

University of Mississippi

eGrove

Industry Guides (AAGs), Risk Alerts, and
Checklists

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1989

Disclosure checklists and illustrative financial statements for agricultural cooperatives: A Financial Reporting Practice Aid, November 1989 edition

Richard Rikert

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_indev



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Rikert, Richard, "Disclosure checklists and illustrative financial statements for agricultural cooperatives: A Financial Reporting Practice Aid, November 1989 edition" (1989). *Industry Guides (AAGs), Risk Alerts, and Checklists*. 1135.

https://egrove.olemiss.edu/aicpa_indev/1135

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Industry Guides (AAGs), Risk Alerts, and Checklists by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

November 1989 Edition

**Disclosure Checklists and
Illustrative Financial
Statements for Agricultural
Cooperatives**
A FINANCIAL REPORTING PRACTICE AID

AICPA

American Institute of Certified Public Accountants

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

Disclosure Supplements and Illustrative Financial Statements:

Disclosure Supplement and Illustrative Financial Statements for Construction Contractors (Product No. 008520).

Disclosure Supplement and Illustrative Financial Statements for Oil and Gas Producing Companies (Product No. 007975).

Disclosure Supplement and Illustrative Financial Statements for Real Estate Ventures (Product No. 008535).

Industry Disclosure Checklists and Illustrative Financial Statements

Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives (Product No. 008550).

Disclosure Checklists and Illustrative Financial Statements for Banks (Product No. 008484).

Disclosure Checklists and Illustrative Financial Statements for Credit Unions (Product No. 008499).

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).

November 1989 Edition

**Disclosure Checklists and
Illustrative Financial
Statements for Agricultural
Cooperatives**
A FINANCIAL REPORTING PRACTICE AID

Edited by:

**Richard Rikert
Coordinator—Editor
Technical Information Division**

The Disclosure Checklists and Illustrative Financial Statements for Agricultural Cooperatives have not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and have no official or authoritative status.

American Institute of Certified Public Accountants

Copyright © 1990 by the
American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas, New York, N.Y. 10036-8775

1234567890 TI 99876543210

DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR
AGRICULTURAL COOPERATIVES

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

- o The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- o The checklists and illustrative financial statements have been updated through SAS No. 63, FASB Statement of Financial Accounting Standards No. 102, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2.
- o 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.
- o 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).

John Graves
Director
Technical Services

N O T I C E

This checklist is updated through FASB Statement No. 102. At the time of this checklist's publication, the FASB was in the final stages of issuing a Statement on Financial Accounting Standards that would require all entities to disclose information about (1) financial instruments with off-balance-sheet risk and (2) financial instruments with concentrations of credit risk. Those disclosures would be required for financial statements issued for fiscal years ending after June 15, 1990, and will be reflected in Section 12400 of the AICPA Financial Statement Preparation Manual that will be mailed to subscribers before June 1990.

DISCLOSURE CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS
FOR AGRICULTURAL COOPERATIVES

TABLE OF CONTENTS

	PAGE
Introduction	1
Disclosure Checklists--General	2
Auditors' Reports Checklist	4
Explanation of References	4
Checklist Questionnaire	4
Financial Statements and Notes Checklist	13
Explanation of References	13
Checklist Questionnaire	13
General	13
A. Notes to Financial Statements	13
B. Disclosure of Accounting Policies	13
C. Accounting Changes	14
D. Comparative Financial Statements	15
E. Related Party Transactions	16
F. Lessee Leases.....	17
G. Contingencies and Commitments	18
H. Subsequent Events	19
I. Pension Plans	20
J. Postretirement Health Care and Life Insurance Benefits.....	23
K. Futures Contracts.....	23
Balance Sheet	24
A. Cash.....	24
B. Marketable Equity Securities	24
C. Receivables	25
D. Inventories	26
E. Investments in Other Cooperatives	26
F. Property and Equipment	27
G. Other Assets and Deferred Charges	27
H. Current Liabilities	27
I. Notes Payable and Other Debt	28
J. Other Liabilities and Deferred Credits ..	29
K. Patrons' and Other Equity.....	30

	PAGE
Statement of Operations	31
A. Revenue and Expenses	31
B. Income Taxes	32
C. Extraordinary Items	33
Statement of Patrons' and Other Equity	34
Statement of Amounts Due Patrons	34
Statement of Cash Flows	34
Illustrative Financial Statements	37
Marketing Cooperative	38
Supply Cooperative	46

INTRODUCTION

There are two basic types of agricultural cooperatives - marketing and supply. Marketing cooperatives market the agricultural products produced by their patrons. Supply cooperatives are cooperatives that supply to their patrons goods and services, such as fertilizer and animal feed, used by the patrons to produce products.

Most agricultural cooperatives are organized as corporations which may or may not issue capital stock. Agricultural cooperatives differ from other corporations in that the net earnings of cooperatives are allocated to patrons (entities which conduct business on a cooperative basis with the cooperative) based on the amount of business done between a cooperative and a patron. This manner of allocating income differs from that of a typical corporation for which the allocation is based on capital stock ownership.

Similar to other corporations presenting financial statements in accordance with generally accepted accounting principles, the basic financial statements for agricultural cooperatives include a Balance Sheet, a Statement of Operations, a Statement of Retained Earnings (in the case of an agricultural cooperative, a Statement of Patrons' Equities), a Statement of Cash Flows. Marketing cooperatives may also present a Statement of Amounts Due to Patrons.

The equity section of the balance sheet of an agricultural cooperative differs from other corporations in that the principal equity component is retained allocations to patrons (cooperative earnings that are allocated to patrons but retained by the cooperative). Other accounts such as capital stock and unallocated nonpatronage income may also appear in the equity section.

Disclosure Checklists--General

Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids which 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 and Accounting Research Bulletins. 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.

