

Financial Reporting Checklist for North Carolina G.S. 159 Hospitals

The checklist below is provided as a supplement to other audit programs and checklists that already address compliance with generally accepted accounting principles or federal programs. This checklist addresses issues within the context of the North Carolina Local Government Budget and Fiscal Control Act (LGBFCA) that are *specific* to local government audits in North Carolina and the presentation of the audited financial statements. Also, many of the following items will be used in compiling comparative statistical data reports, which will be published statewide in the spring, following the receipt of the audits. Other audit procedures are included based upon prior years' audit reviews results. Many of the steps and procedures below are interrelated and may be done in conjunction with other audit procedures. Please refer to the Audit Manual web-site on the NC Department State Treasurer's web-site for an audit program focusing on the auditee's compliance with the LGBFCA and internal control environment. *Please read the suggested procedures before beginning the audit work.* Note that the LGBFCA is applicable to all units of local government and public authorities in North Carolina. References to "the unit" or "the local government" are not meant to, and do not, exclude public authorities, or auditors of public authorities, from using the following suggested audit procedures, as appropriate. This checklist is not intended to be all-inclusive; professional judgment should be used in determining the extent of tests and the use of procedures not included herein. A full understanding of the LGBFCA is essential to a thorough audit of a local government or public authority in North Carolina. A copy of the LGBFCA may be ordered from the Institute of Government. The General Statutes of North Carolina are also available on the web site of the North Carolina General Assembly, [NCGA General Statutes - Chapter 159 Article 3 Part 4](#). The auditor should use professional judgment if any results of these checklist items suggest that a statutory violation has occurred. The auditor should consult with the unit's legal representative to determine if a violation of North Carolina law has actually occurred.

Some terminology has been revised for current GASB Statements. Users should consider whether the suggested procedure is of benefit as they audit.

G.S. 159 Hospitals Checklist			
	Suggested Procedure / Checklist item	Performed By or NA	Workpaper Reference
	Standard Auditor's Report		
	Does the report include Independent Auditors Report on the top of the first page? (<i>AU-C 700, ¶.23</i>). Is the report signed (stamped or manual signature), dated, and is the firm's city included? (<i>AU-C 700, ¶.39,.41</i>) It is preferred that the opinion is presented on the firm's letterhead.		
	Opinion paragraph includes applicable references for the following: unmodified opinion, opinion units (as listed in the first paragraph and presented in the financial statements).		
	Is an Other Matters paragraph included for Required Supplementary Information presented for MD&A and any other statements that have Other Post Employment Benefit (OPEB)?		
	If an Other Matters paragraph for Supplementary Information is presented, does it properly reference the appropriate schedules? Most commonly referenced is the schedule of expenditures of federal and State awards.		
	Report date & date of compliance reports are the same. If not, is there dual dating of the reports?		
	Management Discussion and Analysis (MD&A)		
	Is MD&A presented preceding the basic financial statements and does it contain all the required contents? (<i>GASB No. 34, ¶ 11</i>)		
	Do all schedules presented and references tie to the financial statements and applicable notes?		
	If comparative financial statements (basic financial statements) and RSI are presented for both years, are two years presented in the MD&A along with the prior year (three years total) presented? (If comparative data is provided for non-comparative financial statements, the three year presentation is not required). (<i>GASB No. 34, Implementation Guide Q8</i>)		

