



National Association of State Boards of Accountancy

□ 150 Fourth Avenue, North □ Suite 700 □ Nashville, TN 37219-2417 □ Tel 615.880-4201 □ Fax 615.880.4291 □ www.nasba.org □

March 17, 2017

Agreed-Upon Procedures Working Group
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Via www.iaasb.org

Re: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards

We are pleased to respond to the request for input from the IAASB's Agreed-Upon Procedures Working Group (the Working Group) on its document on *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* (the Paper). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the IAASB's publication are made in consideration of the State Boards' charge as state regulators to promote the public interest.

OVERALL COMMENTS

We appreciate the IAASB's efforts to inform stakeholders about the Working Group's ongoing efforts to explore current demands for Agreed-Upon Procedures (AUP) engagements. There is an increasing demand for engagements that combine reasonable assurance engagements, limited assurance engagements and, non-assurance engagements, such as AUP engagements, to meet emerging needs. The role of the IAASB in considering potential changes regarding AUP is essential to protecting the public interest.

Request for Stakeholder Input

The Role of Professional Judgment and Professional Skepticism in an AUP Engagement

Q1. Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or

conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?

Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

The role of professional judgment for a professional accountant engaged in public practice is critical to an AUP engagement. It is a responsibility of the practitioner to perform such an engagement with professional competence and due care, and the exercise of professional judgment is an important part of this responsibility. Professional judgment may be required, for example, when assessing whether the design and purpose of the AUP engagement are appropriate for the intended users in particular circumstances, and whether certain optional items should be included in the report. Furthermore, procedures in an AUP engagement should be substantive, meaningful and within the expertise of the practitioner. Procedures to be performed should result in reasonably consistent findings, and the specific subject matter to which the procedures are to be applied should be subject to reasonably consistent measurement. To achieve this, the practitioner should exercise professional judgment. Therefore, we believe that a requirement to apply professional judgment where appropriate should be included in the standard. However, we do agree with the Working Group's statement that the result of performing an AUP engagement should be based on verifiable factual findings and not subjective opinions or conclusions.

The US AICPA Standard on Agreed-Upon Procedures Engagements, AT Section 201.16 of Codification of Statements on Standards for Attestation Engagements provides that a practitioner should not agree to perform procedures that are "overly subjective and thus possibly open to varying interpretations".

We do not anticipate any unintended consequences of including requirements relating to professional judgment in ISRS 4400; however, the standard should avoid using terms that imply subjectivity in describing the procedures and forming conclusions (i.e., avoid the use of subjective words such as "reasonable", "material", etc., as discussed later in the Paper).

The Independence of the Professional Accountant

Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

The Working Group has concluded tentatively that independence is not required for an AUP engagement. The Paper notes that the International Ethics Standards Board of Accountants (IESBA) does not require a practitioner to be independent to perform a non-assurance engagement such as the AUP engagement. The IESBA Code of Ethics for Professional Accountants requires practitioners to be objective, but not independent, and not to compromise their professional judgment because of bias, conflicts of interest or undue influence. The Paper posits that independence goes beyond objectivity and comprises both independence of mind and in appearance. Independence of mind is defined in the Paper as: "the state of mind that permits the expression of a conclusion without being affected by influences that compromise

professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism." Independence in appearance is defined as "the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised."

As outlined in the AICPA Standard on Agreed-Upon Procedures Engagements, AT Section 201 and the Uniform Accountancy Act in the United States, the AUP engagement in the United States is considered an attest engagement. Thus, in our view the practitioner should be independent. AUP report users may include external parties such as banks, creditors, regulators and others that may require, expect and/or assume the practitioner to be independent. As noted in the paper (par. 4), investors or other providers of capital often request an entity to have an AUP engagement performed in lieu of an audit. The practitioner's independence is a significant differentiator that enhances the value of AUP services to users via greater credibility and reliability in the practitioner's findings.

