Management representation letter - nonprofit - DAR 7/9/16 [[1]](#endnote-2) [[2]](#endnote-3) [[3]](#endnote-4) [[4]](#endnote-5) [[5]](#endnote-6)

Please read the guidance in endnote 2 for information to help you efficiently use this new CLA template.

January 26, 2018 [[6]](#endnote-7) [[7]](#endnote-8) [[8]](#endnote-9)

CliftonLarsonAllen LLP

2210 E Rte. 66

Glendora, CA 91740

This representation letter is provided in connection with your audit of the combined financial statements of the Service Leadership Programs, which comprise the statements of financial position[[9]](#endnote-10) as of June 30, 2017[[10]](#endnote-11), and the related statements of OR activities and cash flows[[11]](#endnote-12) for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).[[12]](#endnote-13)

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of [[13]](#endnote-14), the following representations made to you during your audit.

Financial Statements

* We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 14, 2017, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.[[14]](#endnote-15)
* We acknowledge and have fulfilled our responsibility 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.
* We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
* We acknowledge our responsibility for the design, implementation, and maintenance of internal control over the receipt and recording of contributions.
* Significant assumptions used by us in making accounting estimates are reasonable.[[15]](#endnote-16) [[16]](#endnote-17)

Alternate wording

* Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.[[17]](#endnote-18)
* No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.[[18]](#endnote-19)
* You have proposed adjusting journal entries that have been posted to the entity’s accounts. We have reviewed and approved those adjusting journal entries and understand the nature of the changes and their impact on the financial statements. We are in agreement with those adjustments and accept responsibility for them. [[19]](#endnote-20)

Alternate Wording:

We have not identified or been notified of any uncorrected financial statement misstatements.

* We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
* Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the financial statement date and have been reduced to their estimated net realizable value.
* Designations of net assets, or reclassifications of net assets, have been properly authorized, approved, and reflected in the financial statements.
* The cost allocation methods used to allocate the entity’s expenses to the appropriate functional classification as program services, management and general, and fundraising are properly supported by the entity’s books and records. The cost allocation methods used are rational, systematic, and consistently applied. The bases used for allocation of functional expenses are reasonable.[[20]](#endnote-21)

Information Provided

* We have provided you with:
  + Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  + Additional information that you have requested from us for the purpose of the audit.
  + Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  + Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
* There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
* All material transactions have been recorded in the accounting records and are reflected in the financial statements.[[21]](#endnote-22)
* We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
* We have no knowledge of any fraud or suspected fraud that affects the entity and involves:[[22]](#endnote-23)
  + Management;
  + Employees who have significant roles in internal control; or
  + Others when the fraud could have a material effect on the financial statements.
* We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.[[23]](#endnote-24)
* We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.
* We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
* There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
* We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.[[24]](#endnote-25)
* The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.
* We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Service Leadership Programs; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
* We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
* Service Leadership Programs are exempt organization under Section 501c4 of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the entity’s tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
* We are responsible for determining whether we have received, expended, or otherwise been the beneficiary of any federal awards during the period of this audit. No federal award, received directly from federal agencies or indirectly as a subrecipient, was expended in an amount that cumulatively totals from all sources $750,000 or more. For this representation, “award” means financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, user grants, or contracts used to buy goods or services from vendors.
* As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
* In regards to the tax return preparation services performed by you, we have:[[25]](#endnote-26)
  + Made all management judgments and decisions and assumed all management responsibilities.
  + Designated an individual who possesses suitable skill, knowledge, or and/or experience to understand and oversee the services.
  + Evaluated the adequacy and results of the services performed.
  + Accepted responsibility for the results of the services.[[26]](#endnote-27)