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

- o Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

- o The checklists are not all-inclusive and are not intended to present minimum requirements.
- o Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

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

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

Checklist Questionnaire

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	___	___	___
b. Addressee? [SAS 58, par. 9 (AU 508.09)]	___	___	___
c. Identification of financial statements audited? [SAS 58, par. 6 (AU 508.06)]	___	___	___
d. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46)]	___	___	___
2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 1, sec. 220 (AU 220)]	___	___	___
3. If an auditor's standard report is issued does it conform to paragraph 8 of SAS 58 (AU 508.08)?			
4. Does the auditors' standard report include explanatory language if:			
a. Opinion is based in part on report of other auditors?	___	___	___
b. Financial statements contain a GAAP departure because following GAAP would make the financial statements misleading?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. There is an uncertainty concerning future events, the outcome of which is not susceptible to reasonable estimate at the date of the auditors' report?	___	___	___
d. There is substantial doubt as to an entity's ability to continue as a going concern?	___	___	___
e. There is lack of consistency?	___	___	___
f. Auditor wishes to emphasize a matter regarding the financial statements?	___	___	___
g. Opinion expressed in updated auditors' report is different from opinion previously expressed on prior period financial statements? [SAS 58, par. 11 (AU 508.11)]	___	___	___
5. If the auditors' opinion is based in part on report of other auditors:			
a. Is reliance and extent of reliance disclosed in introductory paragraph of auditors' report?	___	___	___
b. Is reference made in opinion paragraph of auditors' report to report of other auditors? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]	___	___	___
6. If the financial statements contain a departure from GAAP because compliance with GAAP would make the financial statements misleading, does an explanatory paragraph of the auditors' report:			
a. Describe the departure?	___	___	___
b. If practicable, describe the effects of the departure?	___	___	___
c. Describe the reason why compliance with GAAP would make the financial statements misleading? [SAS 58, pars. 14-15 (AU 508.14-.15)]	___	___	___
7. If the financial statements are affected by an uncertainty as defined in paragraphs 23-26			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
of SAS 58, does an explanatory paragraph following the opinion paragraph of the auditors' report:			
a. Describe the uncertainty?	---	---	---
b. Indicate that the outcome of the uncertainty cannot presently be determined? [SAS 58, pars. 31-33 (AU 508.31-.33)]	---	---	---
8. If substantial doubt exists about an entity's ability to continue as a going concern, does an explanatory paragraph following the opinion paragraph of the auditors' report describe the uncertainty? [SAS 59, pars. 12-16 (AU 341.12-.16)]	---	---	---
9. If the financial statements reflect a change in accounting principles or in the method of their application that has a material effect on comparability, does an explanatory paragraph following the opinion paragraph of the auditors' report:			
a. Identify the nature of the change?	---	---	---
b. Refer to a note to the financial statements that discusses the change in detail? [SAS 58, pars. 34-36 (AU 508.34-.36)]	---	---	---
10. If an auditor wishes to emphasize a matter regarding the financial statements, is such explanatory information presented in a separate paragraph of the auditors' report? [SAS 58, par. 37 (AU 508.37)]	---	---	---
11. If the opinion expressed in an updated auditors report is different from the opinion previously expressed on prior period financial statements, does an explanatory paragraph preceding the opinion paragraph disclose:			
a. The date of the auditors' previous report?	---	---	---
b. The type of opinion previously expressed?	---	---	---
c. The circumstances or events that caused the auditor to express a different opinion?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. That the auditors' updated opinion on the financial statements of the prior period is different from the previous opinion on those statements? [SAS 58, pars. 77-78 (AU 508.77-.78)]	---	---	---
12. Has a qualified or adverse opinion been expressed because:			
a. Financial statements are materially misstated because of errors? [SAS 47, par. 31 (AU 312.31)]	---	---	---
b. Financial statements include a departure from GAAP relating to uncertainties? [SAS 58, pars. 19-22 (AU 508.19-.22)]	---	---	---
c. Financial statements include a departure from GAAP relating to accounting changes? [SAS 58, pars. 59-66 (AU 508.59-.66)]	---	---	---
d. Financial statements fail to disclose information required by GAAP? [SAS 58, par. 55 (AU 508.55)]	---	---	---
e. Illegal acts are not properly accounted for or disclosed? [SAS 54, par. 18 (AU 317.18)]	---	---	---
f. Client representations that related party transactions were consummated on an arm's-length basis are unsubstantiated by client? [SAS 45, par. 12 (AU 334.12)]	---	---	---
13. Has a qualified opinion or disclaimer of opinion been expressed because of:			
a. Client's refusal to provide written representations? [SAS 19, pars. 11-12 (AU 333.11-.12)]	---	---	---
b. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	---	---	---
c. Scope limitations mentioned in paragraph 42 of SAS 58? [SAS 58, par. 42 (AU 508.42)]	---	---	---
d. Unaudited information presented in notes to financial statements? [SAS 58, par. 45 (AU 508.45)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
14. Has a disclaimer of opinion been expressed because scope limitations precluded the auditor from evaluating whether an illegal act has occurred? [SAS 54, par. 19 (AU 317.19)]	---	---	---
15. If a qualified opinion has been expressed because of a scope limitation:			
a. Is the reason for the qualification described in an explanatory paragraph preceding the opinion paragraph of the auditors' report? [SAS 58, par. 39 (AU 508.39)]	---	---	---
b. Is the reason for the qualification referred to in the scope and opinion paragraphs? [SAS 58, par. 43 (AU 508.43)]	---	---	---
c. Does the opinion paragraph include appropriate qualifying language? [SAS 58, pars. 39 and 44 (AU 508.39 and .44)]	---	---	---
16. If a qualified opinion has been expressed because of a departure from GAAP:			
a. Is the reason for the qualification disclosed in an explanatory paragraph preceding the opinion paragraph? [SAS 58, pars. 51-56 (AU 508.51-.56)]	---	---	---
b. Does the opinion paragraph include appropriate qualifying language and refer to the explanatory paragraph? [SAS 58, pars. 51, 53, 56, and 58 (AU 508.51, .53, .56, and .58)]	---	---	---
c. For GAAP departures other than inadequate disclosure, does the explanatory paragraph disclose effects of departure on financial statements or refer to such disclosure in notes to financial statements? [SAS 58, par. 52 (AU 508.52)]	---	---	---
17. If a disclaimer of opinion has been expressed, does a separate paragraph of the auditors' report indicate the reason for the disclaimer? [SAS 58, pars. 70-72 (AU 508.70-.72)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
18. If an adverse opinion has been expressed:			
a. Does an explanatory paragraph preceding the opinion paragraph of the auditors' report disclose the reason for the adverse opinion and the effect on the financial statements?	___	___	___
b. Does the opinion paragraph refer to the explanatory paragraph? [SAS 58, pars. 67-69 (AU 508.67-.69)]	___	___	___
19. Does the auditors' report include appropriate language with respect to the following:			
a. Predecessor auditors' report reissued? [SAS 58, pars. 80-82 (AU 508.80-.82)]	___	___	___
b. 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); SAS 58, par. 111 (AU 508.111)]	___	___	___
c. Report on one basic financial statement and there are no scope limitations? [SAS 58, par. 48 (AU 508.48)]	___	___	___
d. Unqualified opinion expressed on one but not all of the financial statements? [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	___	___	___
e. Comparative financial statements when predecessor auditors' report not presented? [SAS 58, par. 83 (AU 508.83)]	___	___	___
f. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14-17 (AU 504.14-.17)]	___	___	___
20. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 14 (AU 623.14)]	___	___	___
21. 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			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>than generally accepted accounting principles? [SAS 62, pars. 2-10 (AU 623.02-.10)]</p>	---	---	---
<p>b. Specified elements, accounts or items of a financial statement? [SAS 62, pars. 11-18 (AU 623.09-.18); SAS 35 (AU 622)]</p>	---	---	---
<p>c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19-21 (AU 623.19-.21)]</p>	---	---	---
<p>d. Financial information that requires a prescribed form of auditors' report? [SAS 62, pars. 22-33 (AU 623.22-.33)]</p>	---	---	---
<p>22. If information is to accompany the basic financial statements and auditors' report in an auditor-submitted document (long-form report):</p>			
<p>a. Is there a clear distinction between the client's representations and auditors' representations? [SAS 29, par. 20 (AU 551.20)]</p>	---	---	---
<p>b. Does the auditors' report on the accompanying information:</p>			
<p>(1) State that the examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole?</p>	---	---	---
<p>(2) Specifically identify the accompanying information?</p>	---	---	---
<p>(3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?</p>	---	---	---
<p>(4) State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial</p>	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
statements and whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6-11 (AU 551.06-.11)]	---	---	---
23. If an auditor-submitted document with accompanying information (long-form report) is co-existing with a document that includes just the basic financial statements and the auditors' 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 auditors' report? [SAS 29, par. 20 (AU 551.20)]	---	---	---
24. If the document contains interim financial information, has the auditors' report been expanded if required? [SAS 36, pars. 24-30 (AU 722.24-.30)]	---	---	---
25. If a report on internal accounting control is to be issued [Material weaknesses in internal accounting control ("reportable condition") that come to the auditors' 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)]	---	---	---
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)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. 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)]	---	---	---
26. 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 auditors' 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)]	---	---	---
27. 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 auditors' report indicate the following:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	---	---	---
b. The type of opinion expressed?	---	---	---
c. The specific data on which the auditor is reporting?	---	---	---
d. Whether, in the auditors' 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)]	---	---	---
28. 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 auditors' 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)]	---	---	---

