
Robert Durak
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR LIFE INSURANCE COMPANIES

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A Financial Accounting and Reporting Practice Aid

Edited by
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Technical Manager, Accounting and Auditing Publications

Checklists and Illustrative Financial Statements for Life Insurance Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
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FSP Section 20,000

Checklists and Illustrative Financial Statements for Life Insurance Companies

.01 The checklists and illustrative financial statements in this section have been developed by the staff of the 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 life 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. 85, FASB Statement of Financial Accounting Standards (SFAS) No. 131, FASB Interpretation No. 42, FASB Technical Bulletin No. 94-1, AICPA Statement of Position 96-1, the AICPA Industry Audit Guide Audits of Stock Life Insurance Companies, AICPA Practice Bulletin No. 14, and EITF consensuses adopted up to and including the September 1997 Emerging Issues Task Force meeting. In addition, a supplemental checklist outlines disclosure requirements for life insurance companies that are SEC registrants. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- A description of the insurance industry and a description of common accounting and reporting features of stock life insurance companies are presented in the AICPA Industry Audit Guide Audits of Stock Life Insurance Companies.

- 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.

Note: This publication was extracted from sections 20,000 through 20,600 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 20,100

Introduction

.01 Life insurance companies provide for the pooling of risks among many persons who are exposed to similar risks. The provisions of the AICPA Industry Audit Guide Audits of Stock Life Insurance Companies, apply to stock life insurance companies. For mutual insurance companies, financial statements prepared on a statutory basis are considered, in practice, to be prepared in accordance with generally accepted accounting principles ("GAAP").¹ AICPA Professional Standards, AU section 623.09, Special Reports, states that "when reporting on financial statements prepared on a comprehensive basis of accounting other than GAAP, the auditor should consider whether the financial statements (including accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used." AU section 623.10 states that when "the financial statements (prepared on another comprehensive basis of accounting) contain items that are the same as, or similar to, those in financial statements prepared in conformity with GAAP, similar disclosures are appropriate." Therefore, the checklists and illustrative financial statements contained herein may apply to mutual life insurance companies as well as to statutory financial statements. The auditor should refer to AU section 623, Special Reports, Auditing Interpretation 9623, Evaluation of the Appropriateness of Informative Disclosures in Insurance Enterprises’ Financial Statements Prepared on a Statutory Basis, and the National Association of Insurance Commissioners’ ("NAIC") Annual Statement instruction, Annual Audited Financial Reports.

Significant Changes

.02 Presented below is a list of significant changes to the current edition of the Stock Life Insurance checklist. Changes normally result from new authoritative pronouncements issued since the last edition of the checklist. Changes may also represent improvements in the manner in which the checklist is presented.

- SFAS No. 128, Earnings per Share—This Statement specifies the computation, presentation, and disclosure requirements for earnings per share for publicly held common stock or potential common stock. The disclosure and presentation requirements of this Statement have been added into the checklist.
- SFAS No. 129, Disclosure of Information about Capital Structure—This Statement establishes standards for disclosing information about an entity’s capital structure and has been incorporated into the checklist.
- SFAS No. 130, Reporting Comprehensive Income—This Statement establishes standards for reporting and display of comprehensive income and its components. The requirements of this Statement have been reflected in the checklist.
- SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information—This Statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements. The requirements of this Statement have been reflected in the checklist.

¹ The AICPA has a project underway to prepare an Audit and Accounting Guide, Life and Health Insurance Entities, which covers audits of mutual life insurance companies as well as stock life insurance companies. The new Audit and Accounting Guide would replace the Industry Audit Guide Audits of Stock Life Insurance Companies.
FSP Section 20,200
Checklists—General

.01 AICPA disclosure checklists have been designed as practice aids to assist accountants in the preparation of financial statements and to assist auditors in their evaluation of the adequacy of disclosures in the financial statements they audit. Authoritative literature does not require the use of checklists, nor does it prescribe their format or content.

.02 This checklist consists of a number of questions or statements that are accompanied by references to the established sources of GAAP in which the disclosure requirements are found. These sources include Statements of Financial Accounting Standards, FASB Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Audit and Accounting Guides, AICPA Statements of Position, and EITF consensuses. Checklists are designed to serve as convenient memory aids but should not be used as a substitute for direct reference to authoritative literature.

.03 To use this checklist, simply check “yes,” “no,” or “not applicable” for each question. If additional information needs to be documented, include separate cross-referenced memoranda.

.04 At the beginning of certain sections a □ appears in the “N/A” column. If the entire section is deemed to be non-applicable, place a check mark in the □ and proceed to the next section.

Practice Tip
A “no” answer to a question indicates a potential GAAP departure. If a “no” answer is checked, the auditor or accountant should investigate the reasons for the noncompliance and should determine the effects of the GAAP departure on the overall financial statements. All work and conclusions related to a “no” answer should be documented in the workpapers.

.05 As you use this checklist, please remember that:

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
- The checklist may require modification based on the engagement circumstances.
- The checklist may not be all-inclusive.
- Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.
FSP Section 20,300
Financial Statements and Notes Checklist

.01 This checklist has been developed by the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid for use by accountants in preparing financial statements and by auditors in auditing them.

This checklist includes disclosures commonly encountered in the financial statements of stock life insurance companies and reporting issues likely to be encountered by accountants who audit, compile, and review those types of financial statements. They do not include all disclosures required by GAAP or address all reporting situations that may arise in performing engagements in accordance with GAAS and SSARS.

.02 Explanation of References:
SFAS = FASB Statement of Financial Accounting Standards
FASBI = FASB Financial Accounting Standards Board Interpretation
AC = Reference to section number in FASB Accounting Standards—Current Text
APB = AICPA Accounting Principles Board Opinion
ARB = AICPA Accounting Research Bulletin
FTB = Technical Bulletin issued by the staff of the FASB
AAG = Industry Audit Guide Audits of Stock Life Insurance Companies
SOP = AICPA Statement of Position
EITF = Emerging Issues Task Force Consensus
PB = AICPA Practice Bulletin
SAS = AICPA Statement on Auditing Standards
AU = Reference to section number in AICPA Professional Standards (vol. 1)
NAIC = NAIC Accounting Practices and Procedures Manual for Life, Accident, and Health Insurance Companies
App. K = Appendix K of AAG containing SOP 92-3, Accounting for Foreclosed Assets

.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 life insurance company. Place a check mark by the topics or sections considered not applicable; these sections need not be completed.

Place ✓ by
Sections Not Applicable

• Balance Sheet
  A. General
  B. Cash
  C. Investment Securities
D. Investments Accounted for by the Equity Method
E. Impairment of a Loan
F. Accounts and Notes Receivable and Agents’ Balances
G. Reinsurance Receivables
H. Lease Finance Receivables
I. Deferred Acquisition Costs
J. Property and Equipment
K. Lessee Leases
L. Other Assets
M. Separate Account Assets
N. Policy Liabilities
O. Income Taxes
P. Current Liabilities, Notes Payable, and Long-Term Debt
Q. Other Liabilities
R. Shareholders’ Equity

• Income Statement
  A. Premium Revenue
  B. Investment Income
  C. Other Income
  D. Benefits and Expenses
  E. Income Taxes
  F. Discontinued Operations
  G. Extraordinary Items
  H. Earnings Per Share
  I. Comprehensive Income
  J. Other

• Statement of Changes in Shareholders’ Equity

• Statement of Cash Flows

• General
  A. Titles and References
  B. Disclosure of Accounting Policies
  C. Comparative Financial Statements
  D. Accounting Changes
  E. Risks and Uncertainties
  F. Contingencies and Commitments
  G. Environmental Remediation Liabilities
  H. Related-Party Transactions and Economic Dependency
  I. Pension and Employee Stock Ownership Plans
  J. Postretirement Health Care and Life Insurance Benefits
  K. Consolidations
  L. Financial Instruments
  M. Foreign Currency
  N. Futures Contracts
  O. Derivatives
  P. Transfers and Servicing of Financial Assets
  Q. Nonmonetary Transactions
  R. Subsequent Events
  S. Costs to Exit an Activity
Place ✓ by

Sections Not Applicable

T. Business Combinations
U. Segment Information
V. Stock Compensation Plans

• Auditors’ Reports Checklist

• Supplemental Checklist for Life Insurance Companies That Are SEC Registrants

General

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

Income Statement
A. General
B. Premiums
C. Net Investment Income
D. Realized Investment Gains and Losses
E. Other Income
F. Benefits, Claims, Losses, and Settlement Expenses
G. Policyholders’ Share of Earnings on Participating Policies, Dividends, and Similar Items
H. Underwriting, Acquisition, and Insurance Expenses
I. Income or Loss Before Income Tax Expense and Other Appropriate Items
J. Income Tax Expense
K. Minority Interest in Income of Consolidated Subsidiaries
L. Equity in Earnings of Unconsolidated Subsidiaries and 50% or Less Owned Persons
M. Income or Loss From Continuing Operations
N. Discontinued Operations
O. Income or Loss Before Extraordinary Items and Cumulative Effects of Changes in Accounting Principles
P. Extraordinary Items, Less Applicable Tax
Q. Cumulative Effect of Changes in Accounting Principles
R. Net Income or Loss
S. Earnings-Per-Share Data
T. Cash Flows
U. Changes in Other Stockholders’ Equity
V. Schedules
W. Other SEC-Related Disclosures

**Practice Tip**

*Reminder:* A “no” answer is indicative of a potential GAAP departure. The reason for the “no” answer and the resolution of the matter should be documented in the workpapers.

### Balance Sheet

#### A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications, with totals presented for current assets and current liabilities?  
   [ARB 43, Ch. 3A, par. 3; SFAS 78, pars. 5 and 13 (AC B05.102-.109B); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3, par. 2 (AC B05.501-.503)]

#### B. Cash

1. Is restricted cash appropriately segregated from cash available for current operations?  
   [ARB 43, Ch. 3A, par. 6 (AC B05.107)]

2. Are restrictions on cash appropriately disclosed?  
   [SFAS 5, pars. 18 and 19 (AC C59.120)]
3. Is the policy for determining cash equivalents disclosed?  
   [SFAS 95, par. 10 (AC C25.108)]

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<th>N/A</th>
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4. If the company has material bank overdrafts or material balance of undelivered checks as of the balance-sheet date, are:
   a. Bank overdrafts presented as a separate caption within current liabilities?  
   |    |    |    |
   b. Undelivered checks classified as accounts payable?  
   [Generally accepted]  
   |    |    |    |

5. If a concentration of credit risk arises from deposits in excess of federally insured limits, is it disclosed?  
   [SFAS 105, par. 20 (AC F25.115)]  
   |    |    |    |

   **Practice Tip**
   Be sure that the amount of cash and cash equivalents displayed on the balance sheet equals the amount of cash and cash equivalents displayed on the statement of cash flows.

   **C. Investment Securities**

   1. Are there separate captions for each of the following investment categories:
      a. Fixed-maturity securities?  
      |    |    |    |
      b. Mortgage loans on real estate?  
      |    |    |    |
      c. Investment real estate?  
      |    |    |    |
      d. Policy loans?  
      |    |    |    |
      e. Other long-term investments?  
      [AAG, App. A]  
      |    |    |    |

   2. Are debt and equity securities classified as (a) held-to-maturity, (b) available-for-sale, or (c) trading?  
   [SFAS 115, par. 6 (AC I80.103)]  
   |    |    |    |

   3. If the reporting institution presents a classified balance sheet, are all trading securities reported as current assets?  
   [SFAS 115, par. 17 (AC I80.116)]  
   |    |    |    |

   4. Are held-to-maturity securities and available-for-sale securities reported separately and, if a classified balance sheet is presented, classified as current or noncurrent assets as appropriate?  
   [SFAS 115, par. 17 (AC I80.116)]  
   |    |    |    |

   **Practice Tip**
   Presentation of individual amounts for trading securities, held-to-maturity securities, and available-for-sale securities on the face of the balance sheet is not required as long as the information is provided in the notes to the financial statements.

   5. For investments in 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 or losses?  
      |    |    |    |
c. Amortized cost basis?  
   [SFAS 115, par. 19 (AC 180.118)]  

   Yes  No  N/A

d. Disclosure of major-security types including:

   (1) Equity securities?

   Yes  No  N/A

   (2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?

   Yes  No  N/A

   (3) Debt securities issued by states of the United States and political subdivisions of the states?

   Yes  No  N/A

   (4) Debt securities issued by foreign governments?

   Yes  No  N/A

   (5) Corporate debt securities?

   Yes  No  N/A

   (6) Mortgage-backed securities?

   Yes  No  N/A

   (7) Other debt securities?

   Yes  No  N/A

6. For investments in debt securities classified as available-for-sale and separately for securities classified as held-to-maturity:

   a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?

      Yes  No  N/A

   b. Is disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:

      (1) Within one year?

         Yes  No  N/A

      (2) After one year through 5 years?

         Yes  No  N/A

      (3) After five years through 10 years?

         Yes  No  N/A

      (4) After 10 years?

         Yes  No  N/A

   c. Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, is the basis for allocation disclosed?

      [SFAS 115, par. 20 (AC 180.119)]

         Yes  No  N/A

7. For each period for which an income statement is presented, are the following disclosed:

   a. The proceeds from sales of available-for-sale securities and gross realized gains and losses from those sales?