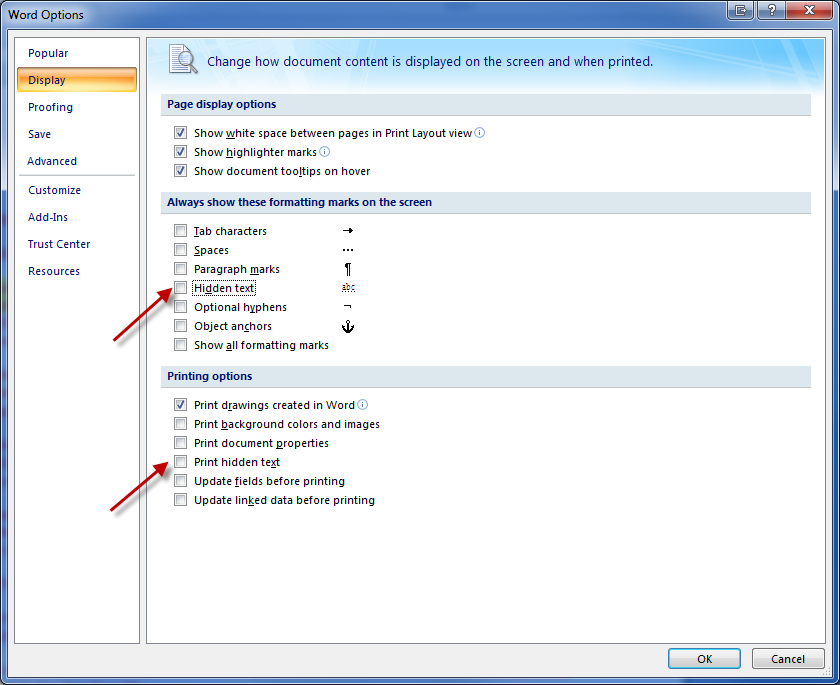
Signature: Title: [[27]](#endnote-28)

[INSERT ATTACHMENT RELATED TO PASSED ADJUSTMENTS IF APPLICABLE]

1. All listed representations should be included in the letter unless not applicable. Yellow shaded text indicates text which may or may not be needed in the specific client circumstances. Edit, retain, or delete as appropriate for the client. Additional representations should be added to address significant or unusual matters. [↑](#endnote-ref-2)
2. Template letter functionality 

   Five icons were added to the Word quick access toolbar for this template to help you efficiently use it.

   Since computers have different default settings, you may need to change your settings. Click on “Options"  on the quick access toolbar. Ensure “Hidden text” and “Print hidden text” are unchecked.

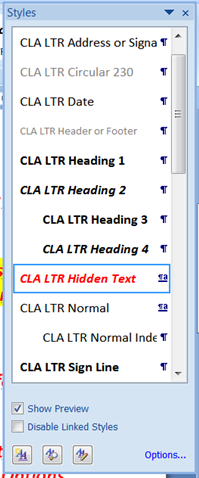
   Red text identifies informational (hidden) text. Click on “Show/Hide”  on the quick access toolbar to show or hide hidden text. Hidden text will not print.

   Yellow shaded text indicates text which may or may not be needed in the specific client circumstances. Edit, delete, or retain as appropriate for the client.

   Endnotes include hidden text. If you want to view the endnote popup, click “Options”  on the quick access tool bar, and check “Hidden text” in the “Always show these formatting marks on the screen” section. You will need to uncheck again to hide the text if you want to view the text in order to insert appropriate page breaks before printing.

   Click on shaded form fields and type appropriate text. (This replaces the content and eliminates the form field.) Alternatively, click “Lock”  in the quick access toolbar to lock the document so you may tab through the form fields in the document to edit the text in the form fields. The locking feature can be toggled on and off with this icon. (Use Shift + Tab to move to the previous field.)

   Styles can be used to efficiently format added content copied from another document. (Styles are available on the Home ribbon.) Styles can be used to efficiently change optional text to hidden text to exclude from the letter for the current period but retain for evaluation in subsequent periods. (Use Word’s “Bullets” feature as needed.)

