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Checklists and illustrative financial statements for life insurance companies : a financial accounting and reporting practice aid, December 1994 edition

American Institute of Certified Public Accountants. Technical Information Division

Steven F. Moliterno

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AICPA

**DECEMBER 1994
EDITION**

***Checklists
and Illustrative
Financial Statements
for Life Insurance
Companies***

*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 Real Estate Ventures

Checklist of Emerging Issues Task Force Consensuses

Industry Checklists and Illustrative Financial Statements

Checklists and Illustrative Financial Statements for Agricultural Cooperatives

Checklists and Illustrative Financial Statements for Banks

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

Checklists and Illustrative Financial Statements for Finance Companies

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

Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies

Checklists and Illustrative Financial Statements for Savings Institutions

Checklists and Illustrative Financial Statements for State and Local Governmental Units

AICPA

DECEMBER 1994
EDITION

Checklists and Illustrative Financial Statements for Life Insurance Companies

*A Financial Accounting and
Reporting Practice Aid*

*Edited by
Steven F. Moliterno, CPA
Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for
Life Insurance Companies has not been approved,
disapproved, or otherwise acted upon by any senior
technical committees of the American Institute of
Certified Public Accountants or the Financial Accounting
Standards Board and has no official or authoritative status.*

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FSP Section 19,000

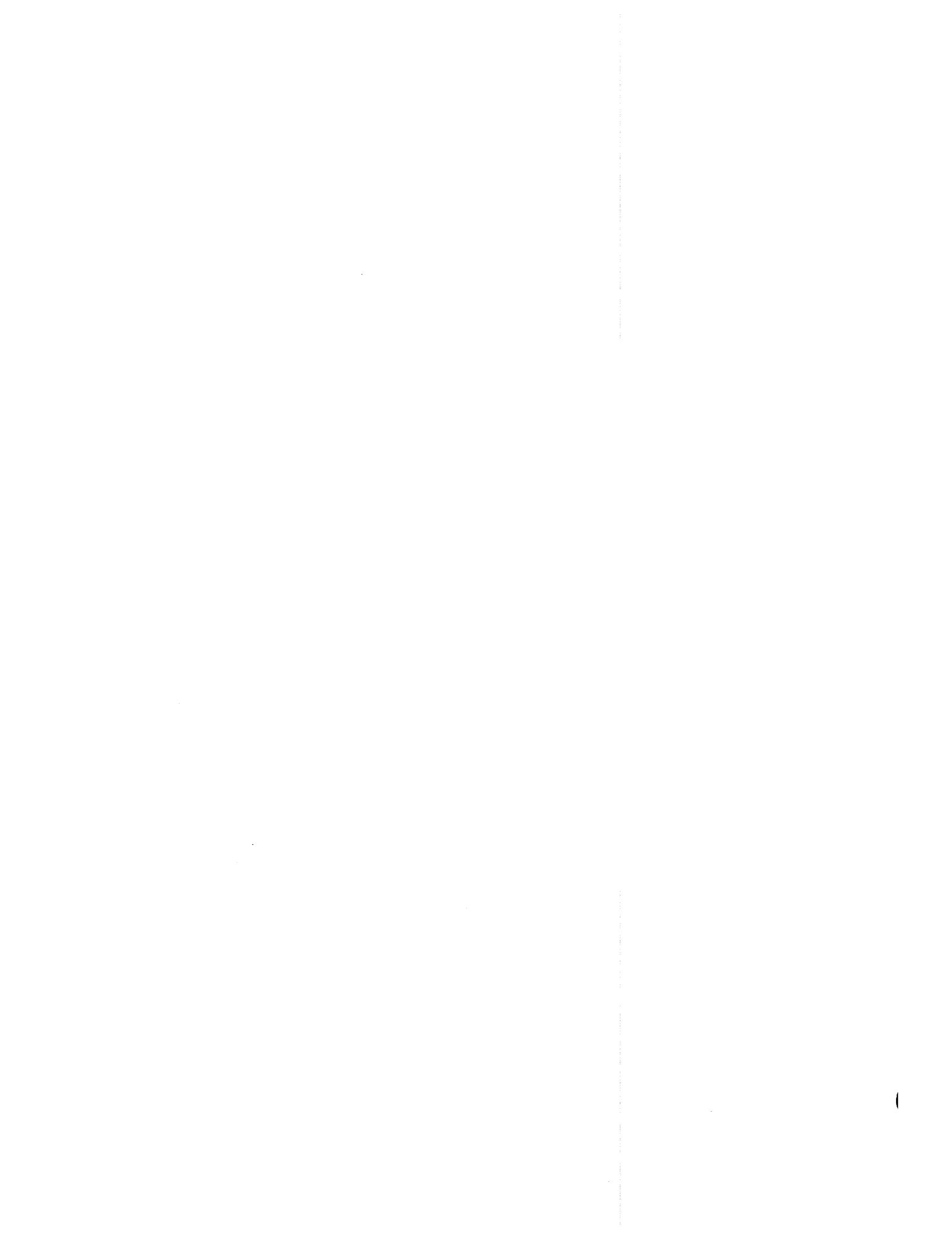
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR LIFE INSURANCE COMPANIES

.01 The checklists and illustrative financial statements 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 are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated to include relevant accounting pronouncements through AICPA Statement on Auditing Standards No. 73, FASB Statement of Financial Accounting Standards No. 117, FASB Interpretation No. 40, FASB Technical Bulletin No. 94-1, AICPA Statement of Position 94-1, the AICPA Audit and Accounting Guide, *Audits of Stock Life Insurance Companies* (with conforming changes as of May 1, 1994), AICPA Practice Bulletin No. 11, and EITF consensuses adopted up to and including the May 19, 1994, Emerging Issues Task Force meeting. In addition, a supplemental checklist outlines disclosure requirements for life insurance companies that are SEC registrants. 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.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented. The illustrative financial statements are reproduced from the AICPA Audit and Accounting Guide, *Audits of Stock Life Insurance Companies*, and do not necessarily include all required disclosures.

.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 sections 19,000 through 19,600 of the *AICPA Financial Statement Preparation Manual (FSP)*.



FSP Section 19,100

Introduction

.01 Life insurance companies provide for the pooling of risks among many persons who are exposed to similar risks. The provisions of the AICPA Audit and Accounting Guide, *Audits of Stock Life Insurance Companies*, apply to stock life insurance companies. For mutual insurance companies, financial statements prepared on a statutory basis are considered, in practice, to be prepared in accordance with generally accepted accounting principles ("GAAP"). AICPA Professional Standards section 623.09 *Special Reports* states that "when reporting on financial statements prepared on a comprehensive basis of accounting other than GAAP, the auditor should consider whether the financial statements (including accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used." Section 623.10 states that when "the financial statements (prepared on another comprehensive basis of accounting) contain items that are the same as, or similar to, those in financial statements prepared in conformity with GAAP, similar disclosures are appropriate." Therefore, the checklists and illustrative financial statements contained herein may apply to mutual life insurance companies. The auditor should refer to section 623, *Special Reports*, Auditing Interpretation 9623, *Evaluation of the Appropriateness of Informative Disclosures in Insurance Enterprises' Financial Statements Prepared on a Statutory Basis*, and the National Association of Insurance Commissioners' ("NAIC") Annual Statement instruction, *Annual Audited Financial Reports*.

.02 Common accounting and reporting practices by life insurance companies include:

- Most life insurance companies maintain their general ledgers on a cash basis and convert to accrual basis of accounting for SAP and GAAP reporting.
 - Insurance companies usually prepare non-classified balance sheets.
 - The first item in the balance sheet is usually the company's investments rather than cash.
 - The actuarial assumptions and estimates used to determine annual revenue and costs applicable to life insurance contracts are extremely significant and involve considerable judgment.
 - The auditor's responsibility is to form a judgment as to the appropriateness of actuarial assumptions.
 - Premium revenues are recognized as earned on a pro-rata basis over the contract period.
 - The costs of acquiring new business are deferred and charged to operations in proportion to premium revenue.
 - Reinsurance receivables and prepaid reinsurance premiums are reported as assets and estimated reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.
 - Debt securities classified as held-to-maturity are reported at amortized cost. Debt and equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings. Debt and equity securities classified as available-for-sale are reported at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.
-

FSP Section 19,200

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 may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position, and EITF consensuses. Some checklists also include references to FASB Interpretations and the AICPA Audit and Accounting Guides. 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 initialing each question or point to show that it has been considered. The format used in 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 notes” (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.

FSP Section 19,300

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

- AC = Reference to section number in *FASB Accounting Standards—Current Text*
- APB = AICPA Accounting Principles Board Opinion
- ARB = AICPA Accounting Research Bulletin
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1)
- FASBI = FASB Financial Accounting Standards Board Interpretation
- FTB = Technical Bulletin issued by the staff of the FASB
- AAG = *Audit and Accounting Guide, Audits of Stock Life Insurance Companies* (with conforming changes as of May 1, 1994)
- NAIC = NAIC Accounting Practices and Procedures Manual for Life, Accident, and Health Insurance Companies
- PB = AICPA Practice Bulletin
- SAS = AICPA Statement on Auditing Standards
- SFAS = FASB Statement of Financial Accounting Standards
- SOP = AICPA Statement of Position
- EITF = Emerging Issues Task Force Consensus (up to and including the May 19, 1994, Emerging Issues Task Force meeting)
- App. J = Appendix J of AAG containing SOP 90-11, *Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets*
- App. K = Appendix K of AAG containing SOP 92-3, *Accounting for Foreclosed Assets*

