

Agenda Item 1A



Proposed Standard “Compilation of Prospective Financial Information”

Introduction, Effective Date, Objective, Definitions, and Requirements Paragraphs	Application and Other Explanatory Material
Introduction	Introduction (Ref: par. 3)
1. This section contains performance and reporting requirements and application guidance for accountants engaged to perform a compilation engagement on prospective financial information.	
2. Prospective financial information can take the form of prospective financial statements (full presentations) or partial presentations.	
3. AICPA Guide <i>Prospective Financial Information</i> (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines,” chapter 7, “Reasonably Objective Basis,” chapter 8, “Presentation Guidelines,” and chapter 9, “Illustrative Prospective Financial Statements” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information and interpretive guidance for applying the material in this section. <u>The guide provides suitable criteria for the preparation and presentation of prospective financial information. While this section refers to the guide, the accountant is not prohibited from performing a compilation engagement on prospective financial information prepared and presented in accordance with other suitable criteria. If other suitable</u>	A1 The guide provides suitable criteria for the preparation and presentation of prospective financial information. While this section refers to the guide, the accountant is not prohibited from performing a compilation engagement on prospective financial information prepared and presented in accordance with other suitable criteria. If other suitable criteria are used, this section should be adapted as necessary.

Proposed PFI Pro Forma and Omnibus SSARS – redline to show changes from the ED
ARSC Meeting, May 17-19, 2016

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criteria are used, this section should be adapted as necessary. (Ref: par. A1)	
Effective Date	
4. This section is effective for compilation reports on prospective financial information dated on or after May 1, 2017.	
Objective	Objective (Ref: par. 5)
5. The objective of the accountant in a compilation of prospective financial information is to apply accounting and financial reporting expertise to assist the responsible party in the presentation of prospective financial information and report in accordance with this section without undertaking to obtain or provide any assurance on the (Ref: par. A2 A1) a. prospective financial information or b. assumptions underlying the prospective financial information.	A2 <u>A1</u> During the course of the compilation engagement, the accountant may assist the responsible party in identifying assumptions or gathering relevant information.
Definitions	Definitions (Ref: par. 6 and 17i(1))
6. For the purposes of this section, the following definitions apply. Entity. Any unit, existing or to be formed, for which financial statements could be prepared in accordance with generally accepted accounting principles or special purpose frameworks. For example, an entity can be an individual, partnership, corporation, trust, estate, association, or governmental unit. (Ref: par. A3 A2) Financial forecast. Prospective financial statements that present, to the best of the responsible party’s knowledge and belief, an entity’s expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party’s assumptions reflecting conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single-point estimate of forecasted results or as a range, when the responsible party selects key assumptions to form a range within which it reasonably expects,	A3 <u>A2</u> The term <i>entity</i> is used elsewhere in SSARSs. However, the definition of the term <i>entity</i> in paragraph 6 is applicable only to this section. A4 <u>A3</u> As indicated in paragraphs 4.02–4.05 of the guide, prospective financial statements are for either general use or limited use. General use of prospective financial statements refers to the use of the statements by persons with whom the responsible party is not negotiating directly—for example, in an offering statement of an entity’s debt or equity interests.

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to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. If a forecast contains a range, the range is not selected in a biased or misleading manner—for example, a range in which one end is significantly less expected than the other. (Ref: par. ~~.A4A3–.A5A4~~)

Financial projection. Prospective financial statements that present, to the best of the responsible party’s knowledge and belief, given one or more hypothetical assumptions, an entity’s expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question that begins, for instance, “What would happen if...?” A financial projection is based on the responsible party’s assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions. A projection, like a forecast, may contain a range. (Ref: par. ~~.A4A3–.A6A5~~)

Guide. AICPA Guide *Prospective Financial Information*.

Hypothetical assumption. An assumption used in a financial projection or in a partial presentation of projected information to present a condition or course of action that is not necessarily expected to occur, but is consistent with the purpose of the projection.

Key factors. The significant matters on which an entity’s future results are expected to depend. Such factors are basic to the entity’s operations and thus encompass matters that affect, among other things, the entity’s sources of revenue, production, service, and financing activities. Key factors serve as a foundation for prospective financial information and are the bases for the assumptions.

Partial presentation. A presentation of prospective financial information that excludes one or more of the applicable items required for full presentations of prospective financial statements as set forth in chapter 8 of the guide. (Ref: par. ~~.A7A6~~)

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Because recipients of prospective financial statements distributed for general use are unable to ask the responsible party directly about the presentation, the presentation most useful to them is one that portrays, to the best of the responsible party’s knowledge and belief, the expected results. Thus, only a financial forecast is appropriate for general use.

~~.A5~~A4 Limited use of prospective financial statements refers to the use of prospective financial statements by the responsible party alone or by the responsible party and third parties with whom the responsible party is negotiating directly. Examples include use in negotiations for a bank loan, submission to a regulatory agency, and use solely within the entity. Third-party recipients of prospective financial statements intended for limited use can ask questions of the responsible party and negotiate terms directly with it. Any type of prospective financial statements that would be useful in the circumstances would normally be appropriate for limited use. Thus, the presentation may be a financial forecast or a financial projection.

~~.A6~~A5 The guide notes that in a financial projection, the responsible party need not have a reasonably objective basis for the hypothetical assumptions, but generally, as the number or significance of the hypothetical assumptions increases, the less likely that it is appropriate for the responsible party to present a financial projection.

~~.A7~~A6 Paragraph 4.06 of the guide states that a partial presentation is not ordinarily appropriate for general use.

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Presentation guidelines. The criteria for the presentation and disclosure of prospective financial information. (Ref: par. ~~.A8A7~~)

Prospective financial information. Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.

Prospective financial statements. Either financial forecasts or financial projections including the summaries of significant assumptions and accounting policies. Although prospective financial statements may cover a period that has partially expired, statements for periods that have completely expired are not considered to be prospective financial statements. Pro forma financial statements and partial presentations are not considered to be prospective financial statements. (Ref: par. ~~.A9A8–.A10A9~~)

Responsible party. The person or persons who are responsible for the prospective financial information. The responsible party usually is management but it can be persons outside the entity who currently do not have the authority to direct operations (for example, a party considering acquiring the entity).

~~.A8–A7~~ Chapter 8 of the guide contains the guidelines for the presentation and disclosure of prospective financial information.

~~.A9–A8~~ Prospective financial statements may take the form of complete financial statements or may be summarized or condensed, as described in chapter 8 of the guide. Presentations that exclude one or more relevant elements described in that chapter are defined as partial presentations. For the purposes of this section, the term *forecast* used alone means forecasted information, which can be either a full presentation (a financial forecast) or a partial presentation. The term *projection* can refer to either a financial projection or a partial presentation of projected information.

~~.A10–A9~~ The objective of pro forma financial information is to show what the significant effects on the historical financial statements might have been had a consummated or proposed transaction or event occurred at an earlier date. Although the transaction in question might be prospective, this section does not apply to such presentations because they are essentially historical financial statements and do not purport to be prospective financial statements. See the proposed SSARS *Compilation of Pro Forma Financial Information*.

Requirements

General Principles for Compilations of Prospective Financial Information

7. In addition to complying with this section, an accountant is required to comply with AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on*

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<i>Standards for Accounting and Review Services</i> , adapted as necessary.	
Independence	Independence (Ref: par. 8)
<p>8. In a compilation of prospective financial information, the accountant must determine whether the accountant is independent of the entity. (Ref: par. .A11<u>A10</u>)</p>	<p>.A11<u>A10</u> The interpretations of the “Independence Rule” (ET sec. 1.200.001) of the AICPA Code of Professional Conduct provide authoritative guidance with respect to independence. It is in the public interest and, therefore, required by this section, that the accountant modify the accountant’s compilation report when the accountant is not independent of the entity whose prospective financial information is the subject of the compilation engagement. The AICPA Code of Professional Conduct also defines <i>independence</i> as consisting of two elements, independence of mind and independence in appearance. Independence enhances the accountant’s ability to act with integrity and be objective. Independence implies an impartiality that recognizes an obligation to be fair not only to the responsible party but also to users of the prospective financial information who may rely upon the accountant’s compilation report. In the absence of an interpretation of the “Independence Rule” that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010).</p>
Acceptance and Continuance of Client Relationships	Acceptance and Continuance of Client Relationships (Ref: par. 9 and 11)
<p>9. Because a financial projection is not appropriate for general use, an accountant should not permit the use of the accountant’s name in conjunction with a financial projection that the accountant has reason to believe will be used by those who will not be negotiating directly with the responsible party—for example, in an offering statement of an entity’s debt or equity interests, unless the</p>	<p>.A12<u>A11</u> Because recipients of prospective financial information for general use are unable to ask the responsible party directly about the presentation, the presentation most useful to them is one that portrays, to the best of the responsible party’s knowledge and belief, the expected results. Thus, only a financial forecast is appropriate for general use.</p>

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projection is used to supplement a financial forecast for a period covered by the forecast. (Ref: par. [.A12A11](#))

10. The summary of significant assumptions is essential to the user’s understanding of prospective financial information. Accordingly, the accountant should not perform a compilation engagement on prospective financial information that excludes any of the following:

- a. Disclosure of the summary of significant assumptions
- b. A description of the limitations on the usefulness of the presentation
- c. An identification of the hypothetical assumptions, if the prospective financial information is a financial projection

11. As a condition for accepting an engagement to perform a compilation with respect to an entity’s prospective financial information, in addition to the requirements in paragraph .25 of AR-C section 60, adapted as necessary, the accountant should obtain the agreement of the responsible party that it acknowledges and understands its responsibility

- a. for the preparation and fair presentation of prospective financial information in conformity with guidelines for presentations of prospective financial information established by the American Institute of Certified Public Accountants, and the underlying assumptions. (Ref: par. [.A13A12](#))
- b. to obtain the accountant’s permission prior to including the accountant’s compilation report in any document

.A13-A12 A compilation in accordance with SSARSs is conducted on the premise that the responsible party has acknowledged and understands that it has the responsibility set out in paragraph .25c of AR-C section 60. The preparation of prospective financial information, in whole or in part, is a nonattest service subject to the provisions of the “Nonattest Services” subtopic of the “Independence Rule” (AICPA, *Professional Standards*, ET section 1.295). To avoid misunderstanding, agreement is reached with the responsible

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containing the prospective financial information that indicates that the entity’s accountant has performed a compilation engagement on such prospective financial information.

party that it acknowledges and understands that it has such responsibilities as part of agreeing and documenting the terms of the compilation engagement as required by paragraphs 13–15.

12. If the accountant is not satisfied about any of the matters set out in paragraph .25 of AR-C section 60 or paragraph .11 of this section as preconditions for accepting a compilation engagement with respect to prospective financial information, the accountant should discuss the matter with the responsible party. If changes cannot be made to satisfy the accountant about those matters, the accountant should not accept the proposed compilation engagement.

Agreement on Engagement Terms

Agreement on Engagement Terms (Ref: par. 13)

13. The accountant should agree upon the terms of the engagement with the responsible party. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties and should include the following: (Ref: par. ~~.A14A13~~–~~.A15-A14~~ and ~~A18A17~~)

~~.A14A13~~ Both the responsible party and the accountant have an interest in documenting the terms of the engagement before the engagement commences to help avoid misunderstandings. For example, it reduces the risk that the responsible party may inappropriately rely on or expect the accountant to protect it against certain risks or perform certain functions, including those that are the responsible party’s responsibility.

a. The objective of the engagement

~~.A15-A14~~ The understanding with the responsible party regarding the services to be performed for a compilation engagement on prospective financial information is required by paragraph 13 to be in a documented form, and, accordingly, an oral understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with the responsible party regarding the services to be performed

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- b. The responsibilities of the responsible party (Ref: par. ~~.A16~~A15)
- c. The responsibilities of the accountant
- d. The limitations of the engagement
- e. Identification of the guide as the source for the presentation guidelines of the prospective financial information
- f. Whether the prospective financial information will omit disclosures required by the presentation guidelines established by the AICPA
- g. The responsible party's agreement that the prospective financial information will include disclosure of the significant assumptions
- h. If the prospective financial information is a projection, the responsible party's agreement that the financial projection
 - i. will be used solely for [intended use] (Ref: par. ~~.A17~~A16) and
 - ii. will include (a) an identification of the hypothetical assumptions and (b) a description of the limitations on the usefulness of the presentation.
- i. If the prospective financial information is a partial presentation, the responsible party's agreement that the partial presentation will not be distributed to those who will not be negotiating directly with the responsible party.

for a compilation engagement on prospective financial information.