   Printing:

   * Letters should be printed and provided to the client for copying on client letterhead and signature. If sending electronically, print to Adobe. Ensure the appropriate margins are used to provide adequate space for client letterhead.
   * Complete the date in the header field on the second page.
   * Yellow highlighting needs to be eliminated before printing. From the “Home” ribbon, choose “Select” and “Select All,” to highlight the content of the entire letter; then click on the “Text Highlight Color”  arrow on the quick access toolbar and choose “No Color.”
   * Click “Form Field Shading”  on the quick access toolbar to eliminate field shading before printing.
   * If hidden text is printing, click on “Options”  and uncheck “Print hidden text” under “Printing options.”

   [↑](#endnote-ref-3)
3. This letter has been updated for the clarified auditing standards and is based on AU-C 580, Written Representations. PPC’s practical considerations can be viewed on RIA Checkpoint, letter CL-3.6. [↑](#endnote-ref-4)
4. If management refuses to provide required written representations, or if we have concluded that sufficient doubt exists about management’s integrity such that the representations are not reliable, we should disclaim an opinion on the financial statements or withdraw from the engagement. [↑](#endnote-ref-5)
5. The following are representations that may need to be added to the letter to appropriately tailor it for individual client circumstances (list is not all-inclusive). Wording for some of these items is included in the second to last endnote.

   Contributions

   * Contributed services that are or are not required to be recorded as contributions under FASB ASC 958-605 .
   * The adequacy of the organization’s internal controls over contributions.
   * The organization’s reasons for not confirming with a particular donor.

   Expenses for Program and Supporting Services

   * The organization’s reasons for conducting activities that have elements both of program services and fund-raising.
   * Matters related to joint activities such as the completeness of joint activities tested, the rationale for selecting the audience for the joint activities, and the appropriateness of the cost allocation methods.
   * Reasonableness of bases for allocation of functional expenses.

   Property and Equipment

   * The historic or cultural value of individual works of art or historical treasures and the organization’s technical and financial ability to preserve the items as a condition for not depreciating them.

   Prepaids, Deferred Charges, Intangibles, and Other Assets

   * Impairment of goodwill and other intangible assets not subject to amortization.
   * Material deferred charges.

   Investments and Derivatives

   * Existence and completeness of derivatives and appropriate characteristics of hedges.
   * Unusual considerations involved in determining the application of the equity method of accounting.
   * The organization’s interpretation of applicable laws over unrealized gains on endowments; that is, whether donor restrictions extend to the net appreciation on the endowment investments.

   Income Taxes

   * Aggressive tax elections or uncertain tax positions.
   * IRS examinations or other matters.
   * Provision for unpaid unrelated business income taxes.

   Accounts Payable and Other Liabilities

   * Contributions to employee benefit plans or bonuses not documented in the minutes.
   * Pension payments made after the client’s year end.
   * Actuarial assumptions used to measure pension liabilities and costs are appropriate.
   * Expected employer contributions to defined benefit pension and postretirement benefit plans for the next fiscal year, if material to the financial statements.

   Notes Payable and Long-term Debt

   * Management has the intent and ability to refinance short-term debt on a long-term basis.

   General

   * A national organization’s recording (or disclosing to the auditor) of all transactions with its controlled affiliate organizations.
   * Actions allowed by funding sources or regulatory agencies that are not documented in writing or by legal references.
   * Acknowledgement of oral communications made by the auditor.
   * Transactions for which there is no written supporting documentation.
   * Representations needed for a specialized industry.
   * Actions allowed by regulatory agencies that are not documented in writing or by legal references.
   * GAAP changes/adoption.
   * Use of a specialist.
   * Restatement made to correct a material misstatement in a prior period that affects the comparative financial statements. (AU 700.52)
   * Financial instruments with concentration of credit risk.
   * Future plans or commitments.
   * Lawsuits, regulatory actions, etc.
   * Environmental remediation liabilities and related loss contingencies.
   * Other representations relied on during the audit. (It may be helpful to maintain in the workpapers a list of client representations relied on during the audit.)

   Other (AU 580.A18 and A19.)