.03 Checklist Questionnaire

| | <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 to the notes indicating they are an integral part of the financial statement presentation? [SAS 32, par. 2 (AU 431.02)] | _____ | _____ | _____ |
| B. Disclosure of Accounting Policies | | | |
| 1. Is a description of all significant accounting policies of the reporting company presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Does disclosure of significant accounting policies encompass important judgments as to the 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 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. For GAAP reporting purposes, are the following regulatory accounting practices avoided (not all-inclusive): | | | |
| a. Nonrecognition of certain assets such as furniture and equipment? | _____ | _____ | _____ |
| b. Nonrecognition of deferred taxes? | _____ | _____ | _____ |
| c. Use of NAIC prescribed values for the amount of goodwill and other intangible assets related to the carrying value of investments in subsidiaries? | _____ | _____ | _____ |
| d. Calculation of liability for reinsurance in unauthorized companies? | _____ | _____ | _____ |
| e. Calculation of a mandatory securities valuation reserve? [NAIC, Introduction] | _____ | _____ | _____ |
| 5. Are the separate financial statements of all consolidated and unconsolidated subsidiaries presented in conformity with GAAP? [SFAS 94, par. 13 (AC C51.102); AAG, par. 8.107] | _____ | _____ | _____ |
| 6. Are the principles relating to the recognition of premium revenue and related expenses disclosed? [AAG, par. 10.02] | _____ | _____ | _____ |
| 7. For those financial statements in which FASB Interpretation 40 is not adopted, are the following disclosed: | | | |
| a. A description of the Interpretation? | _____ | _____ | _____ |
| b. The Interpretation's effective date and transition provisions (for fiscal years beginning after December 15, 1994)? | _____ | _____ | _____ |
| c. The fact that the financial statements prepared on the basis of statutory accounting practices will no longer be described as prepared in conformity with generally accepted accounting principles (for fiscal years beginning after December 15, 1994)? [FASBI 40, par. 6 (AC In6.166A)] | _____ | _____ | _____ |
| 8. Do mutual life insurance companies disclose the principles and methods used to account for marketable securities and insurance activities? [FASBI 40, par. 5 (AC A10.102A)] | _____ | _____ | _____ |
| 9. Until the time that FASB Interpretation 40 is applied, is the following provided: | | | |
| a. A brief description of the Interpretation? | _____ | _____ | _____ |
| b. A statement that financial statements prepared on the basis of statutory accounting practices will no longer be described as prepared in conformity with generally accepted accounting principles after the effective date of the interpretation? [FASBI 40, par. 6 (AC In6.166A, fn. 10a)] | _____ | _____ | _____ |
| C. Accounting Changes | | | |
| 1. For all changes in accounting principle, are the following disclosures made in the year of change: | | | |
| a. Nature of the change? | _____ | _____ | _____ |
| b. Justification for the change? | _____ | _____ | _____ |
| c. Effect on income before extraordinary items and on net income? | _____ | _____ | _____ |
| d. Effect on related per-share amounts? [APB 20, pars. 17 and 19 (AC A06.113 and .115)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—22 and 25 (AC A06.115—.118 and .121)] | _____ | _____ | _____ |
| 3. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)] | _____ | _____ | _____ |
| 4. Is the GAAP hierarchy in SAS 69 (AU 411) followed in justifying a change in accounting principle? [SFAS 111, par. 17 (AC A06.112)] | _____ | _____ | _____ |
| 5. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change: | | | |
| a. Effect on income before extraordinary items and on net income? | _____ | _____ | _____ |
| b. Effect on related per-share amounts? [APB 20, par. 33 (AC A06.132)] | _____ | _____ | _____ |
| 6. 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. 37 (AC A35.105)] | _____ | _____ | _____ |
| 7. If interim financial data and disclosures are not separately reported for the fourth quarter, and an accounting change is made during the fourth quarter, is disclosure made in the year of change of: | | | |
| a. The effect on the interim periods? | _____ | _____ | _____ |
| b. Cumulative effect? [APB 28, par. 31; SFAS 3, par. 14 (AC I73.147)] | _____ | _____ | _____ |
| 8. Are the provisions of EITF 93-6 applied for companies with reinsurance contracts with retrospective rating provisions resulting in changes in the amount or timing of future contractual cash flows (including premium adjustments, settlement adjustments, or refunds to the ceding company) or changes in the contract's future coverage in one of the following ways: | | | |
| a. By recognition of the net effect of applying the provisions at the beginning of a company's current fiscal year as a cumulative effect of a change in accounting principle? | _____ | _____ | _____ |
| b. By restatement of financial statements for all periods presented as long as that restatement is not prohibited by SFAS 113? | _____ | _____ | _____ |
| D. Comparative Financial Statements | | | |
| 1. Are comparative statements 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) presented, 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 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), as amended by APB 20] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 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. 63—65 (AC B50.122—.124)] | _____ | _____ | _____ |
| 2. If a business combination is accounted for by the purchase method, do the statements and notes include the required disclosures? [APB 16, pars. 95—96 (AC B50.164—.165)] | _____ | _____ | _____ |
| 3. Where the company purchased an enterprise and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, where the subsidiary has not yet been disposed of, is the disclosure guidance in EITF 90-6, if applicable, followed? [EITF 90-6] | _____ | _____ | _____ |
| F. Consolidations (See Exhibit B) | | | |
| 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. Are material intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)] | _____ | _____ | _____ |
| G. Related-Party Transactions and Economic Dependency | | | |
| 1. For related-party transactions, do disclosures include: | | | |
| a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, 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 an income statement is 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 an income statement is 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, par. 2 (AC R36.102)] | _____ | _____ | _____ |
| 2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting company and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting company being significantly different from those that would have resulted if the company were autonomous? [SFAS 57, par. 4 (AC R36.104)] | _____ | _____ | _____ |
| H. Financial Instruments | | | |
| 1. For financial instruments with off-balance-sheet risk (except for certain financial instruments specifically exempted by SFAS 105 (AC F25)), are the following disclosed, ¹ either in the body of the financial statements or in the notes, by class of financial instrument: ² | | | |

¹ Note that the disclosures required by Steps H1., 2., and 3. are not applicable to insurance contracts, other than financial guarantees and investment contracts as defined in SFASs 60 and 97. [SFAS 105, par. 14 (AC F25.104)]

² Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports, have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), “class of financial instrument” refers to those classifications.

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 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? | _____ | _____ | _____ |
| (3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SFAS 105, par. 17 (AC F25.112)] | _____ | _____ | _____ |
| 2. For financial instruments with off-balance-sheet risk (except as noted above in Step 1.), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument: | | | |
| a. The amount of accounting loss the company would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the company? | _____ | _____ | _____ |
| b. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company'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 (AC F25.113)] | _____ | _____ | _____ |
| 3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include: | | | |
| a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration? | _____ | _____ | _____ |
| b. The amount of the accounting loss due to credit risk the company 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 if the collateral or other security, if any, for the amount due proved to be of no value to the company? | _____ | _____ | _____ |
| c. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company'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)] | _____ | _____ | _____ |
| 4. 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, either in the body of the financial statements or in the accompanying notes (for those companies with less than \$150 million in assets, the effective date of SFAS 107 is for financial statements issued for fiscal years after December 15, 1995)? [SFAS 107, par. 10 (AC F25.115C)] | _____ | _____ | _____ |
| 5. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)] | _____ | _____ | _____ |
| 6. If it is not practicable to estimate the fair market value of financial instruments, are the following disclosed: | | | |
| a. Information pertinent to estimating the fair value of that 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)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| I. Foreign Currency | | | |
| 1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)] | _____ | _____ | _____ |
| 2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments 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? | _____ | _____ | _____ |
| 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 any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)] | _____ | _____ | _____ |
| 5. Is disclosure of principal amounts of spot and forward exchange contracts considered? [SFAS 80 (AC F80)] | _____ | _____ | _____ |
| J. Nonmonetary Transactions | | | |
| 1. Do disclosures for nonmonetary transactions during the period include: | | | |
| a. Nature of the transactions? | _____ | _____ | _____ |
| b. Basis of accounting for the assets transferred? | _____ | _____ | _____ |
| c. Gains or losses recognized on the transfers? [APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114—.119)] | _____ | _____ | _____ |
| K. Contingencies and Commitments | | | |
| 1. Are the nature and amount of significant accrued loss contingencies not related to life insurance disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)] | _____ | _____ | _____ |
| 2. For loss contingencies 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)] | _____ | _____ | _____ |
| 3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that are sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2—3 (AC C59.114)] | _____ | _____ | _____ |
| 4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80)] | _____ | _____ | _____ |
| L. Subsequent Events | | | |
| 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, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)] | _____ | _____ | _____ |
| 2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09)] | _____ | _____ | _____ |
| M. Pension Plans (Assumes adoption of SOP 93-6—See Exhibit C if SOP 93-6 has not been adopted) | | | |
| 1. If there is a defined benefit plan, do disclosures include: | | | |
| 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)] | _____ | _____ | _____ |
| 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? | _____ | _____ | _____ |
| (1) If the net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16), does that net total include: | | | |
| (i) 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)? | _____ | _____ | _____ |
| (ii) Amortization of the net gain or loss from earlier periods? | _____ | _____ | _____ |
| (iii) Amortization of unrecognized prior service cost? | _____ | _____ | _____ |
| (iv) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)? [SFAS 87, par. 54 (AC P16.150)] | _____ | _____ | _____ |
| c. 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)? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| (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? [SFAS 87, par. 54 (AC P16.150)] | _____ | _____ | _____ |
| d. 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. 54 (AC P16.150)] | _____ | _____ | _____ |
| e. If applicable, the amounts 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)] | _____ | _____ | _____ |
| f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)? [SFAS 87, par. 54 (AC P16.150)] | _____ | _____ | _____ |
| 2. If more than one defined benefit plan exists: | | | |
| a. Are the required disclosures in Step 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? | _____ | _____ | _____ |
| b. Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets? | _____ | _____ | _____ |
| c. 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)] | _____ | _____ | _____ |
| 3. If there is a defined contribution plan, do disclosures include: | | | |
| 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? | _____ | _____ | _____ |
| b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)] | _____ | _____ | _____ |
| 4. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan: | | | |
| a. Is the substance of the plan to provide a defined benefit? | _____ | _____ | _____ |
| b. If yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)] | _____ | _____ | _____ |
| 5. If there is a multiemployer plan, do disclosures include: | | | |
| a. A description of the multiemployer plan(s), 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)] | _____ | _____ | _____ |
| 6. For a multiemployer plan where a situation arises where the withdrawal from the plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied? [SFAS 87, par. 70 (AC P16.167)] | _____ | _____ | _____ |
| 7. If there is a settlement or curtailment of a defined benefit pension plan, or termination benefits under such plan, do disclosures include: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. A description of the nature of the events? | _____ | _____ | _____ |
| b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)] | _____ | _____ | _____ |
| 8. 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 EPS computations? | _____ | _____ | _____ |
| (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? ³ | _____ | _____ | _____ |
| 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? ⁴ [SOP 93-6, par. 53] | _____ | _____ | _____ |
| 9. Are all the items listed in Step 8. 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] | _____ | _____ | _____ |
| 10. For leveraged ESOPs and for nonleveraged ESOPs where the assets from the 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] | _____ | _____ | _____ |
| 11. 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 on the employer's balance sheet? [SOP 93-6, par. 26] | _____ | _____ | _____ |
| 12. If the employer sponsors an ESOP with an employer loan, is the ESOP's note payable and the employer's note receivable from the ESOP not reported in the employer's balance sheet? [SOP 93-6, par. 27] | _____ | _____ | _____ |

³ This disclosure need not be made for old ESOP shares for which the entity does not apply the guidance in SOP 93-6.

⁴ 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

N. Postretirement Health Care and Life Insurance Benefits (Assumes adoption of SFAS 106—See Exhibit A if SFAS 106 has not been adopted)

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

- | | | | |
|---|-------|-------|-------|
| <p>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 postretirement benefit 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?</p> | _____ | _____ | _____ |
| <p>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? ⁵</p> | _____ | _____ | _____ |
| <p>c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:</p> <p>(1) The fair value of plan assets?</p> | _____ | _____ | _____ |
| <p>(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?</p> | _____ | _____ | _____ |
| <p>(3) The amount of unrecognized prior-service cost?</p> | _____ | _____ | _____ |
| <p>(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?</p> | _____ | _____ | _____ |
| <p>(5) The amount of any remaining unrecognized transition obligation or transition asset?</p> | _____ | _____ | _____ |
| <p>(6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?</p> | _____ | _____ | _____ |
| <p>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?</p> | _____ | _____ | _____ |
| <p>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?</p> | _____ | _____ | _____ |
| <p>f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:</p> <p>(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?</p> | _____ | _____ | _____ |

⁵ The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). 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. [SFAS 106, par. 62 (AC P40.157)]
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan. [SFAS 106, par. 61 (AC P40.156)]

| | <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 should be held constant and the effects should 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 paragraph 53 or 60 of SFAS 106 (AC P40.148 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)? [SFAS 106, par. 74 (AC P40.169)] | _____ | _____ | _____ |
| 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)] | _____ | _____ | _____ |
| 2. If more than one defined benefit postretirement plan exists: | | | |
| a. Are the disclosures required by Step 1. above 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 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 primarily provide postretirement health care benefits and plans that primarily provide 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 of the plans? [SFAS 106, par. 78a (AC P40.173)] | _____ | _____ | _____ |
| c. Are plans inside the U.S. and plans 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 of the plans? [SFAS 106, par. 78b (AC P40.173)] | _____ | _____ | _____ |
| 3. If there is a multiemployer plan, do disclosures include: | | | |
| a. A description of the multiemployer plan(s), 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? | _____ | _____ | _____ |
| 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. 82 (AC P40.178)] | _____ | _____ | _____ |
| c. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where 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, and it is either probable or reasonably possible that: | | | |
| (1) An employer would withdraw from the plan under circumstances that would give rise to an obligation? | _____ | _____ | _____ |
| or | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| (2) An employer's contribution to the fund would 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)] | _____ | _____ | _____ |
| 4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures: | | | |
| 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? | _____ | _____ | _____ |
| b. The amount of cost recognized during the period? [SFAS 106, par. 106 (AC P40.198)] | _____ | _____ | _____ |
| O. Futures Contracts | | | |
| 1. If a futures contract is accounted for as a hedge, does the disclosure include: | | | |
| 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 contracts? [SFAS 80, par. 12 (AC F80.112)] | _____ | _____ | _____ |
| P. Troubled Debt Restructurings (Assumes adoption of SFAS 114—See Exhibit B if SFAS 114 has not been adopted) | | | |
| 1. For loans sold with recourse, are the following disclosures made: | | | |
| a. For each period for which an income statement is presented, the amount of proceeds? | _____ | _____ | _____ |
| b. At date of each balance sheet presented, the balance of sold receivables that remains uncollected? [SFAS 77, par. 9 (AC R20.109)] | _____ | _____ | _____ |
| Q. Lease Finance Receivables | | | |
| 1. 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 to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented? | _____ | _____ | _____ |
| c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23u (AC L10.119a)] | _____ | _____ | _____ |
| 2. Are leasing arrangements described? [SFAS 13, pars. 23 and 29 (AC L10.119 and .125); SFAS 91, par. 25 (AC L10.119a(1)—(3)); SFAS 98, pars. 17—19 (AC L10.130k—m)] | _____ | _____ | _____ |
| 3. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41—47 (AC L10.143—.149)] | _____ | _____ | _____ |
| R. Valuation Allowances | | | |
| 1. Are valuation reserves for losses anticipated on assets deducted from the assets to which they relate? [APB 12, par. 3 (AC V18.102); AAG, par. 8.116] | _____ | _____ | _____ |
| S. Other Matters | | | |
| 1. If required (SFAS 21 (AC S20)), does the financial statement presentation include segment information? [SFAS 14 (AC S20); SFAS 24, par. 5 (AC S20.109—.110); SFAS 30, par. 6 (AC S20.145); FTBs 79-4, 79-5 and 79-8 (AC S20.501—.507)] | _____ | _____ | _____ |

