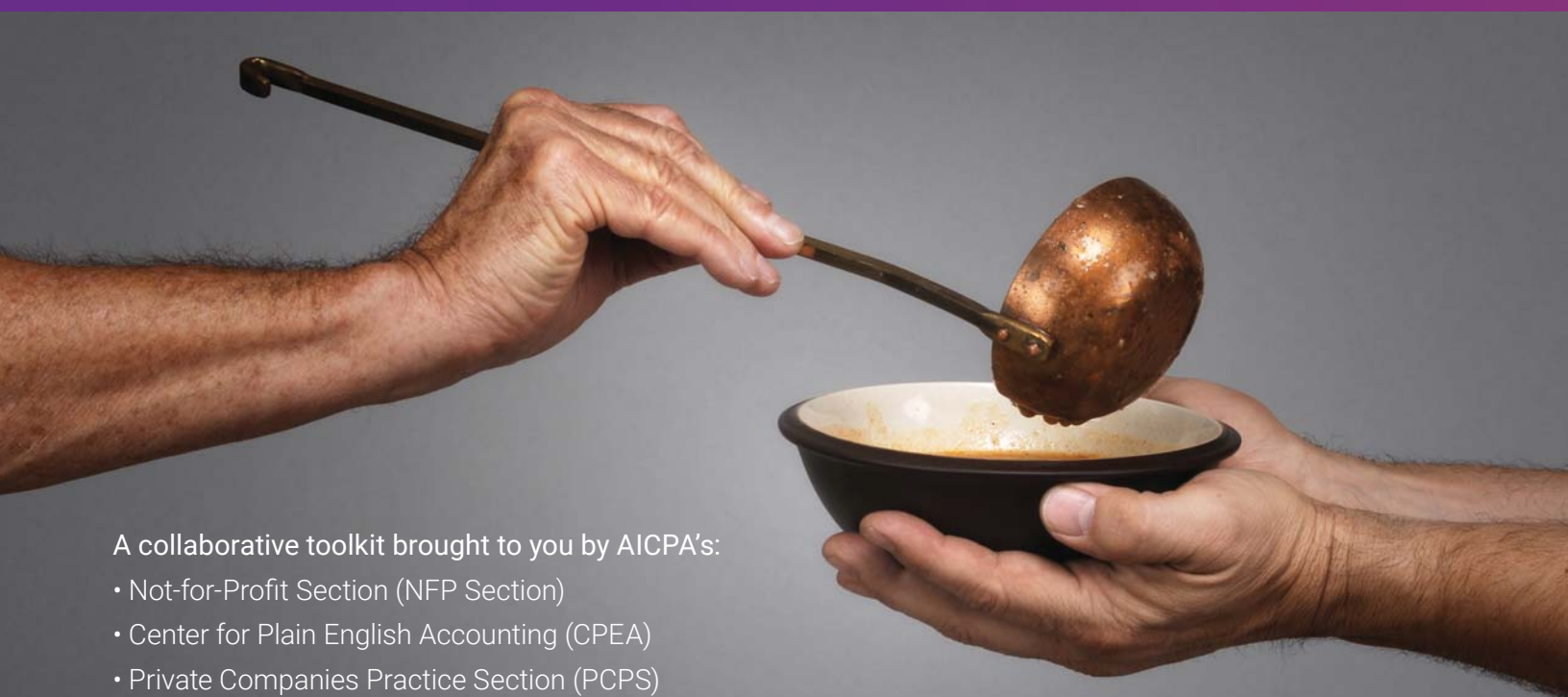




# Exploring FASB's Not-for-Profit Financial Reporting Standard: ASU 2016-14

## Financial Statement Example



A collaborative toolkit brought to you by AICPA's:

- Not-for-Profit Section (NFP Section)
- Center for Plain English Accounting (CPEA)
- Private Companies Practice Section (PCPS)

## **Not-for-Profit Section**

The AICPA's Not-for-Profit Section provides tools and resources to help those who serve not-for-profits address the unique challenges facing the industry. CPAs and non-CPAs alike benefit from the NFP Section's comprehensive resource library, eNews Alerts, online discussion groups and webcasts covering important topics in the areas of financial reporting, assurance, tax compliance, and governance.

