained Earnings
   A. Are changes in retained earnings disclosed?  
      [APB 12, par. 10 (AC C08.102); A&AG, page 74]
   B. For a correction of an error are the following disclosed in the period in which the error was discovered and corrected:
      1. Nature of the error in previously issued financial statements?  
      2. Effect of its correction on income before extraordinary items and net income?  
      [APB 20, par. 37 (AC A35.105)]

Statement of Cash Flows
   A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented?  
      [SFAS 95, par. 3 (AC C25.101)]
   B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows?  
      [SFAS 95, pars. 27-28 (AC C25.125-.126)]
1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows?  
   [SFAS 102, par. 8 (AC C25.122A)]

2. Are cash receipts and payments resulting from acquisitions and sales of loans, if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market, classified as operating cash flows?  
   [SFAS 102, par. 9 (AC C25.122B)]

C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:

1. Interest received on loans?  
2. Insurance proceeds except those directly related to investing or financing activities?  
3. Interest paid to creditors?  
4. Payments to suppliers and employees?  
5. Payments to governments for duties, fines, and other fees or penalties?  
6. Payments to settle lawsuits?  
7. Contributions to charities?  
   [SFAS 95, pars. 22-23 (AC C25.120-.121)]

D. Are the net amounts of cash receipts and cash payments reported for:

1. Deposits placed with financial institutions and withdrawals of deposits?  
2. Time deposits accepted and repayments of deposits?  
3. Loans made to customers and principal collections of loans?  
   [SFAS 104, par. 7a (AUC C25.111A)]
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:

1. Receipts from collections or sales of loans? ________________________________

2. Receipts from sales of property? ________________________________

3. Loans to members? ________________________________

4. Payments to acquire property? ________________________________
   [SFAS 95, pars. 16-17 (AC C25.114-.115)]

F. Are cash receipts and cash payments from financing activities shown separately on statement of cash flows? ________________________________
   [SFAS 95, par. 31 (AC C25.129)]

G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:

1. Proceeds from issuing debt? ________________________________

2. Repayments of amounts borrowed? ________________________________
   [SFAS 95, pars. 19-20 (AC C25.117-.118)]

H. If applicable, is the effect of exchange-rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? ________________________________
   [SFAS 95, par. 25 (AC C25.123)]

I. Does statement of cash flows explain effect of cash flows by showing change in cash and cash equivalents? ________________________________
   [SFAS 95, par. 7 (AC C25.105)]

J. Is policy for defining what is a cash equivalent disclosed? ________________________________
   [SFAS 95, par. 10 (AC C25.108)]

K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? ________________________________
   [SFAS 95, par. 29-30 (AC C25.127-.128)]
L. Are noncash investing and financing activities summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]
Auditors' Reports Checklist

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

Explanation of References:

SAS = Statement on Auditing Standards
AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
A&AG = Audit and Accounting Guide, Audits of Credit Unions

Checklist Questionnaire

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1. Does the auditor's report include appropriate:
   a. Addressee?
      [SAS 59, par. 9 (AU 508.09)]
      ___ ___ ___
   b. Date (or dual dates) of the report?
      [SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46); SAS 26, pars. 15-17 (AU 504.15-17)]
      ___ ___ ___
   c. A title that includes the word "independent"?
      [SAS 58, par. 8 (AU 508.08)]
      ___ ___ ___

2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided?
   [SAS 26, par. 9 (AU 504.09)]
   ___ ___ ___

3. Does the reporting language conform with the auditor's standard report on:
   a. Financial statements of a single year or period?
      [SAS 58, par. 8 (AU 508.08)]
      ___ ___ ___
   b. Comparative financial statements?
      [SAS 58, par. 8 (AU 508.08)]
      ___ ___ ___

4. Does the auditor's report include appropriate language with respect to the following:
a. The auditor's opinion is based in part on the report of another auditor?  
[SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]

b. Departure from a promulgated accounting principle which could lead to a misleading financial statement?  
[SAS 58, pars. 14-15 (AU 508.14-.15)]

c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation?  
[SAS 58 pars. 16-33 (AU 508.16-.33)]

d. The auditor concludes substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains and that conclusion is expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern"?  
[SAS 64, par. 1 (AU 341.12)]

e. There has been a material change between periods in accounting principles or in the method of their application?  
[SAS 58, par. 34-36 (AU 508.34-.36)]

f. Opinion on prior-period financial statements different from the opinion previously expressed?  
[SAS 58, pars. 77-78 (AU 508.77-.78)]

g. Predecessor auditor's report reissued?  
[SAS 58, pars. 80-82 (AU 508.80-.82)]

h. Required supplemental information has:

