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Checklists and illustrative financial statements for corporations : a financial accounting and reporting practice aid, November 1995 edition

American Institute of Certified Public Accountants. Technical Information Division

Neil Selden

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AICPA

**NOVEMBER 1995
EDITION**

Checklists and Illustrative Financial Statements for Corporations

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements

- Checklist Supplement and Illustrative Financial Statements for Construction Contractors*
- Checklist Supplement and Illustrative Financial Statements for Investment Companies*
- Checklist Supplement and Illustrative Financial Statements for Oil and Gas Producing Companies*
- Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures*

Industry Checklists and Illustrative Financial Statements

- Checklists and Illustrative Financial Statements for Agricultural Cooperatives*
- Checklists and Illustrative Financial Statements for Banks and Savings Institutions*
- Checklists and Illustrative Financial Statements for Colleges and Universities*
- Checklists and Illustrative Financial Statements for Common Interest Realty Associations*
- Checklists and Illustrative Financial Statements for Credit Unions*
- Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans*
- Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans*
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- Checklists and Illustrative Financial Statements for Health Care Providers*
- Checklists and Illustrative Financial Statements for Life Insurance Companies*
- Checklists and Illustrative Financial Statements for Not-for-Profit Organizations*
- Checklist and Illustrative Financial Statements for Personal Financial Statement Engagements*
- Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies*
- Checklists and Illustrative Financial Statements for State and Local Governmental Units*

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Checklists and Illustrative Financial Statements for Corporations

NOV 28 1995

*A Financial Accounting and
Reporting Practice Aid*

*Edited by
Neil Selden, CPA
Technical Manager, Technical Information Division*

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements deemed remote are not provided in the document.
- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists have been updated through SAS No. 74, SSARS No. 7, FASB Statement of Financial Accounting Standards No. 122, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position 95-1, and EITF consensuses adopted up to and including the May 19, 1995 Emerging Issues Task Force meeting. The illustrative financial statements do not include disclosures for FASB Statement Nos. 112, 114-122. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

.02 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

Note: This publication was extracted from chapter 18 of the AICPA *Comprehensive Engagement Manual*.

Introduction

General Comments

.01 Illustrative financial statement formats are often helpful in developing a consistent style of presentation within a firm. However, the circumstances of engagements vary widely, and no set of illustrative financial statements can cover all situations likely to be encountered in practice, particularly when the client is engaged in a specialized industry. Accordingly, users should refer to the firm's own report files, illustrations in authoritative pronouncements, and other sources such as the AICPA Audit and Accounting Guides and *Accounting Trends and Techniques*, library collections of published financial reports, and the AICPA National Automated Accounting Research System (NAARS).

The Balance Sheet

.02 The companies surveyed in *Accounting Trends and Techniques*¹ generally use the title "balance sheet" for their statements of assets, liabilities, and stockholder's equity. Other titles used by those companies are "statement of financial position" and "statement of financial condition."

.03 There are two basic ways that balance sheets are arranged:

- a. Account Form—Assets are listed on the left-hand side and totaled to equal the sum of liabilities and stockholder's equity on the right-hand side.
- b. Report Form—Assets are listed at the top of the page followed by liabilities and stockholder's equity. Sometimes total liabilities are deducted from total assets to equal stockholder's equity.

Statement of Income

.04 The companies surveyed for *Accounting Trends and Techniques* generally use the term "income" in the title of their presentations of the results of operations. Other terms used by those companies are "earnings" and "operations."

.05 The income statement is usually presented in one of the following formats:

- a. Single-Step Format—The single-step format groups the components of net income into two categories: (1) revenues and gains and (2) expenses and losses. The difference between the two subtotals is net income or loss for the period.
- b. Multiple-Step Format—The multiple-step format shows various intermediate components of net income. Generally, operating results are presented separately from nonoperating results, e.g., costs and expenses are deducted from sales followed by nonoperating revenues, gains, expenses, and losses, and are grouped by type or function. Intermediate components of net income that are frequently presented in multiple-step statements are gross profit, income from operations, and other income and expenses.

¹*Accounting Trends and Techniques* (New York, AICPA) 1994, p. 143.

Statements of Retained Earnings or Stockholder's Equity

.06 Although separate statements of retained earnings and statements of stockholder's equity are common presentations for public companies, their use by nonpublic companies is much less frequent. The required disclosure can often be made without presenting separate statements. This is a direct consequence of the generally much simpler capital structure of nonpublic entities and the fact that their securities are not frequently transferred.

.07 In most cases the only change in stockholder's equity of a nonpublic company is the change in retained earnings resulting from net income (or loss). This change can, generally, be adequately disclosed by expansion of the statement of income or in the balance sheet.

.08 When nonpublic companies do experience changes in other components of stockholder's equity, e.g., issuance of stock, purchase of treasury stock, and stock splits, disclosure is generally made in the notes or in a separate statement of changes in stockholder's equity.

Statement of Cash Flows

.09 A statement of cash flows is required as a part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position as a result of the issuance of SFAS Statement 95. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.

.10 A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities. Entities can report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method).

.11 Entities that choose not to show operating cash receipts and payments are required to report the same amount of net cash flow from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). If the direct method is used, a reconciliation of net income and net cash flow from operating activities is required to be provided in a separate schedule.

Notes to Financial Statements

.12 Authoritative pronouncements mandate many types of disclosures but do not mandate the manner of presentation. Some disclosures are best presented in separate notes rather than in the basic financial statements. Descriptions of accounting policies and notes to financial statements are recognized in SAS No. 29 as components of the "basic financial statements" necessary for a fair presentation in accordance with generally accepted accounting principles. Thus, notes are an integral part of financial statements. They should be used to present material disclosures required by generally accepted accounting principles that are not otherwise presented in the statements, i.e., on the face of the statements.

Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position and Emerging Issues Task Force Consensuses. Some checklists also include references to FASB Interpretations and to selected SEC disclosure requirements. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used herein is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements," and "in note" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

FINANCIAL STATEMENTS AND NOTES CHECKLIST

.01 This checklist, as well as the "Auditors' Reports Checklist" and the "Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist" that appear later in this publication, include disclosures commonly encountered in the financial statements of a corporation and reporting issues likely to be encountered by accountants who audit, compile and review these types of financial statements. They do not include all disclosures required by GAAP or all reporting situations required by GAAS and SSARS. Further, the illustrative financial statements in this publication are intended to provide sample financial statement formats and disclosures for a hypothetical corporation; they are not intended to illustrate all disclosures required by GAAP, nor do they illustrate all of the disclosures covered in the checklist.

.02 Explanation of References:

- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- SAS = Statement on Auditing Standards
- FASBI = Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB
- AC = Reference to section number in *FASB Accounting Standards Current Text*
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1)
- SOP = AICPA Statement of Position
- FASCON = Statements of Financial Accounting Concepts
- TPA = AICPA Technical Practice Aid
- EITF = Emerging Issues Task Force Consensuses
- PB = AICPA Practice Bulletin
- AIN = AICPA Accounting Interpretation

.03 Checklist Questionnaire – This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the entity. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the entity did not enter into any business combinations during the year, place a check by General, Section E, "Business Combinations," and skip this section when completing the checklist.

Please note that if you are using the AICPA Audit Program Generator (APG), you can directly modify both the checklist and the audit program to include only the items from the index below that are applicable to your client.

- General

- A. Titles and References

B. Disclosure of Accounting Policies and Other Disclosures	_____
C. Accounting Changes	_____
D. Comparative Financial Statements	_____
E. Business Combinations	_____
F. Consolidated Financial Statements	_____
G. Related Party Transactions and Economic Dependency	_____
H. Financial Instruments	_____
I. Foreign Currency	_____
J. Nonmonetary Transactions	_____
K. Contingencies and Commitments	_____
L. Subsequent Events	_____
M. Pension Plans	_____
N. Postretirement Benefits Other Than Pensions	_____
O. Futures Contract	_____
P. Other Matters	_____
Q. Employee Stock Ownership Plans	_____
R. Derivative Financial Instruments	_____
S. Risks and Uncertainties	_____
T. Impairment of Assets	_____
● Balance Sheet	
A. General	_____
B. Cash	_____
C. Debt and Equity Securities	_____
D. Receivables	_____
E. Inventories	_____
F. Investments	_____
G. Property and Equipment	_____
H. Lessor Leases	_____
I. Other Assets and Deferred Charges	_____
J. Current Liabilities	_____
K. Notes Payable and Other Debt	_____
L. Lessee Leases	_____
M. Other Liabilities and Deferred Credits	_____
N. Shareholders' Equity	_____
O. Changes in Shareholders' Equity	_____
● Income Statement	
A. Revenue and Expenses	_____
B. Income Taxes	_____
C. Discontinued Operations	_____
D. Extraordinary Items	_____
E. Other	_____
● Statement of Cash Flows	
A. Format	_____
B. Content	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General			
A. Titles and References			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference that the notes are an integral part of the financial statement presentation? [Generally Accepted]	_____	_____	_____
B. Disclosure of Accounting Policies and Other Disclosures			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8-9 (AC A10.102)]	_____	_____	_____
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. If the entity prepares its financial statements on a comprehensive basis of accounting other than GAAP, is disclosure made of the basis of presentation and how that basis differs from GAAP? [SAS 62, par. 10 (AU 623.10)]	_____	_____	_____
C. Accounting Changes			
1. For an accounting change, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change including a clear explanation why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on income? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For all changes in accounting principles, except those concerning a change in entity:			
a. Are financial statements included for prior periods, for comparative purposes, as previously reported?	_____	_____	_____
b. Is the effect of the new accounting principle on income before extraordinary items and on net income and the related earnings per share amounts disclosed in the period of the change?	_____	_____	_____
c. Is income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19 and 21 (AC A06 .115d and .121)]	_____	_____	_____
3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions "extraordinary items" and "net income"?	_____	_____	_____
[APB 20, pars. 18-26 (AC A06.114-.122 and E09.104)]			
4. If prior periods are presented, are they restated for the following special changes in accounting principles:			
a. Change from LIFO method of inventory pricing to another method?	_____	_____	_____
b. Change in method of accounting for long-term construction-type contracts?	_____	_____	_____
c. Change to or from the full cost method of accounting in extractive industries? [APB 20, pars. 27-28 (AC A06.123-.124)]	_____	_____	_____
5. Is the correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income, and related per share amounts? [APB 20, par. 36 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. Comparative Financial Statements			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
E. Business Combinations			
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests do the statements and notes include the required disclosures? [APB 16, pars. 45-48 and 63-65 (AC B50.104.107 and .122-.124)]	_____	_____	_____
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66-94 (AC B50.125-.147 and .159-.163); SFAS 38 (AC B50.148-.150 and .166); TB 81-2, par. 4 (AC B50.650); FASBI 4 (AC B50.151-.152) concerns research and development activities of an acquired subsidiary]	_____	_____	_____
b. Do the statements and notes include the required disclosures? [APB 16, pars. 95-96 (AC B50.164-.165); SFAS 79, pars. 4-6 (AC B50.165)]	_____	_____	_____
3. Has any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital been disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If a material liability is recognized by the combined company for costs incurred to (1) exit an activity, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company, are disclosures made in accordance with EITF Issue No. 95-3, <i>Recognition of Liabilities in Connection with a Purchase Business Combination</i> , in addition to the disclosures required by paragraphs 95 and 96 in APB Opinion No. 16, <i>Business Combinations</i> ? [EITF 95-3]	_____	_____	_____
F. Consolidated Financial Statements			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); FASBI 13 (AC I89.120-.122)]	_____	_____	_____
G. Related-Party Transactions and Economic Dependency			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved (e.g., parent, subsidiary and affiliate companies, officers, shareholders, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2-4 (AC R36.102-.104)]	_____	_____	_____