Yes No N/A

Balance Sheet

A. Investment Securities (Assumes adoption of SFASs 114 and 115—See Exhibit B if SFAS 114 has not been adopted)

- | | | | |
|--|-------|-------|-------|
| 1. Are there separate captions for each of the following investment categories: | | | |
| a. Mortgage loans on real estate? | _____ | _____ | _____ |
| b. Investment real estate? | _____ | _____ | _____ |
| c. Policy loans? | _____ | _____ | _____ |
| d. Other long-term investments? | _____ | _____ | _____ |
| e. Short-term investments? [AAG, App. A] | _____ | _____ | _____ |
| 2. Are mortgage loans that are acquired at par value reported at outstanding principal balances? [SFAS 60, par. 47 (AC In6.153)] | _____ | _____ | _____ |
| 3. Are mortgage loans that are purchased at a discount or premium reported at amortized cost with an allowance for uncollectible amounts, if any? [SFAS 60, par. 47 (AC In6.153)] | _____ | _____ | _____ |
| 4. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported in income as prescribed in SFAS 114? [SFAS 60, par. 47 (AC In6.153)] | _____ | _____ | _____ |
| 5. Are real estate investments reported at cost less accumulated depreciation and an allowance for any impairment in value? [SFAS 60, par. 48 (AC In6.154)] | _____ | _____ | _____ |
| 6. Are changes in the allowance for any impairment in value relating to real estate investments included in realized gains and losses? [SFAS 60, par. 48 (AC In6.154)] | _____ | _____ | _____ |
| 7. Is an explanation of the company's accounting policies for debt securities held, including the basis for classification into balance sheet captions, such as investment or trading, disclosed? [AAG, App. J (SOP 90-11, par. 8)] | _____ | _____ | _____ |
| 8. If investments in high-risk CMOs are significant, are the following disclosures made in the financial statements: | | | |
| a. The effective yield calculated as of the reporting date, either for each CMO or for the CMO portfolio (this yield will be used to accrue income in the following period)? | _____ | _____ | _____ |
| b. The carrying amount and fair value of investments in high-risk CMOs? | _____ | _____ | _____ |
| (1) If market quotations are not available, are estimates made? [EITF 89-4] | _____ | _____ | _____ |
| 9. 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? | _____ | _____ | _____ |
| c. Gross unrealized holding losses? | _____ | _____ | _____ |
| d. Amortized cost basis? [SFAS 115, par. 19 (AC I80.118)] | _____ | _____ | _____ |
| 10. For the most recent balance sheet presented, are the contract maturities (including the fair value and amortized cost of debt securities) of investment in debt securities classified as available-for-sale or held-to-maturity disclosed, based on at least the following maturity groupings: | | | |
| a. In one year or less? | _____ | _____ | _____ |
| b. After one year through five years? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. After five years through ten years? | _____ | _____ | _____ |
| d. After ten years? [SFAS 115, par. 20 (AC I80.119); AAG, App. J (SOP 90-11, par. 9)] | _____ | _____ | _____ |
| 11. Are the following major-security types disclosed: | | | |
| a. Equity securities? | _____ | _____ | _____ |
| b. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies? | _____ | _____ | _____ |
| c. Debt securities issued by states of the U.S. and political subdivisions of the states? | _____ | _____ | _____ |
| d. Debt securities issued by foreign governments? | _____ | _____ | _____ |
| e. Corporate-debt securities? | _____ | _____ | _____ |
| f. Mortgage-backed securities? | _____ | _____ | _____ |
| g. Other debt securities? | _____ | _____ | _____ |
| h. Other security types, as deemed appropriate? [SFAS 115, par. 19 (AC I80.118); AAG, App. J (SOP 90-11, par. 9)] | _____ | _____ | _____ |
| 12. For securities not due at a single maturity date, is consideration given to disclosing the following: | | | |
| a. The securities separately rather than allocated over several maturity groupings? | _____ | _____ | _____ |
| b. The basis for allocation if such securities are allocated? [SFAS 115, par. 20 (AC I80.119)] | _____ | _____ | _____ |
| B. Cash | | | |
| 1. Is separate disclosure made for restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)] | _____ | _____ | _____ |
| C. Accounts Receivable and Agents' Balances | | | |
| 1. Are life insurance premiums and annuity considerations uncollected included? [AAG, par. 5.02] | _____ | _____ | _____ |
| 2. Are accident and health premiums due within three months of the reporting date and unpaid included? [AAG, par. 5.05] | _____ | _____ | _____ |
| 3. Are amounts due from reinsurers on paid losses on life and accident and health insurance included? [AAG, par. 5.06] | _____ | _____ | _____ |
| 4. Are hypothecation or other pledging of receivables disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)] | _____ | _____ | _____ |
| D. Reinsurance Recoverable on Paid Losses | | | |
| 1. Are fronting arrangements treated as reinsurance arrangements for purposes of disclosures required by SFAS 60? [PB9, par. 6] | _____ | _____ | _____ |
| 2. Are the following disclosed in relation to ceded insurance transactions: | | | |
| a. Nature of the transaction(s)? | _____ | _____ | _____ |
| b. Purpose of the transaction(s)? | _____ | _____ | _____ |
| c. Effect of the transaction(s)? | _____ | _____ | _____ |
| d. The fact that the insurer is not relieved of its primary obligation to the policyholder in a reinsurance transaction? [SFAS 113, par. 27(a) (AC In6.191)] | _____ | _____ | _____ |
| 3. Are the following disclosed for short-duration reinsurance contracts on both a written and an earned basis: | | | |
| a. Premiums from direct business? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| b. Reinsurance assumed? | _____ | _____ | _____ |
| c. Reinsurance ceded? [SFAS 113, par. 27(b) (AC In6.191)] | _____ | _____ | _____ |
| 4. Are the following disclosed for long-duration reinsurance contracts: | | | |
| a. Premiums and amounts assessed against policyholders from direct business? | _____ | _____ | _____ |
| b. Reinsurance assumed? | _____ | _____ | _____ |
| c. Reinsurance ceded? | _____ | _____ | _____ |
| d. Premiums and amounts earned? [SFAS 113, par. 27(b) (AC In6.191)] | _____ | _____ | _____ |
| 5. Are the methods used for income recognition on reinsurance contracts disclosed? [SFAS 113, par. 27(c) (AC In6.191)] | _____ | _____ | _____ |
| 6. Are the following items reported separately as assets for those companies participating in ceding transactions: | | | |
| a. Estimated reinsurance receivables arising from ceding transactions? | _____ | _____ | _____ |
| b. Amounts paid to the reinsurer relating to the unexpired portion of reinsured contracts (prepaid reinsurance premiums)? [SFAS 113, par. 14 (AC In6.178)] | _____ | _____ | _____ |
| 7. Are amounts receivable and payable between the ceding company and an individual reinsurer offset only when a right of offset exists as defined in FASB Interpretation 39? [SFAS 113, par. 15 (AC In6.179)] | _____ | _____ | _____ |
| 8. Are the amounts of earned premiums ceded and recoveries recognized under reinsurance contracts reported in the statements of earnings as separate line items or disclosed in the notes? [SFAS 113, par. 16 (AC In6.180)] | _____ | _____ | _____ |
| E. Deferred Acquisition Costs | | | |
| 1. Are the following disclosed relating to deferred acquisition costs: | | | |
| a. The nature of costs capitalized? | _____ | _____ | _____ |
| b. The method of amortizing these costs? | _____ | _____ | _____ |
| c. The amount of these costs amortized for the period? [SFAS 60, par. 60c (AC In6.166c)] | _____ | _____ | _____ |
| 2. Is the fact that the company considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists disclosed? [SFAS 60, par 60e (AC In6.166e)] | _____ | _____ | _____ |
| F. Property and Equipment | | | |
| 1. Is the carrying basis of property and equipment disclosed? [AAG, App. A] | _____ | _____ | _____ |
| 2. For depreciable assets, does disclosure include: | | | |
| a. Depreciation expense for each period for which an income statement is presented? | _____ | _____ | _____ |
| b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date? | _____ | _____ | _____ |
| c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date? | _____ | _____ | _____ |
| d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)] | _____ | _____ | _____ |
| 3. Are pledged, mortgaged, or liened assets disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 4. For any accounting period in which interest costs are capitalized, is the total amount of interest cost incurred during the period, and the amount thereof that is capitalized, disclosed? [SFAS 34, par. 21 (AC I67.118)] | _____ | _____ | _____ |