	Exhibits		
	Statement of Net Position		
	Verify that cash not available for operations of the fund(s) are classified as restricted cash and investments in the financial statements and is clearly described in the notes.		
	Capital assets are separated between non-depreciable & depreciable. (<i>GASB No. 34 ¶ 20</i>)		
	Are deferred outflows and inflows of resources itemized? Deferred outflows or inflows of resources should include a name and amount either in the notes OR on the face of the applicable statements. (<i>GASB No. 63 ¶ 13</i>)		
	Are Prepaid cash receipts properly classified as liabilities or deferred inflows of resources?		
	Verify that all references to “deferred revenues” are replaced by “unavailable revenues”, “deferred inflows of resources” or another appropriate term as an alternative. <i>GASB 65</i>		
	The equity section of the Statement of Net Position should reflect three components: Net investment in capital assets, Restricted (distinguishing between major categories of restrictions including Stabilization by State Statute), and Unrestricted.		
	Is the net investment in capital assets calculation reasonably correct? The calculation includes any capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowing that are attributed to the capital assets. Any significant unspent debt proceeds at year end related to the capital assets should not be included in the calculation of net investment in capital assets. (<i>GASB No. 63 ¶ 9</i>)		
	Verify no negative cash is shown in any fund. If a unit pools cash into one bank account and one fund is in a deficit cash position, a “due to” amount should be recorded in the appropriate fund and a “due from” should be recorded in the fund that is supporting the deficit fund. If a specific bank account is overdrawn, a bank overdraft liability should be shown in both the fund and government-wide financial statements rather than a negative cash balance. <i>AICPA's Audit and Accounting Guide State and Local Governments 5.28 (March 2013)</i>		
	Proprietary Funds – Statement of Net Position/Statement of Revenues, Expenditures, and Net Position		
	Major funds should be presented individually and consistently on the Statement of Net Position, the Statement of Revenues, Expenditures, and Statement of Net Position, and Statement of Cash Flows.		
	The non-major funds should be labeled as such and presented in the aggregate on the Statement of Net Position, the Statement of Revenues, Expenditures, and Statement of Net Position, and Statement of Cash Flows.		
	Restricted cash is separately reported from unrestricted cash and is clearly described in the notes.		
	<i>GASB No. 65</i> replaces the term Deferred Revenues. All references to “deferred revenues” should be replaced by “unavailable revenues”, “deferred inflows of resources” or another appropriate term as an alternative.		
	Are Prepaid cash receipts properly classified as liabilities or deferred inflows of resources?		
	Do the amounts reported as ending total net position tie to the amounts reported on Statement of Net Position? Do beginning balances reported tie to the amounts reported on the prior year financial statements?		
	Liabilities payable from restricted assets should be properly identified on the Statement of Net Position.		
	Proprietary Funds – Statement of Cash Flows		
	Is the direct method used to present cash flows from operating activities, which reports major classes of gross cash receipts and gross cash payments and their combined sum?		
	Verify on the statement of cash flows that changes in due to / due from are presented as non-capital financing and not as part of the reconciliation to “cash flows from operations”. <i>GASB 9</i>		
	Do ending cash and cash equivalents tie to the related fund statements? Does beginning cash tie to prior year statements? Do transfers tie to related fund statements?		

	Does the reconciliation of operating income to net cash provided by operations appear reasonable? Does the net cash provided by operations in the reconciliation section tie to the cash flows from operating activities section?		
	Does Operating Income on the Reconciliation of operating income tie to Operating Income on the Statement of Revenues, Expenses and Changes in Fund New Position?		
	Notes to the Financial Statements		
	Note Disclosures: Summary of Significant Accounting Policies		
	Basis of Presentation, Basis of Accounting: Verify that descriptions of the major funds are part of the notes and agree with the fund statements. <i>GASBS 38 ¶6</i>		
	Is there a budgetary note explaining the budgetary responsibility, the basis of accounting used in budgetary reporting, legal level of control, and other budgetary policies or legal requirements?		
	Note Disclosures: Statutory and Compliance with Laws, Rules, and Regulations		
	Verify that material violations with legal and contractual provisions, embezzlement or deficit fund balance/net position in individual fund that are not visible on the face of the statement of financial position are disclosed in the stewardship note.		
	Note Disclosures: Detailed notes on all activities and funds		
	Verify that government-wide cash and investments plus any cash and investments carried in fiduciary funds materially equal the cash and investments disclosed in the Deposits and Investments notes. Deposit and Investment disclosures should comply with GASB 40.		
	Verify that the investment note discloses interest rate risk, credit risk, custodial credit risk, and concentration of credit risk. <i>GASB 40</i>		
	Verify deposit or investments comply with G.S. 159-30.		
	Are material receivables described in the notes or on the face of the statements? Do they tie to the Statement of Net Position and Balance Sheet? If receivables are presented in aggregate in the financial statements, there must be detailed presentation in the note disclosures.		
	Does the schedule of capital assets show the beginning and end of year balances, with accumulated depreciation presented separately from historical costs? The capital acquisitions, sales and other dispositions, and current period depreciation expense, with the amounts charged to each of the functions in the statement of activities?		
	Do the notes disclose the method or methods used to compute depreciation for each major class?		
	Are material payables described in the notes or on the face of the statements? Do they tie to the Statement of Net Position and Balance Sheet?		
	Verify OPEB Note disclosure complies with GASB 43 and 45, including calculation chart, Funding Status, Actuarial Methods and Assumptions disclosures. If OPEB is funded, verify amounts are included in the fiduciary statements.		
	Adequate OPEB Note disclosed including RSI. Unit presents RSI if unit has professional actuarial valuation or an alternative method worksheet was used.		
	Confirm OPEB calculation chart is included and includes an amount for interest if there was a prior year balance.		
	Verify Funding Status & Progress are included for OPEB & Actuarial Methods and Assumptions disclosed.		