Yes No N/A

2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the entities, if the reporting entity and one or more other entities are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting entity significantly different from those that would have been obtained if the entity were autonomous?
[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

3. Are the nature and extent of leasing transactions with related parties appropriately disclosed?
[SFAS 13, par. 29 (AC L10.125)]

H. Financial Instruments

In October 1994, the FASB issued SFAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, which expands the disclosure requirements for entities that hold or issue derivative financial instruments (see Section R. for SFAS 119 disclosures). It also amends certain disclosure requirements of SFAS 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, and SFAS 107, *Disclosures about Fair Value of Financial Instruments*. This section has been updated to reflect SFAS 119's amendments to SFAS 105 and 107. SFAS 119 is effective for fiscal years ending after December 15, 1994, except for entities with less than \$150 million in total assets in the current statement of financial position, for which the effective date is for fiscal years ending after December 15, 1995. Earlier application is encouraged. For entities that have not adopted SFAS 119, guidance is provided in certain footnotes in this section of the checklist for applying the disclosure requirements of SFAS 105 and 107 prior to adoption of SFAS 119.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument: ¹			
a. The face or contract amount or notional principal amount if there is no face or contract amount?	___	___	___
b. The nature and terms, including, at a minimum, a discussion of:	___	___	___
(1) The credit and market risk of those instruments?	___	___	___
(2) The cash requirements of those instruments?	___	___	___
2. Do the disclosures in Steps 1.a.-b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? ² [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112A)]	___	___	___
3. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument? ³			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, if the amount due proved to be of no value to the entity?	___	___	___

¹ "Category of financial instrument" refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the entity also should describe for each category the classes of financial instruments included in that category. If the entity has not adopted SFAS 119, the disclosures in Steps 1.a.-b. should be made by *class* of financial instrument rather than by *category*.

² Not applicable to entities that have not adopted SFAS 119.

³ See footnote 1. If the entity has not adopted SFAS 119, the disclosures in Step 3 should be made by class of financial instrument, rather than by category.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]</p>	_____	_____	_____
<p>4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except those excluded in SFAS 105), include:</p>			
<p>a. Information about the (shared) activity, region, or economic characteristic that identified the concentration?</p>	_____	_____	_____
<p>b. The amount of accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?</p>	_____	_____	_____
<p>c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]</p>	_____	_____	_____

NOTE: The following steps relate to SFAS 107, *Disclosures about Fair Value of Financial Instruments*. For entities with less than \$150 million in total assets, the effective date for SFAS 107 is for financial statements issued for fiscal years ending after December 15, 1995. (For entities with \$150 million or more in total assets, the effective date was December 15, 1992.)

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position? ^{4, 5} [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]	_____	_____	_____
6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]	_____	_____	_____
7. Are the methods and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair market value of a financial instrument, do disclosures include:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115G)]	_____	_____	_____

⁴ If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107.

⁵ Not applicable to entities that have not adopted SFAS 119.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. In disclosing the fair value of a derivative financial instrument, does the entity <u>not</u> : ^{6,7}			
a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15 (AC F25.115I)]	_____	_____	_____
10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 107, par. 17]	_____	_____	_____
I. Foreign Currency			
1. Is the aggregate exchange gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	_____	_____	_____
2. Is an analysis of changes during the period in the separate component of equity for cumulative translation adjustments included, and does it disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	_____	_____	_____
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____

⁶ See footnote 5.

⁷ In certain situations, offsetting may be permitted under FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	—	—	—
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	—	—	—
4. Are there any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	—	—	—
5. Have the following disclosures in EITF 91-4 been made for hedging foreign currency risks with complex options and similar transactions? [EITF 91-4]	—	—	—
6. If the entity entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the legal right of setoff)? [EITF 86-25 (FIN 39)]	—	—	—
J. Nonmonetary Transactions			
1. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	—	—	—
b. Basis of accounting?	—	—	—
c. Gains or losses recognized on the transfers? [APB 29, par. 28, fn 7 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]	—	—	—
K. Contingencies and Commitments (Also see Section S., Risks and Uncertainties)			
1. Are the nature and amount of accrued loss contingencies including environmental matters disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	—	—	—

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For loss contingencies (including environmental matters) not accrued, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]	_____	_____	_____
3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
4. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, guarantees to repurchase receivables that have been sold or otherwise assigned)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]	_____	_____	_____
5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? [SFAS 5, pars. 18-19 (AC C59.120)]	_____	_____	_____
7. For long-term unconditional purchase obligations associated with suppliers' financing that are not recognized, are the following disclosed:			
a. Nature of the obligations?	_____	_____	_____
b. Amount of the fixed and determinable obligations in the aggregate and for each of the next five years?	_____	_____	_____
c. Description of any portion of the obligation that is variable?	_____	_____	_____
d. Purchases under the obligations for each year for which an income statement is presented? [SFAS 47, par. 7 (AC C32.102)]	_____	_____	_____

Yes No N/A

L. Subsequent Events

- | | | | |
|---|--------------|--------------|--------------|
| <p>1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date?
[SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, .07 & 561.01-.10 (AU 560.03- .04, .07 and 561.01-.10)]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date but arose subsequent to that date disclosed?
[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05-.07, .09 & 561.01-.10 (AU 560.05-.07, .09 and 561.01-.10)]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |

M. Pension Plans

(For defined benefit plans, the accounting and reporting by the plans should be in conformity with SFAS 35.)

- | | | | |
|--|--------------|--------------|--------------|
| <p>1. If there is a defined benefit plan, do disclosures include:</p> <p style="margin-left: 20px;">a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?
[SFAS 87, par. 54a (AC P16.150a)]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p style="margin-left: 20px;">b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?⁸
[SFAS 87, par. 54b (AC P16.150b)]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |

⁸ The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).
- b. Amortization of the net gain or loss from earlier periods.
- c. Amortization of unrecognized prior service cost.
- d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16].

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. All amounts shown within three months of the balance-sheet date using a consistent date from year to year?	_____	_____	_____
d. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 [AC P16.130]?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 [AC P16.129-.130] (which is the net result of combining the preceding six items)?	_____	_____	_____
e. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets? [SFAS 87, par. 54d (AC P16.150d)]	_____	_____	_____
f. If applicable, the amount and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. [SFAS 87, par. 54 (AC P16.150)]	_____	_____	_____
g. If applicable, the alternative amortization methods used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in paragraph 41 [AC P16.135]?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. If more than one defined benefit plan exists:			
(1) Are the disclosures required by Step M.1 above aggregated for all of the employer's single employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligation not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
3. If the substance of a plan having characteristics of both defined benefits and contributions is to provide a defined benefit, are disclosures with the requirements described in Step M.1. above made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
4. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____

Yes No N/A

- c. If the situation arises where it is probable or reasonably possible that the employer's withdrawal from a multiemployer plan will result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations, have the provisions of SFAS 5 been applied?
[SFAS 87, par. 70 (AC P16.167)]

5. If there is a settlement or curtailment of a defined benefit pension plan or termination of benefits under such plan, do disclosures include:

- a. A description of the nature of the event(s)?

- b. The amount of gain or loss recognized?
[SFAS 88, par. 17 (AC P16.187)]

N. Postretirement Benefits Other Than Pensions (See Exhibit A)

1. If there are one or more defined benefit postretirement plans, do disclosures include:

- a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

- b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components?⁹

⁹ The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 [ACP40]. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
b. Amortization of unrecognized prior service cost.
c. Amortization of the net gain or loss from earlier periods.
d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 [AC P40.156]).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
1) The fair value of plan assets?	_____	_____	_____
2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	_____	_____	_____
3) The amount of unrecognized prior service cost?	_____	_____	_____
4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
5) The amount of any remaining unrecognized transition obligation or transition asset?	_____	_____	_____
6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, that is the net result of combining the preceding five items?	_____	_____	_____
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s) and when the rate(s) is expected to be achieved?	_____	_____	_____
e. The weighted-average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted-average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?	_____	_____	_____
f. The effect of a one-percentage point increase in the assumed health care cost trend rates for each future year on:			
1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2) The accumulated postretirement benefit obligation for health care benefits (For purposes of this disclosure, all other assumptions shall be held constant and the effects shall be measured based on the substantive plan that is the basis for the accounting)?	_____	_____	_____
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?	_____	_____	_____
h. Any alternative amortization method used pursuant to paragraphs 53 or 60 of SFAS 106 [ACP40.148 or .155]?	_____	_____	_____
i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?	_____	_____	_____
j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a-j (AC P40.169a-j)]	_____	_____	_____
k. The transition provisions required under SFAS 106? [SFAS 106, pars. 108-115 (AC Appendix C, pgs. 13-15)]	_____	_____	_____
2. If more than one defined benefit postretirement plan exists:			
a. Have the disclosures required by Step N.1 above been aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step N.1.c above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)? [SFAS 106, par. 77 (AC P40.172)]	_____	_____	_____
b. Are plans that provide primarily postretirement healthcare benefits and plans that provide primarily other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all the plans? [SFAS 106, par. 78 (AC P40.173)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>c. Are plans inside and outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all plans? [SFAS 106, par. 78 (AC P40.173)]</p>	_____	_____	_____
<p>3. If there is a multiemployer plan, do disclosures include:</p>			
<p>a. A description of the plan including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?</p>	_____	_____	_____
<p>b. The amount of postretirement benefit cost recognized during the period, if available; otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees? [SFAS 106, par. 82a-b (AC P40.178)]</p>	_____	_____	_____
<p>c. In some situations, an employer's withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. Have the provisions of SFAS 5 been applied if it is probable or reasonably possible that:</p>			
<p>(1) An employer's withdrawal from the plan would give rise to an obligation?</p>	_____	_____	_____
<p>(2) The company's contribution to the fund will be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage? [SFAS 106, par. 83 (AC P40.179)]</p>	_____	_____	_____
<p>4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:</p>			
<p>a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The amount of cost recognized during the period? [SFAS 106, par. 106 (AC P40.198)]	_____	_____	_____
O. Futures Contracts			
If a futures contract is accounted for as a hedge, is the following disclosed?			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts.	_____	_____	_____
b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contract. [SFAS 80, par. 12 (AC F80.112)]	_____	_____	_____
P. Other Matters			
1. If required by SFAS 21 [AC S20], is segment information disclosed? [SFAS 14 (AC S20); SFAS 24, par. 5 (AC S20.109-.110); SFAS 30, par. 6 (AC S20.145)]	_____	_____	_____
2. If an obligation for postemployment benefits (other than pensions) is not accrued in accordance with SFAS 5 or 43 only because the amount cannot reasonably be estimated, is that fact disclosed? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
Q. Employee Stock Ownership Plans			
1. If an employer sponsors an employee stock ownership plan (ESOP), do the employer's disclosures include:			
a. A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
(1) For leveraged ESOPs and pension reversion ESOPs, does the description include the basis for releasing shares and how dividends on allocated and unallocated shares are used?	_____	_____	_____
b. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for earnings per share (EPS) computations?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies for both blocks of shares disclosed?	_____	_____	_____
c. The amount of compensation cost recognized during the period?	_____	_____	_____
d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?	_____	_____	_____
(1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares?	_____	_____	_____
e. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6? ¹⁰	_____	_____	_____
f. The existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? ¹¹ [SOP 93-6, par. 53]	_____	_____	_____
2. Are all the items listed in Step 3. above disclosed even if the employer with an ESOP does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992? [SOP 93-6, par. 55]	_____	_____	_____
3. For leveraged and nonleveraged ESOPs where the assets from a terminated defined benefit pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP, is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account? [SOP 93-6, pars. 13 and 46]	_____	_____	_____
4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported as an asset on the employer's balance sheet? [SOP 93-6, par. 26]	_____	_____	_____