(1) Been omitted?  
(2) Presentation of information departs materially from FASB guidelines?  
(3) The auditor is unable to complete prescribed procedures?  
(4) The auditor has substantial doubts that the information conforms to FASB guidelines?  
[SAS 52 (AU 551.15)]
i. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements?  
[SAS 8, par. 4 (AU 550.04)]

j. A matter regarding the financial statements that should be emphasized? 
[SAS 58, par. 37 (AU 508.37)]

k. Report on one basic financial statement and there are no scope limitations? 
[SAS 58, par. 48 (AU 508.48)]

l. Reports on comparative financial statements? 
[SAS 58, pars. 74-75 (AU 508.74-.75)]

m. There is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, disclaimer, or include an explanatory paragraph on one or more financial statements for one or more periods? 
[SAS 58, pars. 5 and 76 (AU 508.05 and .76)]

n. Comparative financial statements with an opinion different from the opinion previously expressed? 
[SAS 58, par. 77-78 (AU 508.77-.78)]

o. Audited and unaudited financial statements in comparative form? 
[SAS 26, pars. 14-17 (AU 504.14-.17)]

p. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods? 
[SAS 58, par. 8, fn7 (AU 508.08 fn7)]

5. If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor indicated in the introductory paragraph:

   a. The financial statements of the prior period were audited by another auditor?  

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. The date of the report?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The type of report issued by the predecessor auditor?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. If the report was other than a standard report, the substantive reasons therefor?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 64, par. 2 (AU 508.83)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. If the financial statements have been restated, does the introductory paragraph indicate a predecessor auditor reported on the financial statements of the prior period before restatement?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 64, par. 2 (AU 508.83)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself as to the appropriateness of the restatement adjustments, did he report on it in accordance with SAS No. 64, par. 2?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 64, par. 2 (AU 508.83)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. If, following a pooling-of-interest transaction, an auditor is engaged to report on restated financial statements for one or more prior years when other auditors audited one or more of the entities included in such financial statements, did he include explanatory language in accordance with SAS No. 64, par. 3?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 64, par. 3 (AU 543.16)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Has a qualified opinion or disclaimer of opinion been expressed because of scope limitations such as, but not limited to, those listed below:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Client's refusal to provide written representations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 19, pars. 11-12 (AU 333.11-.12)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Limitations on scope of lawyer's response?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 12, pars. 12-14 (AU 337.12-.14)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Unresolved matters involving specialists?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 11, par. 9 (AU 336.09)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
d. Illegal acts by clients—unable to determine associated amounts or whether an act is illegal? 
[SAS 54, (AU 317)]

---

e. Alternative procedures are not practicable for confirmation requests returned undelivered by postal authorities? 
[A&AG, pages 55-56]

---

10. Has a qualified opinion or disclaimer of opinion been expressed if:

a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? 
[SAS 31, par. 22(AU 326.23); SAS 58, pars. 40-48 (AU 508.40-.48)]

---

11. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:

a. An uncertainty is not adequately disclosed in the financial statements? 
[SAS 58, par. 20 (AU 508.20)]

---

b. The accounting principles used cause the financial statements to be materially misstated? 
[SAS 58, par. 21 (AU 508.21)]

---

c. Unreasonable accounting estimates cause the financial statements to be misstated? 
[SAS 58, par. 22 (AU 508.22)]

---

d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change? 
[SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]

---

e. Material misstatement of the financial statements? 
[SAS 47, par. 31 (AU 312.31)]
f. Financial statements reflect regulatory practices that differ from GAAP and the resulting difference is material in amount? [SAS 1, sec. 544.02 (AU 544.02); A&AG, page 16]  

[ ] [ ] [ ]

---

[ ] [ ] [ ]

---

[ ] [ ] [ ]

---

g. Client representations about related-party transactions? [SAS 45, par. 12 (AU 334.12)]  

[ ] [ ] [ ]

---

h. There is no evidence to support carrying amount of investment securities and an allowance to write down to market has not been established? [A&AG, page 27]  

[ ] [ ] [ ]