      Yes  No  N/A

   b. The basis on which cost was determined in computing realized gain or loss (i.e., specific identification, average cost, or other method used)?

      Yes  No  N/A

   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?

      Yes  No  N/A

   d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders' equity?

      Yes  No  N/A

   e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings?

      [SFAS 115, par. 21 (AC 180.120)]

      Yes  No  N/A
8. For any sales of, or transfers from, securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:
   a. Amortized cost amount of the sold or transferred security?  
   b. Related realized or unrealized gain or loss?  
   c. The circumstances leading to the decision to sell or transfer the security?  
      [SFAS 115, par. 22 (AC I80.121)]

9. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed?  
   [SFAS 105, par. 20 (AC F25.115); AAG-BNS, par. 5.96]

10. Are mortgage loans that are purchased at a discount or premium reported at amortized cost with an allowance for uncollectible amounts, if any?  
    [SFAS 60, par. 47 (AC In6.153)]

11. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported in income as prescribed in SFAS 114, Accounting by Creditors for Impairment of a Loan?  
    [SFAS 60, par. 47, as amended by SFAS 114, par. 23 (AC In6.153)]

12. 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)]

13. Are reductions in the carrying amounts of real estate investments resulting from the application of SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, included in realized gains and losses?  
    [SFAS 60, par. 48, as amended by SFAS 121, par. 28(b) (AC In6.154)]

14. If investments in high-risk CMOs are significant, are the following disclosures made in the financial statements:
   a. The effective yield calculated as of the reporting date, either for each CMO or for the CMO portfolio (this yield will be used to accrue income in the following period)?  
   b. The carrying amount and fair value of investments in high-risk CMOs?  
      (1) If market quotations are not available, are estimates made?  
      [EITF 89-4; SFAS 125, par. 14 (AC F38.107)]

15. 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 disclosed?  
    [EITF 96-11]

16. Are mortgage loans that are acquired at par value reported at outstanding principal balances?  
    [SFAS 60, par. 47 (AC In6.153)]

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1 These disclosure requirements do not apply to instruments subject to SFAS 125, paragraph 14.
D. Investments Accounted for by the Equity Method

1. Are investments in common stock shown in the balance sheet of the investor as a single amount, and is the investor's share of earnings or losses of the investee shown in the income statement as a single amount (except for extraordinary items or prior period adjustments)? [APB 18, par. 19 (AC 182.109c)]

2. Are the following disclosures made for investments in common stock accounted for by the equity method:
   a. The name of each investee and their percentage of ownership of common stock?
   b. The accounting policies of the investor with respect to investments in common stock?
   c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?
   d. The accounting treatment of the difference described in c.?
   e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)
   f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?
   g. Material effects of conversions of outstanding convertible securities, exercises, or contingent issuances? [APB 18, par. 20 (AC 182.110)]

3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:
   a. The name of such investee?
   b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC 182.110, fn. 14)]

4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:
   a. The name of such investee?
   b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC 182.110, fn. 14)]

Practice Tip

The significance of an investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures relating to the financial position and results of operations of an investee.
E. Impairment of a Loan

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:
   a. 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?
   b. 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 114, par. 20, as amended by SFAS 118, par. 6 (AC 108.118 and 118A)]

3. When a loan is restructured in a troubled debt restructuring (as defined in SFAS 15) into two (or more) loan agreements, are the restructured loans considered separately when assessing the applicability of the disclosures described in Step 2 above?
   [EITF 96-22]

F. Accounts and Notes Receivable and Agents' Balances

1. Are uncollected life insurance premiums and deferred premiums included in assets?
   [AAG, pars. 5.02 and 5.03]

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2 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).
2. Are accident and health uncollected premiums due within three months of the reporting date included in assets?
   [AAG, par. 5.05]  
   [ ] Yes [ ] No [ ] N/A

3. Are amounts due from reinsurers on paid losses on life and accident and health insurance included as assets?
   [AAG, par. 5.06]  
   [ ] Yes [ ] No [ ] N/A

4. Are hypothecation or other pledging of receivables disclosed?
   [SFAS 5, pars. 18 and 19 (AC C59.120)]  
   [ ] Yes [ ] No [ ] N/A

5. Are accounts and notes receivable from officers, employees, and affiliated entities shown separately with appropriate disclosures?
   [ARB 43, Ch. 1A, par. 5 (AC R36.105)]  
   [ ] Yes [ ] No [ ] N/A

6. If a note is noninterest bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?
      [ ] Yes [ ] No [ ] N/A
   b. Does the disclosure include the effective interest rate and face amount of the note?
      [ ] Yes [ ] No [ ] N/A
   c. Is amortization of discount or premium reported as interest in the income statement?
      [APB 21, par. 16 (AC I69.109)]  
      [ ] Yes [ ] No [ ] N/A

7. Is the unamortized balance of loan origination, commitment, and other fees and costs and purchase premiums and discounts that is being recognized as an adjustment of yield reported as part of the loan balance to which it relates?
   [SFAS 91, par. 21 (AC I20.120)]  
   [ ] Yes [ ] No [ ] N/A

G. Reinsurance Receivables

1. Are fronting arrangements treated as reinsurance arrangements for purposes of disclosures required by SFAS 60 and SFAS 113?
   [SFAS 113, par. 6 (AC In6.169)]  
   [ ] Yes [ ] No [ ] N/A

2. Are the following disclosed in relation to ceded insurance transactions:
   a. Nature of the transaction(s)?
      [ ] Yes [ ] No [ ] N/A
   b. Purpose of the transaction(s)?
      [ ] Yes [ ] No [ ] N/A
   c. Effect of the transaction(s)?
      [ ] Yes [ ] No [ ] N/A
   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)]  
      [ ] Yes [ ] No [ ] N/A

3. Are the following disclosed for short-duration reinsurance contracts on both a written and an earned basis:
   a. Premiums from direct business?
      [ ] Yes [ ] No [ ] N/A
   b. Reinsurance assumed?
      [ ] Yes [ ] No [ ] N/A
   c. Reinsurance ceded?
      [SFAS 113, par. 27(b) (AC In6.191)]  
      [ ] Yes [ ] No [ ] N/A
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?
   [SFAS 113, par. 28 (AC In6.192)]

7. Are the following items reported separately as assets for those companies participating in ceding transactions:
   a. Estimated reinsurance receivables arising from ceding transactions?
   b. Amounts paid to the reinsurer relating to the unexpired portion of reinsured contracts (prepaid reinsurance premiums)?
   [SFAS 113, par. 14 (AC In6.178)]

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)]

H. Lease Finance Receivables

1. Do disclosures include:
   a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?
   b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?
   c. Total contingent rentals included in income for each period for which a statement of income is presented?
   [SFAS 13, par. 23a, 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)]
### I. Deferred Acquisition Costs

1. Are unamortized acquisition costs presented in the balance sheet as a deferred charge?
   
   [AAG, pars. 8.37 and 10.03]

2. 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?
   
   [AAG, pars. 8.37 and 10.03; SFAS 60, par. 60c (AC In6.166c)]

3. 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)]

### J. Property and Equipment

1. Is the carrying basis of property and equipment disclosed?

   [AAG, App. A; APB 12, par. 5 (AC D40.105)]

2. For depreciable assets, does disclosure include:
   
   a. Depreciation expense for each period for which an income statement is presented?
   
   b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date?
   
   c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date?
   
   d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets?

   [APB 12, par. 5 (AC D40.105)]

3. Are pledged assets and material commitments for property expenditures 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 that is capitalized, disclosed?

   [SFAS 34, par. 21b (AC I67.118)]

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. 21a (AC I67.118)]

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?

   [EITF 89-13]
7. 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 (AC 108.133)] 

8. 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 in 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 c. and 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 (AC 108.138)] 

9. If an impairment loss is recognized, is it reported as a component of income from continuing operations? 
[SFAS 121, pars. 13 and 18 (AC 108.137)] 

K. Lessee Leases

1. Is the following information disclosed with respect to capital leases:

   a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function (this information may be combined with the comparable information for owned assets)? 
   
   b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the
next five fiscal years, with separate deductions from the total for
executory costs, including any profit thereon that is included in
the minimum lease payments and for the amount of the imputed
interest necessary to reduce the net minimum lease payments to
present value?

c. The total of minimum sublease rentals to be received in the future
under noncancelable subleases as of the date of the latest balance
sheet presented?

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

e. Separate identification of:
   (1) Assets recorded under capital leases?
   (2) Accumulated amortization of capital leases?
   (3) Obligations under capital leases?
   (4) Amount of amortization of capital lease assets or the fact that
       the amortization of capital lease assets is included in depre-
       ciation expense?
       [SFAS 13, par. 13 (AC L10.112)]

2. Are the following disclosed for operating leases that have initial or
remaining noncancelable lease terms in excess of one year:
   a. Future minimum rental payments required, as of the date of the
      latest balance sheet presented, in the aggregate, and for each of the
      five succeeding fiscal years?
   b. The total of minimum rentals to be received in the future under
      noncancelable subleases as of the date of the latest balance sheet
      presented?
      [SFAS 13, par. 16 (AC L10.112)]

3. For all operating leases, do disclosures include rental expense for each
period for which an income statement is presented, with separate
amounts for minimum rentals, contingent rentals, and sublease rent-
als (rental payments under leases with terms of a month or less that
are not renewed need not be included)?

4. Do disclosures include a general description of the lessee's leasing
arrangements including, but not limited to, the following:
   a. The basis on which contingent rental payments are deter-
      mined?
   b. The existence and terms of renewal or purchase options and
      escalation clauses?
   c. Restrictions imposed by lease agreements, such as those concern-
      ing dividends, additional debt, and further leasing?
      [SFAS 13, par. 16 (AC L10.112)]

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

6. 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]
7. If the conditions of EITF 90-15 are met, does the lessee consolidate special-purpose entities established for both the construction and subsequent lease of an asset and does consolidation occur at the inception of the lease rather than at the beginning of the lease term?

[EITF 90-15]

L. Other Assets

1. Do disclosures include the method and period of amortization of intangible assets?

[APB 22, par. 13 (AC A10.106)]

2. 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 in a combination initiated after September 30, 1982, is the method and period of amortization disclosed?

[APB 17, par. 30 (AC I60.111)]

M. Separate Account Assets

1. Are separate account assets reported as summary totals in the financial statements?

[SFAS 60, par. 54 (AC In6.160)]

N. Policy Liabilities

1. Is the aggregate reserve for life policies presented net of reserves ceded under reinsurance arrangements?

[AAG, par. 6.06]

2. Is the liability for supplementary contracts without life contingencies and dividend accumulations reflected separately in the annual statement?

[AAG, par. 6.07]

3. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed?

[SFAS 60, par. 60a (AC In6.166a)]

4. Are the methods and assumptions used in estimating the liability for future policy benefits and the average rate of assumed investment yields in effect for the current year disclosed?

[SFAS 60, par. 60b (AC In6.166b)]

5. 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)]

6. 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 of insured events of the current fiscal year and of increases or decreases in the provision for insured events of prior fiscal years?

Yes  No  N/A

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7. 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?

[SOP 94-5, par. 10]

---

8. Is the fact that the company considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists disclosed?

---

9. For participating insurance, does disclosure include:

a. The relative percentage?

---

b. The method of accounting for policyholders' dividends?

---

c. The amount of dividends?

---

d. The amount of any additional income allocated to participating policyholders?

[SOP 94-5, par. 10]

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10. Are the methods employed and the assumptions used in calculating policy reserves disclosed in the financial statements, and is similar information disclosed for annuities, accident and health insurance, and other material lines of business?

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[Note: SOP 95-1, Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises applies to life insurance contracts that have both of the following characteristics:]

- They are long-duration participating contracts that are expected to pay dividends to policyholders based on actual experience of the insurance enterprise.

- Annual policyholder dividends are paid in a manner that identifies divisible surplus and distributes that surplus in approximately the same proportion as the contracts are considered to have contributed to divisible surplus (commonly referred to in actuarial literature as the contribution principle).

---

3 SFAS 120, Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts, permits stock life insurance enterprises with participating life insurance contracts that meet the conditions listed above to account for those contracts in accordance with SOP 95-1.