¹⁰ This disclosure need not be made for old ESOP shares for which the entity does not apply the guidance in SOP 93-6.

¹¹ Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments. [SOP 93-6, par. 95]

Yes No N/A

5. If the employer sponsors an ESOP with an employer loan, is the employer's note receivable from the ESOP **not** reported in the employer's balance sheet?
[SOP 93-6, par. 27]

R. Derivative Financial Instruments.

(SFAS 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than \$150 million in total assets, for which the effective date is fiscal years ending after December 15, 1995.)

1. For options held and other derivative financial instruments not within the scope of SFAS 105 (because they do not have off-balance-sheet risk of accounting loss), are the following disclosures made by category of financial instrument:

- a. The face or contract amount (or notional principal amount if there is no face or contract amount)?¹²

- b. The nature and terms, including at a minimum a discussion of:

- (1) Credit and market risk?

- (2) Cash requirements?

- (3) Related accounting policy as required by APB 22?

- c. Do disclosures in Steps 1.a. and b. above distinguish between financial instruments held or issued for:

- (1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?

- (2) Purposes other than trading?
[SFAS 119, pars. 8 and 9]

¹² Unless, as described in footnote 2 of SFAS 119, the disclosure of the face or contract amount would be misleading because the instruments are leveraged and the leverage features are not adequately disclosed.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If the entity holds or issues derivative financial instruments for trading purposes, has it disclosed:			
a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?	_____	_____	_____
(1) If the disaggregation is other than by class, has entity also disclosed for each category the classes of derivative financial instruments, other financial instruments and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (This disclosure is encouraged but not required.) [SFAS 119, par.10]	_____	_____	_____
3. If the entity holds or issues derivative financial instruments for purposes other than trading, has it disclosed:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	___	___	___
(2) A description of the classes of derivative financial instruments used to hedge?	___	___	___
(3) The amount of explicitly deferred hedging gains and losses?	___	___	___
(4) A description of the transaction or events that result in the recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11]	___	___	___
4. Is quantitative information about the following considered for disclosure (encouraged, but not required)?			
a. Interest rate.	___	___	___
b. Foreign exchange.	___	___	___
c. Commodity price.	___	___	___
d. Other market risks consistent with management's strategies.	___	___	___
e. Information about the risks of other financial instruments or nonfinancial assets and liabilities to which the derivative financial instruments are related? ¹³ [SFAS 119, pars. 12 and 13]	___	___	___

¹³ Suggested methods of disclosure of this information include:

- a. Additional details about current positions and activity.
- b. Hypothetical effects on equity or annual income of several possible changes in market prices.
- c. Gap analysis of interest rate repricing or maturity dates.
- d. Duration of the financial instruments.
- e. The entity's value at risk from derivative financial instruments and other positions at year end and the average value at risk during the year.

Yes No N/A

S. Risks and Uncertainties

SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, is effective for financial statements issued for fiscal years ending after December 15, 1995, and for financial statements for interim periods in fiscal years subsequent to the year for which this SOP is to be first applied. Early application is encouraged but not required. (Also see Section K, Commitments and Contingencies.)

- | | | | |
|--|-------|-------|-------|
| 1. Is a description of the major products and services the entity sells or provides and the principal markets, including the location of those markets disclosed?
[SOP 94-6, par. 10] | _____ | _____ | _____ |
| 2. If the entity operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed?
[SOP 94-6, par. 10] | _____ | _____ | _____ |
| 3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included?
[SOP 94-6, par. 11] | _____ | _____ | _____ |
| 4. Is disclosure regarding an estimate made when known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements?
[SOP 94-6, par. 13] | _____ | _____ | _____ |
| 5. Does the disclosure in Step 4 above indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in estimate will occur in the near term? ¹⁴
[SOP 94-6, par. 14] | _____ | _____ | _____ |

¹⁴ If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the estimate in Step 4 above involves a loss contingency covered by SFAS 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made. ¹⁴ [SOP 94-6, par. 14]	_____	_____	_____
7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made if, based on information known to management before the financial statements are issued, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21-22]	_____	_____	_____
8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the entity's home country that meet the criteria of paragraph 21 of SOP 94-6, are the following disclosed?	_____	_____	_____
a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year.	_____	_____	_____
b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the entity's home country? [SOP 94-6, par. 10]	_____	_____	_____

T. Impairment of Assets

SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, is effective for financial statements for fiscal years beginning after December 15, 1995; however, earlier application is encouraged. Restatement of previously issued financial statements is not permitted.

1. If an impairment loss is recognized for assets to be held and used, do disclosures include:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and how fair value was determined?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The caption in the income statement in which the impairment loss is aggregated if that loss is not presented as a separate caption or reported parenthetically on the face of the statement.	_____	_____	_____
d. The business segment(s) affected, if applicable. [SFAS 121, par. 14]	_____	_____	_____
2. If assets to be disposed of are accounted for in accordance with paragraphs 15-17 of SFAS 121, do disclosures include:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	_____	_____	_____
b. The business segment(s) in which assets to be disposed of are held, if applicable?	_____	_____	_____
c. The loss, if any, resulting from applying paragraph 15 of SFAS 121?	_____	_____	_____
d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from applying paragraph 17 of SFAS 121?	_____	_____	_____
e. The caption in the income statement in which the gains or losses in Steps 2.c. and d. are aggregated if those gains or losses are not presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
f. The results of operations for assets to be disposed of to the extent that those results are included in the entity's results of operations for the period and can be identified? [SFAS 121, par. 19]	_____	_____	_____
3. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes? [SFAS 121, pars. 13 and 18]	_____	_____	_____

Yes No N/A

Balance Sheet

A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities?

[ARB 43, Ch. 3A, pars. 2-8 (AC B05.103-.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)]

2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?

[ARB 43, Ch. 3A, pars. 5-6 (AC B05.106-.107)]

B. Cash

1. Is separate disclosure made of restricted cash?

[ARB 43, Ch. 3A, par. 6 (AC B05.107)]

C. Debt and Equity Securities

1. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major security type, for each balance sheet presented?

a. Aggregate fair value.

b. Gross unrealized holding gains and losses.

c. Amortized cost basis.

[SFAS 115, par. 19 (AC I80.118)]

2. For investments in debt securities classified as available-for-sale or held-to-maturity, is:

a. Disclosure made about their contractual maturities, as of the date of the latest balance-sheet date presented? (Maturity information may be combined in appropriate groupings.)

[SFAS 115, par. 20 (AC I80.119)]

D. Receivables

1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures?

[ARB 43, Ch. 1A, par. 5 (AC R36.105)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are unbilled receivables (e.g., unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4]	_____	_____	_____
3. Are unearned finance charges and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.107a)]	_____	_____	_____
4. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Does the disclosure include the effective interest rate and face amount of the note?	_____	_____	_____
c. Is amortization of discount or premium reported as interest in the income statement? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
5. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that is being recognized as an adjustment of yield reported as part of the loan balance to which it relates? [SFAS 91, par. 21 (AC L20.120)]	_____	_____	_____
6. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
7. For troubled debt restructurings, are the following disclosed by major category of receivables for each balance sheet presented?			
a. Aggregate recorded investment.	_____	_____	_____
b. Gross interest income that would have been recorded if receivables had been current per their original terms.	_____	_____	_____
c. Amount of interest income included in net income.	_____	_____	_____
d. Amounts of any commitments to lend additional funds to debtors owing restructured troubled receivables. [SFAS 15, pars. 40-41 (AC D22.136-.137)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. For transfers of receivables with recourse that are reported as sales, are the following disclosed?			
a. The proceeds to the transferors during each period for which an income statement is presented.	_____	_____	_____
b. The balance of the receivables transferred that remain uncollected at the date of each balance sheet presented, if such information is available. [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
9. If the effect of discounting the recourse obligation is material, are the undiscounted amount of the recourse and the interest note disclosed? [EITF 92-2]	_____	_____	_____
E. Inventories			
1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [ARB 43, Ch. 3A, par. 4 (AC B05.105)]	_____	_____	_____
2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9 (I78.120)]	_____	_____	_____
3. Is the basis for stating inventory disclosed (e.g., lower of cost or market) and, if necessary, the nature of a change in basis for stating inventory, and the effect on income of such a change? [ARB 43, Ch. 4, pars. 4-16 (AC I78.104-.117 and .119-.120); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
F. Investments			
1. Are the appropriate disclosures made for investments in common stock accounted for by the equity method? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____