~~.A16~~A15 The responsibilities of the responsible party are set forth in paragraph .25c of AR-C section 60 and in paragraph 11 of this section. When a third party has contracted for a compilation of prospective financial information, obtaining agreement on the responsibilities of the responsible party is necessary in order to establish that the preconditions for a compilation are present.

~~.A17~~A16 Because recipients of prospective financial information distributed for general use are unable to ask the responsible party directly about the presentation, the presentation most useful to them is one that portrays, to the best of the responsible party's knowledge and belief, the expected results. Thus, only a financial forecast is appropriate for general use.

~~.A18~~A17 Illustrative examples of engagement letters for compilations of prospective financial information are presented in exhibit A "Illustrative Engagement Letters."

- 14. The agreed-upon terms of the engagement should also include
 - a. the expected form and content of the accountant's report and a statement that there may be

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<p>circumstances in which the report may differ from its expected form and content and</p> <p><i>b.</i> a statement that, if the responsible party intends to reproduce and publish the prospective financial statements and the accountant’s compilation report thereon, they need to be reproduced in their entirety and approved by the accountant prior to issuance.</p>	
<p>15. The engagement letter or other suitable form of written agreement should be signed by</p> <p><i>a.</i> the accountant or the accountant’s firm and</p> <p><i>b.</i> the responsible party.</p>	
<p>The Accountant’s Knowledge and Understanding of the Guidelines for the Preparation and Presentation of Prospective Financial Information</p>	
<p>16. The accountant should understand the guidelines for the preparation and presentation of prospective financial information.</p>	
<p>Compilation Procedures</p>	<p>Compilation Procedures (Ref: par. 17)</p>
<p>17. In performing a compilation of prospective financial information the accountant should, where applicable</p> <p><i>a.</i> inquire about the accounting principles used in the preparation of the prospective financial information.</p> <p><i>i.</i> For existing entities, compare the accounting principles used to those used in the</p>	

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preparation of previous historical financial statements and inquire whether such principles are the same as those expected to be used in the historical financial statements covering the prospective period.

- ii. For entities to be formed or entities already formed that have not commenced operations, compare specialized industry accounting principles used, if any, to those typically used in the industry. Inquire about whether the accounting principles used for the prospective financial information are those that are expected to be used when or if the entity commences operations.

b. If the responsible party represents that either

- i. for existing entities, the accounting principles used are different than those used in the preparation of previous historical financial statements or
- ii. for entities to be formed or that have not commenced operations, specialized industry accounting principles used, if any, are different than those typically used in the industry,

inquire as to how the responsible party determined that the appropriate accounting principles were used in the preparation of the prospective financial information in

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accordance with paragraphs 6.15–6.19 of the guide.
(Ref: par. ~~.A19~~A18)

- c. In a compilation of a forecast, consider whether the responsible party has a reasonably objective basis for presenting a forecast. In considering whether the responsible party has a reasonably objective basis, the accountant should consider whether sufficiently objective assumptions can be developed for each key factor. (Ref: par. ~~.A20~~A19–~~.A21~~A20)
- d. In a compilation of a projection, consider that as the number or significance (or both) of hypothetical assumptions increases, whether it is appropriate for the responsible party to present a financial projection. (Ref: par. ~~.A22~~A21)
- e. Inquire about how the responsible party identifies the key factors and develops its assumptions.
- f. List, or obtain a list, of the responsible party's significant assumptions providing the basis for the prospective financial information and consider whether there are any omissions in light of the key factors upon which the prospective results of the entity appear to depend.
- g. Consider whether there appear to be any internal inconsistencies in the assumptions.

~~.A19~~A18 The accounting principles used in a financial projection need not be those expected to be used in the historical financial statements for the prospective period if the use of a different principle is consistent with the purpose of the presentation.

~~.A20~~A19 The accountant is not required to obtain or review documentation supporting the assumptions in order to determine whether the responsible party has a reasonably objective basis for the forecast. Rather, this consideration will be a factor about whether the presentation would be misleading.

~~.A21~~A20 Chapter 7 of the guide provides guidance on the concept of a reasonably objective basis.

~~.A22~~A21 There need not be a reasonably objective basis for the hypothetical assumptions in a projection as long as they are consistent with the expected purpose and use of the projection.

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- h.* Consider whether the mathematical computations that translate the assumptions into the prospective financial information are appropriate.

- i.* Read the prospective financial information, including the summary of significant assumptions, and consider whether
 - i.* the prospective financial information, including the disclosures of assumptions and accounting policies, appears to be presented in conformity with the AICPA presentation guidelines for prospective financial information (Ref: par. ~~A7A6~~).

 - ii.* the prospective financial information, including the summary of significant assumptions, appears to be appropriate in relation to
 - (1) the accountant’s knowledge of the entity and its industry.

 - (2) if the prospective financial information is a forecast, the expected conditions and course of action in the prospective period.

 - (3) if the prospective financial information is a projection, the accountant should consider whether

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the projection appears to be appropriate in relation to the purpose of the presentation.

- j. If a significant part of the prospective period has expired, inquire about the results of operations or significant portions of the operations (such as sources of revenue) and significant changes in financial position, and consider their effect in relation to the prospective financial information. If historical financial statements have been prepared for the expired portion of the period, the accountant should read such statements and consider those results in relation to the prospective financial information.
- k. Consider, after applying the preceding procedures, whether the accountant has received representations or other information that appears to be inappropriate, incomplete, inconsistent, or otherwise misleading. If the accountant believes the presentation is inappropriate, incomplete, inconsistent, or otherwise misleading, the accountant should attempt to obtain additional or revised information. If such information is not received, the accountant should withdraw from the compilation engagement. (Ref: par. ~~.A23~~A22)

~~.A23~~A22 The omission of disclosures, other than those relating to significant assumptions, would not require the accountant to withdraw.

Financial Forecast That Includes Disclosures About Periods Beyond the Forecast Period

18. If the financial forecast contains disclosures about plans, events, or circumstances beyond the forecast period and the accountant concludes, on the basis of known facts, that the disclosures are

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<p>inappropriate, incomplete, inconsistent, or otherwise misleading given their purpose, or the disclosures are not presented in accordance with the guidelines for presentation of a financial forecast, the accountant should discuss the matter with the responsible party and propose appropriate revision of the disclosures.</p>	
<p>19. If the responsible party will not agree to revision of the disclosures, the accountant should either</p> <ul style="list-style-type: none"> a. modify the report on the financial forecast in accordance with paragraph 26 or b. withdraw from the engagement. 	
The Accountant’s Compilation Report on Prospective Financial Information	The Accountant’s Compilation Report on Prospective Financial Information (Ref: par. 20)
<p>20. The accountant’s compilation report should be in writing and (Ref: par. .A24A23–.A25-A24 and .A28A27)</p> <ul style="list-style-type: none"> a. identify or describe the prospective financial information that has been subjected to the compilation engagement, including the period of time to which the prospective financial information relates. b. if the prospective financial information is a forecast, include a statement that a forecast is prospective financial information that presents, to the best of the responsible party’s knowledge and belief, an entity’s expected financial position, results of operations, and cash flows, as applicable. 	<p>.A24–A23 The requirements in paragraph 20 are also applicable to a report on a partial presentation.</p> <p>.A25–A24 The accountant’s written report may become unattached from the prospective financial information. To minimize the possibility that a user of the prospective financial information may infer an unintended level of reliance on the prospective financial information, the accountant may request that the responsible party include a reference on each page of the prospective financial information to the accountant’s written report. An example of such a reference to the accountant’s written report included on each page of the prospective financial information is “See accountant’s report” or “See accountant’s compilation report.”</p>

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- c. if the prospective financial information is a projection, include a statement that a projection is prospective financial information that presents, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows, as applicable.
- d. include a statement that [identify the responsible party] is responsible for preparing and presenting the prospective financial information in accordance with the guidelines for presentation of prospective financial information established by the AICPA.
- e. include a statement that the accountant performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA.
- f. include a statement that the accountant did not examine the prospective financial information and accordingly does not express an opinion nor provide any assurance on the prospective financial information or the assumptions.
- g. include a statement that the forecasted or projected results may not be achieved.
- h. include a statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.

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- i.* include the signature of the accountant or the accountant’s firm. (Ref: par. ~~.A26~~A25)
- j.* include the city and state where the accountant practices. (Ref: par. ~~.A27~~A26)
- k.* include the date of the report, which should be the date that the accountant has completed the procedures required by this section.

~~.A26~~A25 The signature of the accountant or the accountant’s firm may be manual, printed, or digital, as appropriate.

~~.A27~~A26 The city and state where the accountant practices may be indicated on letterhead that contains the issuing office’s city and state.

~~.A28~~A27 Illustrative examples of accountant’s compilation reports are presented in exhibit B, “Illustrative Examples of Accountant’s Compilation Reports on Prospective Financial Information.”

21. In addition to the required elements in paragraph 20, an accountant’s compilation report on a financial projection should include a statement describing the special purpose for which the projection was prepared and an alert, in a separate paragraph, that restricts the use of the accountant’s report; the alert should

- a.* state that the report is intended solely for the information and use of the specified parties,
- b.* identify the specified parties for whom use is intended, and
- c.* state that the accountant’s report is not intended to be and should not be used by anyone other than the specified parties.

22. When the prospective financial statements contain a range, the accountant’s compilation report should include a separate paragraph

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that states that the responsible party has elected to portray the expected results of one or more assumptions as a range.

Reporting When the Accountant is Not Independent

Reporting When the Accountant is Not Independent (Ref: par. 23)

23. When the accountant is not independent with respect to the entity, the accountant should indicate the accountant’s lack of independence in a final paragraph of the accountant’s compilation report. (Ref: par. ~~.A29A28–.A30A29~~)

~~.A29A28~~ An example of a disclosure that an accountant may make to indicate the accountant’s lack of independence would be

I am (We are) not independent with respect to XYZ Company.

~~.A30A29~~ The accountant is not precluded from disclosing a description about the reason(s) that the accountant’s independence is impaired. The following are examples of descriptions the accountant may use:

- I am (We are) not independent with respect to XYZ Company as of and for the year ending December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company.
- I am (We are) not independent with respect to XYZ Company as of and for the year ending December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company.
- I am (We are) not independent with respect to XYZ Company as of and for the year ending December 31,

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	20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.
<p>24. If the accountant elects to disclose a description of the reason(s) the accountant’s independence is impaired, the accountant should include all such reason(s) in the description.</p>	
Modifications of the Standard Accountant’s Compilation Report	Modifications of the Standard Accountant’s Compilation Report
<i>Presentation Deficiencies or Omitted Disclosures</i>	<i>Presentation Deficiencies or Omitted Disclosures</i> (Ref: par. 25)
<p>25. In addition to the preclusion stated in paragraph 10 regarding the omission of the summary of significant assumptions, the accountant is precluded from performing a compilation on prospective financial information that contains presentation deficiencies or omits disclosures if such deficiency or omission is undertaken with the intention of misleading those who might reasonably be expected to use the prospective financial information.</p>	
<p>26. If the accountant is unaware of any intent to mislead those who might reasonably be expected to use the prospective financial information, the accountant should clearly indicate the deficiency or omission in the accountant’s report on prospective financial information that contains presentation deficiencies or omits disclosures. (Ref: par. A31<u>A30</u>)</p>	<p>A31<u>A30</u> An example of a paragraph that may be added to an accountant’s compilation report on a financial forecast in which the summary of significant accounting policies has been omitted is included in illustration 3 of exhibit B, “Illustrative Examples of Accountant’s Compilation Reports on Prospective Financial Information.”</p>
<p>27. If the financial statements underlying the prospective financial information are presented in accordance with a special purpose framework and do not include disclosure of the applicable financial reporting framework used, the accountant should disclose the financial reporting framework used in the accountant’s compilation report.</p>	

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Partial Presentations

Partial Presentations (Ref: par. 28–29)

28. When performing a compilation on a partial presentation, the accountant should give appropriate consideration to whether key factors affecting elements, accounts, or items that are interrelated with those in the partial presentation have been considered, including key factors that may not necessarily be obvious to the reader of a partial presentation (for example, productive capacity relative to a sales forecast), and whether all significant assumptions have been disclosed. (Ref: par. ~~.A32A31~~–~~.A33A32~~)

~~.A32~~–~~A31~~ Chapter 23 of the guide addresses partial presentations.