[SFAS 120, par. 6]
11. Are premiums from participating insurance contracts reported as revenue in the statement of income when due from policy holders?  
[SOP 95-1, par. 12]

12. Are death and surrender benefits incurred reported as expense in the statement of income?  
[SOP 95-1, par. 13]

13. Are annual policyholder dividends:
   a. Reported separately as an expense in the statement of income?  
   b. Based on estimates of amounts incurred for policies in effect during the period?  
   [SOP 95-1, par. 14]

14. Does the liability for future policy benefits relating to participating life insurance contracts include:
   a. The net level premium reserve for death and endowment policy benefits?  
   b. The liability for terminal dividends?  
   c. Any probable loss (premium deficiency) as described in paragraphs 35 to 37 of SFAS 60, Accounting and Reporting by Insurance Enterprises?  
   [SOP 95-1, par. 15]

15. Are the following disclosed in the financial statements with respect to participating contracts:
   a. The methods and assumptions used in estimating the liability for future policy benefits?  
   b. The average rate of assumed investment yields used in estimating expected gross margins?  
   c. The nature of acquisition costs capitalized, the method of amortizing those costs, and the amount of those costs amortized for the period?  
   [SOP 95-1, par. 24]

O. Income Taxes

1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual company or group of companies that is consolidated for tax purposes) in each tax jurisdiction presented separately?  
 [SFAS 109, par. 17 (AC I27.116)]

2. Are the components of the net deferred tax liability or asset recognized in the balance sheet disclosed as follows:
   a. The total of all deferred tax liabilities?  
   b. The total of all deferred tax assets?  
   c. The total valuation allowance for deferred tax assets?  
   [SFAS 109, par. 43 (AC I27.142)]

3. Is the net change during the year in the total valuation allowance disclosed?  
 [SFAS 109, par. 43 (AC I27.142)]
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 the areas addressed by APB 23, Accounting for Income Taxes—Special Areas (as amended by SFAS 109, Accounting for Income Taxes):

   a. A description of the types of temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable? [ ] [ ] [ ]

   b. The cumulative amount of each type of temporary differences? [ ] [ ] [ ]

   c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable, or a statement that determination is not practicable? [ ] [ ] [ ]

   d. The amount of the deferred tax liability for temporary differences other than those in c. above (i.e., undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC I27.130 and .131)? [ ] [ ] [ ]

      [SFAS 109, par. 44 (AC I27.143)]

5. In a classified balance sheet:

   a. Are deferred tax assets and deferred tax liabilities classified as current or noncurrent based on the classification of the related asset or liability for financial reporting? [ ] [ ] [ ]

      [SFAS 109, par. 41 (AC I27.140)]

   b. Are deferred tax assets or liabilities not related to an asset or liability for financial reporting (including those related to carry-forwards) classified according to the expected reversal date of the temporary difference? [ ] [ ] [ ]

      [SFAS 109, pars. 41 and .288p (AC I27.140)]

   c. Is the valuation allowance for a particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis? [ ] [ ] [ ]

      [SFAS 109, par. 41 (AC I27.140)]

   d. Are the following items offset and presented as a single amount for a particular taxing component and within a particular taxing jurisdiction:

      (1) All current deferred tax liabilities and assets? [ ] [ ] [ ]

      [SFAS 109, par. 42 (AC I27.141)]

      (2) All noncurrent deferred tax liabilities and assets? [ ] [ ] [ ]

6. Do the financial statements include disclosure of the following:

   a. Disclosures relating to "Policyholders' Surplus" as defined in the Internal Revenue Code and as prescribed by APB 23? [ ] [ ] [ ]

   b. The portion of retained earnings in excess of statutory unassigned surplus for which neither current nor deferred federal income tax provisions have been made and the reasons therefor? [AAG, par. 10.17] [ ] [ ] [ ]
P. Current Liabilities, Notes Payable, and Long-Term Debt

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

2. Do current liabilities exclude short-term obligations that the provider intends to refinance on a long-term basis, provided the provider has demonstrated the ability to consummate the long-term financing? ________ ________ ________
   [SFAS 6, pars. 8–14 (AC B05.113–.116); FASB I 8, pars. 2–4 (AC B05.117, .138 and .139)]

3. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures (such as assets pledged as collateral, and covenants to reduce debt, and maintain working capital)? ________ ________ ________
   [FASCON 5, par. 11; SFAS 5, par. 18 (AC C59.120)]

4. 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)]

5. Are conversion features appropriately accounted for and disclosed? ________ ________ ________
   [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]

6. If a note is noninterest bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note? ________ ________ ________
   b. Does the disclosure include the effective interest rate and face amount of the note? ________ ________ ________

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<tr>
<td>c. Is amortization of the discount or premium reported as interest expense?</td>
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<td>d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]</td>
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<td>7. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include:</td>
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<td>a. A general description of the financing agreement?</td>
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<td>b. The terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]</td>
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<td>8. For a troubled debt restructuring occurring during the current period, do disclosures include:</td>
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<td>a. Description of the principal changes in terms, the major features of settlement, or both?</td>
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<td>b. Aggregate gain on restructuring of payables and the related income tax effect?</td>
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<td>c. Aggregate net gain or loss on transfers of assets recognized during the period?</td>
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<td>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)]</td>
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<td>9. For periods after a troubled debt restructuring, do disclosures include:</td>
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<td>a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?</td>
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<td>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)]</td>
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<td>10. 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)]</td>
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<td>11. If there is an early extinguishment of debt, is the difference between reacquisition price and carrying amount identified as income in the period of extinguishment as gain or loss? [APB 26, pars. 20 and 21 (AC D14.103 and .104)]</td>
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<td>12. Do disclosures for extinguishments of debt classified as extraordinary items include:</td>
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<td>a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?</td>
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<td>b. Income tax effect in the period of extinguishment?</td>
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<td>c. The per-share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC D14.107)]</td>
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13. Is the following disclosed if debt was considered to be extinguished by in-substance defeasance under the provisions of SFAS 76, Extinguishment of Debt, prior to the effective date of SFAS 125:

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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 that debt remains outstanding? [SFAS 125, par. 17b (AC L35.109a)]

14. If assets are set aside after January 1, 1997 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets? [SFAS 125, par. 17c (AC L35.109b)]

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15. Are long-term obligations that are or will be callable by the creditor, either because the debtor's violation of the debt agreement at the balance-sheet date makes the obligation callable, or because the violation (if not cured within a specified grace period) will make the obligation callable, classified as current unless one of the following conditions is met:

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a. The creditor waives or subsequently loses the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?

b. The obligation contains a grace period within which the debtor may cure the violation and it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable? [SFAS 78, par. 5 (AC B05.109A)]

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16. 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:

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<td>16.2</td>
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</tbody>
</table>

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]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>16.3</td>
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<td>16.4</td>
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</table>

17. If the company issued debt securities convertible into a fixed number of common shares, and upon conversion the company either is requested or has the option to satisfy all or part of the obligation in cash, is the conversion features and debt obligation presented on the balance sheet as one amount? [EITF 90-19]

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<tr>
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<th>Yes</th>
<th>No</th>
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<tbody>
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<td>17.1</td>
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18. If the company 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 company's carrying amount of the debt, is the debt obligation classified as a current liability? [EITF 95-15]

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<th>Yes</th>
<th>No</th>
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<tbody>
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<td>18.1</td>
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</table>

27
19. 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]

Q. Other Liabilities

1. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]

2. Are net credits arising from financing-type reinsurance agreements treated as a deferred credit or liability by the ceding company? [AAG, par. 8.110]

3. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 (AC C59) or SFAS 43, Accounting for Compensating Absences (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)]

4. Are amounts recoverable on unpaid losses deducted from the applicable claim reserve in the liability section of the statement of condition? [AAG, par. 5.06]

R. Shareholders' Equity

1. For each class of stock, do disclosures include the number of shares authorized, issued, and outstanding, and par or stated value per share? [Generally Accepted]

2. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]

3. 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 or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]

4. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]

5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liqui-
6. Are the following disclosed on the face of the balance sheet or in the notes:
   a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise?
   b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends?
   [SFAS 129, par. 6 (AC C24.104)]

7. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet?
   [SFAS 129, par. 8 (AC C24.106)]

8. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders’ equity?
   [SFAS 5, par. 15 (AC R70.103)]

9. Are restrictions on payment of dividends disclosed?
   [SFAS 5, pars. 18 and 19 (AC C59.120)]

10. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant?
   [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]

11. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed?
    [Generally Accepted]

12. If treasury stock is purchased for purposes other than retirement or if ultimate disposition has not yet been decided is its cost:
    a. Shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings?
    or
    b. Accorded the accounting treatment appropriate for retired stock?
    or
    c. Shown as an asset in accordance with paragraph 4 of Chapter 1A of ARB 43?
    [APB 6, par. 12b (AC C23.103)]

13. In the rare circumstances in which treasury stock is shown as an asset, are the circumstances for that classification disclosed?
    [ARB 43, Ch. 1A, par. 4 (AC R36.105)]

14. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made?
    [APB 6, par. 13 (AC C23.104)]
15. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported as a separate component (e.g., a reduction) of equity, net of any tax benefits that result from considering such losses as temporary differences, for purposes of applying the provisions of SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287? [SFAS 87, par. 37 (AC P16.131)]

16. 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, paras. 1-3 (AC C23.501-503)]

17. If statutory surplus is below the minimum required by law, is disclosure of the relevant facts made? [AAG, par. 10.15]

18. 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); AAG, par. 10.10]

19. If the company receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of stockholders’ equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time? [EITF 85-1]

20. Is the Mandatory Securities Valuation Reserve included in the equity section of the balance sheet as an appropriation of surplus, and not recorded as a valuation reserve? [AAG, par. 8.116]

Income Statement

A. Premium Revenue

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

B. Investment Income

1. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 91, par. 22 (AC L20.121)]
2. Is investment income presented net of investment expenses?  
   [SFAS 97, par. 23 (AC In6.137B)]

3. Are realized gains and losses on all investments (except investments that are classified as trading securities and 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?  
   [SFAS 97, par. 28 (AC In6.156)]

C. Other Income

1. Is amortization of other fees, such as commitment fees that are being amortized on a straight-line basis over the commitment period or included in income when the commitment expires, reported as service fee income?  
   [SFAS 91, par. 22 (AC L20.121)]

2. Are gains/losses on pension plan settlements or curtailments or termination benefits disclosed, including a description of the nature of the event(s)?  
   [SFAS 88, par. 17 (AC P16.187)]

D. Benefits and Expenses

1. Do disclosures for advertising costs include:
   a. The accounting policy selected from the two alternatives in paragraph 26 of SOP 93-7, Reporting on Advertising Costs, for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?
   [SOP 93-7, par. 49]

   b. A description of the direct-response advertising reported as assets (if any), the accounting policy, 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?

E. Income Taxes

1. Are the types of significant temporary differences and carryforwards disclosed?  
   [SFAS 109, par. 43 (AC I27.142)]

2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes thereto:
   a. Current tax expense or benefit?

   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?
c. Investment tax credits?  
<table>
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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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d. The benefits of operating loss carryforwards?  
|     |     |     |

e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired company?  
|     |     |     |

f. 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?  
|     |     |     |

g. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?  

[SFAS 109, par. 45a–h (AC I27.144a–h)]

h. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?  
|     |     |     |

i. 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, pars. 45 and 48 (AC I27.144 and .147)]

3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35–39 of SFAS 109 (ACI27.134–.138)) disclosed for each year for which those items are presented?  

[SFAS 109, par. 46 (AC I27.145)]  
|     |     |     |

4. If the company is a public enterprise, do the financial statements disclose a reconciliation using percentages or dollar amounts of (i) the reported amount of income tax expense attributable to continuing operations for the year and (ii) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?  
|     |     |     |

5. If the company is a public enterprise, is the estimated amount and the nature of each significant reconciling item disclosed?  
|     |     |     |

6. If the company is a non-public enterprise, is the nature of significant reconciling items disclosed (a numerical reconciliation may be omitted)?  

[SFAS 109, par. 47 (AC I27.146)]  
|     |     |     |

7. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented?  
|     |     |     |

b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that
method (and in determining related balances to or from affiliates) during the years for which the disclosures in Step a. above are presented? [SFAS 109, par. 49a and b (AC I27.148a and b)]

8. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the statement of income or in related notes? [APB 30, par. 8 (AC II3.105)]

9. Are the income taxes applicable to extraordinary events disclosed on the face of the statement of income or in related notes? [APB 30, par. 11 (AC II7.102)]

F. Discontinued Operations

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?  
   
   b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, pars. 8 and 13–18 (AC II3.101–.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 or in related notes? [APB 30, pars. 8, 13, and 18 (AC II3.105, .106, .108, and .109)]

3. For the period encompassing the measurement date, do notes to the financial statements disclose:
   a. Identity of the segment discontinued?
   b. Expected disposal date, if known?
   c. Expected manner of disposal?
   d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?
   e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?
   f. A statement that the loss on disposal cannot be estimated within reasonable limits? [APB 30, par. 18 (AC II3.108 and .109)]

4. For periods after the measurement date and including the period of disposal, do notes to the financial statements disclose the information required by Steps 3.a.–d. above and the information required by Step 3.e. above compared with prior estimates? [APB 30, par. 18 (AC II3.108 and .109)]

5. If the company accounts for the discontinuance of a segment in accordance with APB 30, 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, and sub-
sequently decides to retain the segment, is any impairment write-down of the individual assets classified in continuing operations? [EITF 90-16]  

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. For discontinued operations or sale of a portion of a line of business that is not a segment of a business, is the gain or loss from disposal reported as a separate component of income from continuing operations, and is it not reduced for income taxes (information similar to that in Steps 3a.-f. above should be disclosed, and disclosures for revenues and related costs and expenses included in the income statement that relate to the disposed portion of the line of business for the period prior to the measurement date is encouraged)? [AIN-APB 30, par. 1 (AC I22.502)]  

8. If the company decides to dispose of a segment of a business accounted for in accordance with APB 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 (assuming that the loss does not result from a discrete and identifiable event that occurs unexpectedly after the balance-sheet date)? [EITF 95-18]  

G. Extraordinary Items  

1. Do extraordinary items meet both criteria of (1) unusual nature and (2) infrequency of occurrence? [APB 30, par. 20 (AC I17.107)]  

2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]  

3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement? [APB 30, par. 11 (AC I17.102)]  

4. Do disclosures include descriptions of an extraordinary event or transaction and the principal items entering into determination of extraordinary gain or loss? [APB 30, par. 11 (AC I17.102)]  

5. 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? [SFAS 16, par. 16c (AC I17.119)]  

6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):
a. Reported as a separate component of income from continuing operations?

b. Accompanied by disclosure of the nature and financial effects of each event?
   [APB 30, par. 26 (AC I22.101)]

H. Earnings Per Share

Note: SFAS 128, Earnings per Share, which applies only to entities with publicly held common stock or potential common stock is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. If SFAS 128 is not yet effective, refer to APB 15, Earnings per Share, for disclosure requirements.