Yes No N/A

G. Property and Equipment

- | | | | |
|---|-------|-------|-------|
| 1. For depreciable assets, do the financial statements or notes thereto include disclosure of: | | | |
| a. Depreciation expense for each period?
[APB 12, par. 5a (AC D40.105a)] | _____ | _____ | _____ |
| b. Balances of major classes of depreciable assets by nature or function?
[APB 12, par. 5b (AC D40.105b)] | _____ | _____ | _____ |
| c. Accumulated depreciation, either by major classes of assets or in total?
[APB 12, par. 5c (AC D40.105c)] | _____ | _____ | _____ |
| d. The method or methods used in computing depreciation for each major class of depreciable assets?
[APB 12, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)] | _____ | _____ | _____ |
| 2. Are net assets and liabilities of discontinued segments segregated from the assets and liabilities of continuing operations?
[APB 30, par. 18d (AC I13.108d)] | _____ | _____ | _____ |
| 3. Do discussions of interest cost include: | | | |
| a. For periods in which no interest cost is capitalized, the amount of interest cost charged to expense during the period? | _____ | _____ | _____ |
| b. For periods in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount that has been capitalized?
[SFAS 34, par. 21 (I67.118)] | _____ | _____ | _____ |

H. Lessor Leases

- | | | | |
|---|-------|-------|-------|
| 1. For sales-type and direct financing leases, do disclosures include: | | | |
| a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented? | _____ | _____ | _____ |
| b. Future minimum lease payments (with separate deductions for minimum lease payments and allowances for uncollectable minimum lease payments receivable) for each of the five succeeding fiscal years as of the latest balance sheet date presented? | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a (AC L10.119a)]	_____	_____	_____
d. For direct financing leases, the amount of initial direct costs as part of the investment?	_____	_____	_____
e. Unguaranteed residual values accruing to the benefit of the lessor?	_____	_____	_____
f. Unearned income? [SFAS 91, par. 25d (AC L10.119(a) (1))]	_____	_____	_____
2. For operating leases, do disclosures include:			
a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented?	_____	_____	_____
b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)]	_____	_____	_____
3. Do disclosures include a general description of the lessor's leasing arrangements? [SFAS 13, par. 23 (AC L10.119c)]	_____	_____	_____
I. Other Assets and Deferred Charges			
1. Are issue costs of debt reported as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
2. Do disclosures include the method and period of amortization? [APB 17, pars. 27-31 (AC I60.108-.112); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
3. Are deferred tax assets determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (ACI27.116)]	_____	_____	_____
4. Are deferred tax assets classified as current or noncurrent based on the classification of the related asset or liability? [SFAS 109, par. 41 (ACI27.140)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are deferred tax assets not related to an asset or liability, including those related to carryforwards, classified according to the expected reversal date of the temporary difference pursuant to SFAS 37? [SFAS 109, par. 41 (ACI27.140)]	_____	_____	_____
6. Have the following items been offset and presented as a single amount for a particular tax-paying component and within a particular tax-paying jurisdiction:			
a. All current deferred tax liabilities and assets?	_____	_____	_____
b. All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (ACI27.141)]	_____	_____	_____
7. Has the valuation allowance for a particular tax jurisdiction been allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis? [SFAS 109, par. 41 (ACI27.140)]	_____	_____	_____
8. Have the components of the total of all deferred tax assets and valuation allowance recognized in the statement of financial position been disclosed? [SFAS 109, par. 43b-c (ACI27.142b-c)]	_____	_____	_____
9. For computer software to be sold, leased, or otherwise marketed:			
a. Is the amount of unamortized cost disclosed for each balance sheet presented? [SFAS 86, par. 11a (AC Co2.110a)]	_____	_____	_____
b. Is the amount charged to expense for amortization of these costs and for amounts written down to net realizable value disclosed for each income statement presented? [SFAS 86, par. 11b (AC Co2.110b)]	_____	_____	_____
10. For foreclosed assets held for sale: ¹⁵			
a. Are the assets valued and disclosed at the lower of fair value minus estimated costs to sell?	_____	_____	_____

¹⁵ Upon adoption of SFAS 114 and 121, many of the provisions of SOP 92-3 are superseded. The following items are applicable to entities that have not yet adopted SFAS 114 and 121.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, has the deficiency been recognized and disclosed as a valuation allowance?	_____	_____	_____
c. Have changes in the valuation allowance based upon fluctuations in the fair value less disposal costs been charged or credited to income and disclosed, if material? [SOP 92-3, par. 12]	_____	_____	_____
11. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means? [SOP 92-3, par. 15]	_____	_____	_____
12. If foreclosed assets originally classified as held-for-sale are to be held for production of income, has the net effect been reported in income from continuing operations in the period in which the decision to retain the asset was made? [SOP 92-3, par. 16]	_____	_____	_____
13. Is a payment by an S corporation to the IRS to retain its fiscal year for tax purposes classified as an asset (deposit)? [EITF 88-4]	_____	_____	_____

J. Current Liabilities

1. Do current liabilities include:			
a. Obligations for items that have entered the operating cycle?	_____	_____	_____
b. Collections received in advance of the delivery of goods or performance of services?	_____	_____	_____
c. Debts that arise from operations directly related to the operating cycle?	_____	_____	_____
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	_____	_____	_____
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and .118)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing? [SFAS 6, pars. 8-14 (AC B05.112-.116)]	_____	_____	_____
K. Notes Payable and Other Debt			
1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends? [FASCON 5, par. 11; SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10b (AC C32.105b)]	_____	_____	_____
3. If a note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	_____	_____	_____
b. Are the effective interest rate and face amount of the note disclosed?	_____	_____	_____
c. Is amortization of the discount or premium reported as interest in the income statement?	_____	_____	_____
d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]	_____	_____	_____
4. Are conversion features appropriately accounted for and disclosed? [APB 14, pars. 12 & 16-18 (AC D10.103 and .105-.107)]	_____	_____	_____
5. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109)]	_____	_____	_____
6. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]</p>	_____	_____	_____
<p>7. For a troubled debt restructuring occurring during the current period, do disclosures include:</p>			
<p>a. Description of the principal changes in terms, the major features of settlement, or both?</p>	_____	_____	_____
<p>b. Aggregate gain on restructuring of payables and the related income tax effect?</p>	_____	_____	_____
<p>c. Aggregate net gain or loss on transfers of assets recognized during the period?</p>	_____	_____	_____
<p>d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]</p>	_____	_____	_____
<p>8. For periods after a troubled debt restructuring, do disclosures include:</p>			
<p>a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?</p>	_____	_____	_____
<p>b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]</p>	_____	_____	_____
<p>9. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount identified as a separate or extraordinary item? [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)]</p>	_____	_____	_____
<p>10. If debt is considered to be extinguished, do the disclosures include:</p>			
<p>a. A general description of the transaction?</p>	_____	_____	_____
<p>b. The amount of debt that is considered extinguished as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. Are long-term obligations that are or will be callable by the creditor either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, classified as current unless one of the following conditions is met?			
a. The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date.	_____	_____	_____
b. The obligation contains a grace period within which the debtor may cure the violation, and it is probable that the violation will be cured within that period, thus preventing the violation from becoming callable. [SFAS 78, par. 5 (AC B05.109A)]	_____	_____	_____
12. If a covenant on a long-term loan agreement is not met and the lender waives its right to call the debt for a period of more than one year, but retains the future covenant requirements, is the debt classified as noncurrent unless:			
a. The covenant violation occurred at the balance-sheet date or would have occurred absent a loan modification?	_____	_____	_____
b. It is probable that the entity will not be able to comply with the covenant within the next 12 months? [EITF 86-30]	_____	_____	_____
13. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes, the following information: [Effective for fiscal years beginning after December 15, 1994, with earlier application encouraged. Previously issued financial statements should not be restated.]			
a. As of the date of each balance sheet presented, has the recorded investment in the loans for which impairment has been recognized, and the total allowance for credit losses related to those impaired loans been disclosed?	_____	_____	_____
b. For each period for which an income statement is presented, has the activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off been disclosed?	_____	_____	_____

Yes No N/A

- c. Has the income recognition policy, dealing with the periodic changes in present value of impaired loans been disclosed? An entity that recognizes income in accordance with this policy also should disclose the amount of interest recognized in accordance with the policy.
[SFAS 114, par. 20 (AC I08.118)]

L. Lessee Leases

1. For capital leases, do disclosures include:

- a. Gross amounts of assets recorded by major class as of the date of each balance sheet presented?
[SFAS 13, pars. 13 and 16 (AC L10.112a(1)-(5))]

- b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions for executory costs and imputed interest to reduce net minimum lease payments to present value?
[SFAS 13, pars. 10 & 16a (AC L10.106 and .112a(2))]

- c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented?
[SFAS 13, par. 16a (AC L10.112a(3))]

- d. Total contingent rentals actually incurred for each period for which an income statement is presented?
[SFAS 13, par. 16a (AC L10.112a(4))]

- e. Assets recorded under capital leases and the related accumulated amortization and obligations under the lease?
[SFAS 13, par. 13 (AC L10.112a(5))]

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:

- a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?

- b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?
[SFAS 13, par. 16b (AC L10.112b)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	___	___	___
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Bases for determining contingent rentals?	___	___	___
b. Terms of any renewal or purchase options or escalation clauses?	___	___	___
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d)]	___	___	___
M. Other Liabilities and Deferred Credits			
1. Are deferred tax liabilities determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)]	___	___	___
2. Are deferred tax liabilities classified as current or noncurrent based on the related asset or liability for financial reporting? [SFAS 109, par. 41 (AC I27.140)]	___	___	___
3. Are deferred tax liabilities not related to an asset or liability for financial reporting classified according to the expected reversal date of the temporary difference pursuant to SFAS 109 [AC I27]? [SFAS 109, par. 41 (AC I27.140)]	___	___	___
4. Have the following items been offset and presented as a single amount for a particular tax paying component and within a particular tax-paying jurisdiction:			
a. All current deferred tax liabilities and assets?	___	___	___
b. All noncurrent deferred tax liabilities and assets? [SFAS 109, par. 42 (AC I27.141)]	___	___	___
5. Are the components of the total of all deferred tax liabilities disclosed? [SFAS 109, par. 43a (AC I27.142a)]	___	___	___

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
N. Shareholders' Equity			
1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share? [APB12, par. 12 (AC C08.102)]	_____	_____	_____
2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights? [APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. Are liquidation preferences of preferred stock issues prominently disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	_____	_____	_____
4. For preferred stock, do disclosures include:			
a. Aggregate or per share amounts at which shares may be called or are subject to redemption? [APB 10, par. 11 (AC C16.102)]	_____	_____	_____
b. Aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 15, par. 50, footnote 16 (AC C16.102)]	_____	_____	_____
5. For stock option and stock purchase plans, do disclosures include:			
a. Number of shares under option?	_____	_____	_____
b. Option price?	_____	_____	_____
c. Number of shares as to which options are exercisable?	_____	_____	_____
d. For options exercised, the number of shares exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
6. Are any appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
7. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18-19 (AC C59.120)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
9. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10c (AC C32.105c)]	_____	_____	_____
10. Are the carrying basis, cost, and number of shares disclosed for treasury stock? [APB 6, par. 12b (AC C32.103)]	_____	_____	_____
O. Changes in Shareholders' Equity			
1. Are changes in the separate component accounts of shareholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
3. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
4. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 [AC P16.130], exceeds unrecognized prior service cost, has the excess (which would represent a net loss not yet recognized as net periodic pension cost) been reported as a separate component (that is, a reduction) of equity, net of any tax benefits that result from considering such losses as timing differences for purposes of applying the provisions of SFAS 87, par. 37, ACI 27, SFAS 109, par. 287? [SFAS 87, par. 37 (AC P16.131)]	_____	_____	_____