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 Interpretation¹
- TB = Technical Bulletin issued by the staff of the FASB¹
- (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 Agricultural Producers and Agricultural Cooperatives
- SOP = AICPA Statement of Position

Checklist Questionnaire

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
General			
A. Notes to Financial Statements			
o Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [FASB Statement of Concepts No. 1, par. 18]	---	---	---
B. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	---	---	---

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.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105)]	---	---	---
3. Does 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)]	---	---	---
 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?	---	---	---
b. Justification for the change?	---	---	---
c. Effect on income before extraordinary items and on net income? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	---	---	---
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 and A35.113)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
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 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?	_____	_____	_____
b. Effect of its correction on income before extraordinary items and net income? [APB 20, pars. 36-37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]	_____	_____	_____
D. 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)]	_____	_____	_____

YES NO N/A

E. 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)]

YES NO N/A

F. 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 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))] | _____ | _____ | _____ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:			
a. Future minimum rental payments required as of the latest balance sheet presented in 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, 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, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3 and 86-2]	---	---	---

G. 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)]	---	---	---
--	-----	-----	-----

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
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 guarantees disclosed (for example, guarantees of indebtedness of others, or guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113)]	---	---	---
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	---	---	---
5. Is there adequate disclosure of commitments such as those for capital expenditures, and for restrictive covenants in financing agreements? [SFAS 5, pars. 18-19 (AC C59.120)]	---	---	---
 H. 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)]	---	---	---

I. 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:

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? | _____ | _____ | _____ |
| b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? | _____ | _____ | _____ |

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:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)
- b. Amortization of the net gain or loss from earlier periods
- c. Amortization of unrecognized prior service cost
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
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)?	___	___	___
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?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
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?	___	___	___
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)]	___	___	___
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	___	___	___
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	___	___	___
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	___	___	___
(2) If answer is yes, have disclosures required for a defined benefit plan been made? [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:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. A description of the nature of the event(s)?	---	---	---
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	---	---	---
J. Postretirement Health Care and Life Insurance Benefits			
1. Do disclosures include:			
a. Description of benefits and employee groups covered?	---	---	---
b. Description of accounting and funding policies?	---	---	---
c. Cost of benefits recognized during the period?	---	---	---
d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	---	---	---
K. Futures Contracts			
1. If a futures contract is designated a hedge:			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	---	---	---
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	---	---	---
2. If the futures contract hedges an anticipated transaction:			
a. Are the significant characteristics and expected terms of the anticipated transaction identified?	---	---	---
b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	_____	_____	_____
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____

Balance Sheet

A. Cash

o Is restricted cash appropriately segregated from cash available for current operations? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
--	-------	-------	-------