1. If the reporting entity has a simple capital structure (only common stock outstanding), are basic per-share amounts for income from continuing operations and for net income presented on the face of the income statement for all periods for which an income statement or summary of earnings is presented?
   [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]

2. If the reporting entity has other than a simple capital structure, are basic and diluted per-share amounts for income from continuing operations and for net income presented on the face of the income statement with equal prominence for all periods for which an income statement or summary of earnings is presented?
   (Note: If diluted EPS data are reported for at least one period, they should be reported for all periods presented, even if they are the same amounts as basic EPS.)
   [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]

3. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in the period, are the basic and diluted per share amounts for those line items presented on the face of the income statement or in the notes?
   [SFAS 128, par. 37 (AC E11.132)]

4. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax?
   [SFAS 128, par. 37 (AC E11.132)]

5. Are the following disclosed for each period for which an income statement is presented:
   a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?
   b. The effect that has been given to preferred dividends in arriving at income available to common shareholders' in computing basic EPS?
   c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future

   Yes  No  N/A

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that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? [SFAS 128, par. 40 (AC E11.135)]

6. For the latest period for which an income statement is presented, do disclosures include a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period? [SFAS 128, par. 41 (AC E11.136)]

I. Comprehensive Income

Note: SFAS 130, Reporting Comprehensive Income, is effective for fiscal years beginning after December 15, 1997 with earlier application permitted.

Practice Tip

Components of comprehensive income include:

- Foreign currency translation adjustments determined in accordance with SFAS 52, Foreign Currency Translation.
- Changes in the market value of futures contracts that qualify as hedges as described in SFAS 80, Accounting for Futures Contracts.
- Adjustments of minimum pension liability recognized in accordance with SFAS 87, Employers’ Accounting for Pensions.
- Unrealized gains and losses on certain investments in debt and equity securities recognized in accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities.

Additional items may result from future accounting standards.

1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized? [SFAS 130, par. 14 (AC C49.106)]

2. Is a total amount for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported? [SFAS 130, par. 14 (AC C49.108)]

3. Is an amount for net income displayed and included as a component of comprehensive income? [SFAS 130, pars. 15 and 22 (AC C49.109 and .116)]

4. Are items included in other comprehensive income classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities? [SFAS 130, par. 17 (AC C49.111)]

5. Are reclassification adjustments made to avoid double counting in comprehensive income of items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or other periods presented on
the face of the financial statement in which comprehensive income is reported or disclosed in the notes?  
[SFAS 130, par. 20 (AC C49.114)]

6. Are comprehensive income and its components displayed in a financial statement that is displayed with the same prominence as the other financial statements? 
(Note: SFAS 130 encourages but does not require that the components of other comprehensive income and total comprehensive income be displayed below the total for net income in a statement that reports results of operations or in a separate statement of comprehensive income that begins with net income.)  
[SFAS 130, pars. 22 and 23 (AC C49.116 and .117)]

7. Are the components of other comprehensive income displayed either net of related tax effects, or before related tax effects with one amount shown for the aggregate tax effect related to the total of other comprehensive income items? 
[SFAS 130, par. 24 (AC C49.118)]

8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) displayed on the face of the statement in which those components are displayed or disclosed in the notes to the financial statements? 
[SFAS 130, par. 25 (AC C49.119)]

9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in the balance sheet with a descriptive title such as accumulated other comprehensive income? 
[SFAS 130, par. 26 (AC C49.120)]

10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the balance sheet, in the statement of changes in shareholders’ equity, or in the notes? 
[SFAS 130, par. 26 (AC C49.120)]

11. If condensed interim financial statements are issued, is total comprehensive income reported? 
[SFAS 130, par. 27 (AC C49.121)]

J. 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? 
   [APB 9, par. 28 (AC C08.101)]
   b. Transfers to and from accounts properly designated as appropriated retained earnings? 
   c. Adjustments made pursuant to a quasi reorganization? 
   [EITF 87-4]

2. For nonpublic entities, if there is a restructuring charge, is it reflected using the most meaningful statement of income presentation within the framework of APB 30?  
[SFAS 130, paras. 22 and 23 (AC C49.116 and .117)]
3. For freestanding contracts indexed to and potentially settled in the company’s own stock and when those contracts require a net cash settlement or settlement in shares, are gains and losses included in earnings and disclosed in the financial statements? [EITF 94-7]  

   Yes   No   N/A

4. Are gains or losses on written put options that require net cash settlement, included in earnings and disclosed in the financial statements? [EITF 96-1]  

   Yes   No   N/A

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)]  

   Yes   No   N/A

2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]  

   Yes   No   N/A

3. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax attributable to the prior period adjustments) appropriately disclosed:
   a. For single-period statements, does the disclosure indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period?  

      Yes   No   N/A

   b. If financial statements of more than one period are presented, does disclosure include the effects for each of the periods presented in the statements? [APB 9, par. 26 (AC A35.107)]  

      Yes   No   N/A

   Practice Tip

Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

4. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:
   a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year?  

      Yes   No   N/A

   b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated? [SFAS 16, par. 15 (AC A35.111)]  

      Yes   No   N/A

5. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of segments of a business, extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements? [APB 28, par. 31 (AC I73.147)]

   Yes   No   N/A
6. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23–26 of APB 28 or by paragraphs 9–13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made? [SFAS 3, par. 14 (AC 173.147)]

7. For a correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected:
   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, 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, as amended by SFAS 115 (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 benefits paid to policyholders, surrender benefits, and dividends paid to policyholders?
   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. Payments to settle lawsuits?
   h. Contributions to charities?
   i. Cash flows from purchases, sales, and maturities of trading securities?
   j. 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. Purchases of and proceeds from sales of available-for-sale securities?
   c. Proceeds from maturities of available-for-sale and held-to-maturity securities?
   d. Purchases of held-to-maturity securities?
   e. Net purchases of property and equipment?  
      [SFAS 95, pars. 16 and 17, as amended by SFAS 102, as amended by SFAS 115 (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)]

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, and notes, and from other short- or long-term borrowing?
   c. Repayment of amounts borrowed?
   d. Dividend payments to stockholders?
   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 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 equivalent disclosed?  
    [SFAS 95, par. 10 (AC C25.108)]

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<th>Practice Tip</th>
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<tr>
<td>Any change in policy for determining which items are treated as cash equivalents is a change in accounting principle.</td>
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11. Are noncash investing and financing activities, such as converting debt to equity, summarized in a separate schedule?  
    [SFAS 95, par. 32 (AC C25.134)]
12. If the direct method is used, is a separate schedule provided to reconcile net income to net cash flow from operating activities?  
   [SFAS 95, par. 29 (AC C25.128)]

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13. If the indirect method is used:
   a. Is the same amount for net cash flow from operating activities reported indirectly, by adjusting net income to reconcile it to net cash flow from operating activities?  
   [SFAS 95, par. 30 (AC C25.128)]

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14. If the indirect method is used, are the amounts of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed?  
   [SFAS 95, par. 29 (AC C25.127)]

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15. 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)]

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General

A. Titles and References
   1. Are the financial statements suitably titled?  
      [Generally Accepted]

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   2. Does each statement include a general reference to the notes indicating they are an integral part of the financial statement presentation?  
      [Generally Accepted]

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B. Disclosure of Accounting Policies
   1. Is a description of all significant accounting policies of the reporting company presented as an integral part of the financial statements?  
      [APB 22, par. 8 (AC A10.102)]

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   2. Does disclosure of significant accounting policies encompass important judgments as to the appropriateness of principles concerning recognition of revenue and allocation of asset costs to current and future periods?  
      [APB 22, par. 12 (AC A10.105)]

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3. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereeto) so duplication of details is avoided? 
[APB 22, par. 14 (AC A10.107); AAG, par. 10.01] 

4. For GAAP reporting purposes, are the following regulatory accounting practices avoided (not all-inclusive):
   a. Nonrecognition of certain assets such as furniture and equipment? 
   b. Nonrecognition of deferred taxes? 
   c. Use of NAIC prescribed values for the amount of goodwill and other intangible assets related to the carrying value of investments in subsidiaries? 
   d. Calculation of liability for reinsurance in unauthorized companies? 
   e. Calculation of asset valuation reserve and interest maintenance reserve? 
      [NAIC, Introduction] 

5. Are the principles relating to the recognition of premium revenue and related expenses disclosed? 
[AAG, par. 10.02] 

6. Do mutual life insurance companies disclose the principles and methods used to account for marketable securities and insurance activities? 
[FASBI 40, par. 5 (AC A10.102A)] 

7. When the permitted practices differ from the 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:
   a. A description of the permitted statutory accounting practices? 
   b. A statement that the permitted statutory accounting practice differs from prescribed statutory accounting practices? 
   c. The monetary effect on statutory surplus? 
      [SOP 94-5, par. 8] 

8. When prescribed statutory accounting practices do not address the accounting for the transaction, is the following information about permitted statutory accounting practices, excluding GAAP practices used, disclosed:
   a. A description of the transaction and of the permitted statutory accounting practice used? 
   b. A statement that prescribed statutory accounting practices do not address the accounting for the transaction? 
      [SOP 94-5, par. 8] 

9. 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]
C. Comparative Financial Statements

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, as amended by APB 20 (AC F43.103)]

4. If comparative annual financial statements are presented for earlier periods, are those financial statements reclassified (or restated) to reflect retroactive application of the provisions of SFAS 116?
   [SFAS 116, par. 30]

D. Accounting Changes

1. For all changes in accounting principles, 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 all changes in accounting principles, except those concerning a change in entity and those recognized in paragraphs 27–30 of APB 20:
   a. Are financial statements for prior periods, included for comparative purposes, presented as previously reported?
   b. Is the effect of adopting the new accounting principle on income before extraordinary items and on net income and the related per-share amounts disclosed in the period of the change?
   c. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected?
      [APB 20, pars. 19–21 and 25 (AC A06.115–.117 and .121)]

3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions “extraordinary items” and “net income”?
   [APB 20, pars. 19b, 20, and 21 (AC A06.114–.122 and E09.104)]

4. 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)]

5. For changes in accounting principle that are required to be accounted for by applying retroactively the new method in restatements of prior
periods, is the effect of the change on income before extraordinary items, net income, and related per share amounts disclosed? [APB 20, par. 28 (AC A10.115)]

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. For correction of an error, is the nature of the error disclosed in the period in which the error was discovered and corrected:
   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, if applicable? [APB 20, par. 37 (AC A35.105)]

8. If any accounting change has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of the change? [APB 20, par. 38 (AC A06.133)]

9. For an accounting change that is in effect a change in reporting entity, are the financial statements of all prior periods restated in order to show financial information for the new reporting entity for all periods and are the following disclosures made for all periods presented:
   a. The nature of the change?
   b. The reason for the change?
   c. The effect of the change on income before extraordinary items, net income, and related per share amounts? [APB 20, pars. 34 and 35 (AC A35.112-.113)]

E. Risks and Uncertainties

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 in the financial statements? [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]  

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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?  
[SOP 94-6, par. 14]  

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6. If the estimate in Step 4 above 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?  
[SOP 94-6, par. 14]  

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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]  

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8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the company'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 company's home country?  

[SOP 94-6, par. 24]  

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9. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered?  
[SOP 94-6, pars. 14 and 15]  

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F. Contingencies and Commitments  

1. Is the nature and amount of significant accrued loss contingencies not related to life insurance disclosed as necessary to keep the financial statements from being misleading?  
[SFAS 5, par. 9 (AC C59.108)]  

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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)]  

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4 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.  

5 See footnote 4.
3. Is 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 with care 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, and for funding of loans and unused letters of credit? [SFAS 5, pars. 18 and 19 (AC C59.120); FASB 80 (AC F80)]

6. If the company as guarantor “lends” its creditworthiness to another party (borrower) for a fee, is the guarantee disclosed in a note, if material? [EITF 85-20]

7. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]

8. When, after considering management’s plans, the auditor concludes there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time, is adequate disclosure of the situation made in the financial statements? [SAS 59, par. 10 (AU 341.10)]

G. Environmental Remediation Liabilities

Note: SOP 96-1, Environmental Remediation Liabilities, does not provide guidance on recognizing liabilities of insurance companies for unpaid claims.