~~.A33~~–~~A32~~ The accountant’s procedures on a partial presentation may be affected by the nature of the information presented. Many elements of prospective financial information are interrelated. The accountant may find it necessary for the scope of a compilation of some partial presentations to be similar to that for a compilation of a full presentation of prospective financial statements. For example, the scope of the accountant’s procedures when the accountant performs a compilation on forecasted results of operations (a partial presentation) will likely be similar to that of procedures used for the compilation of a full presentation of prospective financial statements because the accountant will most likely need to consider the interrelationships of all accounts in the compilation of results of operations.

29. Compilation reports on partial presentations of both forecasted and projected financial information should include a description of any limitations on the usefulness of the presentation. (Ref: par. ~~.A34A33~~)

~~.A34~~—~~A33~~ Illustrative examples of accountant’s compilation reports on partial presentations are presented in exhibit C, “Illustrative Examples of Accountant’s Compilation Reports on Prospective Financial Information.”

Documentation

Documentation (Ref: par 30)

30. The accountant should prepare documentation in connection with each compilation of prospective financial information in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following: (Ref: par. ~~.A35A34~~)

~~.A35~~–~~A34~~ Documentation may include significant consultations or significant professional judgments made throughout the engagement.

- a. The engagement letter or other suitable form of written documentation with the responsible party, as described in paragraphs 13–15

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- b. The results of the procedures performed in accordance with paragraph 17
- c. A copy of the prospective financial information
- d. A copy of the accountant's compilation report

A36A35

Exhibit A—Illustrative Engagement Letters (Ref: par. **A18A17**)

Illustration 1—An Engagement Letter for a Compilation of a Financial Forecast

Illustration 2—An Engagement Letter for a Compilation of a Financial Projection

The illustrative engagement letters in this exhibit are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances. The accountant may seek legal advice about whether a proposed letter is suitable.

Illustration 1—An Engagement Letter for a Compilation of a Financial Forecast

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial forecast and perform a compilation engagement on the financial forecast the accountant prepared.
- The financial forecast is presented in accordance with accounting principles generally accepted in the United States of America expected to be used during the forecast period, which are consistent with the principles used in preparing the historical financial statements.
- The financial forecast is not summarized.
- The accountant expects that his or her independence will not be impaired.
- Management is the responsible party. If the responsible party is not management, the references to management will generally be replaced with the name of the party that assumes responsibility for the assumptions.

To the appropriate representative of ABC Company:¹

You² have requested that we prepare the financial forecast of ABC Company (the Company), which comprises the forecasted balance sheet as of December 31, 20XX, and the related forecasted statements of income, changes in stockholders' equity, and cash flows, and summaries of significant assumptions and accounting policies for the year then ending and perform a compilation engagement with respect to that financial forecast. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

A financial forecast presents, to the best of management's knowledge and belief, the Company's expected financial position, results of operations, and cash flows for the forecast period. It is based on management's assumptions, reflecting conditions it expects to exist and the course of action it expects to take during the forecast period.

Our Responsibilities

The objective of our engagement is to

- a. prepare the financial forecast in accordance with the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA), and contained in AICPA Guide *Prospective Financial Information* based on your assumptions³ and
- b. perform a compilation engagement on the financial forecast we prepared in which we will apply accounting and financial reporting expertise to assist you in the presentation of the financial forecast and report without undertaking to obtain or provide any assurance
 - i. that there are no material modifications that should be made to the financial forecast in order for it to be presented in accordance with AICPA presentation guidelines or
 - ii. on the assumptions underlying the financial forecast

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

¹ The addresses and references in the engagement letter will be those that are appropriate in the circumstances of the compilation of prospective financial statements, including the relevant jurisdiction. It is important to refer to the appropriate persons.

² Throughout this engagement letter, references to *you, we, us, management, and accountant* will be used or amended as appropriate in the circumstances. If the responsible party is not management, the references to management will generally be replaced with the name of the party who assumes responsibility for the assumptions.

³ If the presentation is to be summarized as illustrated in exhibit 9-2 of AICPA Guide *Prospective Financial Information* this sentence might read, "The objective of our engagement is to prepare the summarized financial forecast in accordance with the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants based on your assumptions..."

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or provide any assurance on the achievability of the forecast or the reasonableness of the underlying assumptions.

Our engagement cannot be relied upon to identify or disclose any prospective financial information misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the Company or noncompliance with laws and regulations.

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare the financial forecast in accordance with the guidelines for presentation of a financial forecast established by the AICPA, and contained in AICPA Guide *Prospective Financial Information* based on your assumptions and to perform a compilation engagement on the financial forecast we prepared. Management has the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

- a. For the preparation and fair presentation of the financial forecast in conformity with guidelines for presentations of a financial forecast established by the American Institute of Certified Public Accountants and contained in AICPA Guide *Prospective Financial Information* and the selection of accounting principles generally accepted in the United States of America as the applicable financial reporting framework
- b. The prevention and detection of fraud
- c. To ensure that the Company complies with the laws and regulations applicable to its activities
- d. Representations about its plans and expectations and for disclosure of significant information that might affect the ultimate realization of the forecasted results
- e. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- f. To provide us with
 - i. assumptions that are appropriate for the forecast,
 - ii. documentation and other related information that is relevant to the preparation and presentation of the financial forecast,
 - iii. additional information that may be requested for the purpose of the preparation of the financial forecast, and
 - iv. unrestricted access to persons within the Company of whom we determine necessary to communicate.

You agree that the financial forecast will include disclosure of the significant assumptions.

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial forecast. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not examine the financial forecast and that, accordingly, we do not express an opinion nor provide any assurance on it. Our report will also state that there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. There may be circumstances in which the report differs from the expected form and content.

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

If the assumptions provided by management are inappropriate and are not revised to our satisfaction, we will be unable to complete our engagement, and accordingly, we will not issue a report on the forecast.

If management intends to reproduce and publish the forecast and our report thereon, they must be reproduced in their entirety and approved by us prior to issuance.

Other Relevant Information

Our fees for these services . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial forecast described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial forecast described herein and to perform a compilation engagement with respect to that same financial forecast, and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and Title]

[Date]

Illustration 2—An Engagement Letter for a Compilation of a Financial Projection

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the financial projection and perform a compilation engagement on the financial projection the accountant prepared.
- The financial projection is presented in accordance with accounting principles generally accepted in the United States of America expected to be used during the projection period, which is consistent with the principles used in preparing the historical financial statements.
- The financial projection is not summarized.
- The financial projection is not to be used to supplement a financial forecast for a period covered by the forecast.
- The accountant expects that his or her independence will not be impaired.
- Management is the responsible party. If the responsible party is not management, the references to management will generally be replaced with the name of the party who assumes responsibility for the assumptions.

To the appropriate representative of ABC Company:¹

You² have requested that we prepare the financial projection of ABC Company (the Company), which comprises the projected balance sheet as of December 31, 20XX, and the related projected statements of income, changes in stockholders' equity, and cash flows, and summaries of significant assumptions and accounting policies for the year then ending and perform a compilation engagement with respect to that financial projection. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

¹ The addresses and references in the engagement letter will be those that are appropriate in the circumstances of the compilation of prospective financial statements, including the relevant jurisdiction. It is important to refer to the appropriate persons.

² Throughout this engagement letter, references to *you*, *we*, *us*, *management*, and *accountant* will be used or amended as appropriate in the circumstances. If the responsible party is not management, the references to management will generally be replaced with the name of the party who assumes responsibility for the assumptions.

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The financial projection presents, to the best of management’s knowledge and belief, the Company’s expected financial position, results of operations, and cash flows for the projection period assuming [describe hypothetical assumptions]. It is based on management’s assumptions, reflecting conditions it expects will exist and courses of action it expects will be taken during the projection period assuming [describe hypothetical assumptions].

Our Responsibilities

The objective of our engagement is to

- a. prepare the financial projection in accordance with the guidelines for presentation of a financial projection established by the American Institute of Certified Public Accountants (AICPA), and contained in AICPA Guide *Prospective Financial Information* based your assumptions and
- b. perform a compilation engagement on the financial projection we prepared in which we will apply accounting and financial reporting expertise to assist you in the presentation of the financial projection and report without undertaking to obtain or provide any assurance
 - i. that there are no material modifications that should be made to the financial projection in order for it to be presented in accordance with AICPA presentation guidelines or
 - ii. on the assumptions underlying the financial projection.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA’s Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or provide any assurance on the achievability of the projection or the reasonableness of the underlying assumptions.

Our engagement cannot be relied upon to identify or disclose any prospective financial information misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the Company or noncompliance with laws and regulations.

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare the financial projection in accordance with the guidelines for presentation of a financial projection established by the AICPA, and contained in AICPA Guide *Prospective Financial Information* based on your assumptions and to perform a compilation engagement on the financial projection we prepared. Management has the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

- a. For the preparation and fair presentation of the financial projection in conformity with guidelines for presentations of a financial forecast established by the American Institute of Certified Public Accountants, and contained in AICPA Guide *Prospective Financial*

Information and the selection of accounting principles generally accepted in the United States of America as the applicable financial reporting framework

- b. The prevention and detection of fraud
- c. To ensure that the Company complies with the laws and regulations applicable to its activities
- d. Representations about its plans and expectations and for disclosure of significant information that might affect the ultimate realization of the projected results
- e. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement
- f. To provide us with
 - i. assumptions that are appropriate for the projection,
 - ii. documentation and other related information that is relevant to the preparation and presentation of the financial projection,
 - iii. additional information that may be requested for the purpose of the preparation of the financial projection, and
 - iv. unrestricted access to persons within the Company of whom we determine necessary to communicate.

You acknowledge that you understand that a financial projection is not appropriate for general use and is intended solely for the information and use of [specified parties] and is not intended to be and should not be used by anyone other than those specified parties.

You agree that the financial projection will not be distributed to those who will not be negotiating directly with management.

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our preparation of your financial projection. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not examine the financial projection and that, accordingly, we do not express an opinion nor provide any assurance on it or on the assumptions underlying the projection. Our report will also state that furthermore, even if [describe hypothetical assumptions] were to occur, there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. There may be circumstances in which the report differs from the expected form and content.

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

If the assumptions provided by management are inappropriate and are not revised to our satisfaction, we will be unable to complete our engagement, and accordingly, we will not issue a report on the projection.

If management intends to reproduce and publish the projection and our report thereon, they must be reproduced in their entirety and approved by us prior to issuance.

Other Relevant Information

Our fees for these services . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the financial projection described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial projection described herein and to perform a compilation engagement with respect to the same financial projection, and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]
[Name and Title]

[Date]

~~.A37A36~~

Exhibit B—Illustrative Examples of Accountant’s Compilation Reports on Prospective Financial Information (Ref: par. ~~.A28-A27~~ and ~~.A31A30~~)

Illustration 1—An Accountant’s Compilation Report on a Forecast That Does Not Contain a Range

Illustration 2— An Accountant’s Compilation Report on a Projection That Does Not Contain a Range

Illustration 3—An Accountant’s Compilation Report on a Forecast in Which the Summary of Significant Accounting Policies Has Been Omitted

Illustration 4—An Accountant’s Compilation Report on a Partial Presentation of Forecasted Information

Illustration 5—An Accountant’s Compilation Report on a Partial Presentation of Projected Information

The illustrative accountant’s compilation reports on prospective financial statements in this exhibit are intended as illustrations that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The accountant’s compilation report will vary according to requirements and circumstances of each compilation engagement.

The illustrative accountant’s compilation reports provided in this exhibit are appropriate whether the presentation is based on accounting principles generally accepted in the United States of America or another financial reporting framework. The illustrations assume that management is the responsible party.