Income Statement

A. Revenue and Expenses

1. Are the important components of income separately disclosed, such as sales or other sources of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes? [Generally Accepted]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For long-term construction-type contracts, is the method of income recognition (percentage-of-completion or completed-contract) disclosed? [ARB 45, par. 15 (AC C04.112); APB 22, par. 13 (AC A10.106)]	—	—	—
3. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses from those sales?	—	—	—
b. The basis on which cost was determined in computing realized gain or loss, i.e., specific identification, average cost, or other method used?	—	—	—
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	—	—	—
d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders' equity?	—	—	—
e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings? [SFAS 115, par. 21 (AC I80.120)]	—	—	—
4. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an income statement is presented:			
a. Amortized cost of the sold or transferred security?	—	—	—
b. Related realized or unrealized gain or loss?	—	—	—
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)]	—	—	—
5. Are research and development costs charged to expense when incurred and appropriately disclosed? [SFAS 2, pars. 12-13 (AC R50.108-.109)]	—	—	—
6. Is the amount of interest cost incurred disclosed in the statements or notes thereto, and for an accounting period in which some interest cost is capitalized, the amount that has been capitalized? [SFAS 34, par. 21 (AC I67.118)]	—	—	—

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. If the entity accounts for its obligation under a research and development arrangement as a contract to perform research and development for others under SFAS 68, is there disclosure of:			
a. The terms of significant agreements under the research and development arrangement as of the date of each balance sheet presented?	_____	_____	_____
b. The amount of compensation earned or costs incurred under such contracts for each period for which an income statement is presented? [SFAS 68, par. 14 (AC R55.112)]	_____	_____	_____
8. Do disclosures for advertising costs include:			
a. The accounting policy selected from the two alternatives in the beginning of paragraph 26 of SOP 93-7 for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?	_____	_____	_____
b. A description of the direct-response advertising reported as assets (if any), the accounting policy for it, and the amortization period?	_____	_____	_____
c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value?	_____	_____	_____
d. The total amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49]	_____	_____	_____
B. Income Taxes			
1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes thereto?			
a. Current tax expense or benefit.	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below).	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Investment tax credits.	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense).	_____	_____	_____
e. The benefits of operating loss carryforwards.	_____	_____	_____
f. Tax expense that results from allocating certain benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity.	_____	_____	_____
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise.	_____	_____	_____
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years. [SFAS 109, par. 45a-h (AC I27.144a-h)]	_____	_____	_____
3. Are the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with paragraphs 35-39 of SFAS 109 [AC I27.134-.138]) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
4. Is the nature of significant reconciling items resulting from the reported amount of income tax expense attributable to continuing operations for the year compared to the amount of income tax expense that would result from applying domestic statutory tax rates to pretax income from continuing operations disclosed? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
6. If the entity is a member of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in Step 6.a above are presented? [SFAS 109, par. 49 a-b (AC I27.148 a-b)]</p>	____	____	____
C. Discontinued Operations			
<p>1. Are operations of a segment that has been discontinued or is the subject of a formal plan for disposition:</p>			
<p>a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items?</p>	____	____	____
<p>b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, pars. 8 & 13-18 (AC I13.101-.103, .105-.106 and .108-.109)]</p>	____	____	____
<p>2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items. [APB 30, pars. 8, 13 & 18 (AC I13.101-.103, .105-.106 and .108-.109)]</p>	____	____	____
<p>3. For the period encompassing the measurement date, do notes to financial statements disclose:</p>			
<p>a. Identity of the segment discontinued?</p>	____	____	____
<p>b. Expected disposal date, if known?</p>	____	____	____
<p>c. Expected manner of disposal?</p>	____	____	____
<p>d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?</p>	____	____	____
<p>e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date?</p>	____	____	____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. The fact that the loss on disposal cannot be determined within reasonable limits, if applicable? [APB 30, par. 18, footnote 7 (AC I13.108-.109)]	_____	_____	_____
4. For periods after the measurement date and including the disposal, do notes to financial statements disclose the information required for the period encompassing the measurement date and the actual date and results of disposal compared with the prior estimates? [APB 30, par. 18 (AC I13.108-.109)]	_____	_____	_____
5. If an entity has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment write down of the individual assets classified in continuing operations? [EITF 90-16]	_____	_____	_____
6. If the entity plans to dispose of two segments of a business and a net gain is expected (one has a net gain and the other a net loss) is that gain shown net? [EITF 85-35]	_____	_____	_____
D. Extraordinary Items			
1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
2. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
3. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Are material events or transactions that are either unusual in nature, or of infrequent occurrence but not both (and therefore not meeting criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<ul style="list-style-type: none"> b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)] 	_____	_____	_____
5. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
<ul style="list-style-type: none"> a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources? 	_____	_____	_____
<ul style="list-style-type: none"> b. Income tax effect in the period of extinguishment? 	_____	_____	_____
<ul style="list-style-type: none"> c. Per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)] 	_____	_____	_____
6. For an adjustment of an extraordinary item reported in a prior period:			
<ul style="list-style-type: none"> a. Is the adjustment classified separately as an extraordinary item in the current period 	_____	_____	_____
<ul style="list-style-type: none"> b. Are the nature, origin, and amount of the item disclosed? [SFAS 16, par. 16(c) (AC I17.119)] 	_____	_____	_____
7. For nonpublic companies, if there is a restructuring charge, is it reflected using the most meaningful income statement presentations, within the framework of APB 30? [EITF 87-4 and 94-3]	_____	_____	_____
E. Other			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			
<ul style="list-style-type: none"> a. Adjustments, charges, or credits resulting from transactions in the company's own capital stock? 	_____	_____	_____
<ul style="list-style-type: none"> b. Transfers to and from accounts properly designated as appropriated retained earnings? 	_____	_____	_____
<ul style="list-style-type: none"> c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)] 	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is earnings per share information, if required [SFAS 21 (AC E09.102)], presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation? [APB 15 (AC E09)]	_____	_____	_____

Statement of Cash Flows

1. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
2. Do the notes disclose the entity's accounting policy for determining which items are treated as cash equivalents? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
3. Does the statement of cash flows from operating activities separately report:			
a. Cash received from customers?	_____	_____	_____
b. Interest and dividends received?	_____	_____	_____
c. Other operating cash receipts (if any)?	_____	_____	_____
d. Cash paid to employees and suppliers?	_____	_____	_____
e. Interest paid?	_____	_____	_____
f. Income taxes and other payments to government?	_____	_____	_____
g. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
4. If the direct method is used, is a separate reconciling schedule provided to reconcile Net Income to Net Cash Used or Provided by Operating Activities? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
5. Have investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period been disclosed? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. If the indirect method is used:			
a. Is the same amount for net cash flow from operating activities reported indirectly by adjusting the excess of revenues and expenses (income) to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)]	_____	_____	_____
b. Is the reconciliation of the excess of revenues and expenses (income) to net cash flow from operating activities reported, either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)]	_____	_____	_____
7. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Receipts from sales of property, plant and equipment?	_____	_____	_____
c. Loans to others?	_____	_____	_____
d. Payments to acquire property, plant and equipment?	_____	_____	_____
e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?	_____	_____	_____
f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account? [SFAS 95, pars. 16-17 (AC C25.114-.115)]	_____	_____	_____
8. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing debt?	_____	_____	_____
b. Issuance of equity instruments?	_____	_____	_____
c. Payment of dividends?	_____	_____	_____
d. Repayments for amounts borrowed?	_____	_____	_____
e. Purchases of treasury stock?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
f. Other principal payments to creditors who have extended long-term debt? [SFAS 95, pars. 19-20 (AC C25.117-.118)]	_____	_____	_____
9. Except for certain items whose turnover is quick, amounts are large and maturities are short, are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows? [SFAS 95, pars. 12-13 and 31 (AC C25.110-.111 and .129)]	_____	_____	_____

Exhibit A - Postretirement Health Care Benefits: The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992 except for plans outside the United States and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Until such time the following disclosures remain in effect:

A. Postretirement Health Care and Life Insurance Benefits

- | | | | |
|--|-------|-------|-------|
| 1. If health care or life insurance benefits are provided to retirees, their dependents, or survivors, do disclosures ¹⁶ include: | | | |
| (a) A description of the benefits provided and the employee groups covered? | _____ | _____ | _____ |
| (b) A description of accounting and funding policies followed for those benefits? | _____ | _____ | _____ |
| (c) The cost ^{17, 18} of those benefits recognized for the period, unless the provisions of Step 2 below are applicable? | _____ | _____ | _____ |

¹⁶ SFAS 81 [AC P50] does not preclude additional disclosures. The FASB is aware that a few employers currently disclose information other than that required by SFAS 81, such as the present value of estimated future health care and life insurance benefits for retirees, the amount of contributions to trusts established for the payment of those benefits, and the fair value of assets in such trusts. The FASB encourages such disclosures but does not require that they be made. Paragraph 28 of SFAS 81 [AC P50.102, footnote 2] also identifies additional information that an employer is encouraged to disclose.

¹⁷ The cost disclosed should be based on the accounting policy described.

¹⁸ Employers are encouraged to use reasonable methods to approximate the costs of postretirement health care and life insurance benefits. The disclosures may be made separately for each type of benefit provided or in the aggregate for all benefits.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(d) The effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)]	_____	_____	_____
2. If the cost of any postretirement health care or life insurance benefit cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, is the total cost of providing those benefits to both active employees and retirees as well as the number of active employees and the number of retirees covered by the plan disclosed? [SFAS 81, par. 7 (AC P50.103)]	_____	_____	_____

Exhibit B - Impairment Of Loans Receivable

The following disclosures should be considered by entities that have not yet adopted SFAS 114, which is effective for fiscal years beginning after December 15, 1994. Until SFAS 114 is adopted, the following disclosures remain in effect:

A. Impairment of Loans Receivable

1. For receivable involved in troubled debt restructurings, are the following disclosed, by major category of loans, as of the date of each balance sheet presented:			
a. Aggregate recorded investment?	_____	_____	_____
b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?	_____	_____	_____
c. Amount of interest income included in net income?	_____	_____	_____
d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans? [SFAS 15, pars. 40-41 (AC D22.136-.137)]	_____	_____	_____

Specialized Industries

The following FASB Statements and Interpretations relate in whole or in part to specialized industries. To the extent they relate to specialized industries, they are not included in these Disclosure Checklists. Users of the checklists should refer directly to applicable authoritative pronouncements when reporting on a specialized industry.

