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# Checklists and illustrative financial statements for property and liability insurance companies : a financial accounting and reporting practice aid, December 1996 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Robert Durak

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**AICPA**

**DECEMBER 1996 EDITION**

**CHECKLISTS  
AND ILLUSTRATIVE  
FINANCIAL STATEMENTS  
FOR PROPERTY AND  
LIABILITY INSURANCE  
COMPANIES**

*A Financial Accounting and  
Reporting Practice Aid*

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR PROPERTY AND LIABILITY INSURANCE COMPANIES DECEMBER 1996

AICPA

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*A Financial Accounting and  
Reporting Practice Aid*

*Edited by*

**Robert Durak, CPA**

*Technical Manager, Accounting and Auditing Publications*

*Checklists and Illustrative Financial Statements  
for Property and Liability Insurance Companies* has  
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upon by any senior technical committees of the  
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*Note:* This publication was extracted from sections 17,000 through 17,600 of the AICPA *Financial Statement Preparation Manual* (FSP).

# FSP Section 17,000

## *Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies*

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

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated; as a result, pronouncements deemed unlikely to be encountered in financial statements of property and liability insurance companies are not included.
- 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. 79, FASB Statement of Financial Accounting Standards (SFAS) No. 124, FASB Interpretation No. 42, FASB Technical Bulletin No. 94-1, AICPA Statement of Position 95-5, AICPA Audit and Accounting Guide *Audits of Property and Liability Insurance Companies* (with conforming changes as of May 1, 1996) AICPA Practice Bulletin No. 14, and EITF consensuses adopted up to and including the July 18, 1996 Emerging Issues Task Force meeting. In addition, a supplemental checklist outlines disclosure requirements for property and liability 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.
- **SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.**

In an effort to provide consistent guidance for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings, the FASB issued SFAS No. 125, which is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Earlier or retroactive application is not permitted. This Statement establishes accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 125 supersedes:

- SFAS No. 76, *Extinguishment of Debt*
- SFAS No. 77, *Reporting by Transferors for Transfers of Receivables with Recourse*
- SFAS No. 122, *Accounting for Mortgage Servicing Rights*
- FASB Technical Bulletin No. 84-4, *In-Substance Defeasance of Debt*
- FASB Technical Bulletin No. 85-2, *Accounting for Collateralized Mortgage Obligations (CMOs)* and amends:
  - SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*
  - SFAS No. 65, *Accounting for Certain Mortgage Servicing Rights*

- FASB Technical Bulletin No. 86-2, *Accounting for an Interest in the Residual Value of a Leased Asset: Acquired by a Third Party or Retained by a Lessor That Sells the Related Minimum Rental Payments*
- FASB Technical Bulletin No. 87-3, *Accounting for Mortgage Servicing Fees and Rights.*

Since early and retroactive application is not permitted, the disclosure requirements of SFAS No. 125 are not included in this edition of the checklist. The disclosures required by SFAS No. 125 will be added to this checklist closer to its effective date.

- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

.02 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at (800) 862-4272.



# FSP Section 17,100

## *Introduction*

.01 The primary purpose of the property and liability insurance business is the spreading of risks. The term risk generally has two meanings in insurance. It can mean either a peril insured against (e.g., fire is a risk to which most property is exposed) or a person or property protected (e.g., young drivers, who many insurance companies believe are not good risks). For a payment known as a premium, insurance companies undertake to relieve the policyholder of all or part of a risk and to spread the total cost of similar risks among large groups of policyholders.

.02 The functions of the property and liability insurance business include marketing, underwriting (e.g., determining the acceptability of risks and the amounts of the premiums), billing and collecting premiums, investing and managing assets, investigating and settling claims made under policies, and paying expenses associated with these functions.

.03 In conducting its business, an insurance company accumulates a significant amount of investable assets. In addition to funds raised as equity and funds retained as undistributed earnings, funds accumulated from premiums collected in advance; from sums held for the payment of claims in the process of investigation, adjustment, or litigation; and from sums held for payment of future claims settlement expenses. The accumulation of these funds, their investment, and the generation of investment income are major activities of insurance companies.

.04 Property and liability insurance companies must file an annual statement, prepared on the basis of Statutory Accounting Practice ("SAP"), with each state in which the companies are licensed. The primary purpose of the extensive regulatory laws enacted by the states has been the protection of the policyholders. The annual statements filed with the regulatory authorities are used to monitor the financial condition of insurance companies in the periods between examinations by state or zone auditors.

.05 Common accounting and reporting practices by property and liability insurance companies include:

- Most property and liability insurance companies use the cash-basis method of accounting for recording purposes and the accrual-basis method for reporting purposes.
- Insurance companies usually prepare non-classified balance sheets.
- The first item in the balance sheet is usually the company's investments rather than cash.
- Evaluation of loss and loss expense reserves is subjective and involves a high degree of management judgment; consequently, it entails considerable audit risk for the auditor.
- Actuarial assumptions are chosen by the actuarial profession. The auditors' responsibility is to form a judgment as to whether the actuaries were guided in their work by considerations consistent with generally accepted accounting principles.
- Premiums from short-duration contracts ordinarily should be recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided.
- Under some insurance contracts, the period of risk differs significantly from the contract period; in these cases the premium is recognized as revenue over the period of risk in proportion to the amount of insurance protection provided.

- Acquisition costs 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 17,200

## *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 herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be made 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 17,300

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid. This checklist and the reporting checklists include disclosures commonly encountered in the financial statements of property and liability insurance companies and reporting issues likely to be encountered by accountants who audit, compile, and review these types of financial statements. They do not include all disclosures and presentation items required by GAAP or all reporting situations required by GAAS and SSARS. Pronouncements deemed unlikely to be encountered in financial statements of property and liability companies are not included.

### .02 Explanation of References:

AC =	Reference to section number in FASB <i>Accounting Standards—Current Text</i>
APB =	AICPA Accounting Principles Board Opinion
ARB =	AICPA Accounting Research Bulletin
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
FASBI =	FASB Financial Accounting Standards Board Interpretation
FTB =	Technical Bulletin issued by the staff of the FASB
AAG =	AICPA Audit and Accounting Guide <i>Audits of Property and Liability Insurance Companies</i> (with conforming changes as of May 1, 1996)
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 July 18, 1996 Emerging Issues Task Force meeting)
App. K =	Appendix K of AAG containing SOP 92-3, <i>Accounting for Foreclosed Assets</i>
App. N =	Appendix N of AAG containing SOP 92-8, <i>Auditing Property/Casualty Insurance Entities' Statutory Financial Statement—Applying Certain Requirements of the NAIC Annual Statement Instructions</i>
App. P =	Appendix P of AAG containing SOP 94-5, <i>Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises</i>

### .03 Checklist Questionnaire:

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

- General
  - A. Titles and References \_\_\_\_\_
  - B. Disclosure of Accounting Policies \_\_\_\_\_
  - C. Accounting Changes \_\_\_\_\_
  - D. Comparative Financial Statements \_\_\_\_\_
  - E. Business Combinations \_\_\_\_\_
  - F. Consolidations \_\_\_\_\_
  - G. Related-Party Transactions and Economic Dependency \_\_\_\_\_
  - H. Financial Instruments \_\_\_\_\_
  - I. Derivatives \_\_\_\_\_
  - J. Foreign Currency \_\_\_\_\_
  - K. Nonmonetary Transactions \_\_\_\_\_
  - L. Contingencies and Commitments \_\_\_\_\_
  - M. Subsequent Events \_\_\_\_\_
  - N. Pension Plans \_\_\_\_\_
  - O. Postretirement Health Care and Life Insurance Benefits \_\_\_\_\_
  - P. Futures Contracts \_\_\_\_\_
  - Q. Troubled Debt Restructurings \_\_\_\_\_
  - R. Lease Finance Receivables \_\_\_\_\_
  - S. Valuation Allowances \_\_\_\_\_
  - T. Other Matters \_\_\_\_\_
  - U. Risks and Uncertainties \_\_\_\_\_
  - V. Costs to Exit an Activity \_\_\_\_\_
  
- Balance Sheet
  - A. Investment Securities \_\_\_\_\_
  - B. Impairment of a Loan \_\_\_\_\_
  - C. Cash \_\_\_\_\_
  - D. Premium and Agents' Balances \_\_\_\_\_
  - E. Reinsurance Receivables \_\_\_\_\_
  - F. Deferred Acquisition Costs \_\_\_\_\_
  - G. Property and Equipment \_\_\_\_\_
  - H. Lessee Leases \_\_\_\_\_
  - I. Other Assets \_\_\_\_\_
  - J. Policy Liabilities \_\_\_\_\_
  - K. Income Taxes \_\_\_\_\_
  - L. Long-Term Debt \_\_\_\_\_
  - M. Other Liabilities \_\_\_\_\_
  - N. Capital Stock \_\_\_\_\_
  - O. Retained Earnings \_\_\_\_\_
  - P. Other Stockholders' Equity Accounts \_\_\_\_\_
  
- Income Statement
  - A. Investment Income \_\_\_\_\_
  - B. Other Income \_\_\_\_\_
  - C. Benefits and Expenses \_\_\_\_\_
  - D. Income Taxes \_\_\_\_\_
  - E. Discontinued Operations \_\_\_\_\_
  - F. Extraordinary Items \_\_\_\_\_
  - G. Other \_\_\_\_\_
  
- Statement of Changes in Shareholders' Equity \_\_\_\_\_

- Statement of Cash Flows \_\_\_\_\_
- Exhibit A—Stock-Based Compensation \_\_\_\_\_
- Exhibit B—Statutory Basis Financial Statements \_\_\_\_\_
- Auditors' Reports Checklist \_\_\_\_\_
- Supplemental Checklist for Property and Liability Insurance  
Companies That Are SEC Registrants \_\_\_\_\_

Balance Sheet

- A. Investments—Other Than Investments in Related Parties \_\_\_\_\_
- B. Cash \_\_\_\_\_
- C. Securities and Indebtedness of Related Parties \_\_\_\_\_
- D. Accrued Investment Income \_\_\_\_\_
- E. Accounts and Notes Receivable \_\_\_\_\_
- F. Reinsurance Recoverable on Paid Losses \_\_\_\_\_
- G. Deferred Policy Acquisition Costs \_\_\_\_\_
- H. Property and Equipment \_\_\_\_\_
- I. Title Plant \_\_\_\_\_
- J. Other Assets \_\_\_\_\_
- K. Assets Held in Separate Accounts \_\_\_\_\_
- L. Policy Liabilities and Accruals \_\_\_\_\_
- M. Other Policyholders' Funds \_\_\_\_\_
- N. Other Liabilities \_\_\_\_\_
- O. Notes Payable, Bonds, Mortgages and Similar Obligations  
(Including Capitalized Leases) \_\_\_\_\_
- P. Indebtedness to Related Parties \_\_\_\_\_
- Q. Liabilities Related to Separate Accounts \_\_\_\_\_
- R. Commitments and Contingent Liabilities \_\_\_\_\_
- S. Minority Interest in Consolidated Subsidiaries \_\_\_\_\_
- T. Preferred Stock Subject to Mandatory Redemption \_\_\_\_\_
- U. Nonredeemable Preferred Stock \_\_\_\_\_
- V. Common Stock \_\_\_\_\_
- W. Other Stockholders' Equity \_\_\_\_\_