In the interest of transparency, should the IAASB decide independence is not required for the AUP engagement, the practitioner's report should indicate the lack of independence and cite the ethical requirements that the practitioner was required to meet in lieu of independence.

Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

Q4. What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

We agree that the standard should prohibit unclear or misleading terminology, and provide related information when needed.

In cases where such language is "required by law or regulation," the Working Group may require the practitioner to consider discussing with the engaging party and the user (the party that requires the use of such unclear or misleading terminology) whether it is possible to define the required terms with reference to the required procedures in the AUP report so that they are no longer unclear or misleading.

Alternatively, an assurance engagement (instead of an AUP engagement) may be requested. We agree with the position of the Working Group. These discussions can also be documented and agreed to in the engagement letter.

AUP Engagements on Non-Financial Information

Q5. What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

Q6. Are there any other matters that should be considered if the scope is clarified to include nonfinancial information?

We agree that procedures relating to non-financial information and pre-conditions relating to the competence of a practitioner to undertake an AUP engagement should be included in the scope of the engagement. The practitioner should be satisfied that the procedures to be performed are substantive, meaningful, and within the expertise of the practitioner. The pre-conditions relating to competence to undertake an AUP engagement on non-financial information could include, for example, use of an expert to assist the practitioner in performing the AUP engagement.

Using the Work of an Expert

Q7. Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

We acknowledge that ISA 620 includes requirements for the use of an expert and believe that these requirements should be tailored further in the context of AUP and incorporated in ISRS 4400.

We believe ISRS 4400 should include the following requirements with respect to the use of experts:

- The professional accountant shall evaluate whether the professional accountant's expert has the necessary competence, capabilities and objectivity for the accountant's purposes.
- The professional accountant shall obtain a sufficient understanding of the field of expertise of the professional accountant's expert to enable the professional accountant to determine the nature, scope and objectives of that expert's work, and to evaluate the adequacy of that work for the professional accountant's purposes.

We also believe that ISRS 4400 should determine if there are different considerations when a professional accountant utilizes an internal or external expert.

Application guidance should indicate the extent to which a professional accountant may utilize an expert in performing all or most of an AUP engagement.

Format of the AUP Report

Q8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?

We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well.

If the IAASB decides that independence is required, we would suggest that the title of the report include a reference to the professional accountant's independence.

More illustrative guidance and additional examples of the AUP reports could be provided in the standard. Examples of such reports are attached in Appendix A and Appendix B.

AUP Report Restrictions – To Whom the AUP Report Should be Restricted

Q9. Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?

We agree that the intended parties do not need to sign the engagement letter as long as each party has a clear understanding of the AUP and the conditions of the engagement. If an intended party does not sign the engagement letter, and if there is not a reference to a contractual procedure or regulation within the body of the AUP report, the AUP working papers should clearly document how the practitioner knows that the intended party is aware of the extent of the procedures performed. (e.g. a published guideline of expected procedures by a regulatory or oversight body exists).

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

The Paper states that ISRS 4400 requires that the practitioner's report include a statement that the AUP report is restricted to "those parties that have agreed to the procedures to be performed." The Working Group provided three approaches to address the needs of those agreeing to the procedures while mitigating the risks of misinterpretation of the AUP report by others.

We prefer the third approach listed in the Paper as it is not practical for a practitioner to control the distribution of the report. The intended use of the AUP report should be restricted to the parties that have a clear understanding of the AUP procedures and the conditions of the engagement to mitigate the risk of unintended reliance on the adequacy of the procedures performed by the practitioner.

This situation could also occur in practice when an engaging party requests that a practitioner perform specific procedures that the engaging party believes will be acceptable to a specific user but there is no communication with the user. The user may not accept the report as meeting its needs, however, this would ultimately be a matter for discussion between the engaging party and the practitioner. Accordingly, we believe the AUP report can be restricted to use of a specific party without communication with that party provided a legitimate purpose for requesting the AUP report exists.

Q11. Are there any other approaches that the Working Group should consider?