---

i. Clients' voluntarily including supplementary information which has not been audited? [SAS 52, par. 3 (AU 558.03)]  

[ ] [ ] [ ]

---

12. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP? [SAS 58, pars. 67-69 (AU 508.67-.69)]  

[ ] [ ] [ ]

---

13. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion? [SAS 58, par. 70 (AU 508.70)]  

[ ] [ ] [ ]

---

a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed? [SAS 58, par. 71 (AU 508.71)]  

[ ] [ ] [ ]

---

14. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:  

a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]  

[ ] [ ] [ ]

---

b. Is the reporting language clear and appropriate for the:
(1) Qualified opinion?
[SAS 58, pars. 38-66 (AU 508.38-.66)]

(2) Adverse opinion?
[SAS 58, pars. 67-69 (AU 508.67-.69)]

(3) Disclaimer of opinion?
[SAS 58, pars. 70-72 (AU 508.70-.72)]

15. Does the auditor's report include modification, if applicable, for the following:

a. Conditions that precluded application of necessary auditing procedures to long-term investments?
[SAS 58, par. 42 (AU 508.42)]

b. Regulated companies?
[SAS 1, sec. 544.02-.04 (AU 544.02-.04); SAS 62, pars. 2-8 (AU 623.02-.08)]

c. Inadequate disclosure?
[SAS 58, pars. 55-58 (AU 508.55-.58)]

d. Client representations about related-party transactions?
[SAS 45, par. 2 (AU 334.12)]

e. Client's refusal to provide written representations?
[SAS 19, par. 11 (AU 333.11)]

f. Limitations on scope of lawyer's response?
[SAS 12, pars. 12-14 (AU 337.12-.14)]

g. Unresolved matters involving specialists?
[SAS 11, par. 9 (AU 336.09)]

h. Scope limitation concerning errors or irregularities?
[SAS 53, pars. 26-27 (AU 316.26-.27)]

i. Illegal acts by clients?
[SAS 54 (AU 317)]

j. Segment information?
[SAS 21 (AU 435)]

k. Entity's continued existence?
[SAS 59, pars. 12-16 (AU 341.12-.16)]
1. Material misstatement of the financial statements?  
[SAS 47, par. 31 (AU 312.31)]

m. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result of the FASB Statement?  
[Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]

n. Clients' voluntarily including supplementary information which has not been audited?  
[SAS 52, par. 3 (AU 558.03)]

16. Has a piecemeal opinion been avoided?  
[SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]

17. For special reports, have the provisions of SAS 62 and SAS 35 been complied with for the following:

a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?  
[SAS 62, pars. 2-8 (AU 623.02-.08)]

b. Specified elements, accounts or items of a financial statement?  
[SAS 62, pars. 11-14 (AU 623.11-.14); SAS 35 (AU 622)]

c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements?  
[SAS 62, pars. 19-21 (AU 623.19-.21)]

d. Financial information that requires a prescribed form of auditor's report?  
[SAS 62, pars. 22-26 (AU 623.22-.26)]

18. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document:
a. Is there a clear distinction between the client's representations and auditor's representations?  
[SAS 29, par. 20 (AU 551.20)]

b. Does the auditor's report on the accompanying information:

(1) State that the examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole?  

(2) Specifically identify the accompanying information?  

(3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?  

(4) State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements and whether the appropriate expression or disclaimer of opinion is included?  
[SAS 29, pars. 6-11 (AU 551.06-.11)]

19. If an auditor-submitted document with accompanying information is co-existing with a document that includes just the basic financial statements and the auditor's report:

a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles?  
[SAS 29, par. 21 (AU 551.21)]

b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the examination in the auditor's standard (or modified) report?  
[SAS 29, par. 20 (AU 551.20)]
20. If the document contains interim financial information, has the auditor's report been expanded if required? [SAS 36, pars. 24-30 (AU 722.24-.30)]

YES  NO  N/A

21. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, has an opinion been disclaimed on such information unless it has been audited? [SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 558.08 and 11)]

YES  NO  N/A

22. If a report on internal accounting control is to be issued [Material weaknesses in internal accounting control ("reportable condition") that come to the auditor's attention must be communicated, preferably in writing, to the audit committee or the board of directors] [SAS 60, (AU 325.04)] is the appropriate form used for:

a. A report for the restricted use of management, specified regulatory agencies, or other specified third parties based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47-53 (AU 642.47-.53)]