Illustration 1—An Accountant’s Compilation Report on a Forecast That Does Not Contain a Range

The accompanying forecasted financial information of XYZ Company, which comprises the forecasted balance sheet as of December 31, 20X1, and the related forecasted statements of income, changes in stockholders’ equity, and cash flows for the year then ending, and the related notes to the forecasted financial statements present, to the best of management’s knowledge and belief, the Company’s expected financial position, results of operations, and cash flows. Management is responsible for preparing and presenting the forecast in accordance with the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not examine the forecasted financial information and accordingly I (we) do not express an opinion nor provide any form of assurance on this forecasted financial information or the assumptions underlying the forecast. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s report]

Illustration 2—An Accountant’s Compilation Report on a Projection That Does Not Contain a Range

The accompanying projected financial information of XYZ Company, which comprises the projected balance sheet as of December 31, 20X1, and the related projected statements of income, changes in stockholders’ equity, and cash flows for the year then ending, and the related notes to the projected financial statements was prepared for [state special purpose, for example, “the purpose of negotiating a loan to expand XYZ Company’s plant”]. The ~~accompany~~accompanying projection presents, to the best of management’s knowledge and belief assuming [describe the hypothetical assumption, for example, “the loan is granted and the plant is expanded”], the Company’s expected financial position, results of operations, and cash flows. Management is responsible for preparing and presenting the projection in accordance with the guidelines for presentation of a financial projection established by the American Institute of Certified Public Accountants (AICPA). I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not examine the projected financial information and accordingly I (we) do not express an opinion nor provide any form of assurance on this projected financial information or the assumptions underlying the projection. Furthermore, even if [describe hypothetical assumption, for example, “the loan is granted and the plant is expanded”] there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying projection was prepared for the purpose of negotiating a loan to expand XYZ Company’s plant. Accordingly, this projection and this report are intended solely for the information and use of [identify specified parties, for example, “XYZ Company and DEF National Bank”] and are not intended to be, and should not be, used by anyone other than these specified parties.

[Accountant’s city and state]

[Date of the accountant’s report]

Illustration 3—An Accountant’s Compilation Report on a Forecast in Which the Summary of Significant Accounting Policies Has Been Omitted

The accompanying forecasted financial information of XYZ Company, which comprises the forecasted balance sheet as of December 31, 20X1, and the related forecasted statements of income, changes in stockholders’ equity, and cash flows for the year then ending, and the related notes to the forecasted financial information present, to the best of management’s knowledge and belief, the Company’s expected financial position, results of operations, and cash flows. Management is responsible for preparing and presenting the forecast in accordance with the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not examine the forecasted financial information and accordingly I (we) do not express an opinion nor provide any form of assurance on this forecasted financial information or the assumptions underlying the forecast. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the summary of significant accounting policies required by the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants. If the omitted disclosures were included in the forecast, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows for the forecast period. Accordingly, this forecast is not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 4—An Accountant's Compilation Report on a Partial Presentation of Forecasted Information

The accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of AAA Hotel (the "Company") for the year ending December 31, 20X1, present, to the best of management's knowledge and belief, the Company's expected net operating income before debt service, depreciation, and income taxes. Management is responsible for preparing and presenting the forecast in accordance with the guidelines for presentation of a financial forecast established by the American Institute of Certified Public Accountants (AICPA). I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not examine the forecasted financial information and accordingly I (we) do not express an opinion nor provide any form of assurance on this forecasted financial information or the assumptions underlying the forecast. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the Company's expected financial position, results of operations, and cash flows required by the guidelines for presentation of a forecast established by the AICPA. If the omitted expected financial position, results of operations, and cash flows were included in the forecast, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows for the forecast period. Accordingly, this forecast is not designed for those who are not informed about such matters.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]

Illustration 5—An Accountant's Compilation Report on a Partial Presentation of Projected Information

The accompanying sales projection of XYZ Company (the "Company") for each of the years in the three-year period ending December 31, 20X1, present, to the best of management's knowledge and belief, the Company's expected sales. Management is responsible for preparing and presenting the projection in accordance with the guidelines for presentation of a financial projection established by the American Institute of Certified Public

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Accountants (AICPA). I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not examine the sales projection and accordingly I (we) do not express an opinion nor provide any form of assurance on this sales projection or the assumptions underlying the projection. Furthermore, even if the Company attained the 15-percent market share of the electric toaster market, there will usually be differences between the projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Management has elected to omit the Company’s expected financial position, results of operations, and cash flows required by the guidelines for presentation of a projection established by the AICPA. If the omitted expected financial position, results of operations, and cash flows were included in the projection, they might influence the user’s conclusions about the Company’s financial position, results of operations, and cash flows for the projection period. Accordingly, this projection is not designed for those who are not informed about such matters.

The accompanying projection was prepared for the purpose of considering a new marketing program. Accordingly, this projection and this report are intended solely for the information and use of [identify specified parties, for example, “XYZ Company and DEF National Bank”] and are not intended to be, and should not be used by anyone other than these specified parties.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s report]



Proposed Standard “Compilation of Pro Forma Financial Information”

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
Introduction	
Scope	
<p>1. This section contains performance and reporting requirements and application guidance for accountants engaged to perform a compilation engagement on pro forma financial information.</p>	
Effective Date	
<p>2. This section is effective for compilation reports on pro forma financial information dated on or after May 1, 2017.</p>	
Objective	
<p>3. The objective of the accountant in a compilation of pro forma financial information is to apply accounting and financial reporting expertise to assist management in the presentation of pro forma financial information and report in accordance with this section without undertaking to</p>	

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
<p>obtain or provide any assurance on the pro forma financial information.</p>	
<p>Definition</p>	<p>Definition (Ref: par. 4)</p>
<p>4. For purposes of this section, the following term has the meaning attributed as follows:</p> <p>Pro forma financial information. A presentation that shows what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date. (Ref: par. .A1–.A4)</p>	<p>.A1 Pro forma financial information is developed by applying pro forma adjustments to historical financial information. Appropriate pro forma adjustments are based on management's assumptions, give effect to all significant effects directly attributable to the transaction (or event), and are stated on a basis consistent with the financial reporting framework of the reporting entity and its accounting policies under that framework.</p> <p>.A2 Pro forma financial information is commonly used to show the effects of a transaction (or event) such as the following:</p> <ul style="list-style-type: none"> • Business combination • Change in capitalization • Disposition of a significant portion of the business • Change in the form of business organization or status as an autonomous entity

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
	<ul style="list-style-type: none">• Proposed sale of securities and the application of the proceeds <p>.A3 Adequately disclosed pro forma financial information</p> <ul style="list-style-type: none">• is labeled as such to distinguish it from historical financial information.• describes the transaction (or event) that is reflected in the pro forma financial information, the date on which the transaction (or event) is assumed to occur, the financial reporting framework of the historical financial statements, the source of the historical financial information on which it is based, the significant assumptions used to develop the pro forma adjustments, and any significant uncertainties about those assumptions.• indicates that the pro forma financial information should be read in conjunction with the related historical financial information and that the pro forma financial information is not necessarily indicative of the results (such as financial position, results of operations and cash flows, as applicable) that would have been attained had the transaction (or event) actually taken place earlier. <p>.A4 Article 11 of Regulation S-X provides further guidance on the presentation of pro forma financial information included in filings with the Securities and Exchange Commission.</p>

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
Requirements	
General Principles for Compilations of Pro Forma Financial Information	
<p>5. In addition to complying with this section, an accountant is required to comply with AR-C section 60, <i>General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i>, adapted as necessary.</p>	
Independence	Independence (Ref: par. 6)
<p>6. In a compilation of pro forma financial information, the accountant must determine whether the accountant is independent of the entity. (Ref: par. .A5)</p>	<p>.A5 The interpretations of the “Independence Rule” (ET sec. 1.200.001) of the AICPA Code of Professional Conduct provide authoritative guidance with respect to independence. It is in the public interest and, therefore, required by this section, that the accountant modify the accountant’s compilation report when the accountant is not independent of the entity whose pro forma financial information is the subject of the compilation engagement. The AICPA Code of Professional Conduct also defines <i>independence</i> as consisting of two elements, independence of mind and independence in appearance. Independence enhances the accountant’s ability to act with integrity and be objective. Independence implies an impartiality that recognizes an obligation to be fair not only to the responsible party but also to users of the pro forma financial information who may rely upon the accountant’s compilation report. In the absence of an interpretation of</p>

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
	<p>the “Independence Rule” that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010).</p>
Acceptance and Continuance of Client Relationships	Acceptance and Continuance of Client Relationships (Ref: par. 7)
<p>7. As a condition for accepting an engagement to perform a compilation on pro forma financial information, in addition to the requirements in paragraph .25 of AR-C section 60, adapted as necessary, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A6)</p> <p style="padding-left: 40px;"><i>a.</i> for the preparation and fair presentation of pro forma financial information in conformity with the applicable financial reporting framework (Ref: par. .A7)</p> <p style="padding-left: 40px;"><i>b.</i> to include (or incorporate by reference) the complete historical financial statements of the entity for the most recent year (or for the preceding year if financial statements for the most recent year are not yet available) in the document that contains the pro forma financial information and, if pro forma financial information is presented for an interim period, to also include in the document either historical interim financial information for that period (which may be in condensed form) or that such interim information is readily available. In the case of a business combination, to include</p>	<p>.A6 A compilation engagement on pro forma financial information may be undertaken as a separate engagement or in conjunction with a compilation, review, or an audit of financial statements.</p> <p>.A7 A compilation in accordance with SSARSs is conducted on the premise that management has acknowledged and understands that it has the responsibility set out in paragraph .25c of AR-C section 60. The preparation of pro forma financial information, in whole or in part, is a nonattest service subject to the provisions of the “Nonattest Services” subtopic of the “Independence Rule” (AICPA, <i>Professional Standards</i>, ET section 1.295). To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and documenting the terms of the compilation engagement as required by paragraphs 13–15.</p> <p>.A8 For purposes of this standard, complete financial statements means the financial statement or financial</p>

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
<p>in the document the relevant historical financial information for the significant constituent parts of the combined entity. (Ref: par. .A8–.A10)</p> <p><i>c.</i> that the historical financial statements of the entity (or, in the case of a business combination, of each significant constituent part of the combined entity) on which the pro forma financial information is based have been subjected to a compilation, review, or an audit engagement and to include the accountant's compilation or review report or the auditor's report on the historical financial statements (or incorporate by reference) in the document containing the pro forma financial information.</p> <p><i>d.</i> to present a summary of significant assumptions with the pro forma financial information.</p> <p><i>e.</i> to obtain the accountant's permission prior to including the accountant's compilation report in any document containing the pro forma financial information that indicates that the entity's accountant has performed a compilation engagement on such pro forma financial information.</p>	<p>statements, including related notes if presented, that have been subjected to a compilation, review, or an audit engagement. For example, if a balance sheet, income statement, statement of cash flows and related notes were subjected to a compilation, review, or an audit engagement, all are presented. If only a single financial statement is subjected to a compilation, review, or an audit engagement or financial statements that omit all or substantially all disclosures are subjected to a compilation engagement, only that financial statement or statements is presented.</p> <p>.A9 Interim historical financial information may be presented as a column in the pro forma financial information.</p> <p>.A10 Historical interim financial information is deemed to be readily available if a third party user can obtain the historical interim financial information without any further action by the entity. For example, interim financial information on an entity's website may be considered readily available, but being available upon request is not considered readily available.</p>
<p>8. If the accountant is not satisfied about any of the matters set out in paragraph .25 of AR-C section 60 or paragraph .7 of this section as preconditions for accepting a compilation engagement with respect to pro forma financial information, the accountant should discuss the matter with management. If changes cannot be made to</p>	