G. Lessee Leases

| | | | |
|--|-------|-------|-------|
| 1. Is the following information disclosed with respect to capital leases: | | | |
| a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function (this information may be combined with the comparable information for owned assets)? | _____ | _____ | _____ |
| b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the next five fiscal years, with separate deductions from the total for executory costs, including any profit thereon that is included in the minimum lease payments and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value? | _____ | _____ | _____ |
| c. The total of minimum sublease rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented? | _____ | _____ | _____ |
| d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16 (AC L10.112)] | _____ | _____ | _____ |
| e. Separate identification of: | | | |
| (1) Assets recorded under capital leases? | _____ | _____ | _____ |
| (2) Accumulated amortization of capital leases? | _____ | _____ | _____ |
| (3) Obligations under capital leases? | _____ | _____ | _____ |
| (4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112)] | _____ | _____ | _____ |
| 2. Are the following disclosed for operating leases that have initial or remaining noncancelable lease terms in excess of one year: | | | |
| a. Future minimum rental payments required, as of the date of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years? | _____ | _____ | _____ |
| b. The total of minimum rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented? [SFAS 13, par. 16 (AC L10.112)] | _____ | _____ | _____ |
| 3. For all operating leases, do disclosures include: | | | |
| a. Rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals (rental payments under leases with terms of a month or less that are not renewed need not be included)? | _____ | _____ | _____ |
| b. A general description of the lessee's leasing arrangements including, but not limited to, the following: | | | |
| (1) The basis on which contingent rental payments are determined? | _____ | _____ | _____ |
| (2) The existence and terms of renewal or purchase options and escalation clauses? | _____ | _____ | _____ |
| (3) Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing? [SFAS 13, par. 16 (AC L10.112)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| H. Other Assets | | | |
| 1. For foreclosed assets held for sale: | | | |
| a. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, is the deficiency recognized and disclosed as a valuation allowance? | _____ | _____ | _____ |
| b. Are changes in the valuation allowance based upon fluctuations in the fair value (less disposal costs) charged or credited to income and disclosed, if material? [AAG, App. K (SOP 92-3, par. 12)] | _____ | _____ | _____ |
| 2. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means? [AAG, App. K (SOP 92-3, par. 15)] | _____ | _____ | _____ |
| 3. If foreclosed assets originally classified as held-for-sale are to be held for production of income, is the net effect reported in income from continuing operations for the period in which the decision to retain the assets is made? [AAG, App. K (SOP 92-3, par. 16)] | _____ | _____ | _____ |
| 4. In the period of transition for the adoption of SOP 92-3, is the nature of change disclosed in the financial statements for the period in which the change is made? [AAG, App. K (SOP 92-3, par. 17)] | _____ | _____ | _____ |
| I. Separate Account Assets | | | |
| 1. Are investments in separate accounts at market, except for separate account contracts with guaranteed investment returns, reported? [SFAS 60, par. 54 (AC In6.160)] | _____ | _____ | _____ |
| J. Policy Liabilities | | | |
| 1. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed? [SFAS 60, par. 60a (AC In6.166a)] | _____ | _____ | _____ |
| 2. Are the methods and assumptions used in estimating the liability for future policy benefits and the average rate of assumed investment yields in effect for the current year disclosed? [SFAS 60, par. 60b (AC In6.166b)] | _____ | _____ | _____ |
| 3. Is the carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at present value in the financial statements and the range of interest rates used to discount those liabilities disclosed? [SFAS 60, par. 60d (AC In6.166d)] | _____ | _____ | _____ |
| 4. Is the fact that the company considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists disclosed? [SFAS 60, par. 60e (AC In6.166e)] | _____ | _____ | _____ |
| 5. For participating insurance, does disclosure include: | | | |
| a. The relative percentage? | _____ | _____ | _____ |
| b. The method of accounting for policyholders' dividends? | _____ | _____ | _____ |
| c. The amount of dividends? | _____ | _____ | _____ |
| d. The amount of any additional income allocated to participating policyholders? [SFAS 60, par. 60g (AC In6.166g); AAG, pars. 10.07—.08] | _____ | _____ | _____ |
| K. Income Taxes | | | |
| 1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual company or group of companies that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Are the components of the total of all deferred tax assets and valuation allowance recognized in the balance sheet disclosed? [SFAS 109, par. 43b—c (AC I27.142b—c)] | _____ | _____ | _____ |
| 3. Are the components of the total of all deferred tax liabilities recognized in the statement of financial position disclosed? [SFAS 109, par. 43a (AC I27.142a)] | _____ | _____ | _____ |
| 4. Is the following information disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23 (as amended by SFAS 109): | | | |
| a. A description of the types of temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable? | _____ | _____ | _____ |
| b. The cumulative amount of each type of temporary differences? | _____ | _____ | _____ |
| c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable, or a statement that determination is not practicable? | _____ | _____ | _____ |
| d. The amount of the deferred tax liability for temporary differences other than those in Step 4.c. above (i.e., undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC I27.130 and .131)? [SFAS 109, par. 44 (AC I27.143)] | _____ | _____ | _____ |
| 5. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed: | | | |
| a. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes? | _____ | _____ | _____ |
| b. 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 company or directly to contributed capital? [SFAS 109, par. 48 (AC I27.147)] | _____ | _____ | _____ |

L. Long-Term Debt

| | | | |
|--|-------|-------|-------|
| 1. Are the following disclosed for each of the five years following the date of the latest balance sheet presented: | | | |
| a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria of SFAS 47 and that are recognized on the purchaser's balance sheet? | _____ | _____ | _____ |
| b. The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings? | _____ | _____ | _____ |
| c. The amount of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates, separately by issue or combined? [SFAS 47, par. 10 (AC C32.105)] | _____ | _____ | _____ |
| 2. Are conversion features appropriately accounted for and disclosed? [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)] | _____ | _____ | _____ |
| 3. For a troubled debt restructuring occurring during the current period, do disclosures include: | | | |
| a. Description of the principal changes in terms, the major features of settlement, or both? | _____ | _____ | _____ |
| b. Aggregate gain on restructuring of payables and the related income tax effect? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| c. Aggregate net gain or loss on transfers of assets recognized during the period? | _____ | _____ | _____ |
| 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)] | _____ | _____ | _____ |
| 4. For periods after a troubled debt restructuring, do disclosures include: | | | |
| a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables? | _____ | _____ | _____ |
| b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)] | _____ | _____ | _____ |
| 5. 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)] | _____ | _____ | _____ |
| 6. Do disclosures for extinguishments of debt described in Step 5. above include: | | | |
| a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources? | _____ | _____ | _____ |
| b. Income tax effect in the period of extinguishment? | _____ | _____ | _____ |
| c. The per-share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)] | _____ | _____ | _____ |
| 7. If debt is considered extinguished through an in-substance defeasance, does the disclosure include: | | | |
| a. A general description of the transaction? | _____ | _____ | _____ |
| b. The amount of debt that is considered extinguished, as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)] | _____ | _____ | _____ |
| 8. If a covenant on a long-term loan agreement is not met, and thus, the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements, is the debt classified as noncurrent unless both of the following are met: | | | |
| a. The covenant violation occurred at the balance-sheet date or would have occurred absent a loan modification? | _____ | _____ | _____ |
| b. It is probable the company will not be able to comply with the covenant at a measurement date within the next 12 months? [EITF 86-30] | _____ | _____ | _____ |
| M. Other Liabilities | | | |
| 1. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, par. 6 (AC C44.104)] | _____ | _____ | _____ |
| 2. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (AC P16.185)] | _____ | _____ | _____ |
| 3. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.108)] | _____ | _____ | _____ |
| 4. Are net credits arising from financing-type reinsurance agreements treated as a deferred credit or liability by the ceding company? [AAG, par. 8.110] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 5. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 (AC C59) or SFAS 43 (AC C44) only because the amount cannot be reasonably estimated, is this fact of nonaccrual disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)] | _____ | _____ | _____ |
| 6. If the company has discounted environmental liabilities and the effect of such discounting is material, do the financial statements disclose the following: | | | |
| a. The undiscounted amounts of the liability? | _____ | _____ | _____ |
| b. The related recovery? | _____ | _____ | _____ |
| c. The discount rate used? [EITF 93-5] | _____ | _____ | _____ |
| N. Capital Stock | | | |
| 1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share? [APB 12, par. 10 (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 (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)? [APB 15, par. 19 (AC E09.110)] | _____ | _____ | _____ |
| 3. Are the amounts of redemption requirements for all issues of capital stock 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. 10 (AC C32.105)] | _____ | _____ | _____ |
| 4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)] | _____ | _____ | _____ |
| 5. For stock option and stock purchase plans, do disclosures include: | | | |
| a. The number of shares under option? | _____ | _____ | _____ |
| b. The option price? | _____ | _____ | _____ |
| c. The number of shares as to which options are exercisable? | _____ | _____ | _____ |
| d. For shares exercised, the number of shares exercised and option price? [APB 43, Ch. 13B, par. 15 (AC C47.123); FASBI 28 (AC C47.119—.122 and .138—.146); FTB 82-2, pars. 10—12 (AC C47.513—.515); FASBI 38 (AC C47.135A—.135E)] | _____ | _____ | _____ |
| 6. Does disclosure of the following aspects of capital instruments include: | | | |
| a. Bases for calculation of dividends? | _____ | _____ | _____ |
| b. Redemption provisions? | _____ | _____ | _____ |
| c. Liquidation accounts for converted institutions? | _____ | _____ | _____ |
| d. Cumulative dividends in arrears? | _____ | _____ | _____ |
| e. Changes in control provisions? | _____ | _____ | _____ |
| f. Other matters necessary for a clear understanding of the company's financial condition? [APB 10, par. 11 and APB 15, par. 50, fn. 16 (AC C16.102)] | _____ | _____ | _____ |
| O. Retained Earnings | | | |
| 1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)] | _____ | _____ | _____ |
| 3. 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, par. 2 (AC Q15.111)] | _____ | _____ | _____ |
| P. Other Stockholders' Equity Accounts (Also see Exhibit B if SFAS 115 has not been adopted) | | | |
| 1. Are cumulative translation adjustments separately disclosed? [SFAS 52, par. 31 (AC F60.141)] | _____ | _____ | _____ |
| 2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [FTB 85-6, par. 3 (AC C23.501—.503)] | _____ | _____ | _____ |
| 3. Do the stockholders' equity accounts include: | | | |
| a. Capital stock? | _____ | _____ | _____ |
| b. Capital in excess of par? | _____ | _____ | _____ |
| c. Retained earnings? | _____ | _____ | _____ |
| d. Unrealized appreciation of equity securities? [AAG, par. 7.01 and AAG, App. A] | _____ | _____ | _____ |
| 4. If statutory surplus is below the minimum required by law, is disclosure of the relevant facts made? [AAG, par. 10.15] | _____ | _____ | _____ |
| 5. Is the following information relating to stockholders' equity, statutory capital and surplus, and the effects of statutory accounting practices on the ability to pay dividends to stockholders disclosed: | | | |
| a. The amount of statutory capital and surplus? | _____ | _____ | _____ |
| b. The amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on current operations) if significant in relation to the statutory capital and surplus? | _____ | _____ | _____ |
| c. The nature of statutory restrictions on the payment of dividends and the amount of retained earnings that is not available for the payment of dividends to stockholders? [SFAS 60, par. 60h (AC In6.166h)] | _____ | _____ | _____ |
| 6. If a company receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of stockholders' equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time? [EITF 85-1] | _____ | _____ | _____ |

Income Statement

A. Premium Revenue

- | | | | |
|--|-------|-------|-------|
| 1. Are premiums from universal life contracts no longer included in revenue but recorded in the balance sheet policyholder accounts? [SFAS 97, par. 59] | _____ | _____ | _____ |
|--|-------|-------|-------|

B. Investment Income

- | | | | |
|--|-------|-------|-------|
| 1. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield and reported as interest income? [SFAS 91, par. 22 (AC L20.121)] | _____ | _____ | _____ |
| 2. Except as specified in SFAS 91, paragraph 20 (AC L20.119), is the interest method used as the method of amortization? [SFAS 91, par. 18 (AC L20.117)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 3. Is investment income presented net of investment expenses? [SFAS 97, par. 23 (AC In6.137B)] | _____ | _____ | _____ |
| 4. Are the components of net investment disclosed? | _____ | _____ | _____ |
| 5. Are realized gains and losses on all investments (except for those that are accounted for as hedges as described in SFASs 52 and 80) reported in the statement of earnings as a component of other income, on a pretax basis? [SFAS 97, par. 28 (AC In6.156)] | _____ | _____ | _____ |
| C. Other Income | | | |
| 1. Are commitments or other fees that are either being amortized on the straight-line method or included in income when the commitment expires reported as service fee income? [SFAS 91, par. 22 (AC L20.121)] | _____ | _____ | _____ |
| 2. For investments in common stock accounted for by the equity method: | | | |
| a. Are intercompany profits and losses appropriately eliminated until realized by the investor? [APB 18, par. 19a (AC I82.109a)] | _____ | _____ | _____ |
| b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior-period adjustments that are material to the investor? [APB 18, pars. 19c and d (AC I82.109c and d)] | _____ | _____ | _____ |
| D. Benefits and Expenses | | | |
| 1. Compensation: | | | |
| a. For a compensatory stock issuance plan is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—E)] | _____ | _____ | _____ |
| b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)] | _____ | _____ | _____ |
| 2. Is discount or premium on notes receivable and payable amortized to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period (the interest method) and reported as interest? [APB 21, pars. 15—16 (AC I69.108—.109)] | _____ | _____ | _____ |
| E. 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)? | _____ | _____ | _____ |
| 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 company? | _____ | _____ | _____ |
| 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? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 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)] | _____ | _____ | _____ |
| i. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? | _____ | _____ | _____ |
| j. 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? [SFAS 109, par. 48 (AC I27.147)] | _____ | _____ | _____ |
| 3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS 109 (ACI27.134—.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 disclosed? [SFAS 109, par 47 (AC I27.146)] | _____ | _____ | _____ |
| 5. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements: | | | |
| a. The aggregate amount of current and deferred tax expense for each statement of income 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? | _____ | _____ | _____ |
| 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 a. above are presented? [SFAS 109, par. 49 a—b (AC I27.148 a—b)] | _____ | _____ | _____ |
| 6. Is the effect of initially applying SFAS 109 reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20), except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income? [SFAS 109, par. 51] | _____ | _____ | _____ |
| 7. When initially presented, do the financial statements for the year SFAS 109 is first adopted disclose the following: | | | |
| a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (e.g., the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented? | _____ | _____ | _____ |
| b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per-share amounts) for each year for which restated financial statements are presented? [SFAS 109, par. 52 a—b] | _____ | _____ | _____ |
| 8. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the income statement or in related notes? [APB 30, par. 8 (AC I13.105)] | _____ | _____ | _____ |
| 9. Are the income taxes applicable to extraordinary events disclosed on the face of the income statement or in related notes? [APB 30, par. 11 (AC I17.102)] | _____ | _____ | _____ |