The standard should contain a condition that a practitioner would not accept, or would withdraw from the engagement, if he/she becomes aware that the client intends to encourage or facilitate the use of the AUP report by parties other than the intended parties.

Additionally the standard should contain guidance for the professional accountant to consider if he/she believes the intent of the AUP engagement is to mislead or confuse the intended party about the results of the AUP.

Recommendations Made in Conjunction with AUP Engagements

Q12. Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

Making recommendations similar to a management comment letter could cause confusion as to the scope of work or level of assurance being provided. Recommendations may also contain judgmental or subjective language. We recommend that such recommendations be excluded from an AUP report. However, excluding such recommendations from the AUP report should not limit the ability of the practitioner to provide a separate management letter to the client.

Other Issues relating to ISRS 4400

Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

We are not aware of other areas ISRS 4400 that need to be improved.

Multi-Scope Engagements

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

We believe that one cannot make an AUP engagement a hybrid without jeopardizing some of its foundational conditions. Reports based on different types of professional standards would likely mislead the user as to the level of service provided on the subject matter of the report and such confusion would not be in the public interest. Therefore, if a request is made to perform a multi-scope engagement such work should be covered as separate engagements.

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

We believe that addressing the issues within AUP engagements should take priority over guidance on multi-scope engagements. Such guidance, when provided, could be limited to reinforcing the point that each component needs to comply with the standards applicable to it.

We appreciate the working relationship shared by the IAASB, NASBA and State Boards of Accountancy and look forward to our continued efforts to improve audit quality. Thank you for the opportunity to provide our perspectives on *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*. Our comments are intended to assist the IAASB in analyzing the relevant issues and potential impacts. Please let us know if we can be of any further assistance to this project. We encourage the IAASB to engage in active and transparent dialogue with commenters as proposed changes are considered.

Very truly yours,



Telford A. Lodden, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO

APPENDIX 1



ABC University

Intercollegiate Athletics Department

Agreed-Upon Procedures

Year Ended May 31, 20X6



Mr. Jones, President
ABC University

INDEPENDENT ACCOUNTANT'S REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES

Mr. Jones, President
ABC University

We have performed the procedures enumerated below, which were agreed to by the President of ABC University (the University), solely to assist you in evaluating whether the accompanying Statement of Revenues and Expenses (the Statement) of the University is in compliance with National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1 for the year ended May 31, 20X6. The University's management is responsible for the Statement and the Statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Statement of Revenues and Expenses

The procedures that we performed and our findings are as follows:

- a. We obtained the Statement for the year ended May 31, 20X6 as prepared by management. We recalculated amounts on the Statement, traced the amounts in the Statement to management's worksheets, and agreed the amounts on management's worksheets to the University's general ledger. We noted the scholarships and other expenses reported in the Statement were higher than the general ledger by \$X,XXX. We did not note any other exceptions.
- b. We compared and agreed each revenue category reported in the Statement during the reporting period to supporting schedules provided by the University.
- c. We compared and agreed a selection of five operating revenue receipts obtained from the above operating revenue categories and supporting schedules to supporting documentation provided by the University.
- d. We compared each major revenue account over XX% of the total revenues in the accompanying supporting schedules to corresponding amounts for the year ended May 31, 20X5 and obtained explanations from management for variances in excess of \$X,XXX. We were unable to compare revenues associated with the Athletics Department to budget as we were informed athletic revenues are not budgeted.

We noted the following variances from the prior year in excess of \$X,XXX, along with explanations provided by management:

<u>Category</u>	May 31, 20X6 <u>Actual</u>	May 31, 20X5 <u>Actual</u>	<u>Explanation</u>
Sports camps	\$ XXX,XXX	\$ XXX,XXX	The increase in revenue is due to higher enrollment in the men's soccer and baseball camps, as well as an increase in the number of soccer camps.
Restricted gifts	XXX,XXX	XXX,XXX	The increase in revenue is due to the University increasing its fundraising activities from prior year.
Restricted – Booster Clubs, including ticket sales	XXX,XXX	XXX,XXX	The decrease in revenue is due to the University setting up online vendor accounts rather than collecting cash from athletes to purchase apparel. In the prior year, the cash collected from athletes was recorded as miscellaneous income and the apparel purchases were recorded as supplies. In the current year, athletes are responsible for purchases, resulting in a decrease in miscellaneous income.