   * Whether the selection and application of accounting policies are appropriate
   * Whether matters such as the following, when relevant under the applicable financial reporting framework, have been recognized, measured, presented, or disclosed in accordance with that framework:
     + Plans or intentions that may affect the carrying value or classification of assets and liabilities
     + Liabilities, both actual and contingent
     + Title to, or control over, assets and the liens or encumbrances on assets and assets pledged as collateral
   * Aspects of laws, regulations, and contractual agreements that may affect the financial statements, including noncompliance.
   * Whether management has communicated to the auditor all deficiencies in internal control of which management is aware.

   [↑](#endnote-ref-6)
6. The date of this letter, the date of the auditors’ report, and the date disclosed in the financial statements through which management evaluated subsequent events should be the same to provide adequate documentation of management’s acceptance of responsibility for the financial statements. The auditor cannot date the report before obtaining sufficient evidence, which includes (1) evidence provided by the management representation letter that management has taken responsibility for the financial statements, including evaluating subsequent events, (2) and evidence that subsequent events have been reviewed through the report date. [↑](#endnote-ref-7)
7. AU-C Section 560, Subsequent Events and Subsequently Discovered Facts, addresses circumstances when the auditor includes an additional date on the auditors’ report (that is, dual-dates the auditors’ report for a revision relating to a subsequent event). In such circumstances, the auditor may determine that obtaining additional representations relating to the subsequent event is appropriate. (AU-C 580.A17) [↑](#endnote-ref-8)
8. This is linked to the “Charge code” in the binder properties. [↑](#endnote-ref-9)
9. Use exact statement titles. [↑](#endnote-ref-10)
10. According to AU-C 580, Written Representations, representation letters should include all periods covered by the auditors’ report. [↑](#endnote-ref-11)
11. Use exact statement titles. For a voluntary health and welfare organization, use the wording “activities, functional expenses, and cash flows.” For an organization other than a voluntary health and welfare organization, use the wording “activities and cash flows.” [↑](#endnote-ref-12)
12. Modify if the applicable reporting framework is not U.S. GAAP. [↑](#endnote-ref-13)
13. This is linked to the “Charge code” in the binder properties. [↑](#endnote-ref-14)
14. Modify if the applicable reporting framework is not U.S. GAAP. [↑](#endnote-ref-15)
15. According to AU-C 540.A126, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, audit evidence can include obtaining representations from management about whether it believes that the significant assumptions used in making accounting estimates are reasonable. Additionally, according to AU-C 580.A13, such written representations might address the following:

    * The appropriateness and consistency of the measurement processes used by management in determining accounting estimates.
    * That the assumptions appropriately reflect management’s intent and ability to carry out specific courses of action.
    * That the disclosures related to accounting estimates are complete and appropriate.
    * That no subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.

    [↑](#endnote-ref-16)
16. AU-580.A14 states that for those accounting estimates not recognized or disclosed in the financial statements, written representations also may include representations about the following:

    * The appropriateness of the basis used by management for determining that the criteria of the applicable financial reporting framework for recognition or disclosure have not been met.
    * The appropriateness of the basis used by management to overcome a presumption relating to the use of fair value set forth under the entity's applicable financial reporting framework for those accounting estimates not measured or disclosed at fair value

    [↑](#endnote-ref-17)
17. Modify if the applicable reporting framework is not U.S. GAAP. [↑](#endnote-ref-18)
18. AU-C 560, Subsequent Events and Subsequently Discovered Facts, addresses circumstances when the auditor includes an additional date on the auditors’ report (that is, dual-dates the auditors’ report for a revision relating to a subsequent event). In such circumstances, the auditor may determine that obtaining additional representations relating to the subsequent event is appropriate. (AU-C 560.13)