FASB Statements Related to Specialized Accounting and Reporting Principles and Practices

- SFAS 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies"
- SFAS 25 "Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies"
- SFAS 35 "Accounting and Reporting by Defined Benefit Pension Plans"
- SFAS 44 "Accounting for Intangible Assets of Motor Carriers"
- SFAS 45 "Accounting for Franchise Fee Revenue"
- SFAS 50 "Financial Reporting in the Record and Music Industry"
- SFAS 51 "Financial Reporting by Cable Television Companies"
- SFAS 53 "Financial Reporting by Producers and Distributors of Motion Picture Films"
- SFAS 60 "Accounting and Reporting by Insurance Enterprises"
- SFAS 61 "Accounting for Title Plant"
- SFAS 63 "Financial Reporting by Broadcasters"
- SFAS 65 "Accounting for Certain Mortgage Banking Activities"
- SFAS 66 "Accounting for Sales of Real Estate"
- SFAS 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects"
- SFAS 69 "Disclosures about Oil and Gas Producing Activities"
- SFAS 71 "Accounting for the Effects of Certain Types of Regulation"
- SFAS 72 "Accounting for Certain Acquisitions of Banking or Thrift Institutions"
- SFAS 73 "Reporting a Change in Accounting for Railroad Track Structures"
- SFAS 86 "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed"

- SFAS 90 "Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs"
- SFAS 92 "Regulated Enterprises — Accounting for Phase-in Plans"
- SFAS 93 "Recognition of Depreciation by Not-for-Profit Organizations"
- SFAS 97 "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments"
- SFAS 101 "Regulated Enterprises — Accounting for the Discontinuation of Application of FASB Statement No. 71"
- SFAS 102 "Statement of Cash Flows — Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale"
- SFAS 104 "Statement of Cash Flows — Net Reporting of Certain Cash Receipts and Cash Payments and Classifications of Cash Flows from Hedging Transactions"
- SFAS 110 "Reporting by Defined Benefit Pension Plans of Investment Contracts"
- SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts"
- SFAS 117 "Financial Statements of Not-for-Profit Organizations"
- SFAS 120 "Accounting and Reporting by Mutal Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts"
- SFAS 122 "Accounting for Mortgage Servicing Rights"
- FASB Interpretations Related to Industries Having Specialized Accounting and Reporting Principles and Practices
- Interpretation 9 "Applying APB Opinion Nos. 16 and 17, When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method: An Interpretation of APB Opinion Nos. 16 and 17"
- Interpretation 33 "Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method: An Interpretation of FASB Statement No. 34"
- Interpretation 36 "Accounting for Exploratory Wells in Progress at the End of a Period: An Interpretation of FASB Statement No. 19"
- Interpretation 40 "Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises"
- Interpretation 41 "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements"

AUDITORS' REPORTS CHECKLIST

Explanation of References:

- SAS = Statement of Auditing Standards
 SSARS = AICPA Statement on Standards for Accounting and Review Services
 AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
 AR = Reference to section number in AICPA Professional Standards (vol. 2)

CHECKLIST QUESTIONNAIRE

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	___	___	___
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05)]	___	___	___
c. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	___	___	___
2. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	___	___	___
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	___	___	___
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	___	___	___
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 47-48 (AU 508.47-.48)]	___	___	___
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14-17 (AU 504.14-.17)]	___	___	___

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16–33 (AU 508.16–.33)]	_____	_____	_____
Note: Consult the Topical Index to the <i>AICPA Professional Standards</i> under "Uncertainties" for additional references to specific types of uncertainties.			
b. There is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12–.13)]	_____	_____	_____
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34–36 (AU 508.34–.36)]	_____	_____	_____
d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77–78 and 81–82 (AU 508.77–.78 and .81–.82)]	_____	_____	_____
e. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
f. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. .12–.13 (AU 508.12–.13)]	_____	_____	_____
g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14–15 (AU 508.14–.15)]	_____	_____	_____
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
i. The auditor decides to emphasize a matter in the report? [SAS 58, pars. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40–45 (AU 508.40–.45); SAS 31, par. 23 (AU 326.23); SAS 19, par. 12 (AU 333.12)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.			
7. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? [SAS 58, pars. 49–66 (AU 508.49–.66); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.			
8. Is a qualified or adverse opinion expressed if the entity specifically requests the auditor to report on prior-period financial statements that are incomplete (e.g., prior-period totals only)? [SAS 58, fn. 27 (AU 508, fn. 27)]	_____	_____	_____
9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified? [SAS 58, pars. 39, 68–69, and 71 (AU 508.39, .68–.69, and .71)]	_____	_____	_____
10. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information is subject to the auditing procedures applied in the audit of the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	_____	_____	_____
11. Is the reporting form and content of SAS 60, paragraphs 9 through 19, followed when communicating internal control structure related matters noted in an audit? ¹ [SAS 60, pars. 9–19 (AU 325.09–.19)]	_____	_____	_____

¹ Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

ACCOUNTANTS' REPORTS ON COMPILED OR REVIEWED FINANCIAL STATEMENTS

Explanation of References:

SSARS = Statement on Standards for Accounting and Review Services

AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited

This checklist is divided into two parts. Part I should be used by accountants engaged to compile financial statements; Part II should be used by accountants engaged to review financial statements.

CHECKLIST QUESTIONNAIRE

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
PART I - FOR COMPILATION ENGAGEMENTS			
1. Is the compilation report appropriately worded? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 14 (AR 100.14)]	_____	_____	_____
3. For compiled financial statements that contain departures ¹ from generally accepted accounting principles (GAAP) or, where applicable, an other comprehensive basis of accounting (OCBOA):			
a. If the departure is the omission of substantially all required disclosures, does the accountant's report clearly indicate such omission? [SSARS 1, pars. 19 and 21 (AR 100.19 and .21)]	_____	_____	_____
b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled "Selected Information — Substantially All Disclosures Required by Generally Accepted Accounting Principles (or OCBOA) Are Not Included"? [SSARS 1, par. 19 (AR 100.19)]	_____	_____	_____

¹ Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 [AR 300] compilation report on financial statements included in a prescribed form.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. If statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? ² [SSARS 1, par. 20 (AR 100.20)]	_____	_____	_____
d. If the financial statements contain a departure from GAAP or an OCBOA, is the report modified to describe the departure? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
(1) If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
(2) If the effects have not been determined, is this fact stated in the accountant's report? [SSARS 1, par. 40 (AR 100.40)]	_____	_____	_____
4. If the accountant is not independent with respect to the entity for which he or she has compiled financial statements, does the compilation report state, "I am (we are) not independent with respect to XYZ Company"? [SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
5. Is the report properly dated? [SSARS 1, par. 15 (AR 100.15)]	_____	_____	_____
6. Does each page of the financial statements include a reference such as "See Accountant's Compilation Report"? [SSARS 1, par. 16 (AR 100.16)]	_____	_____	_____
7. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 40, footnote 18 (AR 100.40 fn 18)]	_____	_____	_____

² SAS 62, paragraphs 9 and 10 (AU Secs. 623.09-.10) provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with another comprehensive basis of accounting.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
8. If the accountant has compiled both the basic financial statements and other data that is presented for supplementary analysis purposes, does the compilation report also include the other data, indicating the degree of responsibility taken? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
9. If an audit engagement has been changed to a review or compilation, does the report omit reference to: a) the original engagement, b) any auditing or review procedures that may have been performed, c) any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____
11. If compiled financial statements that omit substantially all of the disclosures required by GAAP are included among the comparative financial statements, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]	_____	_____	_____
a. If the prior period financial statements did not omit the required disclosures, and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:			
1. The nature of the previous service rendered (compilation, review, or audit)?	_____	_____	_____
2. Date of the previous report? [SSARS 2, pars. 29-30 (AR 200 .29-.30)]	_____	_____	_____
12. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated? [SSARS 2, par. 8 (AR 200.08)]	_____	_____	_____
13. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the report of the current period modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8, and 11-12 (AR 200.08, and .11-.12)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the report modified to disclose the departure in a separate paragraph? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]	_____	_____	_____
4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity's ability to continue as a going concern, or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 40 (AR 100.40 footnote 18)]	_____	_____	_____
5. Is the report properly dated? [SSARS 1, par. 33 (par. 100.33)]	_____	_____	_____
6. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountant's Review Report"? [SSARS 1, par. 34 (AR 100.34)]	_____	_____	_____
7. When accompanying information is presented with the financial statements, does the report clearly indicate degree of responsibility the accountant has taken with respect to such information? [SSARS 1, par. 43 (AR 100.43)]	_____	_____	_____
8. Was a representation letter obtained from the client to confirm the oral representations made to the accountant?	_____	_____	_____
a. If the client did not provide a representation letter, did the accountant consider the matters discussed in paragraphs 44-49 of SSARS 1 in deciding whether it is appropriate to issue a compilation report?	_____	_____	_____
9. If an audit engagement has been changed to a review, does the report omit reference to: a) the original engagement, b) any auditing or review procedures that may have been performed, c) any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]	_____	_____	_____
10. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]	_____	_____	_____

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 11. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated?
[SSARS 2, pars. 8-10 (AR 200.08-.10)] | _____ | _____ | _____ |
| 12. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the report of the current period modified appropriately or combined with a reissued report from the prior period?
[SSARS 2, pars. 8 and 11-12 (AR 200.08, and .11-.12)] | _____ | _____ | _____ |
| 13. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph in the report include the appropriate language?
[SSARS 2, pars. 14-15 (AR 200.14-.15)] | _____ | _____ | _____ |
| 14. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as restated?
[SSARS 2, pars. 25-26 (AR 200.25-.26)] | _____ | _____ | _____ |
| 15. If the current-period financial statements were reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph that contains the appropriate language?
[SSARS 2, par. 28 (AR 200.28)] | _____ | _____ | _____ |

Predecessor's Review Report

- | | | | |
|--|-------|-------|-------|
| 16. If the predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, has the successor: | | | |
| a. Made appropriate reference in the report to the predecessor's report in accordance with paragraphs .17 to .19 of SSARS 2? | _____ | _____ | _____ |
| or | | | |
| b. Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly?
[SSARS 2, pars. 16-19 (AR 200.16-.19)] | _____ | _____ | _____ |

ILLUSTRATIVE FINANCIAL STATEMENTS, NOTES, AND AUDITOR'S REPORT

Independent Auditor's Report

To the Shareholders and Board of Directors
Private Company and Subsidiaries

We have audited the accompanying balance sheet of Private Company and Subsidiaries as of December 31, 19X2, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Private Company and Subsidiaries at December 31, 19X2 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

ILLUSTRATIVE BALANCE SHEET

Private Company and Subsidiaries Consolidated Balance Sheet

December 31, 19X2

Assets

Current Assets:

Cash and cash equivalents	\$ 8,196
Accounts receivable	133,616
Inventories	99,194
Prepaid expenses and other current assets	21,193
Deferred income taxes	31,496
Assets held for sale at estimated realizable value	<u>45,535</u>
Total current assets	339,230

Property, plant and equipment, net	118,667
Intangibles	87,891
Other assets	53,198
Deferred income taxes	<u>14,010</u>
Total Assets	<u>\$612,996</u>

Liabilities and Shareholders' Equity

Current Liabilities:

Short-term borrowings and current maturities of long-term debt	\$ 6,217
Accounts payable	62,777
Accrued expenses	88,660
Income taxes payable	<u>10,398</u>
Total current liabilities	<u>168,052</u>

Long-term debt, less current maturities	179,075
Accrued postretirement benefits	76,250
Other liabilities	<u>7,114</u>
Total long-term liabilities	<u>262,439</u>

Shareholders' Equity:

Common stock: authorized 37,500,000 shares; issued 15,679,933	21,223
Additional paid-in capital	163,022
Retained earnings	291,422
Cumulative translation adjustments	(4,510)
	471,157
Common stock in treasury, at cost, 5,806,094 shares	<u>(288,652)</u>
Total shareholders' equity	<u>182,505</u>
Total liabilities and shareholders' equity	<u>\$612,996</u>

The accompanying notes are an integral part of these financial statements.