- e. We compared and agreed each expense category reported in the Statement during the reporting period to supporting schedules provided by the University.
- f. We compared and agreed a selection of five expense invoices obtained from the above operating expense categories and supporting schedules to supporting documentation provided by the University.
- g. We compared each major expense account over XX% of the total expenses in the accompanying supporting schedules to corresponding amounts for the year ended May 31, 20X5 and budget estimates, and obtained explanations from management for variances in excess of \$X,XXX. We were unable to compare all expenses included on the Statement to budget, as we were informed the University does not budget all athletic expenses.

During the year ended May 31, 20X6, we were informed the Statement included expenses of \$X,XXX,XXX that were budgeted and \$X,XXX,XXX of expenses that were not budgeted.

Mr. Jones, President
ABC University

For the expenses that we were informed were budgeted for the year ended May 31, 20X6, we noted the following variances in excess of \$X,XXX from the amount budgeted and/or the prior year:

<u>Category</u>	May 31, 20X6 <u>Actual</u>	20X6 <u>Budget</u>	May 31, 20X5 <u>Actual</u>	<u>Explanation</u>
Coaches' salaries \$	XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	The overall increase in salaries is due to annual raises and bonuses, as well as vacant positions in 20X5 filled during 20X6. The budget variance relates to vacant positions at the time of budgeting that were filled unexpectedly during the reporting period.
Travel**	XXX,XXX	XXX,XXX	XXX,XXX	The fluctuation from prior year is due to an increase in travel costs for charter buses and an increased number of away games during the season. In addition, the University's baseball team qualified for the NCAA national tournament during 20X6 and did not qualify in the prior year. The University does not budget for all travel due to the uncertainty of location of tournaments or change in game locations.
Financial aid	XXX,XXX	XXX,XXX	XXX,XXX	The increase in scholarships relates to the full use of aid allocated to the Athletics Department. In the prior year, the amount allocated to athletics for scholarships was significantly less. Additionally, the University experienced an increase in the room and board allowance due to an increase in the number of days incurred for men's hockey. The University does not budget for undergraduate scholarships which represented \$X,XXX,XXX of total financial aid.

**Amount represents the unrestricted portion of the expenditure category that was budgeted by the University.

- h. We performed the following procedures for each category of revenue, listed below, that the University's accounting records indicate it received during the year ended May 31, 20X6, if applicable, as reported in the supporting schedules:

1. Ticket Sales

- i. We were unable to obtain a schedule of tickets sold or a schedule of unsold tickets during the reporting period and, accordingly, we could not agree the related revenue reported by the University in the Statement and the related attendance figures.
- ii. We were unable to recalculate totals based on the aforementioned exception.

2. Student Fees

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

3. Guarantees

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

4. Contributions

- i. We compared the balance in each major revenue account per the general ledger to prior period amounts. We obtained and documented an understanding of any variations in excess of \$X,XXX (see "d" above). We were informed the University does not budget revenue for the Athletics Department. As a result, we were unable to compare each major revenue account to budget estimates.
- ii. We noted no contributions that constituted XX% or more of all contributions received for intercollegiate athletics during the reporting period, as recorded in the general ledger.

5. Compensation and Benefits Provided by a Third-Party

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

6. Direct State or Other Governmental Support

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

7. Direct Institutional Support

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

8. Indirect Facilities and Administrative Support

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

9. NCAA/Conference Distributions Including All Tournament Revenues

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

10. Broadcast, Television, Radio and Internet Rights

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

11. Program Sales, Concessions, Novelty Sales and Parking

- i. We were unable to obtain a schedule of program sales, concessions, novelty sales and parking; thus, we were unable to recalculate totals.