YES  NO  N/A

b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed-upon matters? [SAS 60, pars. 12-19 (AU 325.12-.19)]

YES  NO  N/A

c. A report on all or part of an entity's system for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54-59 (AU 642.54-.59)]

YES  NO  N/A

d. Other special-purpose reports on all or part of the entity's system for restricted use of management, specified regulatory
agencies, or other specified third parties? [SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]

23. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, footnote 6 (AU 552.07, footnote 6)]

24. If reporting on selected financial data that is included in a client-prepared document that contains audited financial statements that are derived from audited financial statements, does the auditor's report indicate the following:

a. That the auditor has examined and expressed an opinion on the complete financial statements? [SAS 42, par. 9 (AU 552.09)]

b. The type of opinion expressed? [SAS 42, par. 9 (AU 552.09)]

c. The specific data on which the auditor is reporting? [SAS 42, par. 9 (AU 552.09)]

d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]

25. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]
Illustrative Financial Statements
Illustrative Report of the Independent Auditor
and Illustrative Credit Union
Financial Statements

(The following illustrates the auditor's standard report and one form of currently acceptable financial statements. Other forms of financial statements may be acceptable. More or less detail should appear in the financial statements or in the notes, depending on the circumstances. The CPA should be guided by existing auditing standards concerning the report.)

Indpependent Auditor's Report

To the Board of Directors
Sample Credit Union
Samletown, U.S.A.

We have audited the accompanying statements of financial condition of Sample Credit Union as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Credit Union at December 31, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[City]
[Date]
Sample Credit Union
Statements of Financial Condition
December 31, 19X2 and 19X1
(in thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans to members, net of allowance for possible loan losses</td>
<td>$44,800</td>
<td>$40,900</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>700</td>
<td>800</td>
</tr>
<tr>
<td>Investments</td>
<td>5,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>100</td>
<td>70</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>1,050</td>
<td>900</td>
</tr>
<tr>
<td>Central Liquidity Facility stock, at cost</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>NCUSIF deposit</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Other assets</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$51,950</strong></td>
<td><strong>$49,960</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Equity</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings accounts</td>
<td>$42,600</td>
<td>$42,460</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>5,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Accrued and other liabilities</td>
<td>800</td>
<td>500</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>48,400</strong></td>
<td><strong>46,960</strong></td>
</tr>
<tr>
<td>Commitments and contingent liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings, substantially restricted</td>
<td>3,550</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>$51,950</strong></td>
<td><strong>$49,960</strong></td>
</tr>
</tbody>
</table>

Sample Credit Union
Statements of Income
Years Ended December 31, 19X2 and 19X1
(in thousands)

<table>
<thead>
<tr>
<th>Interest income</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and fees on loans</td>
<td>$4,300</td>
<td>$3,450</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>500</td>
<td>350</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
<td><strong>4,800</strong></td>
<td><strong>3,800</strong></td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings accounts</td>
<td>2,500</td>
<td>2,400</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total interest expense</strong></td>
<td><strong>2,800</strong></td>
<td><strong>2,600</strong></td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>2,000</strong></td>
<td><strong>1,200</strong></td>
</tr>
<tr>
<td>Provision for possible loan losses</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td><strong>Net interest income after provision for possible loan losses</strong></td>
<td><strong>1,900</strong></td>
<td><strong>1,180</strong></td>
</tr>
<tr>
<td>Operating expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>700</td>
<td>580</td>
</tr>
<tr>
<td>Occupancy</td>
<td>200</td>
<td>150</td>
</tr>
<tr>
<td>Other</td>
<td>500</td>
<td>260</td>
</tr>
<tr>
<td><strong>Total operating expense</strong></td>
<td><strong>1,400</strong></td>
<td><strong>990</strong></td>
</tr>
<tr>
<td>Operating income</td>
<td>500</td>
<td>190</td>
</tr>
<tr>
<td>Other income (expense)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities gains</td>
<td>70</td>
<td>250</td>
</tr>
<tr>
<td>Loss on sale of property and equipment</td>
<td>(20)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$ 550</strong></td>
<td><strong>$ 440</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Sample Credit Union
Statements of Retained Earnings

Years Ended December 31, 19X2 and 19X1
(in thousands)