Income Statement

- A. Premiums \_\_\_\_\_
- B. Net Investment Income \_\_\_\_\_
- C. Realized Investment Gains and Losses \_\_\_\_\_
- D. Other Income \_\_\_\_\_
- E. Benefits, Claims, Losses, and Settlement Expenses \_\_\_\_\_
- F. Policyholders' Share of Earnings on Participating Policies, Dividends,  
and Similar Items \_\_\_\_\_
- G. Underwriting, Acquisition, and Insurance Expenses \_\_\_\_\_
- H. Income Tax Expense \_\_\_\_\_
- I. Minority Interest in Income of Consolidated Subsidiaries \_\_\_\_\_
- J. Equity in Earnings of Unconsolidated Subsidiaries and 50 Percent or  
Less Owned Persons \_\_\_\_\_
- K. Discontinued Operations \_\_\_\_\_
- L. Extraordinary Items, Less Applicable Tax \_\_\_\_\_



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For GAAP reporting purposes, are the following regulatory accounting practices avoided:			
<i>a.</i> Recording bonds and stocks at carrying amounts required by the National Association of Insurance Commissioners (NAIC)?	_____	_____	_____
<i>b.</i> Exclusion of nonadmitted assets from the balance sheet?	_____	_____	_____
<i>c.</i> Expensing of policy acquisition costs when incurred?	_____	_____	_____
<i>d.</i> Reporting of policyholder dividends as liabilities when declared?	_____	_____	_____
<i>e.</i> Recording minimum liabilities for losses based on statutory formulas?	_____	_____	_____
<i>f.</i> No deferred federal income taxes recorded? [AAG, par. 8.22]	_____	_____	_____
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. 8.22]	_____	_____	_____
6. Is the disclosure made about whether anticipated investment income is considered in determining whether a premium deficiency relating to short-duration contracts exists? [AAG, par. 3.33]	_____	_____	_____
7. For those financial statements in which FASB Interpretation 40 is not adopted, are the following disclosed:			
<i>a.</i> A description of the Interpretation?	_____	_____	_____
<i>b.</i> The Interpretation's effective date and transition provisions (for fiscal years beginning after December 15, 1995)?	_____	_____	_____
<i>c.</i> The fact that financial statements prepared on the basis of statutory accounting practices that will no longer be described as prepared in conformity with generally accepted accounting principles (for fiscal years beginning after December 15, 1995)? [FASBI 40, par. 6, as amended by SFAS 120, par. 3 (AC In6.166, fn. 10a)]	_____	_____	_____
8. When permitted practices differ from prescribed statutory accounting practices, is the following information about permitted statutory accounting practices that individually or in the aggregate affect statutory surplus or risk-based capital, including GAAP practices, disclosed:			
<i>a.</i> A description of the permitted statutory accounting practices?	_____	_____	_____
<i>b.</i> A statement that the permitted statutory accounting practice differs from the prescribed statutory accounting practices?	_____	_____	_____
<i>c.</i> The monetary effect on statutory surplus? [SOP 94-5, par. 8]	_____	_____	_____
9. When prescribed statutory accounting practices do not address the accounting for a transaction, is the following information about permitted statutory accounting practices, excluding GAAP practices used, disclosed:			
<i>a.</i> A description of the transaction and of the permitted statutory accounting practice used?	_____	_____	_____
<i>b.</i> A statement that prescribed statutory accounting practices do not address the accounting for the transaction? [SOP 94-5, par. 8]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. Are managements' policies and methodologies for estimating a liability for unpaid claims and claim adjustment expenses for difficult-to-estimate liabilities such as for claims for toxic waste cleanup, asbestos-related illnesses, or other environmental remediation exposures disclosed? [SOP 94-5, par. 11]	_____	_____	_____

**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)]	_____	_____	_____
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. Is the reason for not reporting the cumulative effect of the change and not disclosing the pro forma amounts for prior years disclosed if it is impossible to determine such effects? [APB 20, pars. 25 and 26 (AC A06.121 and 122)]	_____	_____	_____
4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, par. 28 (AC A06.124)]	_____	_____	_____
5. Is the GAAP hierarchy in SAS 69, <i>The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report</i> (AU 411), followed in justifying a change in accounting principle? [SFAS 111, par. 17 (AC A06.112)]	_____	_____	_____
6. 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)]	_____	_____	_____
7. 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)]	_____	_____	_____
8. 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 of the following made in the year of change:			
a. The effect on the interim periods?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Cumulative effect? [APB 28, par. 31; SFAS 3, par. 14 (AC I73.147)]	_____	_____	_____
9. Are the provisions of EITF 93-6, <i>Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises</i> , 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, <i>Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts</i> ? [EITF 93-6]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .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]	_____	_____	_____
<b>E. Business Combinations</b>			
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 and 96 (AC B50.164 and .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]	_____	_____	_____
4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired, are the method and period of amortization disclosed? [FASBI 9, par. 8 (AC I60.131); APB 17, par. 30 (AC I60.111)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. If a material liability is recognized by the combined company for costs incurred to (1) exit an activity, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company, are disclosures made in accordance with EITF Issue 95-3, <i>Recognition of Liabilities in Connection with a Purchase Business Combination</i> , in addition to the disclosures required by paragraphs 95 and 96 in APB Opinion 16, <i>Business Combinations</i> ? [EITF 95-3]	_____	_____	_____
6. Is the guidance in EITF 94-3 (and not EITF 95-3) followed for those costs to relocate employees as a result of a business combination accounted for using the pooling-of-interests method? [EITF 95-14]	_____	_____	_____
<b>F. Consolidations</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)]	_____	_____	_____
<b>G. Related-Party Transactions and Economic Dependency</b>			
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. If the company is part of a group that files a consolidated tax return, is the aggregate amount of current and deferred tax expense disclosed for each of the periods for which an income statement is presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented? [SFAS 109, par. 49a (AC I27.148a)]	_____	_____	_____
3. If the company is part of a group that files a consolidated tax return, are the principal provisions of the method by which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which an income statement is presented? [SFAS 109, par. 49b (AC I27.148b)]	_____	_____	_____
4. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting company			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:  |       |       |       |
| 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, <i>Disclosure of Accounting Policies</i> (AC A10)?<br>[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]  | _____ | _____ | _____ |
| 2. Do the disclosures in Steps 1.a. and 1.b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?<br>[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)] | _____ | _____ | _____ |
| 3. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial statement:   |       |       |       |
| 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?<br>[SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]  | _____ | _____ | _____ |
| 4. 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?  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____
5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial condition? <sup>1</sup>	_____	_____	_____
6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? [SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]	_____	_____	_____
7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair market value of a financial instrument, 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)]	_____	_____	_____
9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , does the company, in disclosing the fair value of a derivative financial instrument, not:			
a. Combine, aggregate, or net the fair value with the fair value of the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15 (AC F25.115J)]	_____	_____	_____
10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a balance sheet is presented for comparative purposes? [SFAS 107, par.17]	_____	_____	_____

<sup>1</sup> If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. Derivatives</b>			
1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:			
<i>a.</i> The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
<i>b.</i> The nature and terms, including a discussion of:			
(1) Credit and market risk?	_____	_____	_____
(2) Cash requirements?	_____	_____	_____
(3) Related accounting policy as required by APB 22?	_____	_____	_____
<i>c.</i> Do disclosures in Steps 1. <i>a.</i> and 1. <i>b.</i> above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9 (AC F25.115L and .115M)]	_____	_____	_____
2. If the company holds or issues derivative financial instruments for trading purposes, is the following disclosed:			
<i>a.</i> The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
<i>b.</i> The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement:			
(1) If the disaggregation is other than by class, did the company also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
<i>c.</i> The average fair value for assets and liabilities from the trading of other types of financial instruments or non financial assets? (This disclosure is encouraged but not required.) [SFAS 119, par. 10 (AC F25.115N)]	_____	_____	_____
3. Does a company that holds or issues derivative financial instruments for purposes other than trading disclose:			
<i>a.</i> A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
<i>b.</i> A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC F25.115O)]	_____	_____	_____
4. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? <sup>2</sup> [SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]	_____	_____	_____

**J. 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 inter-company balances?	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____

<sup>2</sup> Suggested methods of disclosure of the above include:

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are 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)]	_____	_____	_____
<b>K. Nonmonetary Transactions</b>			
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)]	_____	_____	_____
<b>L. Contingencies and Commitments</b>			
1. Are the nature and amount of accrued loss contingencies (not related to property and liability 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 and 3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, for funding of loans, and unused letters of credit? [SFAS 5, pars. 18 and 19 (AC C59.120); FASB 80 (AC F80)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>M. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03, .04, .07, and 561.01-.09 (AU 560.03, .04, .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, .09, and 561.01-.09 (AU 560.05-.07, .09, and 561.01-.09)]	_____	_____	_____
<b>N. Pension Plans</b>			
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, <i>Employers' Accounting for Pensions</i> (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)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35 and 36 (AC P16.129 and .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 of 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan, including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]	_____	_____	_____
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, <i>Accounting for Contingencies</i> (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:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____
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? <sup>3</sup>	_____	_____	_____

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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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? <sup>4</sup> [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]	_____	_____	_____

**O. Postretirement Health Care and Life Insurance Benefits**

1. If there are one or more defined benefit postretirement plans, do disclosures include:			
a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the 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?	_____	_____	_____
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? <sup>5</sup>	_____	_____	_____

<sup>4</sup> Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments. [SOP 93-6, par. 95]