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The Center for Plain English Accounting is the AICPA's national A&A resource center. The CPEA's team of experts assists member firms in understanding and implementing accounting, auditing, review, compilation and quality control standards by sharing technical advice and guidance in a straight-forward manner. CPEA professional staff provide A&A support by describing "how to do" what you "need to do" in implementing the authoritative literature.

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The Private Companies Practice Section gathers insights from practitioners in firms of all sizes to understand the challenges facing firms. As the home for firms at the AICPA, PCPS helps power up the performance of your firm by providing resources and turnkey tools to help tackle common concerns. With its suite of practice management resources, PCPS can help you and others in your firm address changing trends in the profession, plan for the future and run more smoothly.

Report of Independent Auditors  
and Financial Statements for

**Big National Charity, Inc.**

December 31, 20XX and 20XX

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**BIG NATIONAL CHARITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 20XX AND 20XX**

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	20XX	20XX
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,740,000	\$ 920,000
Contributions receivable	244,000	409,000
Due from related parties	-	90,000
Prepaid expenses and other assets	170,000	169,000
Investments	1,158,000	677,000
Property and equipment, net	151,000	207,000
Total assets	\$ 3,463,000	\$ 2,472,000
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 373,000	\$ 219,000
Due to related parties	303,000	-
Other liabilities	143,000	147,000
Total liabilities	819,000	366,000
<b>NET ASSETS</b>		
Without donor restrictions	1,599,000	914,000
With donor restrictions	1,045,000	1,192,000
Total net assets	2,644,000	2,106,000
Total liabilities and net assets	\$ 3,463,000	\$ 2,472,000

**BIG NATIONAL CHARITY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 20XX**

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
REVENUES AND OTHER SUPPORT			
Contributions	\$ 4,976,000	\$ 515,000	\$ 5,491,000
Contributions - from related parties	755,000	-	755,000
Contributions - donation in-kind	13,000	-	13,000
Interest and dividends	20,000	9,000	29,000
Net assets released from restrictions	<u>662,000</u>	<u>(662,000)</u>	<u>-</u>
Total revenues and other support	<u>6,426,000</u>	<u>(138,000)</u>	<u>6,288,000</u>
EXPENSES			
Animal services	<u>4,286,000</u>	<u>-</u>	<u>4,286,000</u>
Supporting services:			
Management and general	283,000	-	283,000
Fundraising	<u>1,139,000</u>	<u>-</u>	<u>1,139,000</u>
Total support services	<u>1,422,000</u>	<u>-</u>	<u>1,422,000</u>
Total expenses	<u>5,708,000</u>	<u>-</u>	<u>5,708,000</u>
Change in net assets from operations	<u>718,000</u>	<u>(138,000)</u>	<u>580,000</u>
Nonoperating activities			
Investment return, net	<u>(33,000)</u>	<u>(9,000)</u>	<u>(42,000)</u>
Total nonoperating activities	<u>(33,000)</u>	<u>(9,000)</u>	<u>(42,000)</u>
Change in net assets	685,000	(147,000)	538,000
Net assets, beginning of year	<u>914,000</u>	<u>1,192,000</u>	<u>2,106,000</u>
Net assets, end of year	<u>\$ 1,599,000</u>	<u>\$ 1,045,000</u>	<u>\$ 2,644,000</u>

**BIG NATIONAL CHARITY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 20XX**

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
REVENUES AND OTHER SUPPORT			
Contributions	\$ 3,485,000	\$ 106,000	\$ 3,591,000
Contributions - from related parties	324,000		324,000
Interest and dividends	13,000		13,000
Net assets released from restrictions	325,000	(325,000)	-
Total revenues and other support	4,147,000	(219,000)	3,928,000
EXPENSES			
Animal services	3,269,000	-	3,269,000
Supporting services:			
Management and general	353,000	-	353,000
Fundraising	1,039,000	-	1,039,000
Total support services	1,392,000	-	1,392,000
Total expenses	4,661,000	-	4,661,000
Change in net assets from operations	(514,000)	(219,000)	(733,000)
Nonoperating activities			
Investment return, net	6,000	3,000	9,000
Total nonoperating activities	6,000	3,000	9,000
Change in net assets	(508,000)	(216,000)	(724,000)
Net assets, beginning of year	1,422,000	1,408,000	2,830,000
Net assets, end of year	\$ 914,000	\$ 1,192,000	\$ 2,106,000