F. Discontinued Operations

1. Are operations of a discontinued segment or one that is the subject of a formal plan for disposition:

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)] | _____ | _____ | _____ |
| b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 (AC I13.105)] | _____ | _____ | _____ |
| 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, and 15—18 (AC I13.101—.103, .105—.106 and .108—.109)] | _____ | _____ | _____ |
| 3. If the company sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)] | _____ | _____ | _____ |
| 4. For the period encompassing the measurement date, do notes to the financial statements disclose: | | | |
| a. Identity of the segment discontinued? | _____ | _____ | _____ |
| b. Expected disposal date, if known? | _____ | _____ | _____ |
| c. Expected manner of disposal? | _____ | _____ | _____ |
| d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date? | _____ | _____ | _____ |
| 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? | _____ | _____ | _____ |
| f. A statement that the loss on disposal cannot be estimated within reasonable limits? [APB 30, par. 18 (AC I13.108—.109)] | _____ | _____ | _____ |
| 5. For periods after measurement date and including the period of disposal, do notes to the financial statements disclose the information required by Steps 4 a.—d. above and the information required by Step 4 e. above compared with prior estimates? [APB 30, par. 18 (AC I13.108—.109)] | _____ | _____ | _____ |
| 6. If the company accounts for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment writedown of the individual assets classified in continuing operations? [EITF 90-16] | _____ | _____ | _____ |
| 7. If the company 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 of the loss? [EITF 85-36] | _____ | _____ | _____ |
| G. Extraordinary Items | | | |
| 1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)] | _____ | _____ | _____ |
| 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? [APB 30, par. 11 (AC I17.102)] | _____ | _____ | _____ |
| 3. Do disclosures include descriptions of an extraordinary event or transaction and the principal items entering into determination of extraordinary gain or loss? [APB 30, par. 11 (AC I17.102)] | _____ | _____ | _____ |

- | | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 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? | _____ | _____ | _____ |
| b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)] | _____ | _____ | _____ |
| 5. For an existing property with an asbestos problem, are the costs incurred to treat the problem (if charged to expense) not classified as an extraordinary item? [EITF 89-13] | _____ | _____ | _____ |

H. Other

- | | | | |
|---|-------|-------|-------|
| 1. Are the following excluded from determination of net income or results of operations under all circumstances: | | | |
| a. Adjustments or charges or credits resulting from transactions in the company's own capital stock? | _____ | _____ | _____ |
| b. Transfers to and from accounts properly designated as appropriated retained earnings? | _____ | _____ | _____ |
| c. Adjustments made pursuant to a quasi reorganization? [APB 9, par. 28 (AC C08.101)] | _____ | _____ | _____ |
| 2. Is earnings-per-share information for public entities presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation? [APB 15, pars. 9, 12—16, and 20 (AC E09.103—.107)] | _____ | _____ | _____ |
| 3. For nonpublic entities, if there is a restructuring charge, is it reflected using the most meaningful income statement presentation within the framework of APB 30? [EITF 87-4] | _____ | _____ | _____ |
| 4. 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] | _____ | _____ | _____ |

Statement of Changes in Stockholders' Equity

- | | | | |
|--|-------|-------|-------|
| A. Are changes in the separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)] | _____ | _____ | _____ |
| B. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)] | _____ | _____ | _____ |
| C. Are prior-period adjustments limited to correction of an error(s) in financial statements of prior periods? [SFAS 109, par. 288n (AC A35.103)] | _____ | _____ | _____ |
| D. 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)] | _____ | _____ | _____ |
| E. For a correction of an error, are the following disclosed in the period in which the error is discovered and corrected: | | | |

Yes No N/A

- | | | | |
|--|-------|-------|-------|
| 1. Nature of the error in previously issued financial statements? | _____ | _____ | _____ |
| 2. Effect of its correction on income before extraordinary items, net income, and related per-share amounts (if applicable)? [APB 20, par. 37 (AC A35.105)] | _____ | _____ | _____ |

Statement of Cash Flows

- | | | | |
|--|-------|-------|-------|
| A. Is a statement of cash flows presented as a basic financial statement for each period for which an income statement is presented? [SFAS 95, par. 3 (AC C25.101)] | _____ | _____ | _____ |
| B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27—28 (AC C25.125—.126)] | _____ | _____ | _____ |
| 1. Are cash receipts and cash payments from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)] | _____ | _____ | _____ |
| 2. Are cash receipts and cash payments resulting from acquisitions and sales of loans (if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market) classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)] | _____ | _____ | _____ |
| C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities: | | | |
| 1. Cash receipts from sales of goods or services? | _____ | _____ | _____ |
| 2. Cash receipts from interest and dividends? | _____ | _____ | _____ |
| 3. Cash payments to suppliers and employees, such as benefits paid to policyholders, surrender benefits, and dividends paid to policyholders? | _____ | _____ | _____ |
| 4. Cash payments to governments for taxes, duties, fines, and other fees or penalties? | _____ | _____ | _____ |
| 5. Cash payments to lenders and other creditors for interest? | _____ | _____ | _____ |
| 6. All other cash payments that do not stem from transactions defined as investing or financing activities? [SFAS 95, pars. 22—23 (AC C25.120—.121)] | _____ | _____ | _____ |
| D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)] | _____ | _____ | _____ |
| E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities: | | | |
| 1. Receipts from collections or sales of loans? | _____ | _____ | _____ |
| 2. Receipts from sales of property or investments and from returns of investments in those instruments? | _____ | _____ | _____ |
| 3. Loans to other entities? | _____ | _____ | _____ |
| 4. Payments to acquire property or investments? [SFAS 95, pars. 16—17 (AC C25.114—.115)] | _____ | _____ | _____ |
| F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)] | _____ | _____ | _____ |
| G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities: | | | |
| 1. Proceeds from issuing debt or capital stock? | _____ | _____ | _____ |
| 2. Repayment of amounts borrowed? | _____ | _____ | _____ |
| 3. Dividend payments to stockholders? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 4. Acquisition of treasury stock? | _____ | _____ | _____ |
| 5. Other principal payments to creditors who have extended long-term credit? [SFAS 95, pars. 19—20 (AC C25.117—.118)] | _____ | _____ | _____ |
| H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)] | _____ | _____ | _____ |
| I. Is the change in cash and cash equivalents shown? [SFAS 95, par. 7 (AC C25.105)] | _____ | _____ | _____ |
| J. Is the policy for defining cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)] | _____ | _____ | _____ |
| K. Is a reconciliation of net income to net cash flow from operating activities presented, either within the statement of cash flows or in a separate schedule? [SFAS 95, par. 29—30 (AC C25.127—.128)] | _____ | _____ | _____ |
| L. Are noncash investing and financing activities, such as converting debt to equity, summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)] | _____ | _____ | _____ |
| M. If the indirect method is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)] | _____ | _____ | _____ |

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. Do disclosures include:

- | | | | |
|---|-------|-------|-------|
| a. Description of benefits and employee groups covered? | _____ | _____ | _____ |
| b. Description of accounting and funding policies? | _____ | _____ | _____ |
| c. Cost of benefits recognized during the period? | _____ | _____ | _____ |
| d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented? [SFAS 81, par. 6 (AC P50.102)] | _____ | _____ | _____ |

Exhibit B—Various

The effective date of SFAS 114 is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Until such time, the following disclosures remain in effect:

A. Troubled Debt Restructurings

1. For outstanding loans whose terms are modified (regardless of when the restructuring occurred) in troubled debt restructurings (except for those receivables where subsequent to the restructuring, its effective interest rate is equal to or greater than the creditor was willing to accept for a new receivable with comparable risk), are the following required disclosures by major categories of receivables made in accordance with SFAS 15 (these disclosures are not required for real estate loans secured by one-to-four family residential properties or loans to individuals for household, family, or other personal expenditures):

- | | | | |
|--|-------|-------|-------|
| a. The aggregate recorded investment? | _____ | _____ | _____ |
| b. The gross interest income that would have been recognized in the period if those receivables had been current in accordance with their original terms and had been outstanding throughout the period (or since origination, if held for only part of the period)? | _____ | _____ | _____ |
| c. The amount of interest income that is included in the current period? | _____ | _____ | _____ |
| d. The amount of commitments, if any, to lend additional funds to the troubled debtors? [SFAS 15, pars. 40—41 (AC D22.136—.137); FTB's 79-6 and 79-7] | _____ | _____ | _____ |

B. Investment Securities

- | | | | |
|--|-------|-------|-------|
| 1. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported as realized gains and losses? [SFAS 60, par. 47 (AC In6.153)] | _____ | _____ | _____ |
|--|-------|-------|-------|

Exhibit C—Pension Plans

SOP 93-6 is effective for fiscal years beginning after December 15, 1993. Employers are required to apply the provisions of SOP 93-6 to shares purchased by ESOPs after December 31, 1992, that have not been committed to be released as of the beginning of the year of adoption. Employers are permitted, but not required, to apply the provisions of SOP 93-6 to shares purchased by ESOPs on or before December 31, 1992, that have not been committed to be released as of the beginning of the year of adoption. Until such time the following disclosures remain in effect:

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. If a company terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following considered: | | | |
| Assets contributed to a defined contribution plan: | | | |
| a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds? | _____ | _____ | _____ |
| b. Is the unallocated amount treated as if it were part of the employer's investment portfolio and recorded as an asset? | _____ | _____ | _____ |
| (1) Is the income attributed to such securities, including dividends, interest and realized gains and losses, reported in a manner consistent with the employer's reporting of similar items? | | | |
| c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements? | _____ | _____ | _____ |
| d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements? [EITF 86-27] | _____ | _____ | _____ |
| Assets contributed to an ESOP: | | | |
| a. If the excess contribution is not allocated to individual participants, are the unallocated shares of the employer's own common stock reported as a reduction of stockholders' equity, as if they were treasury stock? | _____ | _____ | _____ |
| b. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements? | _____ | _____ | _____ |
| c. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements? [EITF 86-27] | _____ | _____ | _____ |

FSP Section 19,400

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

- SAS = AICPA Statement on Auditing Standards
- SOP = AICPA Statement of Position
- AU = Reference to section number in *AICPA Professional Standards* (vol. 1)
- SSARS = FASB Statements on Standards for Accounting and Review Services
- AR = Reference to section number in *AICPA Professional Standards* (vol. 2)
- App. M = Appendix M of AAG containing SOP 94-1, *Inquiries of State Insurance Regulators*

.03 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 the highest level of service performed? [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)] | _____ | _____ | _____ |
| c. A refusal by management to allow the auditor to review communications from, or to communicate with, state insurance regulators? [AAG, App. M (SOP 94-1, par. 5)] | _____ | _____ | _____ |
| 5. Is an explanatory paragraph (or other explanatory language) added to the standard report if: | | | |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 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 AICPA <i>Professional Standards</i> under "Uncertainties" for additional references to specific types of uncertainties. | _____ | _____ | _____ |
| b. There is substantial doubt about the company'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 company'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)] | _____ | _____ | _____ |
| i. The auditor decides to emphasize a matter in the report? [SAS 58, par. 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 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)] | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 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 the auditor is requested to audit Internal Revenue Form 990, <i>Return of Organizations Exempt from Income Tax</i> , is the appropriate report prepared? [Interpretation 2 of SAS 62 (AU 9623.47—.54)] | _____ | _____ | _____ |
| 11. 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 was performed for the purpose of forming an opinion on the basic financial statements taken as a whole? | _____ | _____ | _____ |
| b. Specifically identify the accompanying information? | _____ | _____ | _____ |
| 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 was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)] | _____ | _____ | _____ |
| 12. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure-related matters noted in an audit? ¹ [SAS 60, pars. 9—19 (AU 325.09—.19)] | _____ | _____ | _____ |
| 13. Is the reporting form and content of SAS 72 followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings? [SAS 72 (AU 634)] | _____ | _____ | _____ |

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]

FSP Section 19,500

Supplemental Checklist for Life Insurance Companies That Are SEC Registrants

.01 This supplemental checklist for life insurance companies contains additional disclosures that are required in financial statements of life insurance companies that are SEC registrants. References in this supplement are from SEC rules and regulations, since there is no specific counterpart under GAAP. This checklist covers SEC disclosures required by Article 7 of Regulation S-X that relate to financial statements filed for insurance companies. Many of these disclosures are routinely made by life insurance companies even though they are not covered under the Securities Exchange Act of 1934.