<table>
<thead>
<tr>
<th>Appropriated</th>
<th>Statutory</th>
<th>Other</th>
<th>Unappropriated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1, 19X1</td>
<td>$1,680</td>
<td>$500</td>
<td>$380</td>
<td>$2,560</td>
</tr>
<tr>
<td>Transfers, net</td>
<td>180</td>
<td>—</td>
<td>(180)</td>
<td>—</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>440</td>
<td>440</td>
</tr>
<tr>
<td>Balance, December 31, 19X1</td>
<td>1,860</td>
<td>500</td>
<td>640</td>
<td>3,000</td>
</tr>
<tr>
<td>Transfers, net</td>
<td>140</td>
<td>—</td>
<td>(140)</td>
<td>—</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>550</td>
<td>550</td>
</tr>
<tr>
<td>Balance, December 31, 19X2</td>
<td>$2,000</td>
<td>$500</td>
<td>$1,050</td>
<td>$3,550</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Sample Credit Union
Statements of Cash Flows

For the Years Ended December 31, 19X2 and 19X1
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>$ 4,300</td>
<td>$ 3,450</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>470</td>
<td>350</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(800)</td>
<td>(720)</td>
</tr>
<tr>
<td>Cash paid to employees and suppliers</td>
<td>(1,050)</td>
<td>(940)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>2,920</td>
<td>2,140</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in savings accounts</td>
<td>(1,860)</td>
<td>(2,870)</td>
</tr>
<tr>
<td>New borrowed funds</td>
<td>4,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Repayment on borrowed funds</td>
<td>(3,000)</td>
<td>(800)</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td>(860)</td>
<td>(670)</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from investment securities sold</td>
<td>8,000</td>
<td>9,351</td>
</tr>
<tr>
<td>Purchase of investment securities</td>
<td>(5,930)</td>
<td>(6,718)</td>
</tr>
<tr>
<td>Net loans made to members</td>
<td>(4,000)</td>
<td>(4,043)</td>
</tr>
<tr>
<td>Proceeds from the sale of property and equipment</td>
<td>70</td>
<td>—</td>
</tr>
<tr>
<td>Expenditures for property and equipment</td>
<td>(290)</td>
<td>(130)</td>
</tr>
<tr>
<td>Other</td>
<td>(10)</td>
<td>20</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td>(2,160)</td>
<td>(1,520)</td>
</tr>
<tr>
<td><strong>Net (decrease) in cash and equivalents</strong></td>
<td>(100)</td>
<td>(50)</td>
</tr>
<tr>
<td>Cash and equivalents at beginning of year</td>
<td>800</td>
<td>850</td>
</tr>
<tr>
<td><strong>Cash and equivalents at end of year</strong></td>
<td>$ 700</td>
<td>$ 800</td>
</tr>
</tbody>
</table>

Reconciliation of Net Income to Net Cash Provided by Operating Activities
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 550</td>
<td>$ 440</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Provision for possible loan losses</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td>Gain on sales of securities</td>
<td>(70)</td>
<td>(250)</td>
</tr>
<tr>
<td>Loss on sale of property and equipment</td>
<td>20</td>
<td>—</td>
</tr>
<tr>
<td>Increase on accrued interest receivable</td>
<td>(30)</td>
<td>(20)</td>
</tr>
<tr>
<td>Increase in accrued expenses</td>
<td>300</td>
<td>100</td>
</tr>
<tr>
<td>Interest credited to savings accounts</td>
<td>2,000</td>
<td>1,800</td>
</tr>
<tr>
<td><strong>Total adjustments</strong></td>
<td>$2,920</td>
<td>$2,140</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Sample Credit Union  
Notes to Financial Statements  
December 31, 19X2 and 19X1  

SIGNIFICANT ACCOUNTING POLICIES

**Cash equivalents.** Cash equivalents of $XXX and $XXX at December 31, 19X2 and 19X1, respectively, consist of federal funds sold and certificates of deposit. For purposes of the statement of cash flows, the credit union considers all highly liquid investment securities with maturities of 3 months or less to be cash equivalents.

**Investments.** Investment securities are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income on investments. Management intends to hold such investments to maturity. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

**Loans to members and allowance for possible loan losses.** Loans are stated at the amount of unpaid principal, reduced by an allowance for possible loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The allowance for possible loan losses is established through a provision for possible loan losses charged to expenses. Loans are charged against the allowance for possible loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers’ ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions, and collection efforts, that the borrowers’ financial condition is such that collection of interest is doubtful.