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
<p>satisfy the accountant about those matters, the accountant should not accept the proposed compilation engagement.</p>	
Agreement on Engagement Terms	Agreement on Engagement Terms (Ref: par. .9–.10)
<p>.9 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement between the parties and should include the following: (Ref: par. .A11–.A16)</p> <ul style="list-style-type: none"> a. The objectives of the engagement b. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .7 of this section c. The responsibilities of the accountant d. The limitations of the compilation engagement e. Identification of the applicable financial reporting framework for the preparation of the pro forma financial information f. The expected form and content of the accountant’s compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content 	<p>.A11 Both management and the accountant have an interest in documenting the terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or perform certain functions, including those that are management’s responsibility.</p> <p>.A12 The roles of management and those charged with governance in agreeing upon the terms of the compilation engagement for the entity depend on the governance structure of the entity and relevant law or regulation. Depending on the entity’s structure, the agreement may be with management, those charged with governance, or both. Nonetheless, when the agreement on the terms of engagement is only with those charged with governance, in accordance with paragraph .25c of section 60, the accountant is required to obtain management’s agreement that it acknowledges and understands its responsibilities.</p> <p>.A13 When a third party has contracted for a compilation of the entity’s pro forma financial information, agreeing the terms of the compilation with management of the entity is necessary in order to establish that the preconditions for a compilation are present.</p>

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	<p>.A14 The understanding with management regarding the services to be performed for compilation engagements is required by paragraph .9 to be in a documented form, and, accordingly, an oral understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements.</p> <p>.A15 Although the accountant may prepare the pro forma financial information, in whole or in part, the pro forma financial information are representations of management, and the fairness of its presentation in accordance with the applicable financial reporting framework is management’s responsibility.</p> <p>.A16 An illustrative example of an engagement letter for a compilation of pro forma financial information is presented in exhibit A “Illustrative Engagement Letter.”</p>
<p>.10 The engagement letter or other suitable form of written agreement should be signed by</p> <ul style="list-style-type: none"> <i>a.</i> the accountant or the accountant’s firm and <i>b.</i> management or those charged with governance, as appropriate. (Ref: par. .A12) 	
<p>The Accountant’s Knowledge and Understanding of the Entity’s Financial Reporting Framework</p>	<p>The Accountant’s Knowledge and Understanding of the Entity’s Financial Reporting Framework (Ref: par. .11)</p>

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<p>.11 The accountant should obtain an understanding of the applicable financial reporting framework and the significant accounting policies intended to be used in the preparation of the pro forma financial information. If the entity is a combined entity, the accountant should obtain an understanding of the significant accounting policies adopted by management of each significant constituent part of the combined entity that would have been required to have been obtained by the accountant performing a compilation engagement with respect to the historical financial statements of each entity for the most recent annual or interim period for which the pro forma financial information is presented. (Ref: par. .A17–.A18)</p>	<p>.A17 The requirement that the accountant obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the pro forma financial information and the significant accounting policies adopted by management does not prevent the accountant from accepting a compilation engagement for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals who are knowledgeable about the framework or the industry.</p> <p>.A18 If another accountant has performed a compilation engagement on the historical financial statements of a significant constituent part of the combined entity, the need for the accountant to obtain an understanding of the significant accounting policies adopted by management is not diminished.</p>
<p>Compilation Procedures</p>	<p>Compilation Procedures (Ref: par. .12)</p>
<p>12. In performing a compilation of pro forma financial information the accountant should</p> <p style="padding-left: 40px;"><i>a.</i> comply with the requirements set forth in paragraphs 13–16 of AR-C section 80, adapted as necessary and (Ref: par. .A19)</p>	<p>.A19 The requirement in paragraph 13 of AR-C section 80 that the accountant read the financial statements in light of the accountant’s understanding of the applicable financial reporting framework and the significant accounting</p>

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<p style="text-align: center;"><i>b.</i> obtain an understanding of the underlying transaction or event.</p>	<p>policies adopted by management and consider whether such financial statements appear to be appropriate in form and free from obvious material misstatements, requires the accountant to also read the pro forma financial information and consider whether the</p> <ul style="list-style-type: none"> • underlying transaction (or event), the pro forma adjustments, the significant assumptions and the significant uncertainties, if any, about those assumptions have been appropriately described. • source of the historical financial information on which the pro forma financial information is based has been appropriately identified.
<p>The Accountant’s Compilation Report on Pro Forma Financial Information</p>	<p>The Accountant’s Compilation Report on Pro Forma Financial Information (Ref: par. .13)</p>
<p>13. The accountant’s compilation report should be in writing and comply with the requirements set forth in paragraphs 17–31 of AR-C section 80. (Ref: par. .A20–.A22)</p>	<p>.A20 The accountant’s compilation report on pro forma financial information may be added to the accountant’s report on historical financial statements or it may appear separately.</p> <p>.A21 An uncertainty about whether the underlying transaction (or event) will be consummated would not require a report modification.</p> <p>.A22 An illustrative example of an accountant’s compilation report on pro forma financial information is presented in exhibit B “Illustrative Accountant’s Compilation Report on Pro Forma Financial Information.”</p>

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<p>14. In addition to the report elements required by paragraph 17 of AR-C section 80, an accountant’s compilation report on pro forma financial information should include the following:</p> <ul style="list-style-type: none"> <i>a.</i> A reference to the financial statements from which the historical financial information is derived and a statement as to whether such financial statements were subjected to an audit, a review, or compilation engagement. <i>b.</i> A reference to any modification of the audit, review, or compilation report on the historical financial information. <i>c.</i> A description of the nature and limitations of pro forma financial information. 	
Documentation	Documentation (Ref: par. 15)
<p>15. The accountant should prepare documentation in connection with each compilation of pro forma financial information in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following: (Ref: par. .A23)</p> <ul style="list-style-type: none"> <i>a.</i> The engagement letter or other suitable form of written documentation with management, as described in paragraphs 9–10 <i>b.</i> The results of procedures performed in accordance with paragraph 12 	<p>.A23 Documentation may include significant consultations or significant professional judgments made throughout the engagement.</p>

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c. A copy of the pro forma financial information	
d. A copy of the accountant’s compilation report	

A24.

Exhibit A—Illustrative Engagement Letter (Ref: par. .A16)

The illustrative engagement letter in this exhibit is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances. The accountant may seek legal advice about whether a proposed letter is suitable.

Circumstances include the following:

- The accountant will prepare, as a nonattest service, the pro forma financial information and perform a compilation on the pro forma financial information the accountant prepared.
- The pro forma financial information is presented in accordance with accounting principles generally accepted in the United States of America.
- The accountant expects that his or her independence will not be impaired.

To the appropriate representative of management of ABC Company:⁴

You⁵ have requested that we prepare the pro forma financial information of ABC Company (the Company) and perform a compilation engagement with respect to that pro forma financial information. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

Pro forma financial information is a presentation that shows what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date.

⁴ The addresses and references in the engagement letter will be those that are appropriate in the circumstances of the compilation of pro forma financial information, including the relevant jurisdiction. It is important to refer to the appropriate persons.

⁵ Throughout this engagement letter, references to *you, we, us, management, and accountant* will be used or amended as appropriate in the circumstances.

Our Responsibilities

The objective of our engagement is to

- a.* prepare the pro forma financial information in accordance with accounting principles generally accepted in the United States of America and
- b.* perform a compilation engagement on the pro forma financial information we prepared in which we will apply accounting and financial reporting expertise to assist you in the presentation of the pro forma financial information and report without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the pro forma financial information in order for it to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (AICPA) and comply with the AICPA's Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or provide any assurance on the pro forma financial information.

Our engagement cannot be relied upon to identify or disclose any pro forma financial information misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the Company or noncompliance with laws and regulations.

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and understands that our role is to prepare the pro forma financial information in accordance with accounting principles generally accepted in the United States of America and perform a compilation engagement on the pro forma financial information we prepared. Management has the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

- a.* For the preparation and fair presentation of the pro forma financial information in accordance with accounting principles generally accepted in the United States of America and for the selection of accounting principles generally accepted in the United States of America as the applicable financial reporting framework
- b.* For the prevention and detection of fraud
- c.* To ensure that the Company complies with the laws and regulations applicable to its activities
- d.* The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

- e. To provide us with
- i. assumptions that provide a reasonable basis for presenting the significant effects directly attributable to the underlying transaction (or event),
 - ii. documentation and other related information that is relevant to the preparation and presentation of the pro forma financial information,
 - iii. additional information that may be requested for the purpose of the preparation of the pro forma financial information, and
 - iv. unrestricted access to persons within the Company of whom we determine necessary to communicate.

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and expertise to oversee our preparation of your pro forma financial information. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not examine or review the pro forma financial information and that, accordingly, we do not express an opinion nor provide any assurance on it. There may be circumstances in which the report differs from the expected form and content.

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

If management intends to reproduce and publish the pro forma financial information and our report thereon, they must be reproduced in their entirety, and both the first and subsequent corrected drafts of the document containing the pro forma financial information and any accompanying material must be submitted to us for approval.

Other Relevant Information

Our fees for these services . . .

[The accountant may include language, such as the following, regarding limitation of, or other arrangements regarding, the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us or resulting from any actions against us by third parties relying on the pro forma financial information described herein except for our own intentional wrongdoing.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the pro forma financial information described herein and to perform a compilation engagement with respect to that same pro forma financial information, and our respective responsibilities.

Sincerely yours,

[Signature of accountant or accountant's firm]

Acknowledged and agreed on behalf of ABC Company by:

[Signed]

[Name and title]

[Date]

A25.

Exhibit B—Illustrative Accountant's Compilation Report on Pro Forma Financial Information (Ref: par. .A22)

Management is responsible for the accompanying pro forma condensed balance sheet of XYZ Company as of December 31, 20X1, and the related pro forma condensed statement of income for the year then ended (pro forma financial information), based on the criteria in Note 1. The historical condensed financial statements are derived from the historical financial statements of XYZ Company, on which I (we) performed a compilation engagement, and of ABC Company, on which other accountants performed a compilation engagement, appearing elsewhere herein [or are readily available]. The pro forma adjustments are based on management's assumptions described in Note 1. (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not examine or review the pro forma financial information nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on the pro forma financial information.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the underlying transaction (or event) occurred at an earlier date. However, the pro forma condensed financial statements are not necessarily indicative of the results of operations or related effects on financial position that would have been attained had the above mentioned transaction (or event) actually occurred at such earlier date.

[Additional paragraph(s) may be added to emphasize certain matters relating to the compilation engagement or the subject matter.]

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[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date of the accountant's report]



Amendments to AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AICPA, *Professional Standards*)

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<p>1. AR-C section 60, <i>General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services</i>, (SSARSs) was issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. This amendment</p> <ul style="list-style-type: none">i. revises AR-C section 60 so that it applies to SSARSs engagements performed on subject matter other than historical financial statements.ii. revises paragraph .06 to include definitions of <i>financial statements</i> and <i>prospective financial information</i>.iii. revises the definition of <i>interpretative publications</i> in paragraph .06 of AR-C section 60 to reflect the revised title of the AICPA guide providing authoritative guidance on SSARSs engagements.<u>iv.</u> revises the definition of <i>other preparation, compilation, and review publications</i> so that the definition is not specific as to the title of the	

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<p>AICPA’s annual alert addressing engagements performed in accordance with SSARSs.</p> <p><u>iv.v. added an application paragraph to paragraph .10 to make clear that if an accountant is not in the practice of public accounting, the issuance of a report in accordance with SSARSs would be inappropriate and provided an alternative communication that may be used.</u></p>	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p>Introduction</p>	
<p>Scope of This Section</p>	<p><i>Scope of This Section (Ref: par. 04)</i></p>
<p>.01 This section provides general principles for engagements performed in accordance with Statements on Standards for Accounting and Review Services (SSARSs) issued by the Accounting and Review Services Committee (ARSC) and codified into AR-C sections. This section also sets forth the meaning of certain terms used in SSARSs when describing the professional requirements imposed on accountants performing a review, compilation, or an engagement to prepare financial statements <i>an engagement in accordance with SSARSs.</i></p>	

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
<p>.03 SSARSs are written in the context of a review <i>preparation</i>, compilation, or an <i>review</i> engagement to prepare financial statements <i>performed</i> by an accountant. They are to be adapted as necessary in the circumstances when applied to reviews, compilations, and engagements to prepare other historical or prospective financial information. SSARSs do not address the responsibilities of the accountant that may exist in legislation, regulation, or otherwise. Such responsibilities may differ from those established in SSARSs. Accordingly, although the accountant may find aspects of SSARSs helpful in such circumstances, it is the responsibility of the accountant to ensure compliance with all relevant legal, regulatory, or professional obligations.</p>	
<p>.0704 The financial statements subject to the engagement performed in accordance with SSARSs are those of the entity. SSARSs do not impose responsibilities on management and do not override laws and regulations that govern their responsibilities. (Ref: par. .A1-.A10A8)</p>	<p><i>.A1 If the accountant is engaged to perform an engagement in accordance with SSARSs on financial information other than historical financial statements (for example, the preparation or compilation of prospective financial information or the compilation of pro forma financial information), references in this section to financial statements are to be taken as references to such other financial information.</i></p> <p>.A1 The preconditions for the performance of an engagement to prepare financial statements are included in paragraph .25 of this section.</p>