**BIG NATIONAL CHARITY, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 20XX AND 20XX**

	20XX			
	Animal Services	Management and General	Fundraising	Total
Grants	\$ 1,617,000	\$ 105,000	\$ -	\$ 1,722,000
Salaries and benefits	1,285,000	16,000	531,000	1,832,000
Education and awareness	706,000	54,000	245,000	1,005,000
Occupancy	203,000	30,000	72,000	305,000
Professional services	120,000	48,000	45,000	213,000
Printing	137,000	1,000	74,000	212,000
Information technologies	15,000	4,000	35,000	54,000
Travel	79,000	1,000	11,000	91,000
Depreciation	44,000	6,000	13,000	63,000
Other	80,000	18,000	113,000	211,000
	<u>\$ 4,286,000</u>	<u>\$ 283,000</u>	<u>\$ 1,139,000</u>	<u>\$ 5,708,000</u>

	20XX			
	Animal Services	Management and General	Fundraising	Total
Grants	\$ 229,000	\$ 12,000	\$ -	\$ 241,000
Salaries and benefits	1,471,000	171,000	451,000	2,093,000
Education and awareness	265,000	1,000	113,000	379,000
Occupancy	185,000	25,000	75,000	285,000
Professional services	664,000	108,000	232,000	1,004,000
Printing	111,000	3,000	22,000	136,000
Information technologies	83,000	6,000	19,000	108,000
Travel	126,000	4,000	8,000	138,000
Depreciation	44,000	6,000	18,000	68,000
Other	91,000	17,000	101,000	209,000
	<u>\$ 3,269,000</u>	<u>\$ 353,000</u>	<u>\$ 1,039,000</u>	<u>\$ 4,661,000</u>



**BIG NATIONAL CHARITY, INC.**  
**STATEMENTS OF CASH FLOWS – INDIRECT METHOD**  
**FOR THE YEARS ENDED DECEMBER 31, 20XX AND 20XX**

INDIRECT METHOD	20XX	20XX
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 538,000	\$ (724,000)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	63,000	68,000
Donated securities	(70,000)	(37,000)
Net depreciation (appreciation) on investments	42,000	(9,000)
Decrease (increase) in contributions receivable	165,000	(99,000)
Decrease in due to/from related parties	393,000	303,000
(Increase) decrease in prepaid expenses and other assets	(1,000)	7,000
Increase (decrease) in accounts payable and accrued expenses	154,000	(73,000)
(Decrease) increase in other liabilities	(4,000)	1,000
Net cash provided by (used in) operating activities	<u>1,280,000</u>	<u>(563,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(7,000)	-
Purchase of investments	(1,290,000)	(546,000)
Proceeds from sales and maturities of investments	837,000	79,000
Net cash used in investing activities	<u>(460,000)</u>	<u>(467,000)</u>
Net increase (decrease) in cash and cash equivalents	820,000	(1,030,000)
Cash and cash equivalents, beginning of year	<u>920,000</u>	<u>1,950,000</u>
Cash and cash equivalents, end of year	<u>\$1,740,000</u>	<u>\$ 920,000</u>

[NOTE – Both the indirect and direct methods are presented. NFP may choose either method of reporting cash flows from operating activities. If the direct method is used, a reconciliation to the indirect method (as illustrated in paragraph 230-10-55-10) may be reported but is not required.