B. Marketable Equity Securities

1. For each balance sheet presented, are aggregate cost and market value (each segregated between current and noncurrent portfolios when applicable) with identification of which is the carrying amount disclosed? [SFAS 12, par. 12a (AC I89.106a)]	_____	_____	_____
2. For the latest balance sheet presented, are gross unrealized gains and gross unrealized losses (each segregated between current and non-current portfolios when applicable) disclosed? [SFAS 12, pars. 12b & 16a (AC I89.106b and .110a)]	_____	_____	_____
3. Is the following information for each period for which an income statement is presented disclosed:			
a. Net realized gain or loss included in determination of net income?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Basis on which cost was determined in computing realized gain or loss (e.g., average cost, FIFO)?	---	---	---
c. The change in valuation allowance(s) included in the equity section of the balance sheet during the period and when a classified balance sheet is presented, the amount of such change included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	---	---	---
4. Are significant net realized and net unrealized gains and losses that arose after the latest balance sheet date but before issuance of the financial statements disclosed in the notes? [SFAS 12, pars. 13 & 17 (AC I89.107 and .111); FASBI 11 (AC I89.115-.116); FASBI 13 (AC I89.120-.122)]	---	---	---
5. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]	---	---	---
C. Receivables			
1. Are accounts and notes receivable from officers or employees shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	---	---	---
2. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	---	---	---
b. Does the disclosure include the effective interest rate and face amount of the note?	---	---	---
c. Is amortization of discount or			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
premium reported as interest in the income statement? [APB 21, par. 16 (AC I69.109)]	—	—	—
3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	—	—	—
4. For transfers of receivables with recourse that are reported as sales, are the following disclosed:			
a. The proceeds to the transferors during each period for which an income statement is presented?	—	—	—
b. The balance of the receivables transferred that remain uncollected at the date of each balance sheet presented, if such information is available? [SFAS 77, par. 9 (AC R20.109)]	—	—	—
D. Inventories			
1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	—	—	—
2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]	—	—	—
3. Is the basis for stating inventory amount disclosed (e.g., lower of cost or market or net realizable value)? [ARB 43, Ch. 3A, par. 9 (AC I78.120); SOP 85-3, par. 85]	—	—	—
4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)]	—	—	—
E. Investments in Other Cooperatives			
o Are such investments carried at cost			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
adjusted for allocated equities and retains? [A&AG, page 59]	—	—	—
F. Property and Equipment			
1. Are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b)]	—	—	—
2. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	—	—	—
G. Other Assets and Deferred Charges			
1. For intangible assets, are method and period of amortization disclosed? [APB 17, pars. 27-31 (AC I60.108-.112)]	—	—	—
2. Are debt issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	—	—	—
3. Are deferred tax assets appropriately classified? [SFAS 96, par. 24 (AC I25.123)]	—	—	—
H. Current Liabilities			
1. Do current liabilities include:			
a. Obligations for items which have entered the operating cycle?	—	—	—
b. Collections received in advance of the delivery of goods or performance of services?	—	—	—
c. Debts which arise from operations directly related to the operating cycle?	—	—	—
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and .118)]	—	—	—
2. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8-14 (AC B05.112-.116); FASBI 8 (AC B05.117 and .138-.139)]	—	—	—
I. Notes Payable and Other Debt			
1. Are loan agreement conditions such as assets pledged as collateral, or covenants to reduce debt, maintain working capital, or restrict dividends disclosed? [SFAS 5, pars. 18-19 (AC C59.120)]	—	—	—
2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)]	—	—	—
3. If the note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	—	—	—
b. Does the disclosure include the effective interest rate and face amount of the note?	—	—	—
c. Is amortization of the discount or			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
premium reported as interest in the income statement?	—	—	—
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	—	—	—
4. If a short-term obligation is excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	—	—	—
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)]	—	—	—
J. Other Liabilities and Deferred Credits			
1. Are deferred tax liabilities appropriately classified? [SFAS 96, par. 24 (AC I25.123)]	—	—	—
2. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 [AC C59] and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and .124-.127)]	—	—	—
3. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, pars. 6-7 (AC C44.104 and .108)]	—	—	—
4. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 74, par. 2 (AC C45.102)]	—	—	—
5. Has a liability (unfunded accrued			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
pension cost) been recognized if net periodic pension cost recognized, pursuant to SFAS 87 [AC P16], exceeds amounts the employer has contributed to the plan? [SFAS 87, pars. 35 & 38 (AC P16.129 and .132)]	—	—	—
6. If the accumulated benefit obligation exceeds the fair value of the pension plan's assets, has the employer recognized, in the balance sheet, a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation? [SFAS 87, pars. 36 & 38 (AC P16.130 and .132)]	—	—	—
7. Has an additional minimum liability been recognized in accordance with the provisions of SFAS 87, paragraph 36? [SFAS 87, pars. 36 & 38 (AC P16.130 and .132)]	—	—	—
K. Patrons' and Other Equity			
1. If there is capital stock outstanding, is the following information disclosed for each class of stock:			
a. Number of shares authorized, issued, and outstanding?	—	—	—
b. Par or stated value per share? [A&AG, page 102]	—	—	—
2. If retained patronage allocations and per-unit retains are appropriately classified as equity, is the following information disclosed:			
a. Face value?	—	—	—
b. Dividend rate?	—	—	—
c. Negotiability?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Subordination agreements?	—	—	—
e. Any revolving or retirement plan? [A&AG, page 61]	—	—	—
3. Are separate amounts presented for allocated equities (retained patronage allocations or per-unit retains) and for unallocated equities? [A&AG, page 102]	—	—	—

Statement of Operations

A. Revenue and Expenses

1. Are separate amounts disclosed for sales, cost of sales, (except in those instances where a cooperative does not assign an amount approximating market to unprocessed products received from patrons), and general and administrative expense? [A&AG, pages 90, 99 and 103; SOP 85-3, par. 85]	—	—	—
2. Is the amount of interest cost expensed and capitalized disclosed? [SFAS 34, par. 21 (AC I67.118)]	—	—	—
3. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, par. 6-8 (AC C38.101-.102)]	—	—	—
4. Is the amount of net periodic pension cost and its components disclosed? [SFAS 87, par. 54b (AC P16.150b)]	—	—	—
5. Is the cost of postretirement health care and life insurance benefits disclosed? [SFAS 81, par. 6c (AC P50.102c)]	—	—	—
6. Are gains (losses) on pension plan settlements or curtailments or termination benefits disclosed? [SFAS 88, par. 17 (AC P16.187)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Is depreciation expense for the period(s) and method(s) of computing depreciation disclosed? [APB 12, par. 5 (AC D40.105)]	—	—	—
8. Are material events or transactions that are either unusual in nature or of infrequent occurrence but not both:			
a. Reported as a separate component of net income?	—	—	—
b. Described and their financial effects disclosed? [APB 30, par. 26 (AC I22.101)]	—	—	—
B. Income Taxes			
1. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:			
a. Current tax expense or benefit?	—	—	—
b. Deferred tax expense or benefit exclusive of (f) below?	—	—	—
c. Investment tax credits?	—	—	—
d. Government grants (to the extent recognized as a reduction of income tax expense)?	—	—	—
e. The benefits of operating loss carryforwards?	—	—	—
f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? [SFAS 96, par. 27 (AC I25.126)]	—	—	—
2. Has the nature of significant reconciling items been disclosed? [SFAS 96, par. 28 (AC I25.127)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed? [SFAS 96, par. 29 (AC I25.128)]	—	—	—
C. 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)]	—	—	—
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10-12 (AC I17.102-.103)]	—	—	—
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	—	—	—
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)]	—	—	—
5. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Income tax effect in the period of extinguishment?	---	---	---
c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, pars. 8-10 (AC I17.104 and D14.105-.107)]	---	---	---
6. For an adjustment of an extraordinary item reported in a prior period:			
a. Is the adjustment classified separately as an extraordinary item in the current period?	---	---	---
b. Are the nature, origin and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)]	---	---	---

Statement of Patrons' and Other Equity

A. Are changes in allocated equities and unallocated equities presented separately? [A&AG, page 104]	---	---	---
B. Are changes in other accounts comprising Patrons' and Other Equity presented separately? [A&AG, page 104]	---	---	---

Statement of Amounts Due Patrons

A. When presented by marketing cooperatives, does Statement include only current amounts due to patrons? [A&AG, pages 89 and 91]	---	---	---
---	-----	-----	-----

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)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
1. Sales of receivables?	___	___	___
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 cash receipts and cash payments from investing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC 25.129)]			
E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from sales of property or investments?	___	___	___
2. Payments to acquire property or investments? [SFAS 95, pars. 16-17 (AC C25.114-.115)]	___	___	___
F. Are cash receipts and cash payments from financing activities shown separately on the 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 or capital stock?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Repayments of amounts borrowed?	—	—	—
3. Payments to acquire capital stock? [SFAS 95, pars. 19-20 (AC C25.117-.118)]	—	—	—
H. 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)]	—	—	—
I. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	—	—	—
J. 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)]	—	—	—
K. Are noncash investing and financing activ- ities summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	—	—	—