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	<p>A2. The preconditions for the performance of a compilation engagement are included in paragraph .25 of this section and paragraph .08 of section 80, <i>Compilation Engagements</i>.</p> <p>A3. The preconditions for the performance of a review engagement are included in paragraph .25 of this section and paragraphs .08–.09 of section 90, <i>Review of Financial Statements</i>.</p>
Definitions	
<p>.0607 For purposes of SSARSs, the following terms have the meanings attributed as follows:</p> <p>Engagement partner.^{fn2} The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.</p> <p>Engagement team. All accountants <u>partners</u> and staff performing the engagement and any individuals engaged by the firm <u>or a network firm</u> who perform procedures on the engagement.</p> <p><i>Financial statements. A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant</i></p>	

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<p><i>accounting policies and other explanatory information. The term financial statements ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework but can also refer to a single financial statement.</i></p> <p>Firm. A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting.</p> <p>Interpretive publications. Interpretations of SSARSs; exhibits to SSARSs; the AICPA Guide <i>Compilation and Review Engagements</i> Preparation, Compilation, and Review Engagements,^{fn2} guidance on <i>preparation, reviews, compilations, and review engagements to prepare financial statements</i> included in AICPA Audit and Accounting Guides; and AICPA Statements of Position, to the extent that those statements are applicable to such engagements.</p> <p>Other preparation, compilation and review publications. Publications other than interpretive publications. These include AICPA accounting <i>preparation, compilation,</i> and review publications not defined as interpretive publications; the AICPA's annual alert <i>addressing engagements performed in accordance with SSARSs</i> <i>Developments in Review, Compilation, and Financial Statement Preparation Engagements</i>; articles addressing <i>preparation, compilation, and reviews, compilations, and</i></p>	

Introduction, Definitions, and Requirements	Application and Other Explanatory Material
<p>engagements to prepare financial statements in the <i>Journal of Accountancy</i> and other professional journals; continuing professional education programs and other instruction materials, textbooks, guide books, programs for <i>preparation, compilation, and</i> reviews, compilations, and engagements to prepare financial statements, and checklists; and other publications addressing <i>preparation, compilation, and</i> reviews, compilations, and engagements to prepare financial statements from state CPA societies, other organizations, and individuals.</p> <p>Professional judgment. The application of relevant training, knowledge, and experience, within the context provided by SSARSs and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the <i>preparation, compilation, or</i> review, compilation, or engagement to prepare financial statements.</p> <p><i>Prospective financial information. Any financial information about the future. The information may be presented as complete financial statements or limited to one or more elements, items, or accounts.</i></p> <p>^{fn 2} This term is also defined in paragraph .13 of QC section 10, <i>A Firm’s System of Quality Control</i> (AICPA, <i>Professional Standards</i>) for purposes of the Statements on Quality Control Standards. Refer to QC section 10 for specific language.</p> <p>^{fn2} The title of the 2015 guide will be <i>Review, Compilation, and Financial Statement Preparation Engagements</i>.</p>	

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Requirements	
Professional Judgment	Professional Judgment (Ref: par. 09)
.09 The accountant should exercise professional judgment in the performance of an engagement in accordance with SSARSs. (Ref: par. A15A13 – A19A17)	A19A17 Professional judgment needs to be exercised throughout the engagement performed in accordance with SSARSs. It also needs to be appropriately documented in accordance with the requirements of <i>the applicable AR-C</i> section 70, <i>Preparation of Financial Statements</i> ; section 80, <i>Compilation Engagements</i> ; or section 90, <i>Review of Financial Statements</i> as applicable. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or, in a review engagement, the evidence obtained.
<u>Conduct of the Engagement in Accordance With SSARSs</u>	<u>Conduct of the Engagement in Accordance With SSARSs (Ref: par.10)</u>
<u>.10 The accountant must perform a review, compilation, or an engagement to prepare financial statements in accordance with SSARSs, except for certain reviews of interim financial information as discussed in section 90, <i>Review of Financial Statements</i>.³ (Ref: par. A18)</u>	<u>.A18 <i>If an accountant is not in the practice of public accounting, the issuance of a report in accordance with SSARSs would be inappropriate. However, the accountant may use a communication such as</i></u>
³ Paragraph .02 of section 90, <i>Review of Financial Statements</i> .	<u><i>The accompanying balance sheet of Company X as of December 31, 20XX, and the related statements of income and cash flows for the year then ended have been prepared by [name of accountant], CPA. I have prepared such financial statements in my capacity [describe capacity, for example, as a director] of Company X.</i></u>

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<i>Complying With AR-C Sections Relevant to the Engagement</i>	<i>Complying With AR-C Sections Relevant to the Engagement</i> (Ref: par. .11–.12)
<p>.11 The accountant should comply with all AR-C sections relevant to the engagement. An AR-C section is relevant to the engagement when the AR-C section is in effect, and the circumstances addressed by the AR-C section exist. (Ref: par. .A20A18A20A19–.A25A23A25A24)</p>	<p>.A24A22The A24A23 The accountant may also conduct the compilation or review <i>of financial statements</i> in accordance with both SSARSs and</p> <ul style="list-style-type: none"> • International Standard on Related Services 4410 (Revised), <i>Compilation Engagements</i>, • International Standard on Review Engagements 2400 (Revised), <i>Engagements to Review Historical Financial Statements</i>, or • compilation or review standards of a specific jurisdiction or country. <p>In such cases, in addition to complying with each of the AR-C sections relevant to the engagement, it may be necessary for the accountant to perform additional compilation or review procedures in order to comply with the other compilation or review standards.</p>
<i>Complying With Relevant Requirements</i>	<i>Complying With Relevant Requirements</i> (Ref: par. .14)
<p>.14 Subject to paragraph .16, the accountant should comply with each requirement of the relevant AR-C section unless, in the circumstances of the engagement, the requirement is not relevant because it is conditional, and the condition does not exist. (Ref: par. .A31A29A31A30)</p>	<p>.A31A29<u>A30</u> Within a relevant AR-C section, there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply, and the condition exists. In some cases, a requirement may be expressed as being conditional on applicable law or regulation. For example, the accountant may be required to withdraw from the review, compilation, or engagement to prepare financial</p>

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	<p>statements when withdrawal is possible under applicable law or regulation, or the accountant may be required to perform a certain action, unless prohibited by law or regulation.</p>
<i>Other Preparation, Compilation and Review Publications</i>	<i>Other Preparation, Compilation and Review Publications</i> (Ref: par. .18)
<p>.18 In applying the guidance included in an other preparation, compilation and review publication, the accountant should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. (Ref: par. .A34 .A36 <u>A36A37</u> <u>A38A39</u>)</p>	<p><u>A36A38</u><u>A36A39</u> When determining whether an other preparation, compilation and review publication that has not been reviewed by the AICPA Audit and Attest Standards staff is appropriate to the circumstances of the engagement, the accountant may wish to consider the degree to which the publication is recognized as being helpful in understanding and applying SSARSs and the degree to which the issuer or author is recognized as an authority in matters addressing <i>preparation, compilation, and reviews, compilations, and engagements to prepare financial statements</i>. Other preparation, compilation and review publications that have not been reviewed by the AICPA Audit and Attest Standards staff that contradict an other preparation, compilation and review publication that has been reviewed by the AICPA Audit and Attest Standards staff is inappropriate.</p>
<p><u>Acceptance and Continuance of Client Relationships and Engagements</u></p>	<p><u>Acceptance and Continuance of Client Relationships and Engagements (Ref: par. .24-.25)</u></p>

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.25 As a *precondition* for accepting an engagement to be performed in accordance with SSARSs, the accountant should

a. determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.

b. determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements is acceptable. (Ref: par. .A47)

c. obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A48)

i. for the selection of the financial reporting framework to be applied in the preparation of financial statements.

ii. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, *unless the accountant determines that such acknowledgment and understanding is not relevant the engagement.* (Ref: par. A49)

iii. for preventing and detecting fraud.

iv. for ensuring that the entity complies with laws and regulations applicable to its activities.

.A49 *The accountant may determine that management acknowledging and understanding its responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, is not relevant in an engagement to prepare financial statements.*

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<p><u>v. for the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements.</u></p> <p><u>vi. to provide the accountant with (Ref: par. .A4950)</u></p> <p><u>(1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.</u></p> <p><u>(2) additional information that the accountant may request from management for the purpose of the engagement.</u></p> <p><u>(3) unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.</u></p>	

Amendment to AR-C section 70, *Preparation of Financial Statements* (AICPA, *Professional Standards*)

Introduction and Requirements	Application and Other Explanatory Material
<p>1. AR-C section 70 applies when an accountant in public practice is engaged to prepare financial statements. This amendment</p> <ul style="list-style-type: none"> • revises paragraphs .01 to clarify (a) when the section applies, (b) when the section may be applied, and (c) when the section does not apply. 	

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- revises paragraphs .10 and .A7 to avoid misunderstandings as to the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient.
- revises paragraph .14 to state that when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements that, in addition to issuing a disclaimer that makes clear that no assurance is provided on the financial statements or performing a compilation engagement, the accountant may perform a review or an audit of the financial statements. An application paragraph is also added that states that if the subject matter of the engagement is prospective financial information, the accountant may perform an examination or an agreed-upon procedures engagement with respect to the prospective financial information. The revised paragraph also makes clear that the accountant may withdraw from the engagement.
- includes a requirement that states that because the summary of significant assumptions is essential to the users' understanding of prospective financial information, the accountant should not prepare prospective financial information that excludes either

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<p>(a) disclosure of the summary of significant assumptions or (b) a description of the limitations on the usefulness of the presentation. Also, the accountant should not prepare a financial projection that excludes an identification of the hypothetical assumptions.</p> <ul style="list-style-type: none"> deletes paragraph .22 regarding documentation of the justification for a departure from a relevant presumptively mandatory requirement. The documentation requirement is not included in AR-C sections 80 or 90 and is included in the requirement, as stated in paragraph .21, for the accountant to prepare documentation in connection with each preparation engagement in sufficient detail to provide a clear understanding of the work performed. 	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p>AR-C Section 70</p> <p><i>Preparation of Financial Statements</i></p>	
<p>Introduction</p>	
<p>Scope of This Section</p>	<p>Scope of This Section (Ref: par. .01–.02)</p>

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<p>.01 This section applies when an accountant in public practice is engaged to prepare <i>historical</i> financial statements <i>or prospective financial information</i>. (Ref: par. .A1-.A3)</p> <p><i>This section may also be applied, adapted as necessary in the circumstances, to the preparation of other historical financial information.</i> (Ref: par. .A2A4)</p> <p>This section does not apply when an accountant prepares <i>historical</i> financial statements <i>or prospective financial information</i></p> <ul style="list-style-type: none"> • and is engaged to perform an audit, review, or compilation of those financial statements, • solely for submission to taxing authorities, • for inclusion in written personal financial plans prepared by the accountant, • in conjunction with litigation services that involve pending or potential legal or regulatory proceedings, or • in conjunction with business valuation services. <p>This section may also be applied, adapted as necessary in the circumstances, to the preparation of other</p>	<p><u><i>.A1 If an accountant in public practice is also in business (for example, serves as a member of an entity’s board of directors), the accountant is not required to but is not precluded from applying the requirements of this section.</i></u></p> <p>.A1–A2 <i>If the accountant is engaged to prepare financial information other than historical financial statements (for example, prospective financial information or pro forma financial information), references in this section to financial statements are to be taken as a reference to such other financial information.</i></p> <p><u><i>A3. AICPA Guide Prospective Financial Information (the guide) provides comprehensive guidance regarding prospective financial information. Chapter 6, “Preparation Guidelines,” chapter 7, “Reasonably Objective Basis,” chapter 8, “Presentation Guidelines,” and chapter 9, “Illustrative Prospective Financial Statements” of the guide establish the preparation and presentation guidelines for financial forecasts and financial projections. The guide also includes information about the types and uses of prospective financial information. The guide provides suitable criteria for the preparation and presentation of prospective financial information. The accountant is not prohibited from preparing prospective financial information prepared and presented in accordance with other suitable criteria.</i></u></p> <p>A1.A2A4: Other historical or prospective financial information to which this section may be applied includes the following:</p>