<sup>5</sup> The net total of other components is generally 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>
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	_____	_____	_____
(3) The amount of unrecognized prior-service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized transition obligation or transition asset?	_____	_____	_____
(6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?	_____	_____	_____
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible charges) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?	_____	_____	_____
e. The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?	_____	_____	_____
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:			
(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?	_____	_____	_____
(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, <i>Employers' Accounting for Postretirement Benefits Other Than Pensions</i> (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)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p><i>j.</i> 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. 74 (AC P40.169)]</p>	_____	_____	_____
<p>2. If more than one defined benefit postretirement plan exists:</p>			
<p><i>a.</i> 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)]</p>	_____	_____	_____
<p><i>b.</i> 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 P40.173a)]</p>	_____	_____	_____
<p><i>c.</i> 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 P40.173b)]</p>	_____	_____	_____
<p>3. If there is a multiemployer plan, do disclosures include:</p>			
<p><i>a.</i> A description of the multiemployer plan(s), including the employee groups covered, the types of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?</p>	_____	_____	_____
<p><i>b.</i> 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)]</p>	_____	_____	_____
<p><i>c.</i> 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:</p>			
<p>(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?</p>	_____	_____	_____
<p>or</p>			
<p>(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)]</p>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____
<b>P. Futures Contracts</b>			
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)]	_____	_____	_____
<b>Q. Troubled Debt Restructurings</b>			
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? [SFAS 77, par. 9 (AC R20.109)]	_____	_____	_____
b. At date of each balance sheet presented, the information required by paragraphs 17, 18, and 20 of SFAS 105, as amended by SFAS 119? (See Section H, Financial Instruments, Steps 1-4.) [SFAS 105, par. 21, as amended by SFAS 119 (R20.109)]	_____	_____	_____
<b>R. Lease Finance Receivables</b>			
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. 23, as amended by SFAS 91, par. 25d (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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>S. Valuation Allowances</b>			
1. Are valuation reserves for losses anticipated on assets deducted from the assets to which they relate? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
<b>T. Other Matters</b>			
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 and .110); SFAS 30, par. 6 (AC S20.145); FTBs 79-4, 79-5, and 79-8 (AC S20.501-.507)]	_____	_____	_____
<b>U. Risks and Uncertainties</b>			
1. Is a description of the major products and services the entity sells or provides and the principal markets, including the location of those markets disclosed? [SOP 94-6, par. 10]	_____	_____	_____
2. If the company operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]	_____	_____	_____
3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	_____	_____	_____
4. Is disclosure regarding an estimate made when known information available before the financial statements are issued indicates that it is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and the effect of the change will be material? [SOP 94-6, par. 13]	_____	_____	_____
5. Does the disclosure in Step 4 above indicate the nature of the uncertainty and include an indication that it is reasonably possible that a change in estimate will occur in the near term? <sup>6</sup> [SOP 94-6, par. 14]	_____	_____	_____
6. If the estimate in Step 4 involves a loss contingency covered by SFAS 5, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? <sup>7</sup> [SOP 94-6, par. 14]	_____	_____	_____
7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made if, based on information known to management before the financial statements are issued, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21 and 22]	_____	_____	_____

<sup>6</sup> If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

<sup>7</sup> See footnote 6.



- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the entity's home country that meet the criteria of paragraph 21 of SOP 94-6, are the following disclosed: |            |           |            |
| a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?   | _____      | _____     | _____      |
| b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the entity's home country?<br>[SOP 94-6, par. 24]   | _____      | _____     | _____      |
| 9. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered?<br>[SOP 94-6, pars. 14 and 15]  | _____      | _____     | _____      |

**V. Costs to Exit an Activity**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, <i>Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)</i> , are the following disclosures made in all periods until the plan of termination is completed: |       |       |       |
| a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?  | _____ | _____ | _____ |
| b. The number of employees to be terminated?   | _____ | _____ | _____ |
| c. A description of the employee group(s) to be terminated?  | _____ | _____ | _____ |
| d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?  | _____ | _____ | _____ |
| e. The amount of any adjustment(s) to the liability?<br>[EITF 94-3, Section A]   | _____ | _____ | _____ |
| 2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:   |       |       |       |
| a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?  | _____ | _____ | _____ |
| b. No disclosure made on the face of the income statement for earnings per share effect?   | _____ | _____ | _____ |
| c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income?<br>[EITF 94-3, Section B]  | _____ | _____ | _____ |
| 3. If activities that will not be continued are significant to the company's revenue or operating results, or if exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:  |       |       |       |
| a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?  | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?	_____	_____	_____
c. A description of the type and amount of exit costs paid and charged against the liability?	_____	_____	_____
d. The amount of any adjustment(s) to the liability?	_____	_____	_____
e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]	_____	_____	_____

## Balance Sheet

### A. Investment Securities

1. Are there separate captions for each of the following investment categories:			
a. Trading securities?	_____	_____	_____
b. Securities available for sale?	_____	_____	_____
c. Securities held to maturity?	_____	_____	_____
d. Mortgage loans on real estate?	_____	_____	_____
e. Real estate? [AAG, App. C (Exh. C-1)]	_____	_____	_____
2. Are mortgage loans reported at outstanding balances, net of the unamortized balances of loan origination, commitment, other fees and costs, purchase premiums and discounts, and allowance for losses? [SFAS 91, par. 21 (AC L20.120)]	_____	_____	_____
3. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported in income as prescribed in SFAS 114, <i>Accounting by Creditors for Impairment of a Loan</i> ? [SFAS 60, par. 47, as amended by SFAS 114, par 23 (AC In6.153)]	_____	_____	_____
4. Are real estate investments reported at cost less accumulated depreciation? [SFAS 60, par. 48, as amended by SFAS 121, par 28(a) (AC In6.154)]	_____	_____	_____
5. Are reductions in the carrying amounts of real estate investments resulting from the application of SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of</i> , included in realized gains and losses? [SFAS 60, par. 48, as amended by SFAS 121, par 28(b) (AC In6.154)]	_____	_____	_____
6. Is an explanation of the company's accounting policies for debt securities held, including the basis for classification into balance sheet captions disclosed? [AAG, App. C (Exh. C-5)]	_____	_____	_____
7. 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, for either each CMO or for the CMO portfolio (this yield will be used to accrue income in the following period)?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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]	_____	_____	_____
8. 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)]	_____	_____	_____
9. 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?	_____	_____	_____
c. After five years through ten years?	_____	_____	_____
d. After ten years? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
10. 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)]	_____	_____	_____
11. 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)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. For those entities that enter into options with no intrinsic value at acquisition in order to purchase securities accounted for under SFAS 115, is disclosure made of the accounting policy for the premium paid (time value) to acquire the option that is classified as held-to-maturity or available-for-sale? [EITF 96-11]	_____	_____	_____
<b>B. Impairment of a Loan</b>			
1. Is the allowance deducted from the related assets? [APB 12, par. 3 (AC V18.102)]	_____	_____	_____
2. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes for impaired loans: <sup>8</sup>			
<i>a.</i> As of the date of each balance sheet presented:			
(1) Total recorded investment in the impaired loans at the end of each period and the amount of the recorded investment for which there is a related allowance for loan losses?	_____	_____	_____
(2) The amount of the allowance?	_____	_____	_____
(3) The amount of the recorded investment for which no allowance for loan losses was recorded?	_____	_____	_____
(4) The company's policy for recognizing interest on impaired loans, including how cash receipts are recorded?	_____	_____	_____
<i>b.</i> For each period for which a statement of income is presented:			
(1) Average recorded investments?	_____	_____	_____
(2) Related amount of interest income recognized using the cash basis method of accounting during the time within the period the loans were impaired?	_____	_____	_____
(3) If practicable, the amount of interest income recognized using cash basis method of accounting during the time within the period the loans were impaired?	_____	_____	_____
(4) The activity in the allowance for loan losses related to impaired loans including the following:			
(i) Opening balance?	_____	_____	_____
(ii) Additions charged to operations?	_____	_____	_____
(iii) Direct write-down charged against the allowance?	_____	_____	_____
(iv) Recovery of amounts previously charged off?	_____	_____	_____
(v) Ending balance? [SFAS 118, par. 6 (AC 108.118 and 118A)]	_____	_____	_____
<b>C. Cash</b>			
1. Is separate disclosure made for restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____

<sup>8</sup> In certain circumstances, information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures in Steps 2.a. and 2.b. (1)–(3).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Premium and Agents' Balances</b>			
1. Are agents' balances uncollected included? [AAG, par. 3.17]	_____	_____	_____
2. Are hypothecation or other pledging of receivables disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
<b>E. Reinsurance Receivables</b>			
1. Does the company treat fronting arrangements as reinsurance arrangements for purposes of disclosures required by SFAS 60? [PB 9, 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?	_____	_____	_____
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 concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums disclosed for a ceding enterprise under the provisions of SFAS 105, <i>Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk</i> ? [SFAS 113, par. 28 (AC In6.192)]	_____	_____	_____
7. Are the following items reported separately as assets for those companies participating in ceding transactions:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____
8. 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)]	_____	_____	_____
9. 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)]	_____	_____	_____
<b>F. Deferred Acquisition Costs</b>			
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); AAG, par. 3.33]	_____	_____	_____
<b>G. Property and Equipment</b>			
1. Is the carrying basis of property and equipment disclosed? [AAG, App. C (Exh. C-1)]	_____	_____	_____
2. For depreciable assets, are the following disclosed:			
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)]	_____	_____	_____
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 capitalized, disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Is the amount of interest cost incurred and charged to expense during the period disclosed for an accounting period in which no interest cost is capitalized? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
6. If an impairment loss is recognized for assets to be held or used, are the following disclosures made in financial statements that include the period of impairment write-down:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment and how fair value was determined?	_____	_____	_____
c. The caption in the statement of income in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
d. The business segment(s) affected, if applicable? [SFAS 121, par. 14]	_____	_____	_____
7. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, are the following disclosed in financial statements that include a period which those assets are held:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	_____	_____	_____
b. The business segment(s) in which assets to be disposed of are held, if applicable?	_____	_____	_____
c. The loss, if any, resulting from the application of paragraph 15 of SFAS 121?	_____	_____	_____
d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?	_____	_____	_____
e. The caption in the statement of income in which the gains or losses in Steps 7.c. and 7.d. are aggregated if those gains have not been presented as a separate caption or reported parenthetically on the face of the statement?	_____	_____	_____
f. The results of operations for assets to be disposed of to the extent that those results are included in the company's statement of income for the period and can be identified? [SFAS 121, par. 19]	_____	_____	_____
8. If an impairment loss is recognized, is it reported as a component of income from continuing operations? [SFAS 121, pars. 13 and 18]	_____	_____	_____

**H. 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

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 having 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, are the following disclosed:			
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 were 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)]	_____	_____	_____
(4) If material is the accounting policy used in recognizing amounts related to a modification of an operating lease (that does not change the lease classification) disclosed? [EITF 95-17]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. Other Assets</b>			
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. For foreign reinsurance accounted for by the open year method, are the amounts of premiums, claims, and expenses in the underwriting account disclosed for each balance sheet presented? [AAG, par. 6.76; SOP 92-5, par. 19]	_____	_____	_____
<b>J. Policy Liabilities</b>			
1. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed? [SFAS 60, par. 60a (AC In6.166a)]	_____	_____	_____
2. 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); AAG, App. L (SOP 92-4)]	_____	_____	_____
3. Is an unearned premium reserve presented as a liability for the portion of premiums applicable to the unexpired periods of policies? [AAG, par. 3.30]	_____	_____	_____
4. For each fiscal year for which an income statement is presented, is the following information about the liability for unpaid claims and claim adjustment expenses disclosed:			
a. The balance in the liability for unpaid claims and claim adjustment expenses at the beginning and end of each fiscal year presented, and the related amount of reinsurance recoverable?	_____	_____	_____
b. Incurred claims and claim adjustment expenses with separate disclosure of the provision for insured events of the current fiscal year and of increases or decreases in the provision for insured events of prior fiscal years?	_____	_____	_____
c. Payments of claims and claim adjustment expenses with separate disclosure of payments of claims and claim adjustment expenses attributable to insured events of the current fiscal year and to insured events of prior fiscal years? [SOP 94-5, par. 10]	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 5. If changes in the provision for incurred claims and claim adjustment expenses are attributable to insured events of prior fiscal years, are the following disclosed in the financial statements: |            |           |            |
| a. The reasons for the change?  | _____      | _____     | _____      |
| b. Whether additional premiums or return premiums have been accrued as a result of the prior-year effects?<br>[SOP 94-5, par. 10]   | _____      | _____     | _____      |