Illustrative Financial Statements

Midstate Marketing Cooperative

Central Supply Cooperative

ILLUSTRATIVE FINANCIAL STATEMENTS

Midstate Marketing Cooperative Balance Sheets

	June 30,	
	1988	1987
<i>Assets</i>		
Current assets		
Cash and cash equivalents	\$ 2,890,000	\$ 6,360,000
Accounts receivable, less allowance for doubtful accounts of \$500,000 and \$450,000 (Note 3)	13,120,000	9,600,000
Inventories (Notes 2 and 3)	35,050,000	30,980,000
Prepaid expenses and other current assets	<u>1,170,000</u>	<u>1,370,000</u>
Total current assets	<u>52,230,000</u>	<u>48,310,000</u>
 Investments and other assets		
Investment in Bank for Cooperatives	6,200,000	5,340,000
Trademarks	1,600,000	2,000,000
Other assets	<u>370,000</u>	<u>190,000</u>
Total investments and other assets	<u>8,170,000</u>	<u>7,530,000</u>
 Property, plant, and equipment (Note 3)		
Land	1,130,000	1,130,000
Buildings and improvements	10,970,000	10,860,000
Machines and equipment	<u>25,280,000</u>	<u>19,760,000</u>
Total property, plant, and equipment	37,380,000	31,750,000
Less accumulated depreciation	<u>(13,670,000)</u>	<u>(12,170,000)</u>
Net property, plant, and equipment	<u>23,710,000</u>	<u>19,580,000</u>
Total assets	<u><u>\$84,110,000</u></u>	<u><u>\$75,420,000</u></u>

(continued)

	June 30,	
	<u>1988</u>	<u>1987</u>
<i>Liabilities and Patrons' Equities</i>		
Current liabilities		
Notes payable to bank (Note 3)	\$17,480,000	\$16,950,000
Accounts payable and accrued expenses	7,790,000	7,350,000
Salaries, wages, and related payroll taxes	1,560,000	1,080,000
Due to patrons	10,260,000	8,910,000
Income taxes	310,000	130,000
Current portion of long-term debt	<u>2,890,000</u>	<u>2,890,000</u>
Total current liabilities	<u>40,290,000</u>	<u>37,310,000</u>
Deferred Income Taxes (Note 4)	<u>2,300,000</u>	<u>2,000,000</u>
Long-term debt (Note 3)	<u>13,210,000</u>	<u>16,100,000</u>
Patrons' equities		
Allocated equities	26,360,000	19,710,000
Unallocated equities	<u>1,950,000</u>	<u>300,000</u>
	<u>28,310,000</u>	<u>20,010,000</u>
Total liabilities and patrons' equities	<u><u>\$84,110,000</u></u>	<u><u>\$75,420,000</u></u>

The accompanying notes are an integral part of the financial statements.

ILLUSTRATIVE FINANCIAL STATEMENTS

Midstate Marketing Cooperative Statements of Operations

	Years Ended June 30,	
	1988	1987
Net sales	\$129,630,000	\$110,110,000
Expenses		
Cost of sales (including proportionate share of assigned value of patrons' raw products received)	84,630,000	70,200,000
Selling, general, and administrative expense	19,380,000	18,900,000
Interest expense	5,090,000	4,750,000
Total expenses	109,100,000	93,850,000
Proceeds before income taxes	20,530,000	16,260,000
Income taxes (Note 4)	1,250,000	900,000
Net proceeds	\$ 19,280,000	\$ 15,360,000
Patronage	17,630,000	14,100,000
Nonpatronage	1,650,000	1,260,000
	\$ 19,280,000	\$ 15,360,000

The accompanying notes are an integral part of the financial statements.

The above Statements of Operations have been prepared on the basis of charging to cost of sales the estimated market value of unprocessed products received from patrons and stating inventories at lower of cost or market. Statements of Operations reflecting different accounting bases are presented on pages 97 and 99 of the Audit and Accounting Guide, *Audits of Agricultural Producers and Agricultural Cooperatives*. The Statements of Operations presented on page 97 of the Guide reflect no charges to cost of sales and inventories stated at net realizable value. The Statements of Operations presented on page 99 of the Guide reflect charges to cost of sales and inventories stated at net realizable value.

ILLUSTRATIVE FINANCIAL STATEMENTS

Midstate Marketing Cooperative Statements of Amounts Due to Patrons

	June 30,	
	1988	1987
Amounts due to patrons at beginning of year	\$ 8,910,000	\$ 9,070,000
Assigned value of patrons' raw products (approximates market at date of receipt)	56,500,000	51,500,000
Net patronage proceeds	17,630,000	14,100,000
Total	83,040,000	74,670,000
Less:		
Amounts paid to patrons in cash	58,830,000	53,240,000
Amounts retained as:		
Per-unit retains	5,650,000	5,250,000
Equity credits	8,300,000	7,270,000
Total	72,780,000	65,760,000
Amounts due to patrons at end of year	\$10,260,000	\$ 8,910,000

The accompanying notes are an integral part of the financial statements.

The above Statements of Amounts Due to Patrons have been prepared on the basis of charging to cost of sales the estimated market value of unprocessed products received from patrons and stating inventories at lower of cost or market. Statements of Amounts Due to Patrons reflecting different accounting bases are presented on pages 98 and 100 of the Audit and Accounting Guide, *Audits of Agricultural Producers and Agricultural Cooperatives*.

ILLUSTRATIVE FINANCIAL STATEMENTS

Midstate Marketing Cooperative Statements of Patrons' Equities

	Allocated			Unallocated Equities (Deficit)
	Equity Credits	Per-Unit Retains	Total	
Balance, June 30, 1986	\$ 8,730,000	\$ 5,210,000	\$13,940,000	\$ (960,000)
Patronage proceeds	7,270,000	—	7,270,000	—
Refund of prior years' allocated equities	(6,750,000)	—	(6,750,000)	—
Per-unit retains	—	5,250,000	5,250,000	—
Nonpatronage proceeds	—	—	—	<u>1,260,000</u>
Balance, June 30, 1987	9,250,000	10,460,000	19,710,000	300,000
Patronage proceeds	8,300,000	—	8,300,000	—
Refund of prior years' allocated equities	(7,300,000)	—	(7,300,000)	—
Per-unit retains	—	5,650,000	5,650,000	—
Nonpatronage proceeds	—	—	—	<u>1,650,000</u>
Balance, June 30, 1988	<u>\$10,250,000</u>	<u>\$16,110,000</u>	<u>\$26,360,000</u>	<u>\$1,950,000</u>

The accompanying notes are an integral part of the financial statements.