	<p>Long Term Obligation Activity Note: Are liabilities separated between types of debt (notes, installment purchases, leases payables, compensated absences, claims and judgments, OPEB, etc.), presentation of beginning and end of year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements), increases and decreases (separately presented), and current portion of each item (due in one year)? <i>GASB 34 ¶ 119.</i></p>		
	<p>Does the entity disclose the following details of debt service requirements to maturity: Principal and interest requirements to maturity presented separately, for each of the five subsequent years, and in five year increments thereafter? <i>GASB 38 ¶ 10.</i></p>		
	<p>Verify that unavailable revenues, deferred inflows of resources and deferred outflows of resources are itemized in the financial statements and clearly disclosed in the notes to the financial statements. <i>GASB 63 ¶ 13</i></p>		
	<p>Verify legally required bonding on the finance officer in addition to bonding on other appropriate employees is in compliance with § 159-39(e). Verify this is disclosed in the risk management note.</p>		
	<p>If the hospital has incurred losses in excess of insurance coverage, verify that this is also disclosed in the risk management note.</p>		
	<p>Interfund balances/payables (Due to) and receivables (Due from) should be disclosed in the notes, including the purpose of the interfund balance and the interfund balances that are not expected to be repaid within one year of the financial statement date. <i>GASBS 38 ¶ 14 and Memo #981</i></p>		
	<p>Verify that a schedule of interfund transfers is presented as part of the notes, including the amounts transferred between funds and a general description of the principal purpose of each transfer. <i>GASBS 38 ¶ 15 and Memo #981</i></p>		
	<p>Verify transfers are properly classified and are not actually cost allocations. Interfund services provided and used must be reported as revenues or expenditures in the proper funds with unpaid amounts reported as interfund receivables (due from) or interfund payables (due to). Ex: administrative costs from one fund to another. <i>Memo 2014-07 Proper accounting and treatment for Cost Allocations</i> discusses detail on this. https://www.nctreasurer.com/slg/Memos/2014-07.pdf <i>GASB 34 ¶ 112a(2)</i></p>		
	<p>Are construction or other significant commitments, claims and judgments, and contingencies disclosed? Debt that a unit is secondarily liable for should be disclosed.</p>		
	<p>Are non-recognizable, subsequent events that occurred after the year end of the reporting period, but prior to the issuance of the financial statement disclosed in order for user understanding the financial statements? Examples of non-recognizable events such as major uninsured loss, issuance of debt, creation of a new component unit, or major casualty loss due to a natural disaster. <i>(GASB 56)</i></p>		
	<p>Are related party transactions disclosed and include the nature of the relationship, the description of the transaction, the dollar amount of the transaction, and any receivable/payable. <i>(GASB 56)</i></p>		
	<p>Verify that material prior period adjustments (PPA) or restatements of net position are presented in the statements and the notes when applicable and are included as a finding in the compliance reports if appropriate. <i>AU-C 265</i></p>		

	Required Supplementary Information and Schedules		
	Other Post Employment Benefit (OPEB): Is there a Schedule of Funding Progress that shows all the required information (actuarial valuation date, value of assets, accrued liability (AAL)-projected unit credit, unfunded AAL (UAAL), funded ratio, covered payroll, and UAAL % of covered payroll? Is information presented for the recent valuation plus two preceding valuations (unless the aggregate actuarial method was used)? Is a Schedule of Employer contribution presented if required?		
	OPEB: Do the amounts reported as Annual Required Contribution in the notes tie to the amounts reported in Schedule of Employer Contribution?		
	Supplementary Information and Schedules		
	Combining statements are presented for all non-major funds and major funds and amounts tie to the basic financial statements.		
	Check amounts and funds presented as individual statements and compare to the combining statements and see if total amounts agree.		
	Budgetary comparison statements ties to the operating statement. Budgetary statements could be in the form of project ordinances or annually budgeted. G.S. 159-39(d)(1)		
	Verify that enterprise funds show budgets on a modified accrual basis and that a reconciliation of the revenues over/under expenditures to the full accrual net income amount is included. Verify also that the enterprise fund capital projects funds are reconciled / consolidated correctly. (Check sales tax, grant / interest income, and the elimination of transfers between operating and capital project funds).		
	If Grant Income appears in an enterprise fund capital project, verify that the amount is correctly recognized as revenue and not as an increase to capital contributions.		
	Grant revenue intended to finance improvements which <u>primarily</u> result in new assets for an enterprise fund should be reported in an enterprise fund capital project.		