**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?<br>[SFAS 109, par. 17 (AC I27.116)]  | _____ | _____ | _____ |
| 2. Are the components of the total of all deferred tax assets and valuation allowance recognized in the statement of financial position disclosed?<br>[SFAS 109, par. 43b–c (AC I27.142b–c)]  | _____ | _____ | _____ |
| 3. Are the components of the total of all deferred tax liabilities recognized in the balance sheet disclosed?<br>[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, <i>Accounting for Income Taxes—Special Areas</i> , as amended by SFAS 109, <i>Accounting for Income Taxes</i> :  |       |       |       |
| 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 difference?  | _____ | _____ | _____ |
| c. The amount of 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 (e.g., 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 section I27.130 and .131)?<br>[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 entity or directly to contributed capital?  
[SFAS 109, par. 48 (AC I27.147)]

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

**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, *Disclosure of Long-Term Obligations*, 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 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?

_____	_____	_____
-------	-------	-------

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?

_____	_____	_____
-------	-------	-------

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The per share amount of the aggregate gain or loss of net 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 at the end of the period, so 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. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 (AC C59) or SFAS 43, <i>Accounting for Compensated Absences</i> (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)]	_____	_____	_____
5. If the company discounts 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]	_____	_____	_____
6. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
amount of the debt, is the debt obligation classified as a current liability? [EITF 95-15]	_____	_____	_____
7. Are borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower's customers reduce the debt outstanding classified as short-term obligations? [EITF 95-22]	_____	_____	_____

**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 that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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)]	_____	_____	_____
<b>O. Retained Earnings</b>			
1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
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)]	_____	_____	_____
<b>P. Other Stockholders' Equity Accounts</b> (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, pars. 1-3 (AC C23.501-.503)]	_____	_____	_____
3. Do the stockholders' equity accounts include:			
a. Common stock?	_____	_____	_____
b. Paid-in capital?	_____	_____	_____
c. Retained earnings?	_____	_____	_____
d. Unrealized appreciation of equity securities?	_____	_____	_____
e. Treasury stock? [AAG, App. C (Exh. C-1)]	_____	_____	_____
4. If statutory surplus is below the minimum required by law, is disclosure of the relevant facts made? [AAG, par. 8.04]	_____	_____	_____
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			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(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. 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?<br>[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?<br>[SFAS 91, par. 18 (AC L20.117)]   | _____ | _____ | _____ |
| 3. Is investment income presented net of investment expenses?<br>[SFAS 97, par. 23 (AC In6.137B)]   | _____ | _____ | _____ |
| 4. 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 income as a component of other income, on a pretax basis?<br>[SFAS 97, par. 28 (AC In6.156)]   | _____ | _____ | _____ |
| 5. For freestanding contracts indexed to and potentially settled in a company's own stock are gains and losses included (in contracts requiring a net cash settlement and those with the option of a net cash settlement or settlement in shares) in earnings and disclosed in the financial statements?<br>[EITF 94-7] | _____ | _____ | _____ |

**B. 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?<br>[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?<br>[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?<br>[APB 18, par. 19c and d (AC I82.109c and d)] | _____ | _____ | _____ |
| 3. Are gains or losses on written put options that require net cash settlement included in earnings and disclosed in the financial statements?<br>[EITF 96-1]  | _____ | _____ | _____ |

**C. Benefits and Expenses**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Compensation   |       |       |       |
| a. For a compensatory stock issuance plan, is compensation expense accrued in the proper periods?<br>[APB 25, pars. 12-15 (AC C47.112-.115); FASBI 38, pars. 2-6 (AC C47.135A-E)] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6 and 7 (AC C38.101 and .102)]</p>	_____	_____	_____
<p>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 and 16 (AC I69.108 and .109)]</p>	_____	_____	_____
<b>D. Income Taxes</b>			
<p>1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]</p>	_____	_____	_____
<p>2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or the notes thereto:</p>			
<p>a. Current tax expense or benefit?</p>	_____	_____	_____
<p>b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?</p>	_____	_____	_____
<p>c. Investment tax credits?</p>	_____	_____	_____
<p>d. Government grants (to the extent recognized as a reduction of income tax expense)?</p>	_____	_____	_____
<p>e. The benefits of operating loss carryforwards?</p>	_____	_____	_____
<p>f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?</p>	_____	_____	_____
<p>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?</p>	_____	_____	_____
<p>h. Adjustments of 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)]</p>	_____	_____	_____
<p>i. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?</p>	_____	_____	_____
<p>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)]</p>	_____	_____	_____
<p>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 (AC I27.134-.138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]</p>	_____	_____	_____
<p>4. Is the nature of significant reconciling items disclosed? [SFAS 109, par. 47 (AC I27.146)]</p>	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods presented disclosed? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
6. 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 a. above are presented? [SFAS 109, par. 49a-b (AC I27.148a-b)]	_____	_____	_____
7. 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]	_____	_____	_____
8. 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. 52a-b]	_____	_____	_____
9. 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)]	_____	_____	_____
10. 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)]	_____	_____	_____
<b>E. Discontinued Operations</b>			
1. Are operations of a discontinued segment or one that is the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, pars. 8 and 13–18 (AC I13.101–.103, .105, .106, .108, and .109)]	_____	_____	_____
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, par. 8 (AC I13.105)]	_____	_____	_____
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. If applicable, a statement that the loss on disposal cannot be estimated within reasonable limits? [APB 30, par. 18 (AC I13.108 and .109)]	_____	_____	_____
5. For periods after the 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 and .109)]	_____	_____	_____
6. 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]	_____	_____	_____
7. If the company accounts for the discontinuance of a segment in accordance with APB 30, <i>Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions</i> , and subsequently decides to retain the segment, is any impairment write-down of the individual assets classified in continuing operations? [EITF 90-16]	_____	_____	_____
8. If a corporation decides to dispose of a segment of a business accounted for in accordance with APB Opinion 30 and the measurement date occurs after the balance sheet date but before the financial statements for the prior period have been issued and a loss is expected, are the segment’s operating results presented as discontinued operations in the income statement of the not yet released financial statements			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(assuming that the loss does not result from a discrete and identifiable event that occurs unexpectedly after the balance sheet date)? [EITF 95-18]	_____	_____	_____

**F. Extraordinary Items**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Are extraordinary items segregated and shown, including applicable income taxes, following income before extraordinary items and before net income?<br>[APB 30, par. 11 (AC I17.102)]  | _____ | _____ | _____ |
| 2. Are descriptive captions and amounts, including applicable income taxes, presented for individual extraordinary events or transactions, preferably on the face of the income statement?<br>[APB 30, par. 11 (AC I17.102)]  | _____ | _____ | _____ |
| 3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses?<br>[APB 30, par. 11 (AC I17.102)]  | _____ | _____ | _____ |
| 4. Is each adjustment in the current period of an element of an extraordinary item that was reported in a prior period separately disclosed as to year of origin, nature, and amount and classified separately in the current period as an extraordinary item?<br>[SFAS 16, par. 16c (AC I17.119)]  | _____ | _____ | _____ |
| 5. 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?<br>[APB 30, par. 26 (AC I22.101)]   | _____ | _____ | _____ |
| 6. 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?<br>[EITF 89-13]  | _____ | _____ | _____ |
| 7. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying amount of the debt, is the loss that is recognized classified as an extraordinary item, net of income taxes?<br>[EITF 95-15] | _____ | _____ | _____ |

**G. 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?<br>[APB 9, par. 28 (AC C08.101)]                         | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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. Are the following disclosed for each period for which an income statement is presented for foreign reinsurance accounted for by the open year method:			
a. The amounts of premiums, claims, and expenses recognized as income on closing underwriting balances?	_____	_____	_____
b. The additions to underwriting balances for the year for reported premiums, claims, and expenses? [AAG, par. 6.76; SOP 92-5, par. 19]	_____	_____	_____
5. 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, <i>Reporting on Advertising Costs</i> , 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 and the reasons for such a write-down?	_____	_____	_____
d. The total amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49]	_____	_____	_____

### Statement of Changes in Shareholders' Equity

1. Are changes in the separate component accounts of shareholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
3. Are prior-period adjustments limited to correction of an error(s) in financial statements of prior periods? [SFAS 109, par. 288n (AC A35.103)]	_____	_____	_____
4. 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)]	_____	_____	_____
5. For a correction of an error, are the following disclosed in the period in which the error is discovered and corrected:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. 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**

1. 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)]	_____	_____	_____
2. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27 and 28 (AC C25.125 and .126)]	_____	_____	_____
a. 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)]	_____	_____	_____
b. 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)]	_____	_____	_____
3. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
a. Cash receipts from sales of goods or services?	_____	_____	_____
b. Cash receipts from interest and dividends?	_____	_____	_____
c. All other cash receipts that do not stem from transactions defined as investing or financing activities?	_____	_____	_____
d. Cash payments to suppliers and employees, such as losses and loss adjustment expenses paid?	_____	_____	_____
e. Cash payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
f. Cash payments to lenders and other creditors for interest?	_____	_____	_____
g. All other cash payments that do not stem from transactions defined as investing or financing activities? [SFAS 95, pars. 22 and 23 (AC C25.120 and .121)]	_____	_____	_____
4. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
5. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
a. Receipts from collections or sales of loans?	_____	_____	_____
b. Receipts from sales of property or investments and from returns of investments in those instruments?	_____	_____	_____
c. Loans to other entities?	_____	_____	_____
d. Payments to acquire property or investment? [SFAS 95, pars. 16 and 17 (AC C25.114 and .115)]	_____	_____	_____
6. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
a. Proceeds from issuing equity instruments?	_____	_____	_____
b. Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing?	_____	_____	_____
c. Repayment of amounts borrowed?	_____	_____	_____
d. Dividend payments to shareholders?	_____	_____	_____
e. Acquisition of treasury stock?	_____	_____	_____
f. Other principal payments to creditors who have extended long-term credit?	_____	_____	_____
g. Debt issue costs? [SFAS 95, pars. 19 and 20 (AC C25.117 and .118); EITF 95-13]	_____	_____	_____
8. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on the statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
9. Is the change in cash and cash equivalents shown? [SFAS 95, pars. 7 and 26 (AC C25.105 and .124)]	_____	_____	_____
10. Is the policy for defining cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
11. 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, pars. 29 and 30 (AC C25.127 and .128)]	_____	_____	_____
12. Are noncash investing and financing activities, such as converting debt to equity, summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
13. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
14. Are the following classes of operating cash receipts and payments for life insurance companies using the direct method, at a minimum, separately disclosed:			
a. Cash collected from customers, including lessees, licensees, and the like?	_____	_____	_____
b. Interest and dividends received?	_____	_____	_____
c. Other operating cash receipts, if any?	_____	_____	_____
d. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like?	_____	_____	_____
e. Interest paid?	_____	_____	_____
f. Income taxes paid?	_____	_____	_____
g. Other operating cash payments, if any? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____