12. Royalties, Licensing, Advertisements and Sponsorships

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

13. Sports Camp Revenues

- i. We obtained sports camp contract(s) between the University and person(s) conducting institutional sports camps or clinics during the reporting period, as provided by management, to obtain an understanding of the University's methodology for recording revenues from sports camps.
- ii. We were unable to obtain complete schedules of camp participants from management; the missing schedules were primarily those related to baseball camps. Due to the lack of support, a complete population of camp participants could not be obtained for testing.
- iii. We selected a sample of five individual camp participant cash receipts from the schedule of sports camp participants provided by the University and compared each selection to the University's general ledger and/or the Statement.
- iv. We were unable to recalculate totals in the schedules due to the exception noted in 13.ii.

14. Endowment and Investment Income (Loss)

- i. We obtained from management endowment agreements for all endowment income in the Statement to gain an understanding of the terms and conditions.
- ii. We compared and agreed the classification of use of endowment income (loss) reported in the Statement during the reporting period to the uses of income defined within the related endowment agreement in the Statement. During our testing, we noted that investment income (loss) attributable to scholarship funds designated for the intercollegiate athletic department was not included in the Statement originally provided by management. Management revised the Statement to include the \$X,XXX of related losses.

- iii. We recalculated totals.

15. Other Revenue Sources

- i. We recalculated totals.
- ii. We performed the following procedures for each category of expense, listed below, that the University's accounting records indicated it incurred during the year ended May 31, 20X6, if applicable, as reported in the schedules:

1. General

- i. We compared each major expenses account over XX% of the total expenses to prior period amounts and budget estimates, if applicable.
- ii. We obtained and documented an understanding of any variances in excess of \$X,XXX (see "g" above).
- iii. We recalculated totals.

2. Athletic Student Aid

- i. We selected a haphazard sample of XX students from the listing of institutional student aid recipients during the reporting period provided by management.
- ii. We obtained individual student-account detail for each selection from management and compared and agreed total aid allocated from the related aid award letter to the student's account.
- iii. We recalculated totals.

3. Guarantees

- i. We were informed the University did not enter into any guaranteed contest agreements during the reporting period and, therefore, had no away-game settlement reports. The University did provide us with a list of away games during the reporting period in which we selected five travel expenses reports to test to supporting documentation.
- ii. We were informed the University did not enter into any guaranteed contest agreements during the reporting period and, therefore, no such agreements were obtained to agree the contractual agreement to expenses recorded by the University.
- iii. We compared and agreed related amounts expensed, identified in 3.i. above, by the University to the University's general ledger and/or the Statement.
- iv. We recalculated totals.

4. Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities

- i. We obtained from management a listing of coaches employed by the University and related entities during the reporting period.
- ii. We selected a haphazard sample of five coaches' contracts that included a men's and women's basketball coach from the above listing. A football coach's contract was not selected, as we were informed the University does not have a football team.
- iii. We compared and agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University and related entities in the Statement during the reporting period.

- iv. We obtained from management W-2's for each selection.
- v. We compared the W-2's for each selection to the related coaching salaries, benefits and bonuses paid by the University and related entities expense recorded by the University in the Statement during the reporting period. During our testing, we noted that the W-2's issued to the selected coaches were based on a calendar year as compared to the Statement's reporting period for the year ended May 31, 20X6. In order to reconcile the W-2's to the coaches' salaries listed on the Statement, we recalculated the expected salary for the selected coaches based on the W-2 by incorporating changes in pay rates or benefit withholdings as provided by management. All amounts agreed without exception.
- vi. We recalculated totals.

5. Coaching Other Compensation and Benefits Paid by a Third-Party

Not applicable; supporting schedules indicated no associated expenses during the reporting period.