**Property and equipment.** Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

**Pension plan.** The credit union has a noncontributory pension plan covering substantially all employees. The credit union’s policy is to fund accrued pension costs.

**Savings accounts.** Interest (dividend) rates are set by the board of directors, based on an evaluation of current and future market conditions.

**Retained earnings.** The Sample Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends. Other appropriated retained earnings represent a restriction on the payment of interest (dividends) as established by the board of directors. The Sample Credit Union is exempt, by statute, from federal and state income taxes.

**Investments**  
The carrying value and approximate market value of investments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Value</td>
<td>Market Value</td>
</tr>
<tr>
<td>U.S. government</td>
<td>$4,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>and agency obligations</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Common trust funds</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Time deposits</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Loans to other credit unions</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td><strong>$5,000</strong></td>
<td><strong>$4,000</strong></td>
</tr>
</tbody>
</table>

54
**Loans to Members**
The composition of loans to members is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Automobile</td>
<td>$22,500</td>
</tr>
<tr>
<td>Mortgage</td>
<td>7,400</td>
</tr>
<tr>
<td>Unsecured</td>
<td>6,000</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>5,700</td>
</tr>
<tr>
<td>Share secured loans</td>
<td>1,500</td>
</tr>
<tr>
<td>Education</td>
<td>1,000</td>
</tr>
<tr>
<td>Other</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Less</strong></td>
<td></td>
</tr>
<tr>
<td>Undisbursed portion of loans</td>
<td>300</td>
</tr>
<tr>
<td>Allowance for possible loan losses</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$44,800</td>
</tr>
</tbody>
</table>

A summary of loans by maturity as of December 31, 19X2, is as follows (in thousands):

<table>
<thead>
<tr>
<th>Maturity</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>within one year</td>
<td>$18,000</td>
</tr>
<tr>
<td>One to five years</td>
<td>19,500</td>
</tr>
<tr>
<td>Over five years</td>
<td>7,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$45,000</td>
</tr>
</tbody>
</table>

A summary of the changes in the allowance for possible loan losses is as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$100</td>
<td>$ 70</td>
</tr>
<tr>
<td>Provision charged to operations</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(10)</td>
<td>(15)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td><strong>Balance, end of year</strong></td>
<td>$200</td>
<td>$100</td>
</tr>
</tbody>
</table>

Loans on which the accrual of interest has been discontinued or reduced amounted to $300 and $100 at December 31, 19X2 and 19X1, respectively. If interest on those loans had been accrued, such income would have approximated $10 and $4 for 19X2 and 19X1, respectively. Interest income on those loans, which is recorded only when received, amounted to $3 and $1 for 19X2 and 19X1, respectively.

**Property and Equipment**
Property and equipment is summarized as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Land</td>
<td>$ 100</td>
</tr>
<tr>
<td>Building</td>
<td>650</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>200</td>
</tr>
<tr>
<td>Office equipment</td>
<td>300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,250</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(200)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,050</td>
</tr>
</tbody>
</table>
Savings Accounts

A summary of savings accounts is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Share drafts</td>
<td>$3,500</td>
</tr>
<tr>
<td>Regular savings</td>
<td>19,500</td>
</tr>
<tr>
<td>Money market accounts</td>
<td>12,500</td>
</tr>
<tr>
<td>Savings certificates</td>
<td>7,100</td>
</tr>
<tr>
<td></td>
<td><strong>$42,600</strong></td>
</tr>
</tbody>
</table>

A summary of savings accounts by maturity as of December 31, 19X2, is as follows (in thousands):

<table>
<thead>
<tr>
<th>Maturity</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>No contractual maturity</td>
<td>$23,000</td>
</tr>
<tr>
<td>Maturity within one year</td>
<td>14,000</td>
</tr>
<tr>
<td>One to two years</td>
<td>3,000</td>
</tr>
<tr>
<td>Over two years</td>
<td>2,600</td>
</tr>
<tr>
<td></td>
<td><strong>$42,600</strong></td>
</tr>
</tbody>
</table>