    If a subsequent event has been disclosed in the financial statements, this item may be modified to begin, “Except as disclosed in Note X to the financial statements, . . .” [↑](#endnote-ref-19)
19. These last three sentences should be included unless there were no proposed adjustments. Omit the phrase, “including adjusting journal entries to convert our cash basis records to the accrual basis,” if not applicable. [↑](#endnote-ref-20)
20. List other appropriate representations related to the financial statements. See also the second to last endnote for examples from AU-C 580, Exhibit B. [↑](#endnote-ref-21)
21. Management's representations may be limited to matters that are considered either individually or collectively material to the financial statements, provided management and the auditor have reached an understanding on materiality for this purpose. (AU-C 580.A22) [↑](#endnote-ref-22)
22. The wording of this representation may need to change, when necessary, to say “Except as disclosed to you, . . .” [↑](#endnote-ref-23)
23. The wording of this representation may need to change, when necessary, to say “Except as disclosed to you, . . .”

    The item could be modified as follows: “Except for the allegation discussed in the minutes of the November 16, 20X1 meeting of the board of directors (or disclosed to you at our meeting on November 16, 20X1), we have no knowledge of any allegations of fraud, or suspected fraud affecting, the entity’s financial statements received in communications from employees, former employees, grantors, regulators, or others..” [↑](#endnote-ref-24)
24. AU 580.A15 identifies circumstances in which it may be appropriate to obtain written representations about related parties from those charged with governance in addition to management include the following:

    * When they have approved specific related party transactions that (a) materially affect the financial statements or (b ) involve management
    * When they have made specific oral representations to the auditor on details of certain related party transactions
    * When they have financial or other interests in the related parties or the related party transactions

    In addition, AU 580.A16 states the auditor also may decide to obtain written representations regarding specific assertions that management may have made, such as a representation that specific related party transactions do not involve undisclosed side agreements. [↑](#endnote-ref-25)
25. Ethics Interpretation 101-3, Performance of Nonattest Services, requires the client to assume all management responsibilities in connection with nonattest services. If applicable, consider including this representation. Modify as appropriate. Omit if not applicable. [↑](#endnote-ref-26)
26. Representation letters should be tailored to include appropriate representations from management relating to matters specific to the entity’s business or industry. The following is a list of additional representations that may be appropriate in certain situations. The list is not intended to be all-inclusive. Consider the effects of recent authoritative pronouncements, AICPA audit and accounting guides, and other resources when considering representations to include. To add a representation from the list, copy and paste it into the letter, change the style to CLA Letter Normal, and add the bullet using Word functionality. (Shaded examples are from AU-C 580, Exhibit B.)

    GENERAL

    * Condition: Unaudited interim information accompanies the financial statements.

    The unaudited interim financial information accompanying [presented in Note X to] the financial statements for the [identify all related periods] has been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information. The accounting principles used to prepare the unaudited interim financial information are consistent with those used to prepare the audited financial statements.

    * Condition: The effect of a new accounting principle is not known.

    We have not completed the process of evaluating the effect that will result from adopting the guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update 20YY-XX, as discussed in Note [X]. The entity is therefore unable to disclose the effect that adopting the guidance in FASB Accounting Standards Update 20YY-XX will have on its financial position and the results of operations when such guidance is adopted.

    * Condition: There is justification for a change in accounting principle.

    We believe that [describe the newly adopted accounting principle] is preferable to [describe the former accounting principle] because [describe management’s justification for the change in accounting principle].

    * Condition: Financial circumstances are strained, with disclosure of management’s intentions and the entity’s ability to continue as a going concern.

    Note [X] to the financial statements discloses all matters of which we are aware that are relevant to the entity’s ability to continue as a going concern, including significant conditions and events, and management’s plans.

    * Condition: The possibility exists that the value of specific significant long-lived assets or certain identifiable intangibles may be impaired.

    We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

    * Condition: The entity has a variable interest in another entity.

    Variable interest entities (VIEs) and potential VIEs and transactions with VIEs and potential VIEs have been properly recorded and disclosed in the financial statements in accordance with generally accepted accounting principles.