.02 Except as permitted by the SEC, the disclosures, if applicable, should appear on the face of the financial statements or in the notes thereto.

.03 Explanation of References

SAB = SEC Staff Accounting Bulletin

Reg. S-X = SEC Regulation S-X

.04 Checklist Questionnaire

Balance Sheet

A. Investments—Other Than Investments in Related Parties (Reg. S-X, Rule 7-03-1)

1. Do the following captions appear separately on the balance sheet:

a. Fixed maturities, including bonds, notes, marketable certificates of deposits with maturities beyond one year, and redeemable preferred stocks?

b. Equity securities, including common stocks and nonredeemable preferred stocks?

c. Mortgage loans on real estate?

d. Investment real estate, excluding real estate acquired in settling title claims, mortgage guaranty, and insurance claims (which should be included in "Other Assets")?

(1) Is the amount of accumulated depreciation and amortization deducted disclosed in the balance sheet or in the notes to financial statements?

e. Other long-term investments?

(1) Do the notes state the amount of any class of investment exceeding 10% of stockholders' equity?

f. Short-term investments, including investments maturing in one year (e.g., commercial paper, marketable certificates of deposit, savings accounts, time deposits, cash accounts, or cash equivalents earning interest)?

(1) Do the notes disclose any amounts subject to withdrawal or usage restrictions?

2. Does the balance sheet include, parenthetically or otherwise:

a. The basis of determining the investment amounts shown in the balance sheet?

b. The aggregate cost or aggregate carrying value at the balance sheet date of fixed maturities and equity securities?

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |
| | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. Is consideration given to discussion of "Valuation Securities" in section 403.03 of the SEC <i>Codification of Financial Reporting Practices</i> ? | _____ | _____ | _____ |
| 4. Do the notes state the name of any person in which the total amount invested (aggregate indebtedness, stocks issued, and real estate purchased) in the person and its affiliates exceeds 10% of total stockholders' equity? | _____ | _____ | _____ |
| a. Is the amount included in each subcaption disclosed (no disclosure needs to be made of investments in bonds and notes of the U.S. government or its agencies that exceed 10% of stockholders' equity)? | _____ | _____ | _____ |
| 5. For investments in fixed maturities, mortgage loans on real estate, investment real estate and other long-term investments, do the notes disclose the amount of nonincome-producing investments for the 12 months preceding the balance-sheet date? | _____ | _____ | _____ |
| B. Cash (Reg. S-X, Rule 7-03-2) | | | |
| 1. Is cash on hand or on deposit restricted as to withdrawal or usage disclosed separately on the balance sheet? | _____ | _____ | _____ |
| a. Are the provisions of any restrictions, including legally restricted deposits held as compensating balances, contracts entered into with others or the companies' intentions about particular deposits, described in the notes? | _____ | _____ | _____ |
| b. Are nonlegally restricted compensating balance arrangements disclosed? | _____ | _____ | _____ |
| c. Do the notes disclose compensating balances maintained under an agreement to assure future credit availability? | _____ | _____ | _____ |
| C. Securities and Indebtedness of Related Parties (Reg. S-X, Rule 7-03-3) | | | |
| 1. Are investments in related parties disclosed? | _____ | _____ | _____ |
| 2. Is indebtedness from related parties disclosed? | _____ | _____ | _____ |
| D. Accrued Investment Income (Reg. S-X, Rule 7-03-4) | | | |
| 1. Is the amount of accrued investment income reported separately? | _____ | _____ | _____ |
| E. Accounts and Notes Receivable (Reg. S-X, Rule 7-03-5) | | | |
| 1. Are the amounts receivable from agents and insureds included? | _____ | _____ | _____ |
| 2. Is the amount of uncollected premiums included? | _____ | _____ | _____ |
| 3. Are other receivables in excess of 5% of total assets stated separate or disclosed in the notes? | _____ | _____ | _____ |
| 4. Is the amount of the allowance for doubtful accounts disclosed separately in the balance sheet or in a note? | _____ | _____ | _____ |
| F. Reinsurance Recoverable on Paid Losses (Reg. S-X, Rule 7-03-6) | | | |
| 1. Are the amounts disclosed? | _____ | _____ | _____ |
| G. Deferred Policy Acquisition Costs (Reg. S-X, Rule 7-03-7) | | | |
| 1. Are the amounts disclosed? | _____ | _____ | _____ |
| H. Property and Equipment (Reg. S-X, Rule 7-03-8) | | | |
| 1. Is the basis of determining the amounts disclosed? | _____ | _____ | _____ |
| 2. Does the balance sheet or the notes disclose the amount of accumulated depreciation and amortization of property and equipment? | _____ | _____ | _____ |
| I. Title Plant (Reg. S-X, Rule 7-03-9) | | | |
| 1. Is the amount disclosed? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| J. Other Assets (Reg. S-X, Rule 7-03-10) | | | |
| 1. Is there separate disclosure on the balance sheet or in the notes of the amount of any "other asset" in excess of 5% of total assets? | _____ | _____ | _____ |
| 2. If a company acquires a life insurance company in a transaction accounted for as a purchase and the acquirer recognizes an asset for the present value of future profits (PVP), are the following disclosed: | | | |
| a. A description of the registrant's accounting policy? | _____ | _____ | _____ |
| b. An analysis of the PVP asset account for each year for which an income statement is presented? | _____ | _____ | _____ |
| c. The estimated amount or percentage of the end-of-the-year PVP balance to be amortized during each of the next five years? [EITF 92-9] | _____ | _____ | _____ |
| K. Assets Held in Separate Accounts (Reg. S-X, Rule 7-03-11) | | | |
| 1. Does the caption include aggregate amount of assets used to fund liabilities related to variable annuities, pension funds, and similar activities? | _____ | _____ | _____ |
| 2. Do the notes to the financial statements describe the general nature of the activities being reported on in the separate accounts? | _____ | _____ | _____ |
| L. Policy Liabilities and Accruals (Reg. S-X, Rule 7-03-13) | | | |
| 1. Is the amount of future policy benefits and losses, and claims and losses, separately disclosed in the balance sheet? | _____ | _____ | _____ |
| 2. Is the amount of unearned premiums separately disclosed in the balance sheet? | _____ | _____ | _____ |
| 3. Are other policy claims and benefits payable separately disclosed in the balance sheet? | _____ | _____ | _____ |
| 4. Do the notes disclose the basis of assumptions (e.g., interest rates, mortality, withdrawals) for future policy benefits and claims and settlements stated at present value? | _____ | _____ | _____ |
| 5. Do the notes disclose the general nature of reinsurance transactions, including a description of significant types of reinsurance agreements executed? | _____ | _____ | _____ |
| a. Do the disclosures include the nature of the contingent liability in connection with insurance ceded? | _____ | _____ | _____ |
| b. Do the disclosures include the nature and effect of material nonrecurring reinsurance transactions? | _____ | _____ | _____ |
| M. Other Policyholders' Funds (Reg. S-X, Rule 7-03-14) | | | |
| 1. Does the caption include the aggregate amount of supplementary contracts without life contingencies, policyholders' dividend accumulations, undistributed earnings on participating policies, dividends to policyholders and retrospective return premiums and similar items? | _____ | _____ | _____ |
| 2. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5% of total liabilities? | _____ | _____ | _____ |
| 3. Do the notes disclose the relative significance of participating insurance as a percentage of (1) insurance in force and (2) premium income? | _____ | _____ | _____ |
| a. Do the notes disclose the method by which earnings and dividends allocable to such insurance is determined? | _____ | _____ | _____ |
| N. Other Liabilities (Reg. S-X, Rule 7-03-15) | | | |
| 1. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5% of total liabilities? | _____ | _____ | _____ |
| 2. Is there separate disclosure in the balance sheet or in the notes of (1) income taxes payable and (2) deferred income taxes? | _____ | _____ | _____ |
| a. Is there separate disclosure of the amount of deferred income taxes applicable to unrealized appreciation of equity securities? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| O. Notes Payable, Bonds, Mortgages, and Similar Obligations (Including Capitalized Leases) (Reg. S-X, Rule 7-03-16) | | | |
| 1. Is the amount of short-term debt separately disclosed? | _____ | _____ | _____ |
| a. If the aggregate of short-term borrowings (from banks, factors, and other financial institutions and commercial paper issued) exceeds 5% of total liabilities, do the notes disclose the amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing? | _____ | _____ | _____ |
| b. Is the amount of the lines of credit that support commercial paper borrowing arrangements separately identified? [Reg. S-X, Rule 5-01-19(b)] | _____ | _____ | _____ |
| 2. Is the amount of long-term debt including capitalized leases separately disclosed? | _____ | _____ | _____ |
| a. Is there disclosure of the general character of each type of debt? | _____ | _____ | _____ |
| b. Is the interest rate disclosed? | _____ | _____ | _____ |
| c. Is the maturity date or, if maturing serially, a brief indication of the serial maturities disclosed? | _____ | _____ | _____ |
| d. If the payment of principal or interest is contingent, is there appropriate indication of such contingency? | _____ | _____ | _____ |
| e. Is there a brief indication of priority? | _____ | _____ | _____ |
| f. If convertible, is the basis disclosed? [Reg. S-X, Rule 5-02-22] | _____ | _____ | _____ |
| P. Indebtedness to Related Parties (Reg. S-X, Rules 4-08(k) and 7-03-17) | | | |
| 1. Are related-party transactions identified and the amount stated on the face of the balance sheet, income statement, or statement of cash flows? | _____ | _____ | _____ |
| 2. If there are separate financial statements for the registrant, certain investees or subsidiaries, is there separate disclosure of the amounts in the related consolidated statements that are: | | | |
| a. Eliminated? | _____ | _____ | _____ |
| b. Not eliminated? | _____ | _____ | _____ |
| 3. If any intercompany profit or losses resulting from transactions with related parties are not eliminated, are the effects disclosed? | _____ | _____ | _____ |
| Q. Liabilities Related to Separate Accounts (Reg. S-X, Rule 7-03-18) | | | |
| 1. Is the amount disclosed? | _____ | _____ | _____ |
| R. Commitments and Contingent Liabilities (Reg. S-X, Rule 7-03-19) | | | |
| 1. Are the proper disclosures made? | _____ | _____ | _____ |
| S. Minority Interest in Consolidated Subsidiaries (Reg. S-X, Rules 5-02-27 and 7-03-20) | | | |
| 1. Do the notes disclose the amounts represented by preferred stock and the applicable dividend requirements, if the preferred stock is material in relation to the consolidated stockholders' equity? | _____ | _____ | _____ |
| T. Preferred Stock Subject to Mandatory Redemption (Reg. S-X, Rules 5-02-28 and 7-03-21) | | | |
| 1. Is the title of each issue, the carrying amount, and redemption amount stated on the balance sheet? | _____ | _____ | _____ |
| 2. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable? | _____ | _____ | _____ |
| 3. If the carrying value is different from the redemption amount, is there a description of the accounting treatment for such difference? | _____ | _____ | _____ |
| 4. Is there disclosure, for each issue, of the number of shares authorized, issued, and outstanding? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| U. Nonredeemable Preferred Stock (Reg. S-X, Rules 5-02-29 and 7-03-22) | | | |
| 1. Is the title of each issue and the carrying amount disclosed on the balance sheet or in the notes? | _____ | _____ | _____ |
| 2. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable? | _____ | _____ | _____ |
| 3. Is there disclosure, for each issue, of the number of shares authorized, issued, and outstanding? | _____ | _____ | _____ |
| 4. Is there disclosure in a note or in a separate statement of the changes in each class of preferred stock for which an income statement is required to be filed? | _____ | _____ | _____ |
| V. Common Stock (Reg. S-X, Rules 5-02-30 and 7-03-23) | | | |
| 1. Does the face of the balance sheet disclose the number of shares issued and outstanding? | _____ | _____ | _____ |
| 2. If convertible, is this fact indicated on the face of the balance sheet? | _____ | _____ | _____ |
| 3. Is there disclosure, for each class of common stock, of the title of each issue, the number of shares authorized, and the basis of conversion? | _____ | _____ | _____ |
| 4. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable? | _____ | _____ | _____ |
| 5. Do the notes or a separate statement disclose the changes in each class of common stock for which an income statement is required to be filed? | _____ | _____ | _____ |
| W. Other Stockholders' Equity (Reg. S-X, Rules 5-02-31(b) and 7-03-24) | | | |
| 1. Are separate captions shown for: | | | |
| a. Additional paid-in capital? | _____ | _____ | _____ |
| b. Other additional capital? | _____ | _____ | _____ |
| c. Unrealized appreciation or depreciation of equity securities less applicable deferred income taxes? | _____ | _____ | _____ |
| d. Appropriated retained earnings? | _____ | _____ | _____ |
| e. Unappropriated retained earnings? | _____ | _____ | _____ |
| 2. If there has been a quasi-reorganization in the last 10 years, is the retained earnings account dated? | _____ | _____ | _____ |
| 3. Do the notes disclose, for each life insurance and property and liability legal company, the amount of statutory stockholders' equity as of the date of each balance sheet presented? | _____ | _____ | _____ |
| 4. Is there disclosure of the amount of statutory net income or loss for each period for which an income statement is presented? | _____ | _____ | _____ |
| Income Statement | | | |
| A. Premiums (Reg. S-X, Rule 7-04-1) | | | |
| 1. Do the amounts represent premiums earned? | _____ | _____ | _____ |
| B. Net Investment Income (Reg. S-X, Rule 7-04-2) | | | |
| 1. Do the notes disclose the amount of investment income for each category of investment listed in the balance sheet above that exceeds 5% of total investment income? | _____ | _____ | _____ |
| 2. Do the notes disclose total investment income? | _____ | _____ | _____ |
| 3. Do the notes disclose applicable investment expenses? | _____ | _____ | _____ |
| 4. Do the notes disclose net investment income? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| C. Realized Investment Gains and Losses (Reg. S-X, Rule 7-04-3) | | | |
| 1. Are the following disclosed: | | | |
| a. Policies with respect to the manner in which the financial statements report or include investment income and realized gains and losses allocable to separate accounts and policyholders? | _____ | _____ | _____ |
| b. The amounts of such allocable investment income and realized gains and losses included in the financial statements? | _____ | _____ | _____ |
| D. Other Income (Reg. S-X, Rule 7-04-4) | | | |
| 1. Are items in excess of 5% of total revenue separately disclosed? | _____ | _____ | _____ |
| E. Benefits, Claims, Losses, and Settlement Expenses (Reg. S-X, Rule 7-04-5) | | | |
| 1. Are the amounts disclosed? | _____ | _____ | _____ |
| F. Policyholders' Share of Earnings on Participating Policies, Dividends, and Similar Items (Reg. S-X, Rules 7-03-14(b) and 7-04-6) | | | |
| 1. Are the amounts disclosed? | _____ | _____ | _____ |
| 2. Is the relative significance of participating insurance expressed as percentages of insurance in force and premium income and the method by which earnings and dividends allocable to such insurance is determined stated in a note to the financial statements? | _____ | _____ | _____ |
| G. Underwriting, Acquisition, and Insurance Expenses (Reg. S-X, Rule 7-04-7) | | | |
| 1. Do the statements or notes disclose: | | | |
| a. The amount of deferred policy acquisition cost amortized to income for each period? | _____ | _____ | _____ |
| b. The amount of other operating expenses with separate disclosure of any material amounts? | _____ | _____ | _____ |
| H. Income Tax Expense (Reg. S-X, Rules 4-08(h) and 7-04-9) | | | |
| 1. Does the income statement or notes disclose: | | | |
| a. The domestic component of income (loss) before income tax expense (benefit)? | _____ | _____ | _____ |
| b. The foreign component of income (loss) before income tax expense (benefit)? | _____ | _____ | _____ |
| c. Taxes currently payable? | _____ | _____ | _____ |
| d. The net tax effects of timing differences? | _____ | _____ | _____ |
| 2. Is there a reconciliation between the amount of reported total income tax expense (benefit) and the amount of tax computed at the applicable statutory federal income tax rate? | _____ | _____ | _____ |
| I. Minority Interest in Income of Consolidated Subsidiaries (Reg. S-X, Rule 7-04-10) | | | |
| 1. Are the amounts disclosed? | _____ | _____ | _____ |
| J. Equity in Earnings of Unconsolidated Subsidiaries and 50% or Less Owned Persons (Reg. S-X, Rule 7-04-11) | | | |
| 1. Is the amount of dividends received disclosed? | _____ | _____ | _____ |
| K. Discontinued Operations (Reg. S-X, Rule 7-04-13) | | | |
| 1. Is any amount separately reported? | _____ | _____ | _____ |
| L. Extraordinary Items, Less Applicable Tax (Reg. S-X, Rule 7-04-15) | | | |
| 1. Is any amount separately reported? | _____ | _____ | _____ |
| M. Cumulative Effect of Changes in Accounting Principles (Reg. S-X, Rule 7-04-16) | | | |
| 1. Is any amount separately reported? | _____ | _____ | _____ |

| | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 2. For reinsurance contracts with retrospective rating provisions resulting in changes in the amount or timing of future contractual cash flows (including premium adjustments, settlement adjustments, or refunds to the ceding company) or changes in the contract's future coverage pursuant to EITF 93-6, are the nature and the significance of the transactions giving rise to the change disclosed? [EITF 93-6] | _____ | _____ | _____ |
| 3. Are disclosures made in accordance with SAB 74 in the financial statements filed prior to the period in which this change is adopted? [EITF 93-6, SAB 74] | _____ | _____ | _____ |
| N. Earnings-Per-Share Data (Reg. S-X, Rule 7-04-18) | | | |
| 1. Are applicable amounts reported? | _____ | _____ | _____ |
| O. Schedules (Reg. S-X, Rule 7-05) | | | |
| 1. Is Schedule I—Summary of Investments—Other Than Investments in Related Parties (refers to Rule 7-05(c) and Rule 12-15) filed for the most recent audited balance sheet? | _____ | _____ | _____ |
| 2. Is Schedule II—Amounts Receivable From Related Parties and Underwriters, Promoters, and Employees Other Than Related Parties (refers to Rule 7-05(c) and Rule 12-03) filed for each period for which an audited income statement is required? | _____ | _____ | _____ |
| 3. Is Schedule III—Condensed Financial Information of Registrant (refers to Rule 7-05(c) and Rule 12-04) filed for the periods specified in the schedule? | _____ | _____ | _____ |
| 4. Is Schedule IV—Indebtedness of and to Related Parties—Not Current (refers to Rule 7-05(c) and Rule 12-05) filed for each period for which an audited income statement is required? | _____ | _____ | _____ |
| 5. Is Schedule V—Supplementary Insurance Information (refers to Rule 7-05(c) and Rule 12-16) presented for the period specified in the schedule? | _____ | _____ | _____ |
| 6. Is Schedule VI—Reinsurance (refers to Rule 7-05(c) and Rule 12-17) filed for each period for which an audited income statement is required? | _____ | _____ | _____ |
| 7. Is Schedule VII—Guarantees of Securities of Other Issuers (refers to Rule 7-05(c) and Rule 12-08) filed for the most recent audited balance sheet? | _____ | _____ | _____ |
| 8. Is Schedule VIII—Valuation and Qualifying Accounts (refers to Rule 7-05(c) and Rule 12-09) filed for each period for which an audited income statement is required? | _____ | _____ | _____ |
| 9. Is Schedule IX—Short-Term Borrowings (refers to Rule 7-05(c) and Rule 12-10) filed for each period for which an audited income statement is required? | _____ | _____ | _____ |
| 10. Is Schedule X—Supplemental Information Concerning Property-Casualty Insurance Operations (refers to Rule 7-05(c) and Rule 12-18) filed for the periods specified in the schedule? | _____ | _____ | _____ |
| P. Other SEC-Related Disclosures | | | |
| 1. Are the topics discussed in the following Staff Accounting Bulletins considered for disclosure, if applicable: | | | |
| a. SAB Topic 11-G discussing the use of tax equivalent-adjusted amounts in financial statements? | _____ | _____ | _____ |
| b. SAB Topic 6-G, added by SAB 46, discussing guidance related to quarterly financial data disclosure requirements? | _____ | _____ | _____ |
| c. SAB Topic 11-I, added by SAB 56, expressing the staff's views about the reporting of Allocated Transfer Risk Reserve (ATRR) provisions established when federal banking agencies determine that such reserves are necessary? | _____ | _____ | _____ |
| d. SAB Topic 2-A, added by SAB 92 reflecting the staff's views of loss contingencies assumed in a business combination accounted for as a purchase? | _____ | _____ | _____ |

Yes No N/A

Q. Financial Guarantees

1. When aggregate amounts guaranteed are material to consolidated equity or where there is a material effect on results of operations before income taxes, are the following disclosures made:
- a. A general description of the type of obligations guaranteed (e.g., corporate, municipal general obligation, industrial revenue, etc.), the relative amount and range of maturity dates of each, and the degree of risk involved?
 - b. The amount of exposure with respect to the debts of others guaranteed at the date of each balance sheet presented, including a discussion of how the participation by other parties and other factors that may reduce exposure are treated in determining the amount reported?
 - c. The manner in which the registrant recognizes revenue with respect to the guarantees?
 - d. The amount of unearned premiums as of the date of each balance sheet?
 - e. Whether the registrant provides a reserve for losses by charges against income and, if so, the basis for the reserve and its amount at each balance-sheet date?
 - f. Any other information that may be necessary to adequately describe the nature and extent of the obligations guaranteed and the degree of risk related to the guarantees?
[SAB 60]

| | | |
|-------|-------|-------|
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

FSP Section 19,600

Illustrative Financial Statements

.01 The following report and set of financial statements illustrate one form of currently acceptable practice. The financial statements are reproduced from the AICPA Audit and Accounting Guide, *Audits of Stock Life Insurance Companies*, and do not necessarily contain all required disclosures. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances.

.02 **Independent Auditor's Report**

To the Board of Directors and Stockholders
ABC Life Insurance Company
Anytown, U.S.A.

We have audited the accompanying balance sheets of ABC Life Insurance Company as of December 31, 197X and 197Y, and the related statements of income, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 ABC Life Insurance Company as of December 31, 197X and 197Y, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.
January 15, 199Z

ABC LIFE INSURANCE COMPANY

.03

Balance Sheets

December 31, 197X and 197Y

| | <u>197X</u> | <u>197Y</u> |
|---|---------------------------|---------------------------|
| ASSETS | | |
| Cash and investments: | | |
| Cash | \$..... | \$..... |
| Bonds, amortized cost (market \$.....) | | |
| Mortgages on real estate, amortized cost | | |
| Preferred stocks, cost (market \$.....) | | |
| Common stock, market value | | |
| Policy loans | | |
| Real estate, cost (less \$..... accumulated depreciation) | | |
| Investment in affiliated companies (state basis) | | |
| Other investments (state basis) | | |
| Total | <u>.....</u> | <u>.....</u> |
| Accrued investment income | | |
| Accounts receivable and agents' balances (net of \$..... allowance for uncollectible accounts) | | |
| Property and equipment, at cost: | | |
| Land | | |
| Buildings | | |
| Furniture and equipment | | |
| Less accumulated depreciation | <u>.....</u> | <u>.....</u> |
| Net property and equipment | | |
| Unamortized acquisition costs | | |
| Other | | |
| Assets held in separate accounts | <u>.....</u> | <u>.....</u> |
| Total assets | <u><u>\$.....</u></u> | <u><u>\$.....</u></u> |

(continued)