ILLUSTRATIVE FINANCIAL STATEMENTS

Midstate Marketing Cooperative Statements of Cash Flows

	Years Ended June 30,	
	1988	1987
Cash flows from operating activities		
Net proceeds	\$19,280,000	\$15,360,000
Adjustments to reconcile net proceeds to net cash provided by operating activities:		
Depreciation and amortization	3,500,000	3,200,000
Deferred income taxes	300,000	160,000
Change in noncash current assets and liabilities:		
Accounts receivable	(3,520,000)	650,000
Inventories	(4,070,000)	(1,100,000)
Prepaid expenses and other current assets	200,000	(250,000)
Accounts payable and accrued expenses	440,000	500,000
Salaries, wages, and related payroll taxes	480,000	(220,000)
Income taxes	180,000	80,000
Amounts due to patrons	1,350,000	400,000
Net cash provided by operating activities	18,140,000	18,780,000
Cash flows from investing activities		
Property, plant, and equipment additions	(7,230,000)	(5,440,000)
Investments and other assets	(1,040,000)	(520,000)
Net cash used by investing activities	(8,270,000)	(5,960,000)
Cash flows from financing activities		
Repayment of long-term debt	(2,890,000)	(2,890,000)
Increase in notes payable to bank	530,000	1,000,000
Per-unit retains	5,650,000	5,250,000
Patronage distributions	(9,330,000)	(6,830,000)
Payment of prior years' retains	(7,300,000)	(6,750,000)
Net cash used by financing activities	(13,340,000)	(10,220,000)
Net change in cash and cash equivalents	(3,470,000)	2,600,000
Cash and cash equivalents at beginning of year	6,360,000	3,760,000
Cash and cash equivalents at end of year	\$2,890,000	\$6,360,000
Supplemental disclosure of cash flow data:		
Cash paid during the years for:		
Interest (net of amounts capitalized)	\$5,500,000	\$5,250,000
Income taxes	1,300,000	800,000

The accompanying notes are an integral part of the financial statements.

Midstate Marketing Cooperative Notes to Financial Statements

Years Ended June 30, 1988 and 1987

1. Summary of Significant Accounting Policies

General. Midstate Marketing Cooperative is an agricultural cooperative association operating on a pool basis, and it is organized for the purpose of processing and marketing fruits and vegetables delivered by its patrons. Deliveries from nonmember growers may also be accepted on a patronage or nonpatronage basis. Patrons are credited for the assigned amounts (as determined by the board of directors) of raw products delivered. Net proceeds or losses from patronage business are allocated to patrons on the basis of their participation in the total established value of the related pool.

Equity requirements, as determined by the board of directors, are retained from amounts due to patrons and credited to patrons' equity.

Unallocated equities arising from nonpatronage business and certain nonrecurring revenues and expenses, less income taxes, are not allocated to patrons.

Cash equivalents. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Inventories. The cooperative's inventories are stated at the lower of cost or market using the first-in, first-out method (FIFO). Raw products received from members are included as an element of cost at their assigned amounts.

Investments. The investment in the Bank for Cooperatives consists of class C stock at cost and the cooperative's share of the bank's allocated surplus. Patronage refunds are credited to interest expense.

Trademarks. Purchase costs of trademarks are capitalized and amortized over ten years.

Property, plant, and equipment. Property, plant, and equipment are stated at cost. Depreciation is computed principally by using the straight-line method over the estimated useful lives of the related depreciable assets. Expenditures for betterments and renewals that extend useful lives are capitalized. Gains and losses on retirements and disposals are included in net proceeds.

Patrons' equities. In accordance with its bylaws, the cooperative allocates patronage proceeds to patrons, as determined for income tax purposes, in cash and equity certificates in proportions determined by its board of directors.

Income taxes. The cooperative, as a nonexempt cooperative, is taxed on nonpatronage proceeds and any patronage proceeds not paid or allocated to patrons.

2. Inventories

A summary of inventories follows.

	June 30,	
	1988	1987
Finished goods	\$28,040,000	\$22,820,000
Goods in process	4,320,000	5,560,000
Materials and supplies	2,690,000	2,600,000
Total	\$35,050,000	\$30,980,000

3. Notes Payable to Bank and Long-Term Debt

Notes payable to bank consist of short-term loans from the Bank for Cooperatives. Following is a summary of such borrowings during the years ended June 30, 1988 and 1987.

	June 30,	
	1988	1987
Borrowings as of June 30	\$17,480,000	\$16,950,000
Average interest rate on year-end borrowings	17.5%	13%
Average borrowings during the year	\$19,500,000	\$16,500,000
Average interest rate on borrowings during the year	15.75%	14.5%
Maximum borrowings during the year	\$20,060,000	\$25,000,000

Long-term debt consists of notes payable to the Bank for Cooperatives, which bear interest at 12.5 percent. Payments are due in varying installments through 1994. Aggregate annual principal payments applicable to long-term debt for years subsequent to June 30, 1988 are as follows.

Year ending June 30,	
1989	\$ 2,890,000
1990	2,890,000
1991	2,890,000
1992	2,890,000
1993	2,270,000
Thereafter	2,270,000
Total	<u>\$16,100,000</u>

Essentially, all accounts receivable and inventories are pledged as collateral under the short-term agreement.

The long-term notes are secured by property, plant, and equipment with a net book value of \$18 million and by the investment in the Bank for Cooperatives.

The debt agreements with the Bank contain a number of restrictive covenants, including limitations on equipment purchases and prior approval of the Bank on revolvement of retained equities.

4. Income Taxes

The provision for income taxes consists of the following:

	Years Ended June 30,	
	1988	1987
Current		
Federal	\$ 790,000	\$470,000
State	160,000	100,000
Total	<u>950,000</u>	<u>570,000</u>
Deferred		
Federal	250,000	270,000
State	50,000	60,000
Total	<u>300,000</u>	<u>330,000</u>
Total	<u>\$1,250,000</u>	<u>\$900,000</u>

The income tax provision for each year is disproportionate to the expected statutory income tax expense, principally due to the deduction for distribution of patronage proceeds to patrons.

Deferred taxes arise from differences related primarily to the use of accelerated depreciation methods for tax purposes.