Borrowed Funds

Borrowed funds are as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19X2</td>
</tr>
<tr>
<td>Central Liquidity Facility, 15% due 19X3, secured</td>
<td>$1,000</td>
</tr>
<tr>
<td>Dollar Credit Union, 11% unsecured notes, due 19X3</td>
<td>2,250</td>
</tr>
<tr>
<td>First Trust Bank, 8.25-8.75% notes, due 19X2</td>
<td>—</td>
</tr>
<tr>
<td>Reverse repurchase agreements, 10%, secured by</td>
<td></td>
</tr>
<tr>
<td>U.S. government obligations, due 19X3</td>
<td>750</td>
</tr>
<tr>
<td>Promissory notes, interest at 7.5%, due 19X3 and 19X2</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td><strong>$5,000</strong></td>
</tr>
</tbody>
</table>

Information concerning borrowing under fixed-coupon dollar reverse repurchase agreements is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average balance during the year</td>
<td>$XXX</td>
<td>$XXX</td>
</tr>
<tr>
<td>Average interest rate during the year</td>
<td>X%</td>
<td>X%</td>
</tr>
<tr>
<td>Maximum month-end balance during the year</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Commitments and Contingent Liabilities

Outstanding mortgage loan commitments at December 31, 19X2, total approximately $600. These commitments are not reflected in the financial statements.

The credit union is a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of Sample Credit Union.

At December 31, 19X2, the credit union was obligated under noncancelable operating leases for office space and equipment. Certain leases contain escalation clauses providing for increased rentals based primarily on increases in real estate taxes. Rent expense under operating leases was $XXX and $XXX for the years ended December 31, 19X2 and 19X1, respectively.

The minimum rental payments under the terms of the leases at December 31, 19X2 are as follows:

<table>
<thead>
<tr>
<th>Years ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X3</td>
<td>$XXX</td>
</tr>
<tr>
<td>19X4</td>
<td>XXX</td>
</tr>
<tr>
<td>19X5</td>
<td>XXX</td>
</tr>
<tr>
<td>19X6</td>
<td>XXX</td>
</tr>
<tr>
<td>19X7</td>
<td>XXX</td>
</tr>
<tr>
<td>19X8 and thereafter</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td><strong>$XXX</strong></td>
</tr>
</tbody>
</table>
Pension Plan

Effective as of January 1, 19X1, the credit union adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." Adoption of the statement, which is accounted for prospectively without adjustment to prior years, increased the credit union's 19X1 net income by $50.

A summary of the plan's funding status and the amounts recognized in the statement of financial condition (in thousands):

<table>
<thead>
<tr>
<th>December 31</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated benefit obligation, including vested benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of $90 in 19X2 and $87 in 19X1</td>
<td>$97</td>
<td>$96</td>
</tr>
<tr>
<td>Projected benefit obligation for service rendered to date</td>
<td>113</td>
<td>110</td>
</tr>
<tr>
<td>Plan assets at fair value, primarily listed stocks and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>153</td>
<td>140</td>
</tr>
<tr>
<td>Plan assets in excess of benefit obligation</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Unrecorded net loss (gain) from past experience different</td>
<td>(11)</td>
<td>10</td>
</tr>
<tr>
<td>from that assumed and effects of changes in assumptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrecognized net assets at January 1, 19X0, being</td>
<td></td>
<td></td>
</tr>
<tr>
<td>recognized over 10 years</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Prepaid pension cost</td>
<td>$39</td>
<td>$51</td>
</tr>
</tbody>
</table>

A summary of the components of income follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost-benefits earned during the year</td>
<td>$349</td>
<td>$350</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>938</td>
<td>950</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(2,274)</td>
<td>(2,261)</td>
</tr>
<tr>
<td>Net asset gain deferred for later recognition</td>
<td>1,062</td>
<td>1,072</td>
</tr>
<tr>
<td>Amortization of unrecognized net asset</td>
<td>(33)</td>
<td>(59)</td>
</tr>
<tr>
<td>Net Periodic pension income</td>
<td>$42</td>
<td>$52</td>
</tr>
</tbody>
</table>

The weighted average discount rate and rate of increase in future compensation levels in determining the actuarial present value of the projected benefit obligation were 5% and 4.5%, respectively. The expected long-term rate of return on assets was 8%.

In 19X2 and 19X1, $5 and $7, respectively, of the vested benefit portion of the projected benefit obligation were settled through the purchase of nonparticipating annuity contracts for certain retired participants and lump sum payments for certain terminated participants. As a result, the company recognized gains of $2 and $1 in 19X2 and 19X1, respectively.
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