**Exhibit A**  
**Stock-Based Compensation**

SFAS 123, *Accounting for Stock-Based Compensation*, is effective for fiscal years beginning after December 15, 1995, or for the fiscal year for which this Statement is initially adopted for recognizing compensation cost, whichever comes first. Pro forma disclosures required by paragraph 45 shall include the effects of all awards granted in fiscal years that begin after December 15, 1994. Pro forma disclosures for awards granted in the first fiscal year beginning after December 15, 1994 need not be included in financial statements for that fiscal year but shall be presented subsequently whenever financial statements for that fiscal year are presented for comparative purposes with financial statements for a later fiscal year. At the time of adoption of this principle, the following disclosures are required:

- |  |              |              |              |
|--|--------------|--------------|--------------|
| <p>1. If a company continues to apply APB Opinion 25 in accounting for its stock-based compensation arrangements, is the pro forma net income and, if presented, earnings per share (determined as if the fair value based method had been applied in measuring compensation cost) disclosed?<br/>         [SFAS 123, pars. 11 and 45]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>2. If a company has one or more stock-based compensation plans, is a description of the plan(s), including the general terms of awards under the plan(s) disclosed?<br/>         [SFAS 123, par. 46]</p>  | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>3. Is the information in paragraph 47 of SFAS 123 disclosed for each year for which an income statement is presented?<br/>         [SFAS 123, par. 47a-f]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>4. If a company grants options under multiple stock-based employee compensation plans, are the items in paragraph 47 disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the company's use of stock based compensation?<br/>         [SFAS 123, par. 47]</p>       | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>5. Are the following disclosed for options outstanding at the date of the latest statement of financial position presented:</p> <p style="margin-left: 20px;">a. The range of exercise prices?</p> <p style="margin-left: 20px;">b. The weighted-average exercise price?</p> <p style="margin-left: 20px;">c. The weighted-average remaining contractual life?<br/>         [SFAS 123, par. 48]</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>6. If the range of exercise prices is wide, are they segregated into ranges?<br/>         [SFAS 123, par. 48]</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>7. Are the following disclosed for each range identified in item 6:</p> <p style="margin-left: 20px;">a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?</p>   | <p>_____</p> | <p>_____</p> | <p>_____</p> |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48]	_____	_____	_____

**Exhibit B**

**Statutory Basis Financial Statements**

SOP 95-5, *Auditor's Reporting on Statutory Financial Statements of Insurance Enterprises*, is effective for audits of statutory financial statements for years ended on or after December 31, 1996. At the time of adoption of this principle, the following disclosures are required:

1. Does the financial statement in accordance with a statutory basis of accounting <i>not</i> include a disclaimer of opinion as to fair presentation in conformity with GAAP: [SOP 95-5, par. 10]			
a. Is an adverse opinion expressed with respect to conformity with GAAP, unless the auditor determines the differences between GAAP and the statutory basis of accounting are not material and pervasive? [SOP 95-5, par. 12]	_____	_____	_____
b. If the principal effects of the subject matter of the adverse opinion on financial position are not reasonably determinable, does the report so state and:			
(1) State that the differences are presumed material?	_____	_____	_____
(2) Discuss the statutory basis of accounting and describe how that basis differs from GAAP? [SOP 95-5, par. 13; SAS 62, par. 10 (AU 508)]	_____	_____	_____



# FSP Section 17,400

## *Auditors' Reports Checklist*<sup>1</sup>

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team 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 <i>Professional Standards</i> (vol. 1)
SSARS=	AICPA Statement on Standards for Accounting and Review Services
AAG=	AICPA Audit and Accounting Guide <i>Audits of Property and Liability Insurance Companies</i> (with conforming changes as of May 1, 1996)
AR=	Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)
App. N=	Appendix N of AAG containing SOP 92-8, <i>Auditing Property/Casualty Insurance Entities' Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions</i>
App. O=	Appendix O of AAG containing SOP 94-1, <i>Inquiries of State Insurance Regulators</i>

.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?	_____	_____	_____

<sup>1</sup> In December 1995, Statement on Auditing Standards 79, *Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements*, was issued. This Statement amends SAS 58 to eliminate the requirement that, when certain criteria are met, the auditor add an uncertainties explanatory paragraph to the auditor's report. This Statement is effective for reports issued after February 29, 1996 and has been reflected in this checklist.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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. 33 and 34, as amended by SAS 79 (AU 508.33 and .34)]	_____	_____	_____
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, par. 2.19; SOP 94-1, par. 5]	_____	_____	_____
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			

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**Note:** Consult the Topical Index to the AICPA *Professional Standards* under “Uncertainties” for references to specific types of uncertainties.

---

a. 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 59, par. 13, as amended by SAS 64, par. 1 and SAS 77 (AU 341.12 and .13)]	_____	_____	_____
b. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 16–18, as amended by SAS 79 (AU 508.16–.18)]	_____	_____	_____
c. 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. 68, 69, 72, and 73, as amended by SAS 79 (AU 508.68, .69, .72, and .73)]	_____	_____	_____
d. The prior-period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 58, as amended by SAS 64, par. 2 and SAS 79 (AU 508.74)]	_____	_____	_____
e. The auditor’s opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12 and 13 (AU 508.12 and .13)]	_____	_____	_____
f. 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 and 15 (AU 508.14 and .15)]	_____	_____	_____
g. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. The auditor decides to emphasize a matter in the report? [SAS 58, par. 19, as amended by SAS 79 (AU 508.19); 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? <sup>2</sup> [SAS 58, pars. 22–27, as amended by SAS 79 (AU 508.22–.27); SAS 19, par. 12 (AU 333.12)]	_____	_____	_____
<hr/> <i>Note:</i> 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. <hr/>			
7. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? <sup>3</sup> [SAS 58, pars. 35–57, as amended by SAS 79 (AU 508.35–.57); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
<hr/> <i>Note:</i> 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. <hr/>			
8. 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. 21, 59, 60, and 62, as amended by SAS 79 (AU 508.21, .59, .60, and .62)]	_____	_____	_____
9. 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 the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	_____	_____	_____

<sup>2</sup> This includes when the auditor is unable to obtain sufficient, evidential matter to support management’s assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31 (AU 508.31)]

<sup>3</sup> The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management’s estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended by SAS 79, pars. 46–49 (AU 508.46–.49)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. Is the reporting form and content of SAS 60, paragraphs 9–19, followed when communicating internal control structure related matters noted in an audit? <sup>4</sup> [SAS 60, pars. 9–19 (AU 325.09–.19); SOP 95-4]	_____	_____	_____
11. Is the reporting form and content of SAS 72, as amended by SAS 76, followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings? [SAS 72, as amended by SAS 76 (AU 634)]	_____	_____	_____
12. If the company does not agree to revise Schedule P—Part 1 (a NAIC regulatory disclosure), is a separate report on Schedule P—Part 1 issued that describes the misstatement? [AAG, App. N (SOP 92-8)]	_____	_____	_____

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<sup>4</sup> 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 17,500

## *Supplemental Checklist for Property and Liability Insurance Companies That Are SEC Registrants*

.01 This supplemental checklist for property and liability insurance companies contains additional disclosures that are required in financial statements of property and liability 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 relates to financial statements filed for insurance companies. Many of these disclosures are routinely made by property and liability 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:

FRR = SEC Financial Reporting Release

SAB = SEC Staff Accounting Bulletin

S-X Rule = SEC Regulation S-X

.04 Checklist Questionnaire:

Yes      No      N/A

### Balance Sheet

#### A. Investments—Other Than Investments in Related Parties (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?

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Policy loans?	_____	_____	_____
f. Other long-term investments?	_____	_____	_____
(1) Do the notes state the amount of any class of investment exceeding 10 percent of stockholders' equity?	_____	_____	_____
g. 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?	_____	_____	_____
3. Is consideration given to discussion of "Valuation Securities" in section 404.03 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 percent 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 percent 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>B. Cash (S-X Rule 7-03-2)</b>			
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?	_____	_____	_____
<b>C. Securities and Indebtedness of Related Parties (S-X Rule 7-03-3)</b>			
1. Are investments in related parties disclosed?	_____	_____	_____
2. Is indebtedness from related parties disclosed?	_____	_____	_____
<b>D. Accrued Investment Income (S-X Rule 7-03-4)</b>			
1. Is the amount of accrued investment income reported separately?	_____	_____	_____
<b>E. Accounts and Notes Receivable (S-X Rule 7-03-5)</b>			
1. Are the amounts receivable from agents and insureds included?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is the amount of uncollected premiums included?	_____	_____	_____
3. Are other receivables in excess of 5 percent of total assets stated separately 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?	_____	_____	_____
<b>F. Reinsurance Recoverable on Paid Losses (S-X Rule 7-03-6)</b>			
1. Are the amounts disclosed?	_____	_____	_____
<b>G. Deferred Policy Acquisition Costs (S-X Rule 7-03-7)</b>			
1. Are the amounts disclosed?	_____	_____	_____
<b>H. Property and Equipment (S-X Rule 7-03-8)</b>			
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?	_____	_____	_____
<b>I. Title Plant (S-X Rule 7-03-9)</b>			
1. Is the amount disclosed?	_____	_____	_____
<b>J. Other Assets (S-X Rule 7-03-10)</b>			
1. Is there separate disclosure on the balance sheet or in the notes of the amount of any "other asset" in excess of 5 percent of total assets?	_____	_____	_____
2. If the 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]	_____	_____	_____
<b>K. Assets Held in Separate Accounts (S-X Rule 7-03-11)</b>			
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?	_____	_____	_____
<b>L. Policy Liabilities and Accruals (S-X Rule 7-03-13; SABs 62 and 87; FRR 20)</b>			
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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Do the notes disclose the general nature of reinsurance transactions, including a description of significant types of reinsurance agreements executed?	_____	_____	_____
<i>a.</i> Do the disclosures include the nature of the contingent liability in connection with insurance ceded?	_____	_____	_____
<i>b.</i> Do the disclosures include the nature and effect of material non-recurring reinsurance transactions?	_____	_____	_____
6. If the company adopts a new policy or changes its existing policy of discounting certain unpaid claims liabilities relating to short-duration insurance contracts, is the appropriate disclosure made in accordance with SAB 62?	_____	_____	_____
7. Are the appropriate disclosures made concerning reserves for unpaid claims and claim adjustment expenses in accordance with FRR 20 for the following areas:			
<i>a.</i> Certain significant transactions during the reporting periods?	_____	_____	_____
<i>b.</i> Changes in historical reserve amounts for the latest ten years?	_____	_____	_____
<i>c.</i> The company's reserving practices, including those used in estimating inflation, and any significant changes in these practices?	_____	_____	_____
<i>d.</i> The effect, if any, of the discounting of reserves?	_____	_____	_____
<i>e.</i> Any difference between reserves reflected in reports to state regulatory authorities and those appearing in GAAP financial statements?	_____	_____	_____
8. Does the company consider the disclosures regarding contingency on property-casualty insurance reserves for unpaid claims discussed in SAB 87?	_____	_____	_____
<b>M. Other Policyholders' Funds (S-X Rule 7-03-14)</b>			
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 percent 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?	_____	_____	_____
<i>a.</i> Do the notes disclose the method by which earnings and dividends allocable to such insurance is determined?	_____	_____	_____
<b>N. Other Liabilities (S-X Rule 7-03-15)</b>			
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 percent 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?	_____	_____	_____
<i>a.</i> Is there separate disclosure of the amount of deferred income taxes applicable to unrealized appreciation of equity securities?	_____	_____	_____
<b>O. Notes Payable, Bonds, Mortgages, and Similar Obligations (Including Capitalized Leases) (S-X Rule 7-03-16)</b>			
1. Is the amount of short-term debt separately disclosed?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<ul style="list-style-type: none"> <li>a. If the aggregate of short-term borrowings (from banks, factors and other financial institutions and commercial paper issued) exceeds 5 percent 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? [S-X Rule 5-02-19(b)]</li> </ul>	_____	_____	_____
<ul style="list-style-type: none"> <li>b. Is the amount of the lines of credit that support commercial paper borrowing arrangements separately identified? [S-X Rule 5-02-19(b)]</li> </ul>	_____	_____	_____
2. Is the amount of long-term debt including capitalized leases separately disclosed?	_____	_____	_____
<ul style="list-style-type: none"> <li>a. Is there disclosure of the general character of each type of debt?</li> </ul>	_____	_____	_____
<ul style="list-style-type: none"> <li>b. Is the interest rate disclosed?</li> </ul>	_____	_____	_____
<ul style="list-style-type: none"> <li>c. Is the maturity date or, if maturing serially, a brief indication of the serial maturities disclosed?</li> </ul>	_____	_____	_____
<ul style="list-style-type: none"> <li>d. If the payment of principal or interest is contingent, is there appropriate indication of such contingency?</li> </ul>	_____	_____	_____
<ul style="list-style-type: none"> <li>e. Is there a brief indication of priority?</li> </ul>	_____	_____	_____
<ul style="list-style-type: none"> <li>f. If convertible, is the basis disclosed? [S-X Rule 5-02-22]</li> </ul>	_____	_____	_____
<b>P. Indebtedness to Related Parties (S-X Rules 4-08(k) and 7-03-17)</b>			
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 (1) eliminated and (2) not eliminated?	_____	_____	_____
3. If any intercompany profit or losses resulting from transactions with related parties are not eliminated, are the effects disclosed?	_____	_____	_____
<b>Q. Liabilities Related to Separate Accounts (S-X Rule 7-03-18)</b>			
1. Is the amount disclosed?	_____	_____	_____
<b>R. Commitments and Contingent Liabilities (S-X Rule 7-03-19)</b>			
1. Are the proper disclosures made?	_____	_____	_____
<b>S. Minority Interest in Consolidated Subsidiaries (S-X Rules 5-02-27 and 7-03-20)</b>			
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?	_____	_____	_____
<b>T. Preferred Stock Subject to Mandatory Redemption (S-X Rules 5-02-28 and 7-03-21)</b>			
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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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?	_____	_____	_____
<b>U. Nonredeemable Preferred Stock (S-X Rules 5-02-29 and 7-03-22)</b>			
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?	_____	_____	_____
<b>V. Common Stock (S-X Rules 5-02-30 and 7-03-23)</b>			
1. Does the face of the balance sheet disclose the number of shares issued and outstanding?	_____	_____	_____
2. If convertible, is that 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?	_____	_____	_____
<b>W. Other Stockholders' Equity (S-X Rules 5-02-31(b) and 7-03-24)</b>			
1. Are separate captions shown for:			
<i>a.</i> Additional paid-in capital?	_____	_____	_____
<i>b.</i> Other additional capital?	_____	_____	_____
<i>c.</i> Unrealized appreciation or depreciation of equity securities less applicable deferred income taxes?	_____	_____	_____
<i>d.</i> Appropriated retained earnings?	_____	_____	_____
<i>e.</i> 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 (S-X Rule 7-04-1)

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Do the amounts represent premiums earned? | _____ | _____ | _____ |
|--|-------|-------|-------|

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>B. Net Investment Income (S-X Rule 7-04-2)</b>			
1. Do the notes disclose the amount of investment income for each category of investment listed in the balance sheet above that exceeds 5 percent 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?	_____	_____	_____
<b>C. Realized Investment Gains and Losses (S-X Rule 7-04-3)</b>			
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?	_____	_____	_____
<b>D. Other Income (S-X Rule 7-04-3)</b>			
1. Are items in excess of 5 percent of total revenue separately disclosed?	_____	_____	_____
<b>E. Benefits, Claims, Losses, and Settlement Expenses (S-X Rule 7-04-4)</b>			
1. Are the amounts disclosed?	_____	_____	_____
<b>F. Policyholders' Share of Earnings on Participating Policies, Dividends, and Similar Items (S-X Rules 7-03-14(b) and 7-04-5)</b>			
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?	_____	_____	_____
<b>G. Underwriting, Acquisition, and Insurance Expenses (S-X Rule 7-04-6)</b>			
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?	_____	_____	_____
<b>H. Income Tax Expense (S-X Rules 4-08(h) and 7-04-8)</b>			
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?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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?	_____	_____	_____
<b>I. Minority Interest in Income of Consolidated Subsidiaries (S-X Rule 7-04-9)</b>			
1. Are the amounts disclosed?	_____	_____	_____
<b>J. Equity in Earnings of Unconsolidated Subsidiaries and 50 percent or Less Owned Persons (S-X Rule 7-04-10)</b>			
1. Is the amount of dividends received disclosed?	_____	_____	_____
<b>K. Discontinued Operations (S-X Rule 7-04-13)</b>			
1. Is any amount separately reported?	_____	_____	_____
<b>L. Extraordinary Items, Less Applicable Tax (S-X Rule 7-04-15)</b>			
1. Is any amount separately reported?	_____	_____	_____
<b>M. Cumulative Effect of Changes in Accounting Principles (S-X Rule 7-04-16)</b>			
1. Is any amount separately reported?	_____	_____	_____
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]	_____	_____	_____
<b>N. Earnings-Per-Share Data (S-X Rule 7-04-18)</b>			
1. Are applicable amounts reported?	_____	_____	_____
<b>O. Schedules (S-X Rule 7-05)</b>			
1. Is Schedule Number 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 Number 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 periods specified in the schedule?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 5-V, added by SAB 82, discussing the staff's views regarding the accounting for transfers of nonperforming assets by financial institutions (See also SAB Topic 5-E)?	_____	_____	_____
e. SAB Topic 11-N, also added by SAB 82, expressing the staff's views regarding the required disclosure by a financial institution that receives financial assistance from a federal regulatory agency?	_____	_____	_____
f. SAB Topic 5-N, added by SAB 87, discussing contingency disclosures related to property casualty insurance reserves for unpaid claim costs?	_____	_____	_____
g. SAB Topic 2-A, added by SAB 92, reflecting the staff views of loss contingencies assumed in a business combination accounted for as a purchase?	_____	_____	_____

**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 dis-			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
cussion 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]	_____	_____	_____

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# FSP Section 17,600

## *Illustrative Financial Statements*

.01 The following illustrative auditor's report and set of financial statements demonstrate one form of currently acceptable practice. The financial statements are reproduced from the AICPA Audit and Accounting Guide *Audits of Property and Liability 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 Shareholders

The Property and Liability Insurance Company

Anytown, U.S.A.

We have audited the accompanying consolidated balance sheets of The Property and Liability Insurance Company and Subsidiaries as of December 31, 19X2 and 19X1, and the related consolidated statements of income, shareholders' 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 The Property and Liability Insurance Company and Subsidiaries at December 31, 19X2 and 19X1, 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, 19X3

The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP.

**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 19X2 and 19X1**

**(Dollars in thousands)**

	<u>19X2</u>	<u>19X1</u>
<b>Assets</b>		
Investments (Notes 1 and 2):		
Trading securities	\$ 11,683	\$ 11,259
Securities available-for-sale	1,006,279	953,507
Securities held-to-maturity	280,387	270,208
Mortgage loans on real estate (less allowance for credit losses, 19X2-\$2,300; 19X1-\$2,070)	472,509	398,426
Real estate, net of accumulated depreciation (19X2-\$12,921; 19X1-\$12,774) and less allowance for impairment of value (19X2-\$1,173; 19X1-\$1,150)	<u>31,905</u>	<u>30,028</u>
Total investments	1,802,763	1,663,428
Cash and cash equivalents	31,564	28,357
Accrued interest and dividends	31,358	27,568
Premiums and agents' balances	55,295	56,212
Prepaid reinsurance premiums	21,345	18,739
Reinsurance receivables, net of uncollectible amounts	27,908	24,461
Deferred policy acquisition costs (Note 1)	168,974	154,941
Property and equipment, at cost, less accumulated depreciation of \$17,837 in 19X2 and \$15,404 in 19X1 (Note 1)	<u>34,443</u>	<u>27,938</u>
Other assets	<u>128,577</u>	<u>107,378</u>
Total assets	<u><u>\$2,302,227</u></u>	<u><u>\$2,109,022</u></u>

*(continued)*

See accompanying notes to consolidated financial statements.