    We have considered both implicit and explicit variable interests in (a) determining whether potential VIEs should be considered VIEs, (b) calculating expected losses and residual returns, and (c) determining which party, if any, is the primary beneficiary.

    We have provided you with lists of all identified variable interests in (i) VIEs, (ii) potential VIEs that we considered but judged not to be VIEs, and (iii) entities that were afforded the scope exceptions of Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (ASC) 810, Consolidation.

    We have advised you of all transactions with identified VIEs, potential VIEs, or entities afforded the scope exceptions of [FASB ASC 810](https://checkpoint.riag.com/app/main/tocFrameTocParms?usid=16a553ffab9&baseTid=T0GAAPCD08%3A1428.1&feature=ttoc&lastCpReqId=401436) . We have made available all relevant information about financial interests and contractual arrangements with related parties, de facto agents and other entities, including but not limited to, their governing documents, equity and debt instruments, contracts, leases, guarantee arrangements, and other financial contracts and arrangements.

    The information we provided about financial interests and contractual arrangements with related parties, de facto agents and other entities includes information about all transactions, unwritten understandings, agreement modifications, and written and oral side agreements. Our computations of expected losses and expected residual returns of entities that are VIEs and potential VIEs are based on the best information available and include all reasonably possible outcomes.

    Regarding entities in which the entity has variable interests (implicit and explicit), we have provided all information about events and changes in circumstances that could potentially cause reconsideration about whether the entities are VIEs or whether the entity is the primary beneficiary or has a significant variable interest in the entity. We have made and continue to make exhaustive efforts to obtain information about entities in which the entity has an implicit or explicit interest but that were excluded from complete analysis under [FASB ASC 810](https://checkpoint.riag.com/app/main/tocFrameTocParms?usid=16a553ffab9&baseTid=T0GAAPCD08%3A1428.1&feature=ttoc&lastCpReqId=401436) due to lack of essential information to determine one or more of the following: whether the entity is a VIE, whether the entity is the primary beneficiary, or the accounting required to consolidate the entity.

    * Condition: The work of a specialist has been used by the entity.

    We agree with the findings of specialists in evaluating the [describe assertion] and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

    * Condition: The audit was performed in accordance with generally accepted auditing standards, and we prepared supporting schedules. (For example, prepaid expense computations, estimates of liabilities for self-insurance reserves, and other accrued liabilities.)

    We are responsible for our [describe the schedule] and have made the decisions that affect the computation on that schedule as follows:

    [Describe the decisions that were made by management; this will need to be tailored specifically for each schedule. ]

    * Condition: The financial statements include a consolidated variable interest entity.

    All assets of consolidated variable interest entities that may only be used to settle the consolidated variable interest entities’ obligations, and all liabilities of consolidated variable interest entities for which creditors or beneficial interest holders have no recourse to the primary beneficiary’s general credit, have been separately presented on the face of the consolidated balance sheet.

    ASSETS

    Cash

    * Condition: Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.

    Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

    Financial Instruments

    * Condition: Management intends to and has the ability to hold to maturity debt securities classified as held-to-maturity.

    Debt securities that have been classified as held-to-maturity have been so classified due to the entity's intent to hold such securities to maturity and the entity's ability to do so. All other debt securities have been classified as available-for-sale or trading.

    * Condition: Management considers the decline in value of debt or equity securities to be temporary.

    We consider the decline in value of debt or equity securities classified as either available-for-sale or held-to-maturity to be temporary.

    * Condition: Management has determined the fair value of financial instruments that do not have readily determinable market values.

    The methods and significant assumptions used to determine fair values of financial instruments are as follows: [describe methods and significant assumptions used to determine fair values of financial instruments]. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

    * Condition: Financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk exist.

    The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

    * + The extent, nature, and terms of financial instruments with off-balance-sheet risk.
      + The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
      + Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

    Investments

    * Condition: Unusual considerations are involved in determining the application of equity method accounting.