**Private Company and Subsidiaries
Consolidated Statement of Operations**

For the Year Ended December 31, 19X2

Net Sales	\$809,138
Cost of sales	584,194
Selling, general, and administrative expenses	163,951
Disposition of businesses and restructuring	<u>42,800</u>
Total operating costs and expenses	<u>790,945</u>
Operating Earnings	18,193
Interest expense	(13,565)
Interest income	<u>2,125</u>
Income before provision for income taxes	6,753
Provision for income taxes	<u>(2,157)</u>
Income before cumulative effect of accounting change	4,596
Cumulative effect of accounting change	<u>(46,200)</u>
Net loss	<u><u>\$(41,604)</u></u>

The accompanying notes are an integral part of these financial statements.

**Private Company and Subsidiaries
Consolidated Statement of Shareholders' Equity**

For the Year Ended December 31, 19X2

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Cumulative Translation Adjustments</u>	<u>Common Stock In Treasury</u>
Balance at December 31, 19X1	\$21,106	\$156,733	\$350,654	\$2,747	\$(293,022)
Net loss	—	—	(41,604)	—	—
Dividends declared	—	—	(17,628)	—	—
Exercise of stock options and savings and stock ownership plan funding	117	6,289	—	—	4,370
Translation adjustments	—	—	—	(7,257)	—
Balance at December 31, 19X2	<u>\$21,223</u>	<u>\$163,022</u>	<u>\$291,422</u>	<u>\$(4,510)</u>	<u>\$(88,652)</u>

The accompanying notes are an integral part of these financial statements.

**Private Company and Subsidiaries
Consolidated Statement of Cash Flows**

For the Year Ended December 31, 19X2

Cash flows from operating activities:	
Net loss	\$ (41,604)
Adjustments to reconcile net loss to net cash from operating activities:	
Cumulative effect of accounting changes	46,200
Disposition of businesses and restructuring	42,800
Deferred income taxes	(18,998)
Depreciation and amortization	26,369
Pension credits	(8,280)
Undistributed earnings of affiliates	(927)
Changes in assets and liabilities, net of effects from acquisitions and divestitures:	
Accounts receivable	(1,948)
Inventories	(27)
Prepaid expenses and other current assets	(2,536)
Accounts payable	4,496
Accrued expenses	(10,320)
Income taxes	<u>(7,950)</u>
Net cash from operating activities	<u>27,275</u>
Cash flows from investing activities:	
Proceeds from dispositions	3,088
Capital expenditures	(24,658)
Payments from acquisitions, net of cash acquired	(28,653)
Dividends from non-consolidated subsidiaries	245
Other, net	<u>(723)</u>
Net cash from investing activities	<u>(50,701)</u>
Cash flows from financing activities:	
Net change in short-term borrowings, including current maturities of long-term debt	(964)
Proceeds from issuance of long-term debt	102,065
Redemption of long-term debt	(65,258)
Dividends paid	(17,541)
Proceeds from issuance of common stock	<u>5,132</u>
Net cash from financing activities	<u>23,434</u>
Effect of exchange rate changes on cash	<u>(988)</u>
Net changes in cash and cash equivalents	(980)
Cash and cash equivalents at beginning of year	<u>9,176</u>
Cash and cash equivalents at end of year	<u><u>\$8,196</u></u>

The accompanying notes are an integral part of these financial statements.

Private Company and Subsidiaries Notes to Financial Statements

Note A: Summary of Significant Accounting Policies

- Nature of Operations

Private Company and Subsidiaries (the "Company") is predominantly engaged in the production and sale of high-precision tools for use in the construction industry. The Company is also engaged in the construction of small commercial buildings in Canada. This work is usually performed under fixed-price contracts.

- Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- Consolidation

The consolidated financial statements of the Company include the accounts of Private Company and its wholly owned subsidiaries. Intercompany transactions and accounts have been eliminated. Investments in nonconsolidated companies where management exercises significant influence are accounted for using the equity method.

- Cash Equivalents

Holdings of highly liquid investments with original maturities of three months or less and investments in money market funds are considered to be cash equivalents by the Company.

- Inventories

Inventories are valued using the last-in, first-out (LIFO) method at certain domestic units. Remaining inventories are valued using the first-in, first-out (FIFO) method. All inventories are stated at the lower of cost or market.

- Property

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets. Leasehold improvements are amortized over the life of the related asset or the life of the lease, whichever is shorter.

- Intangibles

Intangible assets are amortized on a straight-line basis over periods not exceeding 40 years.

- Foreign Currency Translation

Foreign currency transactions and financial statements of foreign subsidiaries are translated into U.S. dollars at prevailing or current rates respectively, except for revenue, costs and expenses which are translated at average current rates during each reporting period. Gains and losses resulting from translation of financial statements are excluded from the statement of operations and are credited or charged directly to a separate component of shareholders' equity.

- Revenue Recognition

The percentage-of-completion method of accounting is followed for long-term contracts. Under this method, earnings accrue as the contract progresses toward completion, based on the percentage of costs incurred or the units of product delivered. Revenues are primarily recognized as products are shipped and services rendered.

- Income Taxes

The Company accounts for its income taxes using Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Note B: Accounts Receivable

Accounts receivable are net of allowances for returns and doubtful accounts of \$4,416 at December 31, 19X2.

Note C: Inventories

Inventories at December 31, 19X2 consisted of the following:

Finished goods	\$29,778
Work in process	31,539
Raw material and purchased parts	<u>54,792</u>
Total FIFO cost	116,109
Excess of FIFO cost over LIFO inventory value	<u>(16,915)</u>
Net carrying value	<u>\$99,194</u>

Inventories valued using LIFO were approximately \$39,950 at December 31, 19X2. During 19X2 reductions in inventory quantities resulted in liquidations of LIFO inventory layers carried at lower costs prevailing in prior years as compared with the cost of 19X2 purchases. The effects were to reduce the amount of beginning LIFO reserve and increase 19X2 pretax income by \$3,500. Had cost of sales related to the LIFO inventory layers that were liquidated been valued using current costs, the effects would have been to decrease 19X2 net earnings by \$1,950 in 19X2.

Progress payments, netted against work in process at year end, were \$1,310 in 19X2.

Note D: Contracts in Progress

Contracts in progress of \$13,050 at December 31, 19X2 is included in prepaid expenses and other assets. Contracts in progress represent revenue recognized on a percentage-of-completion basis over related progress billings of \$30,008 at December 31, 19X2. Substantially all contracts in progress at year-end are billed during the subsequent year.

Note E: Property, Plant and Equipment

Property, plant and equipment at December 31, 19X2 consisted of the following:

Land	\$5,750
Buildings and leasehold improvements	73,173
Machinery and equipment	<u>206,786</u>
	285,709
Less accumulated depreciation and amortization	<u>(167,042)</u>
	<u>\$118,667</u>

Note F: Income Taxes

At December 31, 19X2, the Company had net operating loss and tax credit carryforwards for income tax purposes of approximately \$45,350 and \$6,350, respectively, which expire in years 19X3 through 20X2 and acquired deductible temporary differences of approximately \$24,450. These carryforwards and deductible temporary differences resulted from prior year acquisitions. For financial reporting purposes, a valuation allowance of \$21,600 has been recognized to offset the deferred tax assets related to these items.

The net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 19X2 are as follows:

Deferred tax assets:	
Acquired tax benefits and basis differences	\$ 32,987
Other postretirement employee benefits	30,647
Losses on dispositions and restructuring	17,399
Inventory	5,877
Warranty	2,341
Vacation pay	1,940
Bad debt allowances	1,137
Other	<u>9,575</u>
Total deferred tax assets	101,903
Valuation allowance for deferred tax assets	<u>(21,600)</u>
	<u>80,303</u>
Deferred tax liabilities:	
Accelerated depreciation	14,860
Pension credits	9,329
Other	<u>10,608</u>
Total deferred tax liabilities	<u>34,797</u>
Net deferred tax assets	<u>\$ 45,506</u>

Significant components of the provision for income taxes for the year ended December 31, 19X2 attributable to continuing operations are as follows:

Current:	
Federal	\$ 1,503
State	<u>4,049</u>
Total current	<u>5,552</u>
Deferred:	
Federal	(3,008)
State	<u>(387)</u>
Total deferred	<u>(3,395)</u>
	<u>\$ 2,157</u>

Consolidated U.S. federal income tax returns have been examined by the IRS through December 31, 19X1. The reconciliation of income tax attributable to continuing operations computed at the federal statutory tax rate to income tax expense is:

Tax at federal statutory rate	\$2,296	34.0
State and local income taxes, net of federal benefit	236	3.5
Goodwill amortization	(264)	(3.9)
Other, net	<u>(111)</u>	<u>(1.6)</u>
	<u>\$2,157</u>	<u>32.0</u>

Note G: Debt

Commercial Paper — 4.1%	\$10,930
Money Market Loans — 4.0%	70,750
Bankers Acceptance — 3.7%	4,966
Notes due 19X5 — 7.14%	12,500
Variable Rate Industrial Revenue Bonds due 20X0–20X4; no stipulated principal repayments prior to maturity	15,750
5 ³ / ₄ % Convertible Subordinated Debentures due 20X2	50,000
5 ⁵ / ₈ –6 ¹ / ₂ % Industrial Revenue Bonds due 20X0–20X4; no stipulated principal repayments prior to maturity	5,607
Capitalized Lease Obligations	3,297
5% Development Loan	2,525
Other Long-Term Borrowings	<u>7,358</u>
	183,683
Less current maturities	<u>4,608</u>
	<u>\$179,075</u>

Maturities of long-term debt through 19X7 are: 19X3 — \$4,608; 19X4 — \$1,943; 19X5 — \$13,241; 19X6 — \$91,119; 19X7 — \$424.