1. Is there disclosure of the following accounting policies:
   a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?
      [SOP 96-1 (Ch. 7, pars. 11 and 12)]
   b. The policy concerning the timing of recognition of recoveries? (Encouraged, but not required.)
      [SOP 96-1 (Ch. 7, par. 12)]

2. Do the financial statements disclose the event, situation, or set of circumstances that triggered recognition of loss contingencies that arose out of the reporting entity’s environmental remediation-related obligations? (Encouraged, but not required.)
   [SOP 96-1 (Ch. 7, par. 12)]

Recognized Losses and Recoveries of Losses, and Reasonably Possible Loss Exposures

3. With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, are the following disclosed:
   a. The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount
accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading?

b. If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations?

c. If the criteria of SOP 94-6 (it is at least reasonably possible that an estimate of the effect on the financial statements of a matter that existed at the balance-sheet date will change in the near term and the effect of the change would be material to financial statements) are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term? [SOP 96-1 (Ch. 7, par. 20)]

4. With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, are the following disclosed:

a. The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made?

b. If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?

c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? (Encouraged, but not required.)

d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? (Encouraged, but not required.)

e. If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change? (Encouraged, but not required.)

f. If an estimate of the probable or reasonably possible loss or range of loss cannot be made, the reasons why it cannot be made? (Encouraged, but not required.)

g. If information about the reasonably possible loss or the recognized and additional reasonably possible loss for an environmental remediation obligation related to an individual site is relevant to an understanding of the financial position, cash flows, or results of operations of the entity, the following with respect to the site: (Encouraged, but not required.)

(1) The total amount accrued for the site?

(2) The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made?

(3) Whether other potentially responsible parties are involved and the entity’s estimated share of the obligation?
(4) The status of regulatory proceedings? 

(5) The estimated time frame for resolution of the contingency? 

[ SOP 96-1 (Ch. 7, pars. 21 and 22) ]

**Probable But Not Reasonably Estimable Losses**

5. If the reporting entity’s probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed? 

[SOP 96-1 (Ch. 7, par. 25)]

6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? *(Encouraged, but not required.)* 

[SOP 96-1 (Ch. 7, par. 25)]

**Environmental Remediation Costs Recognized Currently**

7. Is the amount of environmental remediation costs recognized in the income statement disclosed in the following detail: *(Encouraged, but not required.)*

   a. The amount recognized for environmental remediation loss contingencies in each period? 

   b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period? 

   c. The income statement caption in which environmental remediation costs and credits are included? 

[SOP 96-1 (Ch. 7, par. 29)]

**Other Matters**

8. Do the financial statements include a *contingency conclusion* that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? *(Optional.)* 

[SOP 96-1 (Ch. 7, par. 30)]

9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? *(Optional.)* 

[SOP 96-1 (Ch. 7, par. 31)]

**H. Related-Party Transactions and Economic Dependency**

1. For related-party transactions, do disclosures include:

   a. The nature of the relationship(s) involved (e.g., parent, subsidiary, and affiliate companies, officers, stockholders, etc.)? 

   b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which an income statement is presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?
c. The dollar amounts of transactions for each of the periods for which an income statement is presented and the effects of any change in the method of establishing the terms from that used in the preceding period? 

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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)]

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2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting company and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting company being significantly different from those that would have resulted if the company were autonomous? 

[SFAS 57, par. 4 (AC R36.104)]

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3. 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 127.148a)]

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4. 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 127.146b)]

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5. Is information about economic dependency disclosed when necessary for a fair presentation? 

[SFAS 21, par. 9]

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I. **Pension and Employee Stock Ownership Plans**

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)]

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   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?\(^6\) 

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\(^6\) The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87, Employers' Accounting for Pensions (AC P16). That net total includes:

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

[SFAS 87, par. 54 (AC P16.150)]
c. Measurement of plan assets and obligations within three months of the balance-sheet date using a consistent date from year to year (estimates may be necessary)? [SFAS 87, par. 52 (AC P16.148)]

   Yes  No  N/A
   ___  ___  ___

   2. If more than one defined benefit plan exists:

   a. Are the required disclosures in Step 1 above aggregated for all of the employer’s single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?
   ___  ___  ___

   b. Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?
   ___  ___  ___

   c. Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]
   ___  ___  ___
3. If there is a defined contribution plan, do disclosures include:
   a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 65 (AC P16.162)]
   b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]

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? [SFAS 87, par. 66 (AC P16.163)]
   b. If yes, are disclosures required for a defined benefit plan made?

5. If there is a multiemployer plan, do disclosures include:
   a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefit(s) provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 70 (AC P16.167)]
   b. The amount of cost recognized during the period? [SFAS 87, par. 70 (AC P16.167)]

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, *Accounting for Contingencies* (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 events? [SFAS 88, par. 17 (AC P16.187)]
   b. The amount of gain or loss recognized?

8. If the company terminates a defined benefit plan and (1) contributes the assets withdrawn to a defined contribution plan, (2) the amount contributed is in excess of the employer’s required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following disclosures considered:
   a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of the funds?
   b. Is the unallocated amount treated as if it were part of the employer’s investment portfolio and recorded as an asset? (1) Is the income attributed to such securities including dividends, interest and realized gains and losses reported in a manner consistent with the employer’s reporting of similar items?
c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?

   Yes  No  N/A

   [ ] [ ] [ ]

d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements? [EITF 86-27]

   Yes  No  N/A

   [ ] [ ] [ ]

9. 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?

   Yes  No  N/A

   [ ] [ ] [ ]

   (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?

   Yes  No  N/A

   [ ] [ ] [ ]

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?

   Yes  No  N/A

   [ ] [ ] [ ]

   (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?

   Yes  No  N/A

   [ ] [ ] [ ]

c. The amount of compensation cost recognized during the period?

   Yes  No  N/A

   [ ] [ ] [ ]

d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?

   Yes  No  N/A

   [ ] [ ] [ ]

   (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?

   Yes  No  N/A

   [ ] [ ] [ ]

e. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6? 7

   Yes  No  N/A

   [ ] [ ] [ ]

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? 8 [SOP 93-6, par. 53]

   Yes  No  N/A

   [ ] [ ] [ ]

10. 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]

   Yes  No  N/A

   [ ] [ ] [ ]

11. For leveraged ESOPs and for nonleveraged ESOPs where the assets from the pension plan are used by the ESOP to purchase shares, when

   Yes  No  N/A

   [ ] [ ] [ ]

---

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

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

12. 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]

13. 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]

J. 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?  

   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)?

---

* The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:
  a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
  b. Amortization of unrecognized prior service cost.
  c. Amortization of the net gain or loss from earlier periods. [SFAS 106, par. 62 (AC P40.157)]
  d. Any gain or loss recognized due to a temporary deviation from the substantive plan. [SFAS 106, par. 61 (AC P40.156)]
(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 changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?  

(e) The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer’s investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?  

(f) The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:  

(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost?  

(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, Employers’ Accounting for Postretirement Benefits Other Than Pensions (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)?  

(j) The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)?  

[SFAS 106, par. 74a–j (AC P40.169a–j)]

2. If more than one defined benefit postretirement plan exists:  

a. Are the disclosures required by Step 1 above aggregated for all of an employer’s single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step 1c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)?  

[SFAS 106, par. 77 (AC P40.172)]
b. Are plans that primarily provide postretirement health care benefits and plans that primarily provide other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?
[SFAS 106, par. 78a (AC P40.173a)]

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c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?
[SFAS 106, par. 78b (AC P40.173b)]

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3. If there is a multiemployer plan, do disclosures include:

a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?

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b. The amount of postretirement benefit cost recognized during the period, if available (otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees)?
[SFAS 106, par. 82 (AC P40.178)]

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c. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where withdrawal from a multiemployer plan may result in an employer’s having an obligation to the plan for a portion of the plan’s unfunded accumulated postretirement benefit obligation, and it is either probable or reasonably possible that:

(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

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or

(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)]

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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?

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b. The amount of cost recognized during the period?
[SFAS 106, par. 106 (AC P40.198)]

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K. Consolidations

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)]

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b. Are material intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]

Yes  No  N/A

2. Are the accounts of majority-owned subsidiaries consolidated (subject to the exceptions described in SFAS 94, paragraph 13 (AC C51.102))? [SFAS 94, par. 13 (AC C51.103)]

3. Are the separate financial statements of all consolidated and unconsolidated subsidiaries presented in conformity with GAAP? [AAG, par. 8.107]

4. Are combined financial statements considered for entities under common control? [ARB 51, pars. 22 and 23 (AC C51.121 and .122)]

L. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for those excluded by SFAS 105, paragraphs 14 and 15), 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)?

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? [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?

[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?

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)]

Note: SFAS 126, Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, amends SFAS 107, Disclosures about Fair Value of Financial Instruments, to make the disclosures prescribed in SFAS 107 optional for entities that meet all of the following criteria:

a. The entity is nonpublic.

b. The entity’s total assets are less than $100 million on the date of the financial statements.

c. The entity has not held or issued any derivative financial instruments, as defined in SFAS 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments, other than loan commitments, during the reporting period.

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?¹⁰

[SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]

6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading?

[SFAS 107, par. 10, as amended by SFAS 119, par. 15 (AC F25.115C)]

¹⁰ 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.
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 financial instruments, are the following disclosed:
   a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?
   [SFAS 107, par. 14 (AC F25.115G)]
   b. The reasons why it is not practicable to estimate fair value?

9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation 39, *Offsetting of Amounts Related to Certain Contracts*, 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?
   [SFAS 107, par. 13, as amended by SFAS 119, par. 15 (AC F25.115J)]
   b. Net the fair value with the fair value of other derivative financial instruments?

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]

M. 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 amounts of cumulative translation adjustments?
   b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?
   c. The amount of income taxes for the period allocated to translation adjustments?
   d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity?  
[SFAS 52, par. 31 (AC F60.141)]

3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant?  
[SFAS 52, par. 32 (AC F60.142)]

4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant?  
[ARB 43, Ch. 12, par. 5 (AC F65.102)]
5. Are the following disclosures made for hedging foreign currency risks with complex options and similar transactions:
   a. The method of accounting for currency options, option combinations, and similar instruments including a description of the events or transactions that result in recognition in income of changes in value?  
   b. The nature of the anticipated transactions, for which there is no firm commitment, that are hedged with currency options, option combinations, or similar instruments?  
   c. The maximum number of years over which anticipated, but not firmly committed, foreign currency transactions are hedged?  
   d. The combined realized and unrealized net gain or loss deferred as of each balance-sheet date on currency options, option combinations, or similar instruments that are designated as hedges of anticipated transactions for which there is no firm commitment?  
   [EITF 91-4]

6. If the company entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (they are two separate legal transactions and do not have the right of setoff except as expanded below)?  
   [FASBI 39, par. 5 (AC B10.101)]

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**Practice Tip**

A right of setoff exists only when all of the following conditions are met:

- Each of two parties owes the other determinable amounts.
- The reporting party has the right to set off the amount owed with the amount owed by the other party.
- The reporting party intends to set off.
- The right of setoff is enforceable by law.

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7. Are foreign currency translation disclosures encouraged (but not required) to be supplemented with an analysis and discussion of the effects of rate changes on reported results of operations?  
   [SFAS 52, par. 144 (AC F60.143)]

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**N. Futures Contracts**

1. If a futures contract is accounted for as a hedge, does the disclosure include:
   a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?  
   b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts?  
   [SFAS 80, par. 12 (AC F80.112)]

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**O. Derivatives**

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:
   a. The face or contract amount (or notional principal amount if there is no face or contract amount)?
b. 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? ____________ ____________ ____________
c. Do disclosures in Steps a. and b. above distinguish between financial instruments held or issued for:
   (1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings? ____________ ____________ ____________
   (2) Purposes other than trading?
      [SFAS 119, pars. 8 and 9 (AC F25.115L and .115M)] ____________ ____________ ____________

2. If the company holds or issues derivative financial instruments for trading purposes, are the following disclosed:
   a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities? ____________ ____________ ____________
   b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?
      (1) If the disaggregation is other than by class, 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? ____________ ____________ ____________
   c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (This disclosure is encouraged but not required.)
      [SFAS 119, par. 10 (AC F25.115N)] ____________ ____________ ____________

3. Does a company that holds or issues derivative financial instruments for purposes other than trading disclose:
   a. A description of:
      (1) The objectives for holding or issuing? ____________ ____________ ____________
      (2) The context needed to understand those objectives? ____________ ____________ ____________
      (3) The strategies for achieving those objectives? ____________ ____________ ____________
      (4) The classes of derivative financial instruments used? ____________ ____________ ____________
   b. A description of how each class of derivative financial instrument is reported in the financial statements, including:
      (1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments? ____________ ____________ ____________
      (2) When recognized, where the instruments and related gains and losses are reported? ____________ ____________ ____________
   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? ____________ ____________ ____________

60
(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?

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?

P. Transfers and Servicing of Financial Assets

Note: In December 1996, the FASB issued SFAS 127, *Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125*. As issued, SFAS 125 was effective for all transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. SFAS 127 defers for one year the effective date (a) of paragraph 15 of SFAS 125 and (b) for repurchase agreement, dollar-roll, securities lending, and similar transactions, of paragraph 9–12 and 237 (b) of SFAS 125.

1. Is the policy for requiring collateral or other security disclosed if the entity has entered into repurchase agreements or securities lending transactions?

2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements?

3. For all servicing assets and servicing liabilities are the following disclosures made:
   a. The amounts of servicing assets or liabilities recognized and amortized during the period?