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<p>historical or prospective financial information.[†] (Ref: par. .A1)</p> <p>[†]The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.</p>	<ul style="list-style-type: none"> • Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes • Supplementary information • Required supplementary information • Pro forma financial information • Prospective financial information, including budgets, forecasts, or projections
<p>Requirements</p>	
<p>Agreement on Engagement Terms</p>	<p>Agreement on Engagement Terms (Ref: par. .10–.11)</p>
<p>.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement <i>between the parties</i> and should include the following: (Ref: par. .A5A8–.A9A12)</p> <ol style="list-style-type: none"> a. The objective of the engagement b. The responsibilities of management set forth in paragraph .25c of section 60 c. The agreement of management that each page of the financial statements will include a statement 	<p>.A7A10 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for engagements to prepare financial statements is required by paragraph .10 to be in a documented form, and, accordingly, a verbal an oral understanding is insufficient. An engagement letter is the most common, and usually the most convenient, method for documenting the understanding with management regarding the services to be performed for engagements to prepare financial statements.</p>

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<p>indicating that no assurance is provided on the financial statements or the accountant will be required to issue a disclaimer that makes clear that no assurance is provided on the financial statements. (Ref: par. A11<u>A12</u>)</p> <p><i>d.</i> The responsibilities of the accountant</p> <p><i>e.</i> The limitations of the engagement to prepare financial statements</p> <p><i>f.</i> Identification of the applicable financial reporting framework for the preparation of financial statements</p> <p><i>g.</i> Whether the financial statements are to contain a known departure or departures from the applicable financial reporting framework (including inadequate disclosure) or omit substantially all disclosures required by the applicable financial reporting framework.</p>	
Preparing the Financial Statements	Preparing the Financial Statements (Ref: par. .10, .14–.16, and .18)
<p>.14 The accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that “no assurance is provided” on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should (Ref: par. A11A12<u>A11A15</u>)</p>	

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<p>a. issue either a disclaimer that makes clear that no assurance is provided on the financial statements, or (Ref: par. .A12A13A12A15)</p> <p>b. perform an <i>audit, a review, or compilation with respect to the financial statements, or engagement in accordance with section 80, Compilation Engagements.</i> (Ref: par. .A14A16)</p> <p>c. <i>withdraw from the engagement.</i></p>	<p>.A14-A16 <i>If the subject matter of the engagement is prospective financial information, the accountant may perform an examination or an agreed-upon procedures engagement with respect to the prospective financial information.</i></p>
<p>Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework</p>	
<p>21. <i>The summary of significant assumptions is essential to the user’s understanding of prospective financial information. Accordingly, the accountant should not prepare prospective financial information that excludes any of the following:</i></p> <p style="padding-left: 40px;">a. <i>Disclosure of the summary of significant assumptions</i></p> <p style="padding-left: 40px;">b. <i>A description of the limitations on the usefulness of the presentation, or</i></p> <p style="padding-left: 40px;">c. <i>An identification of the hypothetical assumptions if the prospective financial information is a financial projection.</i></p>	

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Documentation in a Preparation Engagement	
.22 If, in rare circumstances, the accountant judges it necessary to depart from a relevant presumptively mandatory requirement, the accountant must document the justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.	

Amendment to AR-C section 80, *Compilation Engagements* (AICPA, *Professional Standards*)

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<p>1. AR-C section 80 applies when an accountant is engaged to perform a compilation engagement. This amendment</p> <ul style="list-style-type: none"> • revises the title of AR-C section 80 so that it addresses the compilation of financial statements. • revises paragraph .01 so that AR-C section 80 applies when the accountant is engaged to perform a compilation of financial statements. • revises paragraph .A1 to delete the preparation of pro forma and prospective financial information as examples of other financial information that may be the subject of a compilation engagement in accordance with AR-C section 80. 	

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<p>The revisions are necessary as the proposed SSARS <i>Compilation of Prospective Financial Information</i> will address the compilation of prospective financial information and the proposed SSARS <i>Compilation of Pro Forma Financial Information</i> will address the compilation of pro forma financial information.</p> <ul style="list-style-type: none"> • revises paragraphs .10 and .A9 to avoid misunderstandings as to the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient. • revises paragraphs <u>.27-.28</u> to clarify that the accountant is required to disclose known departures from the applicable financial reporting framework in the accountant’s compilation report <u>and that when the accountant becomes aware of a departure from the applicable financial reporting framework that is material to the financial statements and the financial statements are not revised, the accountant is required to consider whether modification of the standard report is adequate to disclose the departure.</u> 	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p>AR-C Section 80</p> <p><i>Compilation Engagements</i> of Financial Statements</p>	

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<p>.01 This section applies when the accountant is engaged to perform a compilation engagement <i>of financial statements</i>. This section may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information.[†] (Ref: par. .A1)</p> <p>† The Accounting and Review Services Committee plans to expose for public comment separate proposed Statements on Standards for Accounting and Review Services that would provide requirements and guidance to accountants with respect to compilation engagements on pro forma or prospective financial information.</p>	<p>.A1 Other historical or prospective financial information that may be the subject of a compilation engagement to which this section may be applied includes the following:</p> <ul style="list-style-type: none"> • Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes • Supplementary information • Required supplementary information • Pro forma financial information • Prospective financial information, including budgets, forecasts, or projections
<p><u>Definitions</u></p>	
<p><u>.05</u> For purposes of SSARSs, the following terms have the meanings attributed as follows:</p> <p><u>Applicable financial reporting framework.</u> <u>The financial reporting framework adopted by management and, when appropriate, those charged with governance, in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements or that is required by law or regulation.</u></p>	

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Basic financial statements. Financial statements excluding supplementary information and required supplementary information.

Financial reporting framework. A set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements, for example, accounting principles generally accepted in the United States of America [U.S. GAAP], International Financial Reporting Standards promulgated by the International Accounting Standards Board, or a special purpose framework.

Generally accepted accounting principles (GAAP). Reference to *generally accepted accounting principles* in SSARSs means generally accepted accounting principles promulgated by bodies designated by the Council of the AICPA pursuant to the “Compliance With Standards Rule” (AICPA, *Professional Standards*, ET sec. 1.310.001) and the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. 1.320.001).

Management. The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities, management includes some or all of those charged with governance (for example, executive members of a governance board or an owner-manager).

Misstatement. A difference between the amount, classification, presentation, or disclosure of a reported financial *statement* item and the amount,

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classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

Misstatements also include those adjustments of amounts, classifications, presentations, or disclosures that, in the accountant's professional judgment, are necessary for the financial statements to be presented fairly, in all material respects.

Required supplementary information. Information that a designated accounting standards-setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standards-setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having

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substantial support (for example, recording depreciation on fixed assets).

b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.

c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission). (Ref: par. .A2)

d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

e. **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash-basis, tax-basis, regulatory-basis, and other-basis of accounting are commonly referred to as *other comprehensive bases of accounting (OCBOA)*.

Supplementary information. Information presented outside the basic financial statements, excluding required supplementary information, that is not considered necessary for the financial statements to be

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<p><u>fairly presented in accordance with the applicable financial reporting framework.</u></p> <p><u>Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel (for example, executive members of a governance board or an owner-manager).</u></p>	
<p>Agreement on Engagement Terms</p>	<p>Agreement on Engagement Terms (Ref: par. .10-.11 and .38)</p>
<p>.10 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement <i>between the parties</i> and should include the following: (Ref: par. .A6-.A11)</p> <ul style="list-style-type: none"> a. The objectives of the engagement b. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .08 of this section c. The responsibilities of the accountant d. The limitations of the compilation engagement 	<p>.A9 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for compilation engagements is required by paragraph .10 to be in a documented form, and, accordingly, a verbal <i>an oral</i> understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements.</p>

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<p>e. Identification of the applicable financial reporting framework for the preparation of the financial statements</p> <p>f. The expected form and content of the accountant's compilation report and a statement that there may be circumstances in which the report may differ from its expected form and content</p>	
<p>Reporting Known Departures From the Applicable Financial Reporting Framework</p>	
<p>.27 When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised, or the departure is not disclosed in the notes to the financial statements, the accountant should <i>consider whether</i> modify <i>modification of</i> the compilation <i>standard</i> report <i>is adequate</i> to disclose the departure. (Ref: par. .A34)</p>	
<p><u>.28</u> <i>If the accountant concludes that modification of the standard report is adequate, the departure should be disclosed in a separate paragraph of the report. The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are readily known to the accountant as the result of the accountant's procedures.</i></p>	

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<p><u>Supplementary Information That Accompanies Financial Statements and the Accountant’s Compilation Report Thereon</u></p>	
<p><u>.32 When supplementary information accompanies financial statements and the accountant’s compilation report thereon, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to such information in either (Ref: par. .A35)</u></p> <p><u>a. an separate other matter paragraph in the accountant’s compilation report on the financial statements or</u></p> <p><u>b. a separate report on the supplementary information.</u></p>	
<p><u>.33 When the accountant has performed a compilation engagement with respect to both the financial statements and the supplementary information, the accountant should include an other matter <i>separate</i> paragraph in the accountant’s compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A36 and .A38)</u></p> <p><u>a. the information is presented for purposes of additional analysis and is not a required part of the basic financial statements;</u></p> <p><u>b. the information is the representation of management; and</u></p> <p><u>c. the information was subject to the compilation engagement, however, the accountant has not audited or reviewed the information and, accordingly, does not</u></p>	

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<p><u>express an opinion, a conclusion, nor provide any assurance on such information.</u></p>	
<p><u>.34 When the accountant has performed a compilation engagement with respect to the financial statements but the supplementary information was not subject to the compilation engagement, the accountant should include an other-matter <i>separate</i> paragraph in the accountant's compilation report on the financial statements or issue a separate report on the supplementary information that states (Ref: par. .A37-.A38)</u></p> <p><u>a. the information is presented for purposes of additional analysis and is not a required part of the basic financial statements;</u></p> <p><u>b. the information is the representation of management; and</u></p> <p><u>c. the information was not subject to the compilation engagement and, accordingly, the accountant does not express an opinion, a conclusion, nor provide any assurance on such information.</u></p>	
<p><u>Required Supplementary Information</u></p>	
<p><u>.35 With regard to the requirement in paragraph .32, with respect to required supplementary information, the accountant should include an other-matter <i>separate</i> paragraph in the accountant's compilation report on the financial statements. The other-matter paragraph should</u></p>	

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<p><u>include language to explain the following circumstances, as applicable: (Ref: par. .A39)</u></p> <p><u>a. The required supplementary information is included, and the accountant performed a compilation engagement on the required supplementary information.</u></p> <p><u>b. The required supplementary information is included, and the accountant did not perform a compilation, review, or audit on the required supplementary information.</u></p> <p><u>c. The required supplementary information is omitted.</u></p> <p><u>d. Some required supplementary information is missing, and some is presented in accordance with the prescribed guidelines. (Ref: par. .A40)</u></p> <p><u>e. The accountant has identified departures from the prescribed guidelines.</u></p> <p><u>f. The accountant has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines.</u></p>	
<p><u>.36 If the entity has presented all or some of the required supplementary information and the accountant did not perform a compilation engagement on the required supplementary information, the other matter <i>separate</i> paragraph in the accountant’s compilation report referred to in paragraph .32 should include the following elements: (Ref: par. .A41)</u></p> <p><u>a. A statement that <i>[identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of</i></u></p>	