**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Consolidated Balance Sheets—continued**

**December 31, 19X2 and 19X1**

**(Dollars in thousands)**

	<u>19X2</u>	<u>19X1</u>
<b>Liabilities</b>		
Losses and loss-adjustment expenses (Note 1)	\$1,183,343	\$1,030,345
Unearned premiums (Note 1)	493,833	482,619
Dividends to policyholders	3,087	4,042
Reinsurance funds withheld and balances payable	15,727	35,584
Accrued expenses	85,780	82,608
Federal income taxes payable (Notes 1 and 4)	3,166	7,058
Deferred income taxes (Notes 1 and 4)	34,084	35,133
Other liabilities	56,144	43,782
<b>Total liabilities</b>	<u>1,875,164</u>	<u>1,721,171</u>
<b>Shareholders' Equity (Note 6)</b>		
Common stock (\$5 par value, authorized—11,500 shares; issued—2,500 shares, including 200 shares in treasury in 19X2 and 19X1)	12,500	12,500
Paid-in capital	22,500	22,500
Retained earnings (Notes 5 and 6)	390,815	351,521
Net unrealized appreciation on securities available-for-sale, net of deferred taxes (Note 2)	5,748	5,830
Less treasury stock, at cost	(4,500)	(4,500)
<b>Total shareholders' equity</b>	<u>427,063</u>	<u>387,851</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$2,302,227</u>	<u>\$2,109,022</u>

See accompanying notes to consolidated financial statements.

**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Consolidated Statements of Income**

**For the Years Ended December 31, 19X2 and 19X1**

**(Dollars in thousands, except per share amounts)**

	<u>19X2</u>	<u>19X1</u>
<b>Revenues</b>		
Premiums earned	\$656,517	\$603,461
Premiums ceded	<u>(85,632)</u>	<u>(78,715)</u>
Net premiums earned (Notes 1 and 3)	570,885	524,746
Net investment income	146,683	130,070
Net realized gains and losses on securities available-for-sale (Notes 1 and 2)	84,776	32,272
Other	<u>13,288</u>	<u>8,784</u>
Total revenues	<u>815,632</u>	<u>695,872</u>
<b>Expenses</b>		
Losses and loss-adjustment expenses (Notes 1 and 3)	509,568	432,413
Policyholder dividends (Note 1)	4,833	7,395
Policy acquisition and other underwriting expenses (Note 1)	211,239	185,834
Other	<u>8,347</u>	<u>2,215</u>
Total expenses	<u>733,987</u>	<u>627,857</u>
Income before income taxes	81,645	68,015
Provision (benefit) for income taxes (Note 4)		
Current	26,108	16,291
Deferred	<u>(1,007)</u>	<u>881</u>
Total income taxes	<u>25,101</u>	<u>17,172</u>
Net income	<u>\$ 56,544</u>	<u>\$ 50,843</u>
<b>Per Share Data</b>		
Net Income	<u>\$ 24.58</u>	<u>\$ 21.18</u>

See accompanying notes to consolidated financial statements.

**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 19X2 and 19X1**  
**(Dollars in thousands)**

	<i>Common Stock</i>		<i>Paid-in Capital</i>	<i>Net Unrealized Appreciation on Securities Available- for-Sale</i>	<i>Total Retained Earnings</i>	<i>Treasury Stock</i>	<i>Shareholders' Equity</i>
	<i>Shares</i>	<i>Amount</i>					
Balance at January 1, 19X1	2,500	\$12,500	\$22,500	\$3,942	\$315,678		\$354,620
19X1							
Net income					50,843		50,843
Dividends (\$6.00 per share)					(15,000)		(15,000)
Increase in unrealized appreciation of securities available-for-sale				1,888			1,888
Purchase of 200 shares of treasury stock						\$(4,500)	(4,500)
Balance at December 31, 19X1	2,500	12,500	22,500	5,830	351,521	(4,500)	387,851
19X2							
Net income					56,544		56,544
Dividends (\$7.50 per share)					(17,250)		(17,250)
Net decrease in unrealized appreciation of securities available-for-sale				(82)			(82)
Balance at December 31, 19X2	<u>2,500</u>	<u>\$12,500</u>	<u>\$22,500</u>	<u>\$5,748</u>	<u>\$390,815</u>	<u>\$(4,500)</u>	<u>\$427,063</u>

See accompanying notes to consolidated financial statements.

**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the Years Ended December 31, 19X2 and 19X1**

**(Dollars in thousands)**

	<u>19X2</u>	<u>19X1</u>
<b>Cash Flows From Operating Activities</b>		
Premiums collected	\$619,862	\$536,532
Losses and loss-adjustment expenses paid	(356,570)	(352,411)
Underwriting expenses paid	(208,067)	(184,006)
Net realized gains on available-for-sale securities	142,893	126,860
Net (increase) decrease in trading securities	(424)	1,095
Income taxes paid	(30,000)	(21,300)
Miscellaneous receipts (payments)	45,249	25,171
Net cash provided by operating activities	<u>212,943</u>	<u>131,941</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of available-for-sale securities	(721,334)	(274,756)
Proceeds from sale of available-for-sale securities	525,669	195,826
Purchases of held-to-maturity securities	(49,826)	(176,871)
Proceeds from maturities of held-to-maturity securities	60,005	146,080
Purchase of property and equipment	(7,000)	(2,356)
Net cash used in investing activities	<u>(192,486)</u>	<u>(112,077)</u>
<b>Cash Flows From Financing Activities</b>		
Payment of dividends	(17,250)	(15,000)
Purchase of treasury shares	—	(4,500)
Net cash used in financing activities	<u>(17,250)</u>	<u>(19,500)</u>
Net increase (decrease) in cash	3,207	364
Cash at beginning of year	28,357	27,993
Cash at end of year	<u>\$ 31,564</u>	<u>\$ 28,357</u>

*(continued)*

**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows—continued**

**For the Years Ended December 31, 19X2 and 19X1**

**(Dollars in thousands)**

	<u>19X2</u>	<u>19X1</u>
<b>Reconciliation of Net Income to Net Cash Provided by Operating Activities</b>		
Net income	\$56,544	\$ 50,843
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	2,580	2,389
Gains on sales of investment	(84,776)	(32,272)
Increase in accrued interest and dividends	(3,790)	(2,983)
Increase in premium and agents' balances	917	(718)
Increase in prepaid reinsurance premiums	(2,606)	(1,953)
Increase in reinsurance receivable	(3,447)	(892)
Increase in deferred policy acquisition costs	(14,033)	(10,963)
Increase in unpaid losses and loss-adjustment expenses	152,998	112,991
Increase in unearned premiums	11,214	9,816
Decrease in dividends payable	(955)	(820)
Decrease in reinsurance funds withheld	(19,857)	(18,152)
Increase in accrued expenses	3,172	2,915
Decrease in income taxes	(4,941)	(3,156)
Decrease (increase) in other—net	<u>(10,027)</u>	<u>24,896</u>
Net cash provided by operating activities	<u>\$82,993</u>	<u>\$131,941</u>

See accompanying notes to consolidated financial statements.

**THE PROPERTY AND LIABILITY INSURANCE  
COMPANY AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**For the Years Ended December 31, 19X2 and 19X1**

**Note 1: Summary of Significant Accounting Policies**

The significant accounting policies followed by The Property and Liability Insurance Company and Subsidiaries (the "Company") are summarized as follows:

*Principles of Consolidation.* The consolidated financial statements include the accounts, after intercompany eliminations, of the Company and its subsidiaries.

*Basis of Presentation.* The accompanying financial statements have been prepared in conformity with generally accepted accounting principles that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities.

*Trading Securities.* Bonds, notes, and redeemable and nonredeemable preferred stock held principally for resale in the near term are classified as trading account securities and recorded at their fair values. Realized and unrealized gains and losses on trading account securities are included in other income.

*Securities Held-to-Maturity.* Bonds, notes, and redeemable and nonredeemable preferred stock for which the insurance company has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value.

*Securities Available-for-Sale.* Bonds, notes, common stock, and redeemable preferred stock not classified as either trading or held-to-maturity are reported at fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses excluded from losses and reported as a separate component of stockholder's equity. Realized gains and losses are determined on the specific identification method.

*Mortgage Loans on Real Estate.* Reported at unpaid balances, adjusted for amortization of premium or discount, less a provision for credit losses.

*Real Estate.* Reported at cost, less allowances for depreciation and impairment of value.

*Interest Rate Futures.* The Company uses interest rate futures contracts as part of its overall interest rate risk management strategy for certain insurance products. Gains and losses on futures contracts used in asset/liability management for identified positions are deferred and amortized over the remaining lives of the hedged assets or liabilities as an adjustment to interest income or expense. When the assets or liabilities underlying the futures contracts are disposed of or eliminated, any unamortized gains or losses are recognized concurrently.

*Cash Equivalents.* For the purpose of presentation in the Company's statements of cash flows, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

*Recognition of Premium Revenues.* Property and liability premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

*Deferred Policy Acquisition Costs.* Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. Amortization in 19X2 and 19X1 was approximately \$58,000,000 and \$55,000,000, respectively.

*Property and Equipment.* Property and equipment is recorded at cost and is depreciated principally under the straight-line method over the estimated useful lives of the respective assets.

*Insurance Liabilities.* The liability for losses and loss-adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings currently. The reserve for losses and loss-adjustment expenses is reported net of receivables for salvage and subrogation of approximately \$17,527,000 and \$16,276,000 at December 31, 19X2 and 19X1, respectively.

*Participating Policies.* Participating business represents 6 percent of total premiums in force and premium income at December 31, 19X2 and 8 percent at December 31, 19X1. The majority of participating business is composed of workers' compensation policies. The amount of dividends to be paid on these policies is determined based on the terms of the individual policies.

*Reinsurance.* In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. The amount by which the liabilities associated with the reinsured policies exceed the amounts paid for retroactive reinsurance contracts is amortized in income over the estimated remaining settlement period using the interest method. The effects of subsequent changes in estimated or actual cash flows are accounted for by adjusting the previously deferred amount to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transactions, with a corresponding charge or credit to income.

*Income Taxes.* Income tax provisions are based on the asset and liability method. Deferred federal income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Such differences are related principally to the deferral of policy acquisition costs and the recognition of salvage and subrogation on an accrual basis.

*Income Per Share of Common Stock.* Income per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. The effect of stock options is not material to the computation of earnings per share.