    [For investments in common stock that are either nonmarketable or of which the entity has a 20 percent or greater ownership interest, select the appropriate representation from the following:]

    The equity method is used to account for the entity’s investment in the common stock of [investee] because the entity has the ability to exercise significant influence over the investee’s operating and financial policies.

    OR

    The cost method is used to account for the entity’s investment in the common stock of [investee] because the entity does not have the ability to exercise significant influence over the investee’s operating and financial policies.

    * Condition: Debt securities are properly classified as held-to-maturity or available-for-sale.

    Debt securities that have been classified as held-to-maturity have been so classified due to the entity’s intent and ability to hold such securities to maturity. All other debt securities have been classified as available-for-sale or trading.

    * Condition: Unrealized losses on available-for-sale or held-to-maturity securities have not been recognized in earnings because they are deemed temporary.

    We consider the decline in value of [debt and] equity securities with unrealized losses which are classified as [available-for-sale and] held-to-maturity to be temporary. The financial statements include adequate disclosure of the nature of the investments, the causes of the impairments, the severity and duration of the impairments, and evidence we considered in reaching a conclusion that the investments are not other-than-temporarily impaired.

    * Condition: The entity had loans to executive officers, nonaccrued loans, or zero interest rate loans.

    Loans to executive officers have been properly accounted for and disclosed.

    Deferred Charges

    * Condition: Material expenditures have been deferred.

    We believe that all material expenditures that have been deferred to future periods will be recoverable.

    LIABILITIES

    Debt

    * Condition: Short-term debt could be refinanced on a long-term basis and management intends to do so.

    The entity has excluded short-term obligations totaling $[amount] from current liabilities because it intends to refinance the obligations on a long-term basis. [Complete with appropriate wording detailing how amounts will be refinanced, as follows:]

    The entity has issued a long-term obligation [debt security] after the date of the balance sheet but prior to issuance of the financial statements for the purpose of refinancing the short-term obligations on a long-term basis.

    The entity has the ability to consummate the refinancing, by using the financing agreement referred to in Note [X] to the financial statements.

    * Condition: Tax-exempt bonds have been issued.

    Tax-exempt bonds issued have retained their tax-exempt status.

    Taxes

    * Condition: Management intends to reinvest undistributed earnings of a foreign subsidiary.

    We intend to reinvest the undistributed earnings of [name of foreign subsidiary].

    Contingencies

    * Condition: Estimates and disclosures have been made for environmental remediation liabilities and related loss contingencies.

    Provision has been made for any material loss that is probable from environmental remediation liabilities associated with [name of site]. We believe this estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the entity’s financial statements.

    Pension and Postretirement Benefits

    * Condition: An actuary has been used to measure pension liabilities and costs.

    We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

    * Condition: Involvement with a multiemployer plan exists.

    We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.

    OR

    We have determined that there is the possibility of a withdrawal liability in a multiemployer plan in the amount of $[XX].

    * Condition: Postretirement benefits have been eliminated.

    We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits.

    OR

    We plan to compensate for the elimination of postretirement benefits by granting an increase in pension benefits in the amount of $[XX].

    * Condition: Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.

    Current employee layoffs are intended to be temporary.

    * Condition: Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or has expressed a substantive commitment to increase benefit obligations.

    We plan to continue to make frequent amendments to our pension or other postretirement benefit plans, which may affect the amortization period of prior service cost.

    OR

    We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

    EQUITY

    * Condition: Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements exist.

    Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements have been properly disclosed. [↑](#endnote-ref-27)
27. The representation letter should be signed by members of management that have overall responsibility for financial and operating matters and knowledge of the matters covered by the representations. This normally includes the executive director and chief financial officer or other equivalent persons for entities that do not use such titles. (AU-C 580.A2)

    For small nonprofit organizations, the representation letter is generally signed by the current executive director. If the small nonprofit organization has a controller or chief financial officer, the auditor might consider having that person sign the letter also. Also, it is not unusual to obtain separate representations from board members on certain matters such as related party transactions. [↑](#endnote-ref-28)