**BIG NATIONAL CHARITY, INC.**  
**STATEMENTS OF CASH FLOWS – DIRECT METHOD**  
**FOR THE YEARS ENDED DECEMBER 31, 20XX AND 20XX**

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DIRECT METHOD	20XX	20XX
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions	\$ 5,986,000	\$ 3,741,000
Cash payments to employees and vendors	(5,128,000)	(4,620,000)
Cash payments from related parties, net	393,000	303,000
Interest and dividends received	29,000	13,000
	1,280,000	(563,000)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(7,000)	-
Purchase of investments	(1,290,000)	(546,000)
Proceeds from sales and maturities of investments	837,000	79,000
	(460,000)	(467,000)
Net cash provided by (used in) operating activities	1,280,000	(563,000)
Net increase (decrease) in cash	820,000	(1,030,000)
Cash and cash equivalents, beginning of year	920,000	1,950,000
Cash and cash equivalents, end of year	\$ 1,740,000	\$ 920,000

**Note 1 – Description of the Organization**

Big National Charity, Inc. seeks to prevent animal suffering around the globe by helping injured animals and reintroducing them into the wild.

**Note 2 – Summary of Significant Accounting Policies**

**Basis of presentation** – The financial statements of Big National Charity, Inc. have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Big National Charity, Inc. to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Big National Charity, Inc.'s management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Big National Charity, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

**Measure of operations** – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Big National Charity, Inc.'s ongoing animal services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

**Cash and cash equivalents** – Big National Charity, Inc.'s cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

## **EXAMPLE CHARITY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**Concentrations of credit risk** – Financial instruments that potentially subject Big National Charity, Inc. to concentrations of credit risk consist principally of cash and cash equivalents and investments. Big National Charity, Inc. maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Big National Charity, Inc.'s cash and cash equivalent accounts have been placed with high credit quality financial institutions. Big National Charity, Inc. has not experienced, nor does it anticipate, any losses with respect to such accounts.

**Contributions receivable** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

As of December 31, 20XX, Big National Charity, Inc.'s contributions receivable consisted of unconditional promises to give in the amount of \$150,000 and receivables from third party processors in the amount of \$94,000, all of which are expected to be collected within one year. As of December 31, 20XX, contributions receivable consisted of unconditional promises to give in the amount of \$301,000 and receivables from third party processors in the amount of \$108,000.

**Due to/from related parties** – Amounts reported as due to/from related parties, included in the accompanying statements of financial position, arise principally from the collaborative activities between Big National Charity, Inc., Big National Charity, Inc. International, and Big National Charity, Inc. Canada to further the mission of the organization.

**Property and equipment, net** – Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to seven years. Big National Charity, Inc.'s policy is to capitalize renewals and betterments acquired for greater than \$5,000 and expense normal repairs and maintenance as incurred. Big National Charity, Inc.'s management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

**Investments** – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Fair value measurements** – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Big National Charity, Inc. groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1      Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
  
- Level 2      Other observable inputs, either directly or indirectly, including:
  - Quoted prices for similar assets/liabilities in active markets;
  - Quoted prices for identical or similar assets in non-active markets;
  - Inputs other than quoted prices that are observable for the asset/liability; and,
  - Inputs that are derived principally from or corroborated by other observable market data.
  
- Level 3      Unobservable inputs that cannot be corroborated by observable market data.

**Contributions** – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

## EXAMPLE CHARITY

### NOTES TO FINANCIAL STATEMENTS

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#### Note 2 – Summary of Significant Accounting Policies (continued)

**In-kind donations** – Big National Charity, Inc. received donated professional services and other advertising services of \$13,000 for the year ended December 31, 20XX. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and supporting services on the accompanying statements of activities and statements of functional expenses.

Several volunteers have made significant contributions of their time in furtherance of Big National Charity, Inc.'s mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

**Functional expenses** – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among animal services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Grants	Time and effort
Salaries and benefits	Time and effort
Education and awareness	Time and effort
Occupancy	Square Footage
Professional services	Full Time Equivalent
Printing	Full Time Equivalent
Information technologies	Full Time Equivalent
Travel	Time and effort
Depreciation	Square Footage
Other	Time and effort

**Use of estimates** – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**BIG NATIONAL CHARITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Income taxes** – Big National Charity, Inc. is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Big National Charity, Inc. has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Big National Charity, Inc. has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

**Reclassifications** – Certain prior year amounts have been reclassified to conform to the current year presentation.

**New Accounting Pronouncement** – On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Big National Charity, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Note 3 – Availability and Liquidity**

The following represents Big National Charity’s financial assets at December 31, 20XX and 20XX:

Financial assets at year end:	<u>20XX</u>	<u>20XX</u>
Cash and cash equivalents	\$ 1,740,000	\$ 920,000
Contributions receivable	244,000	409,000
Investments	<u>1,158,000</u>	<u>677,000</u>
Total financial assets	3,142,000	2,006,000
Less amounts not available to be used within one year:		
Net assets with donor restrictions	1,045,000	1,192,000
Less net assets with purpose restrictions to be met in less than a year	-	(7,000)
Quasi endowment established by the board	<u>205,000</u>	<u>130,000</u>
	<u>1,250,000</u>	<u>1,315,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,892,000</u>	<u>\$ 691,000</u>

Big National Charity’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1.4 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. Big National Charity has a \$250,000 line of credit available to meet cash flow needs.

## **EXAMPLE CHARITY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 4 - Investments**

The following is a summary of investments at December 31, 20XX and 20XX:

	<u>20XX</u>	<u>20XX</u>
Cash and equivalents	\$ -	\$ 2,000
Equity funds	91,000	122,000
Stock index funds	598,000	310,000
Bond funds	58,000	34,000
Bond index funds	<u>411,000</u>	<u>209,000</u>
	<u>\$ 1,158,000</u>	<u>\$ 677,000</u>

As of December 31, 20XX and 20XX, all investments were considered level 1 investments.

#### **Note 5 - Property and Equipment, Net**

Property and equipment, net consisted of the following at December 31, 20XX and 20XX:

	<u>20XX</u>	<u>20XX</u>
Property and equipment	\$ 364,000	\$ 357,000
Less: accumulated depreciation	<u>(213,000)</u>	<u>(150,000)</u>
Property and equipment, net	<u>\$ 151,000</u>	<u>\$ 207,000</u>

For the years ended December 31, 20XX and 20XX, depreciation expense totaled \$63,000 and \$68,000, respectively.



**BIG NATIONAL CHARITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Lease Commitments**

Total rent expense incurred under operating leases totaled \$231,000 and \$229,000 for the years ended December 31, 20XX and 20XX respectively.

For years subsequent to 20XX, minimum annual future rental commitments under the lease agreements, are as follows:

Fiscal Year End	Rental Expense
20XX	\$ 302,000
20XX	310,000
20XX	318,000
20XX	215,000
	\$ 1,145,000

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payments required by the lease and is included in other liabilities in the statements of financial position. As of December 31, 20XX and 20XX, the deferred rent liability balance was \$95,000 and \$96,000, respectively.

**Note 7 –Net Assets**

Net assets with donor restrictions were as follows for the years ended December 31, 20XX and 20XX:

	20XX	20XX
Specific Purpose		
Animal services	\$ 1,045,000	\$ 1,185,000
Passage of Time		
Contributions receivable	-	7,000
Total	\$ 1,045,000	\$ 1,192,000

## EXAMPLE CHARITY

### NOTES TO FINANCIAL STATEMENTS

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#### Note 7 – Net Assets (continued)

Net assets without donor restrictions for the years ended December 31, 20XX and 20XX are as follows:

	<u>20XX</u>	<u>20XX</u>
Undesignated	\$ 1,394,000	\$ 784,000
Quasi endowment	<u>205,000</u>	<u>130,000</u>
	<u>\$ 1,599,000</u>	<u>\$ 914,000</u>

Net assets released from net assets with donor restrictions are as follows:

	<u>20XX</u>	<u>20XX</u>
Satisfaction of Purpose Restrictions		
Animal services	<u>\$ 662,000</u>	<u>\$ 325,000</u>

#### Note 8 – Employee Benefit Plan

The Big National Charity, Inc. has a tax-deferred 403(b) plan covering all employees. The assets are held for each employee in an individual account maintained by an investment firm. Big National Charity, Inc.'s match is 3% of each qualified employee's basic contribution. Plan contribution before non-vesting forfeiture incurred by Big National Charity, Inc. during the years ended December 31, 20XX and 20XX totaled \$22,000 and \$29,000, respectively.

#### Note 9 – Subsequent Events

Big National Charity, Inc. has evaluated subsequent events through April 20, 20XX, which is the date the financial statements were available to be issued. Big National Charity, Inc. is not aware of any material subsequent events.



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