## Note 2: Investments

Major categories of net investment income are summarized as follows:

	<i>(Dollars in thousands)</i>	
	<u>19X2</u>	<u>19X1</u>
Fixed maturities	\$102,971	\$ 94,267
Equity securities	8,005	7,154
Mortgage loans on real estate	41,984	32,906
Real estate	<u>2,537</u>	<u>2,779</u>
	155,497	137,106
Investment expenses	<u>8,814</u>	<u>7,036</u>
	<u>\$146,683</u>	<u>\$130,070</u>

The aggregate fair value, gross unrealized holding gains, gross unrealized holding losses, and amortized cost for available-for-sale and held-to-maturity securities by major security type at December 31, 19X2 and 19X1 are as follows:

Available-for-Sale Securities as of December 31, 19X2 and 19X1

	<i>December 31, 19X2</i>			<i>Fair Value</i>
	<i>Amortized cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 155,534	\$ 1,286	\$ (4,797)	\$ 152,023
Obligations of states and political subdivisions	112,966	83	(854)	112,195
Debt securities issued by foreign governments	24,133		(23)	24,110
Corporate debt securities	198,354	6,844	(2,984)	202,214
Equity securities	277,777	2,963	(857)	279,883
Mortgage-backed securities	180,205	4,289	(6,683)	177,811
Redeemable preferred stock	75,689	916	(582)	76,023
Nonredeemable preferred stock	44,669	369	18	45,020
<b>Total</b>	<b><u>\$1,069,327</u></b>	<b><u>\$16,750</u></b>	<b><u>\$(16,798)</u></b>	<b><u>\$1,066,279</u></b>

  

	<i>December 31, 19X1</i>			<i>Fair Value</i>
	<i>Amortized cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$136,848	\$ 2,983	\$(3,298)	\$136,533
Obligations of states and political subdivisions	90,045	786	(1,069)	89,762
Debt securities issued by foreign governments	20,121	4	(13)	20,112
Corporate debt securities	292,330	5,989	(1,732)	296,587
Equity securities	168,323	6,297	(2,076)	172,581
Mortgage-backed securities	135,080	2,926	(37)	137,969
Redeemable preferred stock	75,588	1,426	(1028)	75,986
Nonredeemable preferred stock	23,694	327	7	24,014
<b>Total</b>	<b><u>\$942,029</u></b>	<b><u>\$20,738</u></b>	<b><u>\$(9,260)</u></b>	<b><u>\$953,507</u></b>



Held-to-Maturity Securities as of December 31, 19X2 and 19X1

	<i>December 31, 19X2</i>			<i>Fair Value</i>
	<i>Amortized cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 85,852	\$ 9,681	\$(4,133)	\$ 91,400
Obligations of states and political subdivisions	54,827	2,771	(1,896)	55,702
Corporate debt securities	159,238	4,718	(709)	163,247
Total	<u>\$299,917</u>	<u>\$17,170</u>	<u>\$(6,738)</u>	<u>\$310,349</u>

  

	<i>December 31, 19X1</i>			<i>Fair Value</i>
	<i>Amortized cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 55,105	\$ 2,138	\$ (1,976)	\$ 55,267
Obligations of states and political subdivisions	63,296	2,687	(2,859)	63,124
Corporate debt securities	168,747	5,293	(17,936)	156,104
Total	<u>\$287,148</u>	<u>\$10,118</u>	<u>\$(22,771)</u>	<u>\$274,495</u>

Securities with amortized cost (which approximates their fair value) of \$19,530 and \$16,940 were reported as cash equivalents in 19X2 and 19X1, respectively.

Gross realized gains and losses on sales of available-for-sale securities were:

	<i>December 31,</i>	
	<u>19X2</u>	<u>19X1</u>
Gross unrealized gains:		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 22,343	\$ 20,983
Obligations of states and political subdivisions	29,999	39,017
Debt securities issued by foreign governments	62,129	46,739
Corporate debt securities	92,982	88,735
Equity securities	116,328	83,569
Mortgage-backed securities	31,705	39,617
Redeemable preferred stocks	8,296	3,261
Total	<u>\$363,782</u>	<u>\$311,921</u>
Gross unrealized gains:		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 13,919	\$ 18,442
Obligations of states and political subdivisions	10,604	4,797
Debt securities issued by foreign governments	31,291	6,649
Corporate debt securities	62,958	60,396
Equity securities	63,921	70,378
Mortgage-backed securities	27,392	19,681
Redeemable preferred stocks	10,876	4,718
Total	<u>\$142,893</u>	<u>\$185,061</u>

The scheduled maturities of available-for-sale and held-to-maturity securities at December 31, 19X2 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Held-to-maturity securities:		
Due in one year or less	\$ 81,666	\$ 85,282
Due after one year through five years	83,921	86,321
Due after five years through ten years	76,893	78,567
Due after ten years	57,437	60,179
Total	<u>\$299,917</u>	<u>\$310,349</u>
Available-for-sale securities:		
Due in one year or less	\$193,238	\$199,896
Due after one year through five years	302,126	310,298
Due after five years through ten years	251,755	226,410
Due after ten years	200,950	198,632
Total	<u>\$948,069</u>	<u>\$935,236</u>

Bonds with an amortized cost of \$100,000 were nonincome-producing for the year ended December 31, 19X2. At December 31, 19X2, bonds carried at an amortized cost of \$43,684,000 were on deposit with regulatory authorities.

### Note 3: Reinsurance Activity

Substantial amounts of reinsurance are assumed, both domestic and foreign. Such reinsurance includes quota share, excess of loss, catastrophe, facultative, and other forms of reinsurance on essentially all property and casualty lines of insurance. The Company also cedes insurance to other companies and these reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31, 19X2, reinsurance receivables with a carrying value of \$8 million and prepaid reinsurance premiums of \$5 million were associated with a single reinsurer. The Company holds collateral under related reinsurance agreements in the form of letters of credit totaling \$5 million that can be drawn on for amounts that remain unpaid for more than 120 days.

The Company limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, either on an automatic basis under general reinsurance contracts known as "treaties" or by negotiation on substantial individual risks. Ceded reinsurance is treated as the risk and liability of the assuming companies.

The effect of reinsurance on premiums written and earned for 19X2 and 19X1 are as follows:

	<i>(Dollars in thousands)</i>			
	19X2		19X1	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$477,836	\$457,828	\$420,580	\$415,369
Assumed	206,814	198,689	207,328	188,092
Ceded	(102,551)	(85,632)	(86,100)	(78,715)
Net	<u>\$582,099</u>	<u>\$570,885</u>	<u>\$541,808</u>	<u>\$524,746</u>

The amounts of premiums and recoveries pertaining to catastrophe reinsurance contracts that were deducted from earned premiums and losses incurred during 19X2 and 19X1 were approximately \$4,892,000 and \$3,232,000, respectively.

**Note 4: Income Taxes**

The U.S. Federal statutory income tax rate applicable to ordinary income is 34 percent for 19X2 and 19X1. The Company's effective federal income tax rate is less than the statutory rate due primarily to tax exempt interest, dividends received deduction, and fresh start adjustments.

The components of the net deferred tax liability are as follows:

	<i>(Dollars in thousands)</i>	
	<u>19X2</u>	<u>19X1</u>
Deferred policy acquisition costs	\$17,093	\$17,298
Salvage and subrogation	12,901	11,736
Other	4,090	6,101
Deferred tax liability	<u>\$34,084</u>	<u>\$35,135</u>

The Company has net operating loss carryforwards for tax purposes of \$35,297 and investment tax credit carryforwards of \$49,396. The tax loss carryforwards (if not utilized against taxable income) and investment credit carryforwards expire beginning in 19XX and continuing through 19YY.

The Company paid income taxes of \$30,000 in 19X2 and \$21,300 in 19X1.

**Note 5: Dividends From Subsidiaries**

The funding of the cash requirements of the Company (parent company) is primarily provided by cash dividends from the Company's subsidiaries. Dividends paid by the insurance subsidiaries are restricted by regulatory requirements of the domiciliary states. Generally, the maximum dividend that may be paid without prior regulatory approval is limited to the greater of 10 percent of statutory surplus (shareholders' equity on a statutory basis) or 100 percent of net investment income for the prior year. Dividends exceeding these limitations can generally be made subject to approval by various state insurance departments. The subsidiaries paid cash dividends to the Company of \$24,754,000 and \$22,100,000 in 19X2 and 19X1, respectively. At December 31, 19X2, the maximum dividend that may be paid to the Company in 19X3 without regulatory approval is approximately \$146,000,000.

**Note 6: Statutory Net Income and Shareholders' Equity**

Generally accepted accounting principles differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis). Statutory net income was approximately \$35,681,000 and \$52,735,000 in 19X2 and 19X1, respectively, and statutory shareholders' equity was approximately \$347,237,000 and \$299,720,000 at December 31, 19X2 and 19X1, respectively.

**Note 7: Contingencies**

In November 1988, California voters passed Proposition 103, requiring insurers doing business in that state to roll back property/casualty premium prices to November 1987 levels, less an additional 20 percent discount. Insurers challenged the constitutionality of Proposition 103, and in May 1989, the California Supreme Court upheld the proposition in large part. However, the Court also ruled that the rollback provision does not apply to an insurer who demonstrates through rate filings that the rate rollback would not allow a "fair and reasonable return." The Company filed for exemption from the rate rollback for all lines affected by Proposition 103. In

September 1989, the California Insurance Commissioner announced that the Company would be afforded a hearing and using different assumptions and methods than prescribed for the original filing, determined that the Company should roll back its rates and refund premiums of \$19 million. The Company disagrees with the Commissioner's methods and conclusions and no provision for potential rate rollbacks or premium refunds is reflected in the financial results.

In October 1989, the Commissioner suspended the individual hearings and began a consolidated hearing, in which the Company is participating, intended to define the generic issue of the methods to be used to calculate potential rate rollbacks and analyze future rate filings. Until the generic issues are resolved in the Commissioner's consolidated hearing, there will be uncertainty as to whether the Company will ultimately be required to roll back any of its rates or refund any premiums. Management believes such rate rollbacks and premium refunds, if any, would not have a material adverse effect on the Company's financial position.

**Note 8: Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk**

At December 31, 19X2, the Company held unrated or less-than-investment grade corporate debt securities of \$646,641,000 net of reserves for losses, with an aggregate market value of \$639,347,986. Those holdings amounted to 6 percent of the Company's corporate debt securities investments and less than 3 percent of total assets. The holdings of less-than-investment grade securities are widely diversified and of satisfactory quality based on the Company's investment policies and credit standards. The Company also invests in mortgage loans principally involving commercial real estate. At December 31, 19X2, 20 percent of such mortgages (\$\_\_\_\_\_ ) involved properties located in California and Arizona. Such investments consist of first mortgage liens on completed income-producing properties, and mortgages on individual properties do not exceed \$\_\_\_\_\_.

**Note 9: Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash and Short-Term Investments.* For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Investment in Securities.* For investments in securities, fair values are based on quoted market prices or dealer quotes, if available. If a quote market price is not available, fair value is estimated using quoted market prices for similar securities.

*Mortgage Loans on Real Estate and Policy Loans.* The fair value of mortgage loans on real estate is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of policy loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to contract holders with similar credit ratings and the same remaining maturities.

The estimated fair value of the Company's financial instruments that are not disclosed on the face of the balance sheet, or elsewhere in the notes, are as follows:

	19X2		19X1	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Mortgage on real estate loans	\$472,509	\$474,163	\$398,426	\$401,582
Policy loans	19,862	20,974	18,623	19,953

## Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA, c/o Karyn Waller, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: \_\_\_\_\_

Comments and Suggestions:

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