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11 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 informative disclosures.
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]

c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 37 of SFAS 125?

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]

d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented?

[SFAS 125, par. 17e]

Q. Nonmonetary Transactions

1. Do disclosures for nonmonetary transactions during the period include:

• a. Nature of the transactions?

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]

• b. Basis of accounting for the assets transferred?

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]

• c. Gains or losses recognized on the transfers?

[APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114–119)]

R. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date?

[SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03, .04, .07, and 561.01–.09 (AU 560.03, .04, .07 and 561.01–09)]

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]

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)]

[Consider the appropriateness of dual-dating the auditor’s report if a subsequent event is disclosed in the financial statements. (AU 530.05)]

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]

S. Costs to Exit an Activity

1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), 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?

\[\text{Yes} \quad \text{No} \quad \text{N/A}\]

\[
\begin{array}{ccc}
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\text{N/A} & \text{No} & \text{Yes} \\
\end{array}
\]
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?

[EITF 94-3, Section A]

2. If management commits to an exit plan that meets the criteria in Section B of EITF Issue 94-3, are the following reporting requirements followed:

a. Reporting the statement of income effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the statement of income net of taxes?

b. No disclosure made on the face of the statement of income 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?

[EITF 94-3, Section B]

3. If the activities that will not be continued are significant to the company's revenue or operating results, or if the 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?

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]

T. Business Combinations

Pooling of Interests Method

1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, are the following disclosed:

a. The fact that a combination accounted for by the pooling-of-interests method has occurred during the period disclosed?

[APB 16, pars. 63 and 64b (AC B50.122 and .123b)]

b. The name and a brief description of the enterprises combined?

[APB 16, par. 64a (AC B50.123a)]
c. A description and the number of shares of stock issued in the combination?
   [APB 16, par. 64c (AC B50.123c)]

   Yes  No  N/A

   ——  ——  ——

d. Details (including revenue, extraordinary items, net income, other changes in shareholders’ equity, and amount of and manner of accounting for intercompany transactions) of the results of operations of the previously separate enterprises for the period before the combination is consummated that are included in the current combined net income?
   [APB 16, par. 64d (AC B50.123d)]

   Yes  No  N/A

   ——  ——  ——

e. Descriptions of the nature of adjustments of net assets of the combining enterprises to adopt the same accounting practices and the effects of the changes on net income previously reported separately and now presented in comparative financial statements?
   [APB 16, par. 64e (AC B50.123e)]

   Yes  No  N/A

   ——  ——  ——

f. Details (including at least revenue, expenses, extraordinary items, net income, and other changes in shareholders’ equity for the period excluded from the reported results of operations) of increases or decreases in retained earnings from changing the fiscal year of a combining enterprise?
   [APB 16, par. 64f (AC B50.123f)]

   Yes  No  N/A

   ——  ——  ——

g. Reconciliations of amounts of revenue and earnings previously reporting by the enterprise that issued the stock to effect the combination with the combined amounts currently presented in financial statements and summaries? (Or if a new enterprise was formed to effect the combination, the earnings of the separate enterprises that comprise combined earnings for prior periods may be disclosed.)
   [APB 16, par. 64g (AC B50.123g)]

   Yes  No  N/A

   ——  ——  ——

2. If a business combination that was either incomplete as of the date of the financial statements or initiated after that date is consummated before the financial statements are issued, are details (including revenue, net income, earnings per share, and the effects of anticipated changes in accounting methods as if the combination had been consummated at the date of the financial statements) of the effects of the combination disclosed?
   [APB 16, par. 65 (AC B50.124)]

   Yes  No  N/A

   ——  ——  ——

---

**Practice Tip**

Information relating to several relatively minor acquisitions may be combined for disclosure.

---

**Purchase Method**

3. If a business combination occurred during the period and is to be accounted for under the purchase method, are the following disclosed:

   a. The name and a brief description of the acquired enterprise?
      [APB 16, par. 95a (AC B50.164a)]

   Yes  No  N/A

   ——  ——  ——
b. The method of accounting for the combination—that is, the purchase method?
   [APB 16, par. 95b (AC B50.164b)]
   
   c. The period for which results of operations of the acquired enterprise are included in the income statement of the acquiring enterprise?
   [APB 16, par. 95c (AC B50.164c)]
   
   d. The cost of the acquired enterprise and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the shares?
   [APB 16, par. 95d (AC B50.164d)]
   
   e. A description of the plan for amortization of acquired goodwill, the amortization method, and period?
   [APB 16, par. 95e (AC B50.164e)]
   
   f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment (including consideration that is issued or issuable at the end of a contingency period or that is held in escrow)?
   [APB 16, pars. 78 and 95f (AC B50.136 and .164f)]
   
   g. For public companies only, the following as supplemental information (including at least revenue, income before extraordinary items, net income, and earnings per share) on a pro forma basis:
   (1) Results of operations for the current period as though the enterprises had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period?
   [APB 16, par. 96a (AC B50.165a); SFAS 79, par. 6 (AC B50.165)]
   (2) Results of operations for the immediately preceding period as though the enterprises had combined at the beginning of that period if comparative statements are presented?
   [APB 16, par. 96b (AC B50.165b); SFAS 79, par. 6 (AC B50.165)]

4. If the reporting entity elects not to include a preacquisition contingency (other than the effects of tax loss carryforwards) in the purchase price allocation or, for those that arise after the end of the allocation period, are not included in net income of the period in which the adjustment is determined as described in SFAS 38, is there disclosure of the amount and nature of adjustments, including the effect of the adjustments on current or expected future cash flows?
   [SFAS 38, par. 10 (AC B50.166)]

5. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:

a. Are the following disclosures made for the period in which a purchase business combination occurs:
   (1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as
of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?

(2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntarily terminate (relocate) employees?

(3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?

(4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?

b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:

(1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?

(2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the costs of the acquired company or included in the determination of net income for the period? [EITF 95-3]

U. Segment Information

Note: SFAS 131, Disclosures about Segments of an Enterprise and Related Information, is effective for fiscal years beginning after December 15, 1997, with earlier application encouraged. Public business enterprises are required to provide the disclosures described in SFAS 131 and nonpublic business enterprises are encouraged to do so.

1. Are the factors used to identify the reporting entity’s reportable segments, including the basis of organization (for example, whether management has chosen to organize the reporting entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated) disclosed? [SFAS 131, par. 26 (AC F30.125)]

2. Are the types of products and services from which each reportable segment derives its revenues disclosed? [SFAS 131, par. 26 (AC F30.125)]

3. Is a measure of profit or loss reported for each reportable segment? [SFAS 131, par. 27 (AC F30.126)]

4. If the following amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, are they disclosed for each reportable segment:
<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Revenues from external customers?</td>
<td></td>
<td></td>
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<tr>
<td>b.</td>
<td>Revenues from transactions with other operating segments of the reporting entity?</td>
<td></td>
<td></td>
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<tr>
<td>c.</td>
<td>Interest revenue?</td>
<td></td>
<td></td>
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<tr>
<td>d.</td>
<td>Interest expense?</td>
<td></td>
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<tr>
<td>e.</td>
<td>Depreciation, depletion, and amortization expense?</td>
<td></td>
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<tr>
<td>f.</td>
<td>Unusual items as described in paragraph 26 of APB 30?</td>
<td></td>
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<tr>
<td>g.</td>
<td>Equity in the net income of investees accounted for by the equity method?</td>
<td></td>
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<tr>
<td>h.</td>
<td>Income tax expense or benefit?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.</td>
<td>Extraordinary items?</td>
<td></td>
<td></td>
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<tr>
<td>j.</td>
<td>Significant noncash items other than depreciation, depletion, and amortization expense?</td>
<td></td>
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</tr>
</tbody>
</table>

5. If the following amounts are included in the determination of segment assets reviewed by the chief operating decision maker, are they disclosed for each reportable segment?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>The amount of investment in equity method investees?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Is an explanation of the measurements of segment profit or loss and segment assets that discloses the following for each reportable segment provided:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>The basis of accounting for any transactions between reportable segments?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>The nature of any differences between the reporting entity’s consolidated income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principle?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>The nature of any differences between the measurements of the reportable segments’ assets and the reporting entity’s consolidated assets?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>The nature and effect of any asymmetrical allocations to segments?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Are reconciliations of the totals of the reportable segments’ revenues, measures of profit or loss, assets, and every other significant item of information disclosed to corresponding consolidated amounts presented with all significant reconciling items separately identified and described?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
</tbody>
</table>

[SFAS 131, par. 32 (AC F30.131)]
8. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments, is the corresponding information for prior periods restated and is the fact that the corresponding items of segment information for earlier periods have been restated disclosed? [SFAS 131, par. 34 (AC F30.133)]

9. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments and the corresponding information for prior periods is not restated, does disclosure in the year in which the change occurs include segment information for the current period under both the old basis and the new basis? [SFAS 131, par. 35 (AC F30.134)]

10. For all reporting entities subject to SFAS 131, including those that have a single reportable segment, are the following enterprise-wide items disclosed:

   a. Revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so? [SFAS 131, par. 37 (AC F30.136)]

   b. The following geographic information unless it is impracticable to do so:

      (1) Revenues from external customers (a) attributed to the reporting entity’s country of domicile and (b) attributed to all foreign countries in total from which the reporting entity derives revenue?

      (2) Revenues from external customers attributed to an individual foreign country, if material?

      (3) The basis for attributing revenues from external customers to individual countries?

      (4) Long-lived assets other than financial instruments and deferred tax assets (a) located in the reporting entity’s country of domicile and (b) located in all foreign countries in total in which the reporting entity holds assets?

      (5) Long-lived assets as described above in an individual foreign country, if material? [SFAS 131, par. 38 (AC F30.137)]

   c. Information about the extent of the reporting entity’s reliance on its major customers, including the following:

      (1) If revenues from transactions with any single customer amount to 10 percent or more of the reporting entity’s revenues, that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenue? [SFAS 131, par. 39 (AC F30.138)]

11. If the information described in Step 10.a and b. above has not been disclosed because it is impracticable, is that fact disclosed? [SFAS 131, pars. 37 and 38 (AC F30.136 and .137)]
V. Stock Compensation Plans

1. If the reporting entity continues to apply APB 25 in accounting for its stock-based compensation arrangements, is the pro forma net income and, if earnings per share are presented, pro forma earnings per share determined as if the fair-value based method (described in SFAS 123) had been applied in measuring compensation cost, disclosed for each year for which an income statement is presented? [SFAS 123, par. 45 (AC C36.144)]

2. Is a description of the plan(s), including the general terms of awards under the plan(s) disclosed? [SFAS 123, par. 46 (AC C36.145)]

3. Are the following disclosed for each year for which an income statement is presented:
   a. The number and weighted-average exercise prices of options for each of the following groups of options:
      (1) Those outstanding at the beginning of the year?
      (2) Those outstanding at the end of the year?
      (3) Those exercisable at the end of the year?
      (4) Those granted during the year?
      (5) Those exercised during the year?
      (6) Those forfeited during the year?
      (7) Those expired during the year?
   b. The weighted-average grant-date fair value of options granted during the year?
      (Note: That if the exercise prices of some options differ from the market price of the stock on the grant date, weighted-average fair values of options shall be disclosed separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date.)
   c. The number and weighted-average grant date-fair value of equity instruments other than options granted during the year?
   d. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information: (1) risk-free interest rate, (2) expected life, (3) expected volatility, and (4) expected dividends?
   e. Total compensation cost recognized in income for stock-based employee compensation awards?
   f. The terms of significant modifications of outstanding awards? [SFAS 123, par. 47a-f (AC C36.146)]

4. If the reporting entity grants options under multiple stock-based employee compensation plans, are the items in Step 3 above disclosed separately for different types of awards to the extent that the differ-
ences in the characteristics of the awards make separate disclosure important to an understanding of the reporting entity's use of stock-based compensation?

[SFAS 123, par. 47 (AC C36.146)]

5. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:

a. The range of exercise prices?

b. The weighted-average exercise price?

c. The weighted-average remaining contractual life?

[SFAS 123, par. 48 (AC C36.147)]

6. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:

a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?

b. The number and weighted-average exercise price of options currently exercisable?