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America)] requires that the [identify the required supplementary information] be presented to supplement the basic financial statements

b. A statement that such information, although not a part of the basic financial statements, is required by [identify designated accounting standards-setter], who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context

c. A statement that the accountant did not perform a compilation, review, or audit on the required supplementary information and, accordingly, does not express an opinion, a conclusion, nor provide any assurance on the information

d. If some of the required supplementary information is omitted:

i. A statement that management has omitted [description of the missing required supplementary information] that [identify the applicable financial reporting framework (for example, accounting principles generally accepted in the United States of America)] require to be presented to supplement the basic financial statements

ii. A statement that such missing information, although not a part of the basic financial statements, is required by [identify designated accounting standards- setter], who considers it to be an essential part of financial reporting for

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<p style="text-align: center;"><u>placing the basic financial statements in an appropriate operational, economic, or historical context</u></p> <p><u>e. If the measurement or presentation of the required supplementary information departs materially from the prescribed guidelines, a statement that material departures from prescribed guidelines exist [describe the material departures from the applicable financial reporting framework]</u></p> <p><u>f. If the accountant has unresolved doubts about whether the required supplementary information is measured or presented in accordance with prescribed guidelines, a statement that the accountant has doubts about whether material modifications should be made to the required supplementary information for it to be presented in accordance with guidelines established by [identify designated accounting standards-setter]</u></p>	

Amendment to AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*)

Requirements	Application and Other Explanatory Material
<p>1. AR-C section 90 addresses the accountant’s responsibilities when engaged to review financial statements. This amendment</p> <ul style="list-style-type: none"> • <u>revises paragraph .01 to clarify to SSARSs apply to reviews of all historical financial information.</u> 	

Requirements	Application and Other Explanatory Material
<ul style="list-style-type: none"> • revises paragraphs .11 and .A17 to avoid misunderstandings as to the nature of an engagement letter and to make clear that an oral understanding of the terms of the engagement is insufficient. • <u>revises paragraph .39g to make clear that the accountant’s signature on the accountant’s review report can be digital.</u> • <u>revises paragraph .75 to reflect that disclosure of a different conclusion on revised financial statements from the accountant’s conclusion on the original financial statements due to subsequently discovered facts that became known to the accountant after the report release date would be in an other-matter paragraph to the accountant’s review report</u> 	
<p>2. New language is shown in boldface italics; deleted language is shown by strikethrough.</p>	
<p><u>Scope and Applicability of This Section</u></p>	
<p><u>.01 This section addresses the accountant’s responsibilities when engaged to review financial statements. <i>This section is written in the context of a review of financial statements by an accountant.</i> This section may also <i>is to</i> be applied, adapted as necessary in the circumstances, to engagements to reviews of other historical financial information. <i>Reviews of subject matter other than historical financial information are to be performed in accordance with Statements on Standards for Attestation Engagements.</i> (Ref: par. .A1–.A2)</u></p>	

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Requirements	Application and Other Explanatory Material
Agreement on Engagement Terms	Agreement on Engagement Terms (Ref: par. .11–.12 and .92)
<p>.11 The accountant should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be documented in an engagement letter or other suitable form of written agreement <i>between the parties</i> and should include the following: (Ref: par. .A14–.A19)</p> <ul style="list-style-type: none"> c. The objectives of the engagement d. The responsibilities of management set forth in paragraph .25c of section 60 and paragraph .09 of this section e. The responsibilities of the accountant f. The limitations of a review engagement g. Identification of the applicable financial reporting framework for the preparation of the financial statements h. The expected form and content of the accountant’s review report and a statement that there may be circumstances in which the report may differ from its expected form and content 	<p>.A17 A contract is another suitable form of written communication. The understanding with management regarding the services to be performed for review engagements is required by paragraph .11 to be in a documented form, and, accordingly, a verbal <i>an oral</i> understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for review engagements.</p>
<p><u>.12 The engagement letter or other suitable form of written communication agreement should be signed by</u></p> <ul style="list-style-type: none"> <u>a. the accountant or the accountant’s firm and</u> <u>b. management or those charged with governance, as appropriate. (Ref: par. .A15)</u> 	

Requirements	Application and Other Explanatory Material
<p>.39 The written review report should include (Ref: par. .A77)</p> <ul style="list-style-type: none"> a. a title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent accountant. (Ref: par. .A65) b. an addressee, as appropriate for the circumstances of the engagement. (Ref: par. .A66) c. an introductory paragraph that (Ref: par. .A67–.A69) <ul style="list-style-type: none"> i. identifies the entity whose financial statements have been reviewed, ii. states that the financial statements identified in the report were reviewed, iii. identifies the financial statements, iv. specifies the date or period covered by each financial statement, v. includes a statement that a review includes primarily applying analytical procedures to management’s (owner’s) financial data and making inquiries of company management (owners), and vi. includes a statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole, and that, accordingly, the accountant does not express such an opinion. 	

Requirements	Application and Other Explanatory Material
<p><i>d.</i> a section with the heading “Management’s Responsibility for the Financial Statements” that includes an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework. (Ref: par. .A70)</p> <p><i>e.</i> a section with the heading “Accountant’s Responsibility” that includes the following statements:</p> <ul style="list-style-type: none"><i>i.</i> The accountant’s responsibility is to conduct the review engagement in accordance with SSARSs promulgated by the Accounting and Review Services Committee of the AICPA. The accountant’s review report should also explain that those standards require that the accountant perform the procedures to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework. (Ref: par. .A71–.A73)<i>ii.</i> The accountant believes that the review evidence the accountant has obtained is sufficient and	

Requirements	Application and Other Explanatory Material
<p>appropriate to provide a basis for the accountant’s conclusion.</p> <p><i>f.</i> a concluding section with an appropriate heading that includes a statement about whether the accountant is aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable. (Ref: par. .A46)</p> <p><i>g.</i> the manual, or printed, or digital signature of the accountant’s firm.</p> <p><i>h.</i> the city and state where the accountant practices. (Ref: par. .A74)</p> <p><i>i.</i> the date of the review report, which should be dated no earlier than the date on which the accountant completed procedures sufficient to obtain limited assurance as a basis for reporting whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, including evidence that</p> <ul style="list-style-type: none"> <i>i.</i> all the statements that the financial statements comprise, including the related notes, have been prepared and <i>ii.</i> management has asserted that it has taken responsibility for those financial statements. (Ref: par. .A75–.A76). 	

Requirements	Application and Other Explanatory Material
<u><i>Subsequently Discovered Facts That Become Known to the Accountant After the Report Release Date</i></u>	
<p><u>.75 If management revises the financial statements, the accountant should</u></p> <ul style="list-style-type: none"> <u>a. apply the requirements of paragraph .72.</u> <u>b. if the reviewed financial statements (before revision) have been made available to third parties, assess whether the steps taken by management are timely and appropriate to ensure that anyone in receipt of those financial statements is informed of the situation, including that the reviewed financial statements are not to be used. If management does not take the necessary steps, the accountant should apply the requirements of paragraph .76. (Ref: par. .A120)</u> <u>c. if the accountant’s conclusion on the revised financial statements differs from the accountant’s conclusion on the original financial statements, disclose in an emphasis of other matter paragraph, in accordance with paragraphs .52–.5354</u> <ul style="list-style-type: none"> <u>i. the date of the accountant’s previous report,</u> <u>ii. a description of the revisions, and</u> <u>iii. the substantive reasons for the revisions.</u> 	
<u>Supplementary Information That Accompanies Reviewed Financial Statements</u>	
<u>.81 When the accountant has reviewed both the financial statements and the supplementary information, the other-matter paragraph in the accountant’s review report on the financial statements or the separate report on the</u>	

Requirements	Application and Other Explanatory Material
<p><u>supplementary information should state that (Ref: par. .A129 and .A131)</u></p> <p><u>a. the information is presented for purposes of additional analysis and is not a required part of the financial statements;</u></p> <p><u>b. the information is the representation of management;</u></p> <p><u>c. the accountant has reviewed the information, and, based on the accountant’s review, whether the accountant is aware of any material modifications that should be made to the information in order for it to be in accordance with the applicable financial reporting framework; and</u></p> <p><u>d. the accountant has not audited the information and, accordingly, does not express an opinion on such information.</u></p>	
	<p><u>.A147</u></p> <p><u>Exhibit C—Illustrations of Accountant’s Review Reports on Financial Statements</u> (Ref: par. .A77, .A106, and .A127)</p>
	<p><u>Illustration 3—An Accountant’s Review Report on Single Year Financial Statements Prepared in Accordance With the Tax-Basis of Accounting</u></p> <p><u>Circumstances include the following:</u></p> <ul style="list-style-type: none"> • <u>Review of a complete set of financial statements (single year).</u>

Requirements	Application and Other Explanatory Material
	<ul style="list-style-type: none"> • <u>The financial statements are of a partnership and prepared in accordance with the basis of accounting the partnership uses for income tax purposes (that is, a special purpose framework).</u> • <u>Management has a choice of financial reporting frameworks.</u> <p><u>Independent Accountant’s Review Report</u></p> <p><u>[Appropriate Addressee]</u></p> <p><u>I (We) have reviewed the accompanying financial statements of XYZ Partnership, which comprise the statement of assets, liabilities, and partners’ capital—tax-basis as of December 31, 20XX, and the related statements of revenue and expenses—tax-basis, and partners’ capital—tax-basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management’s (partners’) financial data and making inquiries of partnership management (ownerspartners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statement as a whole. Accordingly, I (we) do not express such an opinion.</u></p> <p><u>Management’s Responsibility for the Financial Statements</u></p> <p><u>Management (Partners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the partnership uses for income tax purposes; this includes determining that the basis of accounting the partnership uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management (Partners) is</u></p>

Requirements	Application and Other Explanatory Material
	<p><u>(are) also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.</u></p> <p><u>Accountant's Responsibility</u></p> <p><u>My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the partnership uses for income tax purposes. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion.</u></p> <p><u>Accountant's Conclusion</u></p> <p><u>Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the partnership uses for income tax purposes.</u></p> <p><u>Basis of Accounting</u></p> <p><u>I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the partnership uses for income tax purposes, which is a basis of accounting other than accounting principles</u></p>

Requirements	Application and Other Explanatory Material
	<p><u>generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.</u></p> <p><u>[Signature of accounting firm or accountant, as appropriate]</u></p> <p><u>[Accountant’s city and state]</u></p> <p><u>[Date of the accountant’s review report]</u></p>
	<p><u>Illustration 4: An Accountant’s Review Report on Interim Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America</u></p> <p><u>Circumstances include the following:</u></p> <ul style="list-style-type: none"> <u>• Review of a complete set of <i>interim</i> financial statements for the period ended September 30, 20XX, and for the three and nine months then ended.</u> <u>• The <i>interim</i> financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.</u> <u>• The accountant appropriately performs the engagement in accordance with SSARSs (that is, AU-C section 930, <i>Interim Financial Information</i> [AICPA, <i>Professional Standards</i>], is not applicable).</u> <p style="text-align: center;"><u>Independent Accountant’s Review Report</u></p> <p><u>[Appropriate Addressee]</u></p> <p><u>I (We) have reviewed the accompanying <i>interim</i> financial statements of XYZ Company, which comprise the balance sheet as of September 30, 20XX, and the related statements of</u></p>

Requirements	Application and Other Explanatory Material
	<p><u>income, changes in stockholders' equity, and cash flows for the three and nine months then ended, and the related notes to the <i>interim</i> financial statements. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the <i>interim</i> financial statements as a whole. Accordingly, I (we) do not express such an opinion.</u></p> <p><u>Management's Responsibility for the Financial Statements</u></p> <p><u>Management (Owners) is (are) responsible for the preparation and fair presentation of these <i>interim</i> financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of <i>interim</i> financial statements that are free from material misstatement whether due to fraud or error.</u></p> <p><u>Accountant's Responsibility</u></p> <p><u>My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the <i>interim</i> financial statements for them to be in accordance with accounting standards generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion.</u></p>

Proposed PFI Pro Forma and Omnibus SSARS – redline to show changes from the ED
ARSC Meeting, May 17-19, 2016

Requirements	Application and Other Explanatory Material
	<p><u><i>Accountant's Conclusion</i></u></p> <p><u>Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying <i>interim</i> financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.</u></p> <p><u><i>[Signature of accounting firm or accountant, as appropriate]</i></u></p> <p><u><i>[Accountant's city and state]</i></u></p> <p><u><i>[Date of the accountant's review report]</i></u></p>