The Company issued \$50,000 of 5³/₄% of Convertible Subordinated Notes due 20X2 in April 19X2. The Notes are convertible into Private Company common stock at a conversion rate of 6.33 shares of Common Stock for each \$1 principal amount of Notes (equivalent to a conversion price of approximately \$39.00 per share). The proceeds from the Notes were used to repay \$12,500 of commercial paper and money market loans, \$10,600 of commercial paper and money market loans (incurred to redeem \$10,550 of its 8⁷/₈% Debentures due 19X9 and the associated premium), and the balance to repay other commercial paper and money market loans with a weighted average interest rate of 4.36%, and for general corporate purposes.

In July 19X2, the company entered two revolving credit agreements with expiration dates of July 15, 19X3 and July 18, 19X5. Each agreement permits borrowings of up to \$100,000 at interest rates offered to prime customers. The agreement expiring July 18, 19X5 is convertible into a one-year term loan.

Money market loans and commercial paper are classified as long-term debt as the company intends to refinance them on a long-term basis either through continued short-term borrowing or utilization of available credit facilities.

Note H: Fair Values of Financial Instruments

Disclosure of fair value information about certain financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value is required by Financial Accounting Standards Board Statement (SFAS) No. 107, *Disclosure About Fair Value of Financial Instruments*. The following methods and assumptions were used in estimating fair values:

- Cash and cash equivalents: The carrying amount reported in the balance sheet approximates fair value.
- Short- and long-term debt: The carrying amounts of the Company's borrowings under its revolving credit agreements, as well as all short-term borrowings, approximate their fair values. The fair values of the Company's long-term debt were estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar arrangements.

Financial guarantees and letters of credit were issued by the Company in the ordinary course of business as required. The fair value was based upon the face value of the underlying instruments.

The carrying amounts and fair values of the Company's financial instruments as December 31, 19X2 are as follows:

	<u>Carrying Amounts</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 8,196	\$ 8,196
Short- and long-term debt	185,292	185,292
Financial guarantees and letters of credit	—	11,150

Note I: Contingencies and Commitments

- Litigation

The Company and certain of its subsidiaries are defendants in legal proceedings that arise in the ordinary course of its business activities. Although the ultimate disposition of these proceedings is not presently determinable, management does not expect the outcome to have a material adverse effect on the Company's financial position.

- Leases

The future minimum rental payments under leases with remaining noncancelable terms in excess of one year are:

Year Ending December 31,	
19X3	\$11,900
19X4	8,550
19X5	6,400
19X6	4,850
19X7	3,850
Subsequent to 19X7	<u>11,550</u>
Total minimum payments	<u>\$47,100</u>

Included in these amounts are future minimum lease payments of equipment as follows: 19X3 — \$3,400; 19X4 — \$2,300; 19X5 — \$1,950; 19X6 — \$1,700; 19X7 — \$1,500; and thereafter \$5,600.

Minimum payments exclude sublease rentals of \$1,500 under noncancelable subleases. Total rent expense in 19X2 was \$12,450.

Note J: Environmental Matters

The Company is involved in various stages of investigation and remediation relative to environmental protection matters, arising out of its own initiative, from indemnification of purchasers of divested operations, or from legal or administrative proceedings, some of which include waste disposal sites. One of the Company's facilities has been listed on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 19Y0, as amended by the Superfund Amendments and Reauthorization Act of 19Y6 ("CERCLA"); the Company is engaged in litigation concerning the appropriateness of that listing. In certain instances, the Company may be exposed to joint and several liability for remedial action or damages. The Company, along with several other entities, has been named as a Potentially Responsible Party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA.

The potential costs related to such matters and the possible impact on future operations are uncertain due in part to the complexity of government laws and regulations and their interpretations, the varying costs and effectiveness of cleanup technologies, the uncertain level of insurance or other types of recovery, and the questionable level of the Company's responsibility. In management's opinion, after considering reserves established for such purposes, remedial actions for compliance with the present laws governing the protection of the environment are not expected to have a material adverse impact on the Company's results of operations or financial position.

Note K: Capital Stock

- Preferred Stock

Five million shares of cumulative preferred stock, par value \$1.00 per share, are authorized but unissued.

- Common Stock

The 979,780 shares issued through 19W9 have a par value of \$3.34 per share. Shares issued since then have a par value of \$1.00 per share.

- Treasury Stock

Balance, December 31, 19X1	5,894,234
Common stock reacquired	2,805
Common stock issued	<u>(90,945)</u>
Balance, December 31, 19X2	<u>5,806,094</u>

- Common Stock Purchase Rights

The Board of Directors declared a dividend distribution of two common stock purchase rights (Rights) for each share of common stock on June 5, 19W6. The rights expire on June 25, 19W6, unless redeemed earlier by the Company. Two Rights entitle its registered holder to purchase from the Company one share of common stock at a price of \$75 per share, subject to adjustment to prevent dilution.

The Rights are not exercisable and cannot be transferred separately from the common stock until: (1) a person or group publicly announces the acquisition of, or obtains the right to acquire, 30% or more of the outstanding shares of the Company's common stock; or (2) a tender or exchange offer is announced or commenced that would result in such an acquisition. Within 15 days after such a 30% interest has actually been obtained, the Company is entitled to redeem all of the Rights at a price of five cents per Right.

Note L: Employee Benefit Plans

- Pension Plans

Substantially all salaried and hourly paid employees are covered by the Company's pension plans. Benefit payments are provided by the plans, using a formula based on an employee's compensation and length of service or, in some cases, stated amounts for each year of service. The Company funds pension plans in amounts equal to the minimum funding requirements of the Employee Retirement Income Security Act of 19V4, plus additional amounts that may be approved from time to time. Substantially all plan assets are invested in cash and short-term investments or listed stocks and bonds and real estate. Plan assets and obligations of subsidiaries are not considered material.

The periodic net pension income for 19X2 related to continuing operations is comprised of the following:

Service cost — benefits earned during the period	\$ 5,705
Interest cost on projected benefit obligation	15,090
Actual return on assets	(9,343)
Net amortization and deferral	(19,732)
Net pension income	<u>\$(8,280)</u>

The following table shows the plan's funded status and amounts recognized in the balance sheet as of December 31, 19X2.

Actuarial present value of benefit obligations:

Vested benefit obligation	\$(161,064)
Accumulated benefit obligation	(173,669)
Projected benefit obligation	(185,092)
Fair value of plan assets	263,150
Plan assets in excess of projected benefit obligation	78,058
Unrecognized net gain	(25,524)
Prior service cost not yet recognized in net pension cost	5,908
Unrecognized net asset	(26,895)
Prepaid pension cost	<u>\$31,547</u>

The actuarial assumptions used were:

Discount rate	8.75%
Rate of increase in compensation levels	6.50%
Expected long-term rate of return on assets	9.50%

● **Nonpension Retirement Benefits**

The Company and its subsidiaries have postretirement plans that provide health and life insurance benefits for retirees. Some of these plans require employee contributions at varying rates. Not all employees are eligible to receive these benefits, with eligibility depending on the plan in effect at a particular location.

The Company changed its method of accounting for postretirement benefits other than pensions from the pay-as-you-go method to the accrual method, as required by SFAS No. 106, on January 1, 19X2. A charge of \$77,500 to the 19X2 earnings, net of approximately \$31,300 of income tax benefits, was the result of the cumulative effect of adopting SFAS No. 106 as of January 1, 19X2.

The accumulated postretirement benefit obligation was determined using the terms of the Company's various plans, together with relevant actuarial assumptions and healthcare cost trend rates projected at annual rates ranging from 13% in 19X2 and 12.1% in 19X3 to 6% through the year 20X4 and a discount rate of 8.75%.

A 1% annual increase in these assumed cost trend rates would increase the accumulated postretirement benefit obligation by approximately \$12,750 and annual service costs by approximately \$1,350.

The net periodic postretirement benefit cost related to continuing operations for 19X2 is comprised of the following:

Service cost-benefits attributed to service during the period	\$ 925
Interest cost on the accumulated postretirement benefit obligation	6,460
Net amortization and deferral	<u>(60)</u>
Net periodic postretirement benefit cost	<u>\$7,325</u>

The following table shows the plans' funded status and amounts recognized in the balance sheet as of December 31, 19X2 and January 1, 19X2 (the date of adoption):

	<u>December 31, 19X2</u>	
	<u>Health</u>	<u>Life</u>
Accumulated postretirement benefit obligation:		
Retirees	\$(50,809)	\$ (6,266)
Fully eligible active plan participants	(3,454)	(2,095)
Other active plan participants	<u>(5,625)</u>	<u>(1,097)</u>
Total	(59,888)	(9,458)
Unrecognized prior service cost	<u>(11,403)</u>	<u>—</u>
Accrued postretirement benefit cost	(71,291)	(9,458)
Less amounts classified as current	<u>4,000</u>	<u>500</u>
	<u>\$(67,291)</u>	<u>\$ (8,958)</u>

	<u>January 1, 19X2</u>	
	<u>Health</u>	<u>Life</u>
Accumulated postretirement benefit obligation:		
Retirees	\$(50,268)	\$ (6,273)
Fully eligible active plan participants	(6,425)	(1,927)
Other active plan participants	<u>(11,699)</u>	<u>(908)</u>
Total	(68,392)	(9,108)
Unrecognized prior service cost	<u>—</u>	<u>—</u>
Accrued postretirement benefit cost	(68,392)	(9,108)
Less amounts classified as current	<u>—</u>	<u>—</u>
	<u>\$(68,392)</u>	<u>\$ (9,108)</u>

The unrecognized prior service cost at December 31, 19X2 represents unamortized amounts for plan amendments resulting from revisions to Company-sponsored health plans during 19X2 which reduced benefit levels.

Note M: Discontinued Operations

In 19X0, the Company adopted a plan to dispose of substantially all of its sea transportation sector, comprised of its New York Boat and General Seaway units and several minor related businesses. During the first half of 19X1, the Company completed the sale of substantially all the net assets of New York Boat and General Seaway. During the fourth quarter of 19X1, the Company provided a \$4,900 after-tax charge relating to the discontinued businesses. Certain operations related to these businesses have not been sold or disposed of as of December 31, 19X2 and certain outstanding obligations remain unsettled.

Note N: Supplemental Cash Flow Information

During 19X2 the Company paid \$14,201 and \$13,369 for interest and taxes, respectively.

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