[SFAS 123, par. 48 (AC C36.147)]
**FSP Section 20,400**

**Auditors’ Reports 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.

.02 Explanation of References:

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAS</td>
<td>AICPA Statement on Auditing Standards</td>
</tr>
<tr>
<td>SOP</td>
<td>AICPA Statement of Position</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>SSARS</td>
<td>AICPA Statement on Standards for Accounting and Review Services</td>
</tr>
<tr>
<td>AR</td>
<td>Reference to section number in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>App. M</td>
<td>Appendix M of AAG containing SOP 94-1, Inquiries of State Insurance Regulators</td>
</tr>
</tbody>
</table>

.03 Checklist Questionnaire:¹

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>1.</td>
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<td>Does the auditor’s report include appropriate:</td>
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<tr>
<td></td>
<td>a. Addressee?</td>
<td>[SAS 58, par. 9 (AU 508.09)]</td>
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<tr>
<td></td>
<td>b. Date (or dual dates) of the report?</td>
<td>[SAS 1, sec. 530.05 (AU 530.05)]</td>
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<tr>
<td></td>
<td>c. A title that includes the word “independent”?</td>
<td>[SAS 58, par. 8a (AU 508.08a)]</td>
<td></td>
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<tr>
<td>2.</td>
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<td></td>
<td>If the accountant is not independent, is a compilation report the highest level of service performed?</td>
<td>[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]</td>
<td></td>
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<td>3.</td>
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<tr>
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<td>Does the reporting language conform with the auditor’s standard report on:</td>
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<tr>
<td></td>
<td>a. Financial statements of a single year or period?</td>
<td></td>
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<tr>
<td></td>
<td>b. Comparative financial statements?</td>
<td>[SAS 58, par. 8 (AU 508.08)]</td>
<td></td>
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<tr>
<td>4.</td>
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<td></td>
<td>Does the report include appropriate language for the following situations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Only one basic financial statement is presented and there are no scope limitations?</td>
<td>[SAS 58, pars. 33 and 34, as amended by SAS 78 (AU 508.33 and .34)]</td>
<td></td>
</tr>
</tbody>
</table>

¹ 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.
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>b.</td>
<td>Audited and unaudited financial statements are presented in comparative form?</td>
<td>[SAS 26, pars. 14–17 (AU 504.14–17)]</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>A refusal by management to allow the auditor to review communications from, or to communicate with, state insurance regulators?</td>
<td>[AAG, App. M (SOP 94-1, par. 5)]</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>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”?</td>
<td>[SAS 59, par. 13, as amended by SAS 64, par. 1 and SAS 77 (AU 341.12 and 13)]</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>There is a material change between periods in accounting principles or in the method of their application?</td>
<td>[SAS 58, pars. 16–18, as amended by SAS 79 (AU 508.16–18)]</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed?</td>
<td>[SAS 58, pars. 68 and 69, as amended by SAS 79, and 72 and 73 (AU 508.68, .69, .72, and .73)]</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>The prior-period financial statements are audited by a predecessor auditor whose report is not presented?</td>
<td>[SAS 58, as amended by SAS 64, par. 2 and SAS 79 (AU 508.74)]</td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>The auditor’s opinion is based in part on the report of another auditor?</td>
<td>[SAS 1, sec. 543 (AU 543); SAS 58, pars. 12 and 13 (AU 508.12 and .13)]</td>
<td></td>
</tr>
<tr>
<td>f.</td>
<td>The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation?</td>
<td>[SAS 58, pars. 14 and 15 (AU 508.14 and .15)]</td>
<td></td>
</tr>
<tr>
<td>g.</td>
<td>Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements?</td>
<td>[SAS 8, par. 4 (AU 550.04)]</td>
<td></td>
</tr>
<tr>
<td>h.</td>
<td>The auditor decides to emphasize a matter in the report?</td>
<td>[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)]</td>
<td></td>
</tr>
</tbody>
</table>

6. In a going-concern explanatory paragraph, is conditional language not used in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern? 

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7. 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?\footnote{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 presentations or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31 (AU 508.31)]}
   [SAS 58, pars. 22–27, as amended by SAS 79 (AU 508.40–.45); SAS 19, par. 12 (AU 333.12)]

**Note:** Consult the Topical Index to the AICPA Professional Standards 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.

8. Is a qualified opinion or adverse opinion expressed:
   a. If a lack of conformity with GAAP (including inadequate disclosure) is present?\footnote{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)]}
      [SAS 58, pars. 20 and 35–57, as amended by SAS 79 (AU 508.20 and .35–.57); SAS 32, par. 3 (AU 431.03)]
   b. Financial statements reflect regulatory practice of immediate write-off of goodwill or other regulatory practices that differ from GAAP and the resulting difference is material?
      [SAS 1 (AU 544.20)]

**Note:** Consult the Topical Index to the AICPA Professional Standards 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.

9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified?
   [SAS 58, pars. 21, 59, 60, and 62, as amended by SAS 79 (AU 508.21, .59, 60, and .62)]

10. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information:
    a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?
    b. Specifically identify the accompanying information?
    c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?
d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer?
[SAS 29, pars. 6–11 (AU 551.06–11)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

11. Is the reporting form and content of SAS 60, paragraphs 9–19, followed when communicating internal control structure-related matters noted in an audit?  
[SAS 60, pars. 9–19 (AU 325.09–19); SOP 95-4]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

12. 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)]

**Statutory Basis Financial Statements**

13. Does the report on statutory financial statements as to fair presentation in conformity with the statutory basis of accounting not include a disclaimer of opinion as to fair presentation in conformity with GAAP?  
[SOP 95-5, par. 10]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

14. 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]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

15. Do the notes to the statutory financial statements discuss the statutory basis of accounting and describe how that basis differs from GAAP?  
[SOP 95-5, par. 13]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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4 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 20,500

Supplemental Checklist for Life Insurance Companies That Are SEC Registrants

.01 This supplemental checklist for life insurance companies contains additional disclosures that are required in financial statements of life insurance companies that are SEC registrants. Footnote 3 to SAS 69 states, in part, that for Securities and Exchange Commission registrants, rules and releases of the SEC have an authority similar to other officially established accounting principles.

.02 Regulation S-X is the principal accounting regulation of the SEC. It contains substantially all of the requirements for financial statements filed with the SEC. Insurance companies are subject to the requirements of Articles 1-4, 7, 10, and 12 of Regulation S-X.

.03 This checklist does not contain all of the possible disclosures a company may be required to make when filing financial statements with the SEC. The checklist is intended to present the more common and significant disclosures required by Regulation S-X for annual insurance company financial statements. This checklist has been updated through Financial Reporting Release 46 and Staff Accounting Bulletin 97.

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

.05 Explanation of References:

SAB = SEC Staff Accounting Bulletin
S-X Rule = SEC Regulation S-X

.06 Checklist Questionnaire:

General

1. Do the financial statements conform to the Regulation S-X’s Rules of General Application? [S-X Rule, 4-01-08] 
   \[Yes \quad No \quad N/A\]

2. Are the principles of consolidation or combination disclosed? [S-X Rule 4-08(a) and 3A-03] 
   \[Yes \quad No \quad N/A\]

3. Are the amounts of related party transactions stated on the face of the balance sheet, income statement or statement of cash flows? [S-X Rule 4-08(k)] 
   \[Yes \quad No \quad N/A\]

Balance Sheet

A. General

1. Is the company filing balance sheets as of the end of each of the two most recent fiscal years? [S-X Rule 3-01] 
   \[Yes \quad No \quad N/A\]
B. 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 deposit with maturities beyond one year, and redeemable preferred stocks?
   b. Equity securities, including common stocks and nonredeemable preferred stocks?
   c. Mortgage loans on real estate?
   d. Investment real estate, excluding real estate acquired in settling title claims, mortgage guaranty, and insurance claims (which should be included in “Other Assets”)?
      (1) Is the amount of accumulated depreciation and amortization deducted disclosed in the balance sheet or in the notes to financial statements?
   e. 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 Codification of Financial Reporting Practices?

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?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

6. Is the amount of total investments disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

C. **Cash** (S-X Rule 7-03-2)

1. Is cash on hand or on deposit restricted as to withdrawal or usage disclosed separately on the balance sheet?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   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?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   b. Are nonlegally restricted compensating balance arrangements disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   c. Do the notes disclose compensating balances maintained under an agreement to assure future credit availability?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

D. **Securities and Indebtedness of Related Parties** (S-X Rule 7-03-3)

1. Are investments in related parties disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

2. Is indebtedness from related parties disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

E. **Accrued Investment Income** (S-X Rule 7-03-4)

1. Is the amount of accrued investment income reported separately?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

F. **Accounts and Notes Receivable** (S-X Rule 7-03-5)

1. Are the amounts receivable from agents and insureds included?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

2. Is the amount of uncollected premiums included?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

3. Is the amount of other receivables included?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

4. Are other receivables in excess of 5 percent of total assets stated separately or disclosed in the notes?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

5. Is the amount of the allowance for doubtful accounts disclosed separately in the balance sheet or in a note?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

G. **Reinsurance Recoverable on Paid Losses** (S-X Rule 7-03-6)

1. Are the amounts disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

H. **Deferred Policy Acquisition Costs** (S-X Rule 7-03-7)

1. Are the amounts disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

I. **Property and Equipment** (S-X Rule 7-03-8)

1. Is the basis of determining the amounts disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

2. Does the balance sheet or the notes disclose the amount of accumulated depreciation and amortization of property and equipment?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

J. **Title Plant** (S-X Rule 7-03-9)

1. Is the amount disclosed?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

K. **Other Assets** (S-X Rule 7-03-10)

1. Is there separate disclosure on the balance sheet or in the notes of the amount of any "other asset" in excess of 5 percent of total assets?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
2. If a company acquires a life insurance company in a transaction accounted for as a purchase and the acquirer recognizes an asset for the present value of future profits (PVP), are the following disclosed:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. A description of the registrant’s accounting policy?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>b. An analysis of the PVP asset account for each year for which an income statement is presented?</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>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]</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

L. **Assets Held in Separate Accounts** (S-X Rule 7-03-11)

1. Does the caption include aggregate amount of assets used to fund liabilities related to variable annuities, pension funds, and similar activities? | | |

2. Do the notes to the financial statements describe the general nature of the activities being reported on in the separate accounts? | | |

M. **Total Assets** (S-X Rule 7-03-12)

1. Is the amount of total assets disclosed? | | |

N. **Policy Liabilities and Accruals** (S-X Rule 7-03-13)

1. Is the amount of future policy benefits and losses, and claims and losses, separately disclosed in the balance sheet? | | |

2. Is the amount of unearned premiums separately disclosed in the balance sheet? | | |

3. Are other policy claims and benefits payable separately disclosed in the balance sheet? | | |

4. Do the notes disclose the basis of assumptions (e.g., interest rates, mortality, withdrawals) for future policy benefits and claims and settlements stated at present value? | | |

5. Do the notes disclose the general nature of reinsurance transactions, including a description of significant types of reinsurance agreements executed?

   a. Do the disclosures include the nature of the contingent liability in connection with insurance ceded? | | |

   b. Do the disclosures include the nature and effect of material non-recurring reinsurance transactions? | | |

O. **Other Policyholders' Funds** (S-X Rule 7-03-14)

1. Does the caption include the 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?

   a. Do the notes disclose the method by which earnings and dividends allocable to such insurance is determined? | | |
P. Other Liabilities (S-X Rule 7-03-15)

1. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5 percent of total liabilities?
   - [ ] Yes  [ ] No  [ ] N/A

2. Is there separate disclosure in the balance sheet or in the notes of (1) income taxes payable and (2) deferred income taxes?
   - [ ] Yes  [ ] No  [ ] N/A

   a. Is there separate disclosure of the amount of deferred income taxes applicable to unrealized appreciation of equity securities?
      - [ ] Yes  [ ] No  [ ] N/A

Q. Notes Payable, Bonds, Mortgages, and Similar Obligations (Including Capitalized Leases) (S-X Rule 7-03-16)

1. Is the amount of short-term debt separately disclosed?
   - [ ] Yes  [ ] No  [ ] N/A

   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?
      - [ ] Yes  [ ] No  [ ] N/A

   b. Is the amount of the lines of credit that support commercial paper borrowing arrangements separately identified?
      - [ ] Yes  [ ] No  [ ] N/A

      [S-X Rule 5-01-19(b)]

2. Is the amount of long-term debt including capitalized leases separately disclosed?
   - [ ] Yes  [ ] No  [ ] N/A

   a. Is there disclosure of the general character of each type of debt?
      - [ ] Yes  [ ] No  [ ] N/A

   b. Is the interest rate disclosed?
      - [ ] Yes  [ ] No  [ ] N/A

   c. Is the maturity date or, if maturing serially, a brief indication of the serial maturities disclosed?
      - [ ] Yes  [ ] No  [ ] N/A

   d. If the payment of principal or interest is contingent, is there appropriate indication of such contingency?
      - [ ] Yes  [ ] No  [ ] N/A

   e. Is there a brief indication of priority?
      - [ ] Yes  [ ] No  [ ] N/A

   f. If convertible, is the basis disclosed?
      - [ ] Yes  [ ] No  [ ] N/A

      [S-X Rule 5-02-22]

3. If applicable, are the following matters disclosed:

   a. The facts and amounts concerning any default in principal, interest, sinking fund, or redemption provisions with respect to any issue of securities or credit agreements, or any breach of covenant of a related indenture or agreement, which default or breach existed at the date of the most recent balance sheet being filed and which has not been subsequently cured?
      - [ ] Yes  [ ] No  [ ] N/A

4. If a default or breach exists but acceleration of the obligation has been waived for a stated period of time beyond the date of the most recent balance sheet being filed, is the amount of the obligation and the period of the waiver disclosed?
   - [ ] Yes  [ ] No  [ ] N/A

R. Indebtedness to Related Parties (S-X Rules 4-08(k) and 7-03-17)

1. Are related-party transactions identified and the amount stated on the face of the balance sheet, income statement, or statement of cash flows?
   - [ ] Yes  [ ] No  [ ] N/A
2. If there are separate financial statements for the registrant, certain investees or subsidiaries, is there separate disclosure of the amounts in the related consolidated statements that are:
   a. Eliminated? ☐ ☐ ☐
   b. Not eliminated? ☐ ☐ ☐