ILLUSTRATIVE FINANCIAL STATEMENTS

Central Supply Cooperative Balance Sheets

	June 30	
	1988	1987
Assets		
Current assets		
Cash and cash equivalents	\$ 2,650,000	\$ 2,819,000
Accounts receivable, less allowance for doubtful accounts of \$750,000 and \$640,000 (Note 3)	6,573,000	6,298,000
Inventories (Notes 2 and 3)	15,520,000	14,686,000
Advances on grain purchases and margin deposits	1,240,000	1,610,000
Prepaid expenses and other current assets	1,195,000	1,306,000
Total current assets	27,178,000	26,719,000
 Investments and other assets		
Investment in Midstate Marketing Cooperative	1,357,000	1,020,000
Investment in Bank for Cooperatives	1,274,000	1,160,000
Investment in Farm Fertilizers, Inc.	980,000	908,000
Other assets	126,000	192,000
	3,737,000	3,280,000
 Property, plant and equipment (Note 3)		
Land and land improvements	1,248,000	1,736,000
Buildings and improvements	10,753,000	9,726,000
Machinery and equipment	20,154,000	17,622,000
Automobiles and trucks	1,197,000	1,173,000
	33,352,000	30,257,000
Less accumulated depreciation	(10,165,000)	(8,247,000)
Net property, plant and equipment	23,187,000	22,010,000
Total assets	\$54,102,000	\$52,009,000

(continued)

	June 30	
	<u>1988</u>	<u>1987</u>
Liabilities and Patrons' Equities		
Current liabilities		
Notes payable to bank (Note 3)	\$ 7,084,000	\$ 6,473,000
Accounts payable and accrued expenses	10,239,000	10,515,000
Salaries, wages, and related payroll taxes	2,230,000	1,985,000
Patronage refunds payable	874,000	619,000
Income taxes	755,000	530,000
Current portion of long-term debt	560,000	1,230,000
Total current liabilities	<u>21,742,000</u>	<u>21,352,000</u>
Deferred income taxes (Note 4)	<u>1,527,000</u>	<u>1,354,000</u>
Long-term debt (Note 3)	<u>8,978,000</u>	<u>10,208,000</u>
Commitments and contingencies (Note 5)		
Patrons' equities		
Preferred stock, 6% noncumulative, \$100 par value: Authorized, 100,000 shares		
Issued and outstanding, 54,840 and 37,380 shares	5,484,000	3,738,000
Common stock, voting, \$100 par value: Authorized, 25,000 shares		
Issued and outstanding, 5,070 and 5,020 shares	507,000	502,000
Allocated equities	13,650,000	13,632,000
Unallocated equities	2,214,000	1,223,000
Total patrons' equities	<u>21,855,000</u>	<u>19,095,000</u>
Total liabilities and patrons' equities	<u>\$54,102,000</u>	<u>\$52,009,000</u>

The accompanying notes are an integral part of the financial statements.

ILLUSTRATIVE FINANCIAL STATEMENTS

Central Supply Cooperative Statements of Operations

	Years Ended June 30	
	1988	1987
Net Sales	\$110,675,000	\$101,332,000
Costs and expenses		
Costs of raw materials, operations, and distribution	98,509,000	91,589,000
General and administrative expense	3,149,000	2,913,000
Interest expense	2,785,000	2,610,000
	104,443,000	97,112,000
Margins before income taxes	6,232,000	4,220,000
Income taxes (Note 5)	650,000	545,000
Net margins	\$ 5,582,000	\$ 3,675,000
Net patronage margins to be distributed as follows:		
Cash	\$ 874,000	\$ 619,000
Preferred stock	1,746,000	1,238,000
Allocated equities	1,747,000	1,238,000
	4,367,000	3,095,000
Nonpatronage margins to unallocated equities	1,215,000	580,000
	\$ 5,582,000	\$ 3,675,000

The accompanying notes are an integral part of the financial statements.

ILLUSTRATIVE FINANCIAL STATEMENTS

Central Supply Cooperative Statements of Patrons' Equities

	Allocated			Unallocated Margins
	Preferred Stock	Common Stock	Allocated Equities	
Balance, June 30, 1986	\$2,500,000	\$500,000	\$15,268,000	\$ 793,000
Patronage margins	1,238,000		1,238,000	
Refund of prior years' allocated equities			(2,874,000)	
Net nonpatronage margins				580,000
Preferred stock dividends				(150,000)
New memberships, net		2,000		
Balance, June 30, 1987	3,738,000	502,000	13,632,000	1,223,000
Patronage margins	1,746,000		1,747,000	
Refund of prior years' allocated equities			(1,729,000)	
Nonpatronage margins				1,215,000
Preferred stock dividends				(224,000)
New memberships, net		5,000		
Balance, June 30, 1988	\$5,484,000	\$507,000	\$13,650,000	\$2,214,000

The accompanying notes are an integral part of the financial statements.

ILLUSTRATIVE FINANCIAL STATEMENTS

Central Supply Cooperative Statements of Cash Flows

	Years Ended June 30,	
	1988	1987
Cash flows from operating activities:		
Net margins	\$5,582,000	\$3,675,000
Noncash items included in net margins:		
Depreciation and amortization	2,937,000	2,537,000
Deferred income tax expense	173,000	120,000
Change in noncash current assets and liabilities:		
Receivables	(275,000)	(56,000)
Inventories	(834,000)	129,000
Advances on grain purchases and margin deposits	370,000	(87,000)
Prepaid expenses and other current assets	110,000	(58,000)
Accounts payable and accrued expenses	(276,000)	89,000
Salaries, wages, and related payroll taxes	245,000	(146,000)
Income taxes	<u>225,000</u>	<u>(60,000)</u>
Net cash provided by operating activities	8,258,000	6,143,000
Cash flows from investing activities:		
Acquisitions of investments and other assets	(457,000)	(175,000)
Acquisitions of property, plant and equipment	(4,723,000)	(5,044,000)
Proceeds from sales of property, plant and equipment	<u>609,000</u>	<u>4,078,000</u>
Net cash used in investing activities	(4,571,000)	(1,141,000)
Cash flows from financing activities:		
Increase in notes payable to bank	611,000	157,000
Repayment of long-term debt	(1,900,000)	(1,175,000)
Patronage refunds and other equity paid in cash	(2,572,000)	(3,811,000)
Proceeds from issuance of common stock	<u>5,000</u>	<u>2,000</u>
Net cash used in financing activities	(3,856,000)	(4,827,000)
Net change in cash and cash equivalents	(169,000)	175,000
Cash and cash equivalents at beginning of year	<u>2,819,000</u>	<u>2,644,000</u>
Cash and cash equivalents at end of year	<u><u>\$2,650,000</u></u>	<u><u>\$2,819,000</u></u>
Supplemental disclosure of cash flow data:		
Cash paid during the years for:		
Interest (net of amounts capitalized)	<u>\$2,919,000</u>	<u>\$2,733,000</u>
Income taxes	<u>715,000</u>	<u>428,000</u>

The accompanying notes are an integral part of the financial statements.

Central Supply Cooperative Notes to Financial Statements

Years Ended June 30, 1988 and 1987

1. Summary of Significant Accounting Policies

General. Central Supply Cooperative is an agricultural cooperative association organized to provide a supply source for members and to market farm products delivered by members.