ABC LIFE INSURANCE COMPANY

.03

Balance Sheets—continued

December 31, 197X and 197Y

| | <u>197X</u> | <u>197Y</u> |
|---|---------------------|---------------------|
| LIABILITIES | | |
| Policy liabilities: | | |
| Future policy benefits: | | |
| Life and annuity | \$ | \$ |
| Accident and health | | |
| Other | | |
| Unpaid claims | | |
| Dividends | | |
| Premium deposits | | |
| Unearned premiums | | |
| Other | | |
| Total | <u>.</u> | <u>.</u> |
| Income taxes | | |
| Real estate mortgages payable | | |
| Note payable | | |
| Accrued expenses | | |
| Other | | |
| Dividends to stockholders | | |
| Deferred income taxes | | |
| Undistributed earnings on participating business (Note 3) | | |
| Liabilities related to separate accounts | | |
| Total liabilities | <u>.</u> | <u>.</u> |
| STOCKHOLDERS' EQUITY | | |
| Capital stock—authorized shares of \$ par value | | |
| issued and outstanding shares | | |
| Capital in excess of par value | | |
| Net unrealized investment gains | | |
| Retained earnings: | | |
| Appropriated (describe purpose) | | |
| Unappropriated, including \$ in excess of | | |
| statutory unassigned surplus | | |
| Total stockholders' equity | <u>.</u> | <u>.</u> |
| Total liabilities and stockholders' equity | <u>\$</u> | <u>\$</u> |

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

ABC LIFE INSURANCE COMPANY

.04

Statements of Income *

For the Years Ended December 31, 197X and 197Y

| | <u>197X</u> | <u>197Y</u> |
|--|---------------------|---------------------|
| Premiums: | | |
| Life and annuity | \$ | \$ |
| Accident and health | | |
| Other | | |
| Investment income (Net of expenses of \$) | | |
| (Note 4) | <u>.</u> | <u>.</u> |
| Benefits and expenses: | | |
| Death benefits | | |
| Annuity benefits | | |
| Accident and health benefits | | |
| Increase in liability for future policy benefits (Notes 1 and 4) | | |
| Other (detailed as appropriate) | | |
| Decrease (increase) in deferred acquisition costs (Note 1) | | |
| Provision for policyholders' share of earnings on participating business (Note 3) | | |
| | <u>.</u> | <u>.</u> |
| Equity in income (loss) of unconsolidated affiliates, net of related income taxes of \$ | | |
| Income before income taxes, realized investment gains and losses, and extraordinary gain (loss) | | |
| Provision for income taxes: | | |
| Current | | |
| Deferred | | |
| | <u>.</u> | <u>.</u> |
| Income before realized investment gains and losses and extraordinary gain (loss) | | |
| Realized investment gains and losses, net of related income taxes of \$ (Note 2) | | |
| Income before extraordinary gain (loss) | | |
| Extraordinary gain (loss) | | |
| Net income | <u>\$</u> | <u>\$</u> |
| Per share: | | |
| Income before realized investment gains and losses and extraordinary gain (loss) | \$ | \$ |
| Realized investment gains and losses | | |
| Income before extraordinary gain (loss) | | |
| Extraordinary gain (loss) | | |
| Net income | <u>\$</u> | <u>\$</u> |

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

* FASB 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, has significantly changed the presentation of realized gains and losses. The results of the changes will be illustrated in a future update.

Notes *

1. The increase in liability for future policy benefits may be reclassified between death benefits, annuity benefits, and accident and health benefits. In such cases, the resulting amounts would be captioned "Provision for surrender and death (annuity) (accident and health) benefits." Acquisition costs incurred may be reclassified as an offset to appropriate expense accounts and amortization may be similarly charged or treated as a separate item.
2. Until generally accepted accounting principles for investment gains and losses are more clearly defined, some companies may wish to exclude realized investment gains and losses from income. In such cases, the last item in the income statement should be designated "Income excluding realized investment gains and losses."
3. This caption is only applicable when dividends are not considered as a benefit in determining the liability for future policy benefits. Where dividends are considered as benefits, the caption in the operations statement should be described as "Dividends to policyholders".
4. A modification of the income statement presentation would reduce net investment income and the increase in liability for future policy benefits by required interest on funds accumulated.

* FASB 97, has significantly changed the presentation of realized gains and losses. The results of the changes will be illustrated in a future update.

ABC LIFE INSURANCE COMPANY

.05

Statements of Stockholders' Equity *

For the Years Ended December 31, 197X and 197Y

| | <u>Capital Stock</u> | <u>Capital in Excess of Par Value</u> | <u>Net Unrealized Investment Gains</u> | <u>Retained Earnings</u> | | <u>Total</u> |
|---|----------------------|---|--|--------------------------|-----------------------|--------------|
| | | | | <u>Appropriated</u> | <u>Unappropriated</u> | |
| Balance, beginning of year | \$ | | | | | \$ |
| Proceeds of sale of shares of capital stock | | | | | | |
| Net income | | | | | | |
| Increase (decrease) in un-realized investment gains | | | | | | |
| Income taxes applicable to increase (decrease) in unrealized investment gains | | | | | | |
| Dividends to stockholders | | | | | | |
| Addition to group contingency reserves | | | | | | |
| Other (detailed as appropriate) | | | | | | |
| Balance, end of year | \$ | | | | | \$ |

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

* Similar data should be presented for all years reported.

ABC LIFE INSURANCE COMPANY

.06

Statements of Changes in Financial Position *

For the Years Ended December 31, 197X and 197Y

| | <u>197X</u> | <u>197Y</u> |
|--|---------------------|---------------------|
| Resources provided: | | |
| Income before extraordinary item | \$ | \$ |
| Decreases (increases) in income not affecting resources: | | |
| Increase in liability for future policy benefits | | |
| Amortization of deferred acquisition costs | | |
| Deferred income taxes | | |
| Other (detailed as appropriate) | | |
| Resources provided by operations before extraordinary item | <u>.</u> | <u>.</u> |
| Extraordinary item | | |
| Resources provided by operations | | |
| Bonds sold or matured | | |
| Preferred stocks sold | | |
| Common stocks sold | | |
| Repayments on mortgage loans | | |
| Repayment on policy loans | | |
| Other (detailed as appropriate) | | |
| Total | <u>\$</u> | <u>\$</u> |
| Resources applied: | | |
| Investment in bonds: | \$ | \$ |
| Long-term | | |
| Temporary (net) | | |
| Mortgage loans | | |
| Investment in preferred stocks | | |
| Investment in common stocks | | |
| Policy loans | | |
| Acquisition costs | | |
| Dividends to stockholders | | |
| Other (detailed as appropriate) | | |
| Net increase (decrease) in cash | | |
| Total | <u>\$</u> | <u>\$</u> |

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

* FASB 95, *Statement of Cash Flows*, as amended supersedes APB Opinion 19, *Reporting Changes in Financial Position*, and requires a statement of cash flows as part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position.

Supplementary Data*

The following statements are illustrative of the form for supplementary data required to reconcile net income and stockholders' equity presented in financial statements prepared in accordance with regulatory practices to such amounts determined in conformity with generally accepted accounting principles. As an alternative, the necessary details may be set forth in a note to the financial statements or within the financial statements themselves as adjustments to the surplus and income statements.

Where a reconciliation of net income and stockholders' equity presented in financial statements prepared in conformity with generally accepted accounting principles to such amounts determined in accordance with regulatory practices is required by law or regulation, a similar format may be used.

*The supplementary data required to reconcile net income and stockholders' equity in accordance with regulatory practices to such amounts determined in conformity with GAAP is no longer required. See FASB 60, *Accounting and Reporting by Insurance Enterprises*.

Statement of Adjustments to Arrive at Net Income*

| | <u>197X</u> | <u>197Y</u> |
|--|---------------------|---------------------|
| Net gain (loss) from operations as shown in the accompanying Statement of Operations (Regulatory basis) | \$. | \$. |
| Adjustments (to be added or deducted as appropriate): | | |
| Adjustments to policy reserves | | |
| Change in deferred acquisition costs | | |
| Adjustments arising from special reinsurance agreements | | |
| Deferred income taxes applicable to adjustments to policy reserves and deferred acquisition costs and special reinsurance agreements | | |
| Equity in undistributed earnings of unconsolidated subsidiaries, net of related income taxes \$. | | |
| Income, excluding realized investment gains and losses | | |
| Realized investment gains and losses, net of related income taxes of \$. | | |
| Net income | <u>\$</u> | <u>\$</u> |
| Per share: | | |
| Income excluding realized investment gains and losses | \$. | \$. |
| Realized investment gains and losses | | |
| Net income | <u>\$</u> | <u>\$</u> |

* The supplementary data required to reconcile net income and stockholders' equity in accordance with regulatory practices to such amounts determined in conformity with GAAP is no longer required. See FASB 60.

Statement of Adjustments to Arrive at Stockholders' Equity*

| | 197X | 197Y |
|--|--------------|--------------|
| Capital stock and surplus as shown in the accompanying balance sheet (Regulatory basis) | \$. | \$. |
| Adjustments (to be added or deducted as appropriate): | | |
| Adjustments to policy reserves | \$. | \$. |
| Deferred acquisition costs | | |
| Adjustments arising from special reinsurance agreements | | |
| Nonadmitted assets | | |
| Mandatory securities valuation reserve | | |
| Deferred income taxes applicable to: | | |
| Adjustments to policy reserves, deferred acquisition costs, and special reinsurance agreements | | |
| Net unrealized gains on investments | | |
| Other | | |
| | \$ | \$ |
| Stockholders' equity | \$ | \$ |
| Consisting of: | | |
| Capital stock | \$. | \$. |
| Capital in excess of par value | | |
| Unrealized investment gains or losses | | |
| Retained earnings: | | |
| Appropriated for contingencies — prescribed or voluntary | \$. | \$. |
| Mandatory securities valuation reserve | | |
| Unappropriated | | |
| | \$ | \$ |

* The supplementary data required to reconcile net income and stockholders' equity in accordance with regulatory practices to such amounts determined in conformity with GAAP is no longer required. See FASB 60.

ABC LIFE INSURANCE COMPANY

.08

Notes to Financial Statements

An illustrative note describing some of the common differences between regulatory practices and generally accepted accounting principles is as follows: *

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of which vary in some respects from generally accepted accounting principles. The more significant of these differences are as follows: (a) acquisition costs, such as commissions and other costs in connection with acquiring new business, are charged to current operations as incurred, whereas the premiums are taken into earnings over the premium paying period of the policies; (b) policy reserves are based on statutory mortality and interest requirements and without consideration of withdrawals, which may differ from reserves based on reasonably conservative estimates of mortality, interest, and withdrawals; (c) deferred income taxes are not provided for unrealized gains on investments, differences in reporting policy reserves, and other material book-tax timing differences; (d) a liability for undistributed earnings allocable to participating policyholders has not been recorded; (e) the mandatory securities valuation reserve is reported as a liability rather than as an appropriation of surplus; (f) certain assets designated as "nonadmitted assets" (principally furniture and equipment, agents' debit balances, and certain other classes of receivables) have been charged to surplus.

The effects of these differences on stockholders' equity and net income are shown in the accompanying supplemental statements of adjusted net income and adjusted stockholders' equity.

Ordinarily, the effects of these differences on the statement of changes in financial position ** need not be disclosed because they will not affect the flow of funds.

In addition to those matters discussed in the foregoing illustration, other differences between regulatory accounting practices and generally accepted accounting principles may exist which will require disclosure. Among other things, such disclosure might include methods of accounting for investments in affiliates, prior service costs of pension plans, stock dividends, and reserve strengthening, or other matters related to financial statement classification or presentation. Other differences from generally accepted accounting principles may exist with respect to a particular company, but which may not be unique to the life insurance industry. These, of course, will have to be dealt with by the independent auditor as they arise.

In those cases where the supplementary data are to be included in the notes, the concluding paragraph of Note 1 might read, "The effect of these differences on the financial statements is shown (below) in the accompanying tabulations." Such tabulations would be presented in the same form as the preceding examples of supplementary statements of adjustments to arrive at net income and stockholders' equity.

The foregoing material attempts to set forth the most significant differences which are peculiar to life insurance regulatory accounting. Further, it would be preferable to avoid stating the per share amounts based on regulatory statements where the auditor's opinion indicates that net income is not in accordance with generally accepted accounting principles.

* In a change to what is considered generally accepted accounting principles, this note is generally no longer presented.

** FASB 95, *Statement of Cash Flows*, as amended supersedes APB Opinion 19, *Reporting Changes in Financial Position*, and requires a statement of cash flows as part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position.

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