6. Support Staff/Administrative Salaries, Benefits and Bonuses Paid by the University and Related Entities

- i. We selected a haphazard sample of five support staff/administrative personnel employed by the University and related entities during the reporting period from a list of such personnel provided by management.
- ii. We obtained from management W-2's for each selection.
- iii. We compared the W-2's for each selection to the related support staff/administrative salaries, benefits and bonuses paid by the University and related entities expense recorded by the University in the Statement during the reporting period. During our testing, we noted that the W-2's issued to the selected support staff/administrative personnel were based on a calendar year as compared to the Statement's reporting period for the year ended May 31, 20X6. In order to reconcile the W-2's to the support staff/administrative personnel's salaries listed on the Statement, we recalculated the expected salary for the selected support staff/administrative personnel based on the W-2 by incorporating changes in pay rates or benefit withholdings as provided by management.
- iv. We recalculated totals.

7. Support Staff/Administrative Other Compensation and Benefits Paid by a Third-Party

Not applicable; supporting schedules indicated no associated expenses during the reporting period.

8. Severance Payments

Not applicable; supporting schedules indicated no associated revenues during the reporting period.

9. Recruiting

- i. We obtained from management an understanding of the University's recruiting expense policies.
- ii. We compared the University's policies to NCAA Division II manual, Article 13 and we noted that the University's recruiting policies are not as specific as the NCAA Division II manual, Article 13 in regards to official and nonofficial visits of prospective student-athletes.

10. Team Travel

- i. We obtained from management an understanding of the University's team travel policies.
- ii. We compared the University's policies and agreed to NCAA Division II manual, Article 13. We did not note any exceptions.

11. Equipment, Uniforms and Supplies

- i. We recalculated totals.

12. Game Expenses

- i. We recalculated totals.

13. Fundraising, Marketing and Promotion

Not applicable; supporting schedules indicated no associated expenses during the reporting period.

14. Sports Camp Expenses

- i. We recalculated totals.

15. Direct Facilities, Maintenance and Rental

- i. We recalculated totals.

16. Spirit Groups

Not applicable; supporting schedules indicated no associated expenses during the reporting period.

17. Indirect Facilities and Administrative Support

Not applicable; supporting schedules indicated no associated expenses during the reporting period.

Mr. Jones, President
ABC University

18. Medical Expenses and Medical Insurance

Not applicable; supporting schedules indicated no associated expenses during the reporting period.

19. Membership and Dues

- i. We recalculated totals.

20. Other Operating Expenses

- i. We recalculated totals.
- j. We obtained from management the organization chart of the Athletics Department and confirmed the information with the Athletics Director.
- k. We determined that the accounting systems and procedures are documented.
- l. We discussed these procedures with management and noted their awareness of such procedures.
- m. We did not obtain the University's procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Program as management indicated there were no associated expenses during the reporting period. Therefore, we did not perform a walk-through of one transaction for the procedures obtained.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying Statement of Revenues and Expenses of ABC University with NCAA Bylaw 6.2.3.1, or on the University's internal control over financial reporting or compliance with laws and regulations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the NCAA, the President of the University and management of the University, and is not intended to be, and should not be, used by anyone other than these specified parties.

Anytown, Anystate
December 21, 20X6

Total expenses	Deficiency of revenues	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>	<u>XXX,XXX</u>
over expenses		<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>	<u><u>\$ (XXX,XXX)</u></u>

ABC UNIVERSITY
INTERCOLLEGIATE ATHLETICS DEPARTMENT

Note To Statement Of Revenues And Expenses

Year Ended May 31, 20X6

Intercollegiate Athletics Capital Expenditures

The University has a formal written capitalization and depreciation policy. The University capitalizes all purchases or donations of land, all building additions and improvements, and land improvements equal to or greater than \$XX,XXX, and individual equipment with a cost greater than or equal to \$X,XXX with a useful life of more than one year. Capital expenditures are depreciated over their estimated useful lives using the straight-line method. Capital expenditures less than \$X,XXX or with a useful life of less than one year are expensed as incurred. The following useful lives are used for depreciation purposes:

	<u>Years</u>
Computers	3 - 5
Furniture	7
Astroturf	10
Athletic Fields	20
Buildings	40

APPENDIX 2

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Boards of Directors
ABC University and ABC Services

We have performed the procedures enumerated below, which were agreed to by ABC University (University) and ABC Services (ABC) solely to assist you in evaluating University's compliance during the origination period of June 1, 20X5 through June 15, 20X6, with requirements related to Eligible Loans as defined in an Indenture of Trust, or the Series 2015A Supplemental Indenture of Trust, each dated June 1, 20X5. University's management is responsible for compliance with these requirements and establishing and maintaining effective internal control over compliance. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

We selected a sample of XX loan applications approved and funded by the Series 2015A Bonds, using monetary unit sampling, from a listing provided by University management showing the details of loans from the origination period ended June 15, 20X6 (loan listing). For each loan selected, we performed the following procedures:

- a. We obtained from University management a copy of the application package submitted by the student.
 - i. We determined whether the borrower's selected repayment terms as documented in the application package, and the applicable percentage rate, matched the loan listing. We were advised borrowers may qualify for the following interest rates: X.XX% per annum if the student borrower chooses to begin immediate repayment, X.XX% per annum if the student borrower chooses to determine the principal while the student borrower is in school and X.XX% per annum if the student borrower chooses to defer principal and interest while the student borrower is in school.
 - No exceptions were noted
 - ii. We determined whether information in the application package indicated that all loans have a co-signer and that the co-signer had a FICO score of at least XXX and no active bankruptcy.
 - No exceptions were noted
 - iii. We determined whether information in the application package indicated that the student borrower is a State resident or attending a State educational institution and has certified he or she has no defaulted student loans with University.
 - No exceptions were noted

- iv. We determined whether information in the application package indicates that the origination fees were charged by University as follows: X% for FICO scores equal to or greater than XXX, X% for FICO scores equal to or greater than XXX, but less than XXX, and X% for FICO scores less than XXX but at least equal to or more than XXX.
 - No exceptions were noted

- v. We determined whether information in the application package indicated that the repayment terms of the loans and the required aggregate principal balances comply with the following requirements: initial principal balances of \$XX,XXX or more requiring repayment in level monthly installments over a maximum of XX years and loans with initial principal balances of less than \$XX,XXX amortizing in such manner over a maximum of XX years; subject to extension by forbearance.
 - No exceptions were noted

- vi. We determined whether information in the application package indicated that University required the educational institution to certify both that the student borrower was currently enrolled and that the loan amount, before fees, did not exceed cost of attendance less other financial aid.
 - No exceptions were noted

- vii. We determined whether documentation provided by University indicated that selected loans were made to student borrowers attending educational institutions that were eligible to receive Title IV funds or institutions or programs authorized or approved by a U.S. public entity or state agency, or accredited by a U.S. accrediting agency recognized by the U.S. Department of Education or by a professional accrediting body.
 - No exceptions were noted

- b. We determined whether origination reports provided by management indicated that University originated no greater than:
 - i. \$XX,XXX,XXX of loans for which principal and interest was to be initially deferred by the underlying borrower.
 - No exceptions were noted

 - ii. \$X,XXX,XXX of loans for which principal and interest was to be initially deferred by the underlying borrower, and the borrower, upon origination, has more than three years before his or her anticipated separation date from the related educational institution.
 - No exceptions were noted

 - iii. \$X,XXX,XXX of loans to be borrowers attending a Proprietary School.
 - No exceptions were noted

iv. \$X,XXX,XXX of loans where payments of at least accrued interest are required during the initial in-school period.

- No exceptions were noted

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on University's compliance with requirements related to Eligible Loans as defined in the Indenture of Trust, or the Series 2015A Supplemental Indenture of Trust, each dated June 1, 20X5, or the internal control over such compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of ABC and the management, the Board of Directors and Audit Committee of University and is not intended to be and should not be used by anyone other than those specified parties.

Anytown, Anystate
September XX, 20X6