Cash Equivalents. The Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories. Grain inventories are carried at market. Realized and unrealized gains and losses on futures contracts are credited or charged to current costs of sales.

Sunflower-seed inventory is stated at the lower of cost or market, first-in, first-out method (FIFO). Realized and unrealized gains and losses on soybean-oil futures contracts used to hedge sunflower-seed inventories and unfilled sunflower-seed orders are deferred until the related inventories are sold, but are considered in lower-of-cost-or-market calculations.

The cooperative hedges its grain and sunflower-seed inventories and unfilled orders for these products to the extent considered practicable for minimizing risk from market price fluctuations. These inventories are not completely hedged, however, due in part to the absence of satisfactory hedging facilities for certain commodities and in part to the cooperative's appraisal of its exposure from expected price fluctuations.

Supplies and materials are stated at the lower of cost or market, first-in, first-out method (FIFO).

Investments. The investment in Midstate Marketing Cooperative (Midstate) represents equities allocated to the cooperative by Midstate as of Midstate's most recent fiscal year-end, plus an accrual to the cooperative's fiscal year-end for anticipated patronage allocations. The accrual is based on the cooperative's expected percentage (5 percent in both 1988 and 1987) of Midstate's total patronage applied to Midstate's interim operating results. Patronage refunds are credited to cost of raw materials, operations, and distribution.

The investment in the Bank for Cooperatives consists of class C stock at cost and the cooperative's share of the bank's allocated surplus. Any patronage refunds received from the bank are credited to interest expense.

The investment in the Bank for Cooperatives consists of class C stock at cost and the cooperative's share of the bank's allocated surplus. Any patronage refunds received from the bank are credited to interest expense.

The investment in Farm Fertilizers, Inc. (FFI), represents allocated equities for which notification has been received by the cooperative. The patronage earnings of FFI vary substantially from year to year, and FFI does not make interim operating results available to the cooperative. Accordingly, patronage allocations for which notification has not been received cannot be reasonably determined. Patronage refunds are credited to cost of raw materials, operations, and distribution.

Property, plant, and equipment. Property, plant, and equipment are stated at cost. Depreciation is computed principally by using the straight-line method over the estimated useful lives of the related depreciable assets. Expenditures for betterments and renewals that extend useful lives are capitalized. Gains and losses on retirements and disposals are included in net margins.

Patrons' equities. In accordance with its bylaws, the Cooperative allocates patronage margins to its patrons, as determined for income tax purposes, in cash, preferred stock, and certificates of equity in proportions determined by its board of directors.

New members are issued one share of common stock. At any time a member ceases to be active, such shares are redeemed at par value.

Income taxes. The Cooperative, as a nonexempt cooperative, is taxed on nonpatronage margins and any patronage margins not paid or allocated to patrons.

2. Inventories

A summary of inventories follows.

	June 30,	
	1988	1987
Grain	\$ 8,211,000	\$ 8,105,000
Sunflower seed	3,101,000	3,020,000
Supplies and materials	4,208,000	3,561,000
Total	<u>\$15,520,000</u>	<u>\$14,686,000</u>

Grain purchased from patrons is included as an element of cost of sales, based on the spot-market price of the grain at date of receipt. The value of grain received from patrons amounted to \$16,427,000 and \$15,845,000 for the years ended June 30, 1988 and 1987, respectively.

3. Notes Payable to Bank and Long-Term Debt

Notes payable to the bank consist of short-term loans from the Bank for Cooperatives. A summary of such borrowings during the years ended June 30, 1988 and 1987 follows.

	June 30,	
	1988	1987
Borrowings as of June 30	\$7,084,000	\$6,473,000
Average interest rate on year-end borrowings	15.6%	14.7%
Average borrowings during the year	\$8,562,000	\$7,679,000
Average interest rate on borrowings during the year	14.9%	14.2%
Maximum borrowings during the year	\$9,500,00	\$8,650,000

Long-term debt consists of the following:

	June 30,	
	1988	1987
Bank for Cooperatives, 12% due in varying installments through 1995	\$6,049,000	\$ 6,367,000
Commercial bank loans, at prime, 16% at June 30, 1988 and 14.5% at June 30, 1987 due in varying installments through 1994	<u>3,489,000</u>	<u>5,071,000</u>
	9,538,000	11,438,000
Less current maturities	<u>560,000</u>	<u>1,230,000</u>
Total	<u>\$8,978,000</u>	<u>\$10,208,000</u>

Aggregate annual principal payments applicable to long-term debt for the five years subsequent to June 30, 1988 are as follows:

Year Ending June 30,	
1989	\$ 560,000
1990	601,000
1991	892,000
1992	1,802,000
1993	2,186,000
Thereafter	<u>3,497,000</u>
Total	<u>\$9,538,000</u>

Inventories and accounts receivable are pledged as collateral under the short-term agreements with the Bank for Cooperatives. Property, plant, and equipment with book value of \$12 million, along with the investment in the Bank for Cooperatives, are pledged under the long-term agreements with the Bank for Cooperatives and a commercial bank. The long-term agreements require maintenance of \$5 million of working capital and agreement with the banks on revolvment of allocated equities and assumption of additional long-term debt. Additionally, the agreements require the cooperative to invest in class C stock of the Bank for Cooperatives in amounts determined by that bank.

4. Income Taxes

Income taxes consist of the following:

	Years Ended June 30,	
	1988	1987
Currently payable		
Federal	\$365,000	\$305,000
State	112,000	95,000
Total currently payable	<u>477,000</u>	<u>400,000</u>
Deferred		
Federal	139,000	116,000
State	34,000	29,000
Total deferred	<u>173,000</u>	<u>145,000</u>
Total	<u>\$650,000</u>	<u>\$545,000</u>

A reconciliation of the statutory tax rate to the effective tax rate follows:

	Years Ended June 30,	
	1988	1987
Statutory rate	34.0%	46.0%
Patronage refunds	(28.3)	(39.0)
State taxes, net of federal benefit	1.3	1.5
Other	3.4	4.4
Effective rate	<u>10.4%</u>	<u>12.9%</u>

Deferred taxes arise primarily from the use of accelerated depreciation methods for tax purposes.

5. Commitment and Contingencies

The Cooperative has signed agreements to purchase machinery and equipment costing approximately \$7 million to modernize its grain-handling facilities. These purchases are to be financed by additional long-term debt with the Bank for Cooperatives.

TECHNICAL HOTLINE

**The AICPA Technical Information Service answers
inquiries about specific audit or accounting problems.**

Call Toll Free

(800) 223-4158 (Except New York)

(800) 522-5430 (New York Only)

This service is free to AICPA members.