3. If any intercompany profit or losses resulting from transactions with related parties are not eliminated, are the effects disclosed? ☐ ☐ ☐

S. Liabilities Related to Separate Accounts (S-X Rule 7-03-18)
   1. Is the amount disclosed? ☐ ☐ ☐

T. Commitments and Contingent Liabilities (S-X Rule 7-03-19)
   1. Are the proper disclosures made? ☐ ☐ ☐

U. Minority Interest in Consolidated Subsidiaries (S-X Rules 5-02-27 and 7-03-20)
   1. Do the notes disclose the amounts represented by preferred stock and the applicable dividend requirements, if the preferred stock is material in relation to the consolidated stockholders' equity? ☐ ☐ ☐

V. Preferred Stock Subject to Mandatory Redemption (S-X Rules 5-02-28 and 7-03-21)
   1. Is the title of each issue, the carrying amount, and redemption amount stated on the balance sheet? ☐ ☐ ☐
   2. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable? ☐ ☐ ☐
   3. If the carrying value is different from the redemption amount, is there a description of the accounting treatment for such difference? ☐ ☐ ☐
   4. Is there disclosure, for each issue, of the number of shares authorized, issued, and outstanding? ☐ ☐ ☐

W. Nonredeemable Preferred Stock (S-X Rules 5-02-29 and 7-03-22)
   1. Is the title of each issue and the carrying amount disclosed on the balance sheet or in the notes? ☐ ☐ ☐
   2. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable? ☐ ☐ ☐
   3. Is there disclosure, for each issue, of the number of shares authorized, issued, and outstanding? ☐ ☐ ☐
   4. Is there disclosure in a note or in a separate statement of changes in each class of preferred stock for which an income statement is required to be filled? ☐ ☐ ☐

X. Common Stock (S-X Rules 5-02-30 and 7-03-23)
   1. Does the face of the balance sheet disclose the number of shares issued and outstanding? ☐ ☐ ☐
   2. If convertible, is this fact indicated on the face of the balance sheet? ☐ ☐ ☐
   3. Is there disclosure, for each class of common stock, of the title of each issue, the number of shares authorized, and the basis of conversion? ☐ ☐ ☐
4. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable?

5. Do the notes or a separate statement disclose the changes in each class of common stock for which an income statement is required to be filed?

Y. Other Stockholders' Equity (S-X Rules 5-02-31(b) and 7-03-24)

1. Are separate captions shown for:
   a. Additional paid-in capital?
   b. Other additional capital?
   c. Unrealized appreciation or depreciation of equity securities less applicable deferred income taxes?
   d. Appropriated retained earnings?
   e. Unappropriated retained earnings?

2. If there has been a quasi-reorganization in the last 10 years, is the retained earnings account dated?

3. Do the notes disclose, for each life insurance 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?

Z. Total Liabilities and Stockholders' Equity (S-X Rule 7-03-25)

1. Is the amount disclosed?

AA. Dividend Payment Restrictions (S-X Rule 4-08(e))

1. When disclosing restrictions on dividend payments, are the sources of the restrictions and their pertinent provisions described, as well as the amount of retained earnings or net income restricted or free of restrictions?

2. Is disclosure made of the amount of consolidated retained earnings which represents undistributed earnings of 50 percent or less owned entities accounted for by the equity method?

3. If the restricted net assets of consolidated and unconsolidated subsidiaries and the parent's equity in the undistributed earnings of 50 percent or less owned entities accounted for by the equity method together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year:
   a. Is the nature of any restrictions on the ability of consolidated subsidiaries and unconsolidated subsidiaries to transfer funds to the registrant in the form of cash dividends, loans or advances disclosed?
   b. Are the amounts of such restricted net assets for unconsolidated subsidiaries and consolidated subsidiaries as of the end of the most recently completed fiscal year disclosed separately?

BB. Warrants or Rights Outstanding (S-X Rule 4-08 (i))

1. Is information with respect to warrants or rights outstanding at the date of the related balance sheet set forth as follows:
   a. Title of issue of securities called for by warrants or rights?
b. Aggregate amount of securities called for by warrants or rights outstanding?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

c. Date from which warrants or rights are exercisable?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

d. Price at which warrant or right is exercisable?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

**Income Statement**

**A. General**

1. Is the company filing statements of income for each of the three fiscal years preceding the date of the most recent balance sheet being filed?  
   [S-X Rule 3-02]  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

**B. Premiums (S-X Rule 7-04-1)**

1. Does the amount include premiums from reinsurance assumed and are premiums on reinsurance ceded deducted from the amount?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
2. Do the amounts represent premiums earned?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

**C. Net Investment Income (S-X Rule 7-04-2)**

1. Do the notes disclose (in tabular form) the amount of investment income for each category of investment listed in the balance sheet above that exceeds 5 percent of total investment income?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
2. Do the notes disclose total investment income?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
3. Do the notes disclose applicable investment expenses?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
4. Do the notes disclose net investment income?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

**D. Realized Investment Gains and Losses (S-X Rule 7-04-3)**

1. Are net realized investment gains and losses disclosed separately regardless of size?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
2. Is the following disclosed in a footnote?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
   The company's policy with respect to whether investment income and realized gains and losses allocable to policyholders and separate accounts are included in the investment income and realized gain and loss amounts reported in the income statement.
3. If the income statement includes investment income and realized gains and losses allocable to policyholders and separate accounts, are the amounts of such allocable investment income and realized gains and losses disclosed?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
   a. Is the manner in which the company's obligation with respect to allocation of such investment income and realized gains and losses is otherwise accounted for disclosed?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
4. Is the method followed in determining the cost of investments sold disclosed?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
5. For each period for which an income statement is filed, is an analysis of realized and unrealized investment gains and losses on fixed maturity and equity securities disclosed in a footnote?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
6. For each period, are the following presented separately for fixed maturities and for equity securities:  
   a. Realized investment gains and losses?  
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
b. The change during the period in the difference between value and cost (the change shall be given for both categories of investments even though they may be shown on the related balance sheet on a basis other than value)?

E. Other Income (S-X Rule 7-04-4)
1. Are items in excess of 5 percent of total revenue separately disclosed?

F. Benefits, Claims, Losses, and Settlement Expenses (S-X Rule 7-04-5)
1. Are the amounts disclosed?

G. Policyholders’ Share of Earnings on Participating Policies, Dividends, and Similar Items (S-X Rules 7-03-14(b) and 7-04-6)
1. Are the amounts disclosed?
2. Is the relative significance of participating insurance expressed as percentages of insurance in force and premium income and the method by which earnings and dividends allocable to such insurance is determined stated in a note to the financial statements?

H. Underwriting, Acquisition, and Insurance Expenses (S-X Rule 7-04-7)
1. Do the statements or notes disclose:
   a. The amount of deferred policy acquisition cost amortized to income for each period?
   b. The amount of other operating expenses with separate disclosure of any material amounts?

I. Income or Loss Before Income Tax Expense and Other Appropriate Items (S-X Rule 7-04-8)
1. Is the amount disclosed?

J. Income Tax Expense (S-X Rules 4-08(h) and 7-04-9)
1. Does the income statement or do the notes disclose:
   a. The domestic component of income (loss) before income tax expense (benefit)?
   b. The foreign component of income (loss) before tax expense (benefit)?
   c. Taxes currently payable?
   d. The net tax effects of timing differences?
2. Is there a reconciliation between the amount of reported total income tax expense (benefit) and the amount of tax computed at the applicable statutory federal income tax rate?

K. Minority Interest in Income of Consolidated Subsidiaries (S-X Rule 7-04-10)
1. Are the amounts disclosed?

L. Equity in Earnings of Unconsolidated Subsidiaries and 50% or Less Owned Persons (S-X Rule 7-04-11)
1. Is the amount of dividends received disclosed?
M. Income or Loss From Continuing Operations (S-X Rule 7-04-12)
1. If appropriate, is the amount disclosed?

N. Discontinued Operations (S-X Rule 7-04-13)
1. Is any amount separately reported?

O. Income or Loss Before Extraordinary Items and Cumulative Effects of Changes in Accounting Principles (S-X Rule 7-04-14)
1. If appropriate, is the amount disclosed?

P. Extraordinary Items, Less Applicable Tax (S-X Rule 7-04-15)
1. Is any amount separately reported?

Q. Cumulative Effect of Changes in Accounting Principles (S-X Rule 7-04-16)
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]

R. Net Income or Loss (S-X Rule 7-04-17)
1. Is the amount disclosed?

S. Earnings-Per-Share Data (S-X Rule 7-04-18)
1. Are applicable amounts reported?

T. Cash Flows
1. Is the company filing statements of cash flows for each of the three fiscal years preceding the date of the most recent balance sheet being filed? [S-X Rule 3-02]

U. Changes in Other Stockholders’ Equity
1. Is an analysis of the changes in each caption of other stockholders’ equity presented in the balance sheets presented in a note or separate statement? [S-X Rule 3-04]
2. With regard to the aforementioned analysis:
   a. Is it presented in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed?
   b. Are all significant reconciling items described by appropriate captions?
c. If items are retroactively applied to periods prior to the earliest period presented, are the adjustments to the balance at the beginning of the earliest period presented stated separately?

   Yes  No  N/A

   ______  ______  ______

d. With respect to any dividends, is the amount per share and in the aggregate for each class of shares stated?

   [S-X Rule 3-04]

   ______  ______  ______

V. Schedules (S-X Rule 7-05)

   1. Is Schedule I—Summary of Investments—Other Than Investments in Related Parties (refers to Rule 12-15) filed for the most recent audited balance sheet?

      ______  ______  ______

   2. Is Schedule II—Condensed Financial Information of Registrant (refers to Rule 12-04) filed for the periods specified in the schedule, if restricted net assets (Rule 4-08(e)(3)) of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year?

      ______  ______  ______

   3. Is Schedule III—Supplementary Insurance Information (refers to Rule 12-16) presented for the periods specified in the schedule?

      ______  ______  ______

   4. Is Schedule IV—Reinsurance (refers to Rule 12-17) filed for each period for which an audited income statement is required?

      ______  ______  ______

   5. Is Schedule V—Valuation and Qualifying Accounts (refers to Rule 12-09) filed for each period for which an audited income statement is required?

      ______  ______  ______

W. Other SEC-Related Disclosures

   1. As applicable, is the following guidance issued by the SEC through their Staff Accounting Bulletins appropriately considered and applied:

   ______  ______  ______

   Practice Tip

Users of this checklist should consult all relevant SEC guidance (e.g., SABs, Regulation S-X, etc.) when preparing financial statements for filing with the SEC. Not all reporting situations are encompassed in this checklist.

   ______  ______  ______

   a. SAB Topic 1-B, Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity?

   ______  ______  ______

   b. SAB Topic 2-A, Business Combinations—Purchase Method?

   ______  ______  ______

   c. SAB Topic 2-E, Business Combinations—Risk Sharing in Pooling of Interests?

   ______  ______  ______

   d. SAB Topic 2-F, Treasury Stock Acquisitions Following Consummation of a Business Combination Accounted for as a Pooling-of-Interests?

   ______  ______  ______

   e. SAB Topic 4-A, Subordinated Debt?

   ______  ______  ______

   f. SAB Topic 4-C, Change in Capital Structure?

   ______  ______  ______

   g. SAB Topic 4-E, Receivables From Sale of Stock?

   ______  ______  ______

   h. SAB Topic 4-G, Notes and Other Receivables From Affiliates?

   ______  ______  ______

   i. SAB Topic 5-P, Income Statement Presentation of Restructuring Charges?

   ______  ______  ______

   85
<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>j.</td>
<td>SAB Topic 5-U, Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k.</td>
<td>SAB Topic 5-Y, Accounting and Disclosures Related to Loss Contingencies?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l.</td>
<td>SAB Topic 5-Z, Accounting and Disclosures Regarding Discontinued Operations?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>m.</td>
<td>SAB Topic 6-H, Disclosure of Compensating Balances and Short-Term Borrowing Arrangements?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n.</td>
<td>SAB Topic 6-K, Separate Financial Statements Required by Regulation S-X?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o.</td>
<td>SAB Topic 11-B, Depreciation and Depletion Excluded From Cost of Sales?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>p.</td>
<td>SAB Topic 11-D, Offsetting of Assets and Liabilities?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>q.</td>
<td>SAB Topic 11-E, Chronological Ordering of Data?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>r.</td>
<td>SAB Topic 11-J, Financial Guarantees?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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FSP Section 20,600
Illustrative Financial Statements

.01 This section contains illustrative financial statements prepared in conformity with generally accepted accounting principles (GAAP). The financial statements are for illustrative purposes only, are not intended to be comprehensive and are not intended to establish preference among alternative principles acceptable under GAAP. Decisions about the application of the GAAP discussed in the accounting and financial reporting sections of the AICPA Industry Audit Guide Audits of Stock Life Insurance Companies, should not be made by reference to the illustrative financial statements but by a careful reading to the specified authoritative literature. The illustrative financial statements reflect many of the minimum disclosure requirements for a life and health insurance entity but do not include all of the amounts or transactions discussed in other chapters of the Guide or that might be found in practice. For example, the illustrative notes indicate the subject matter generally required to be disclosed, but they should be expanded, reduced, or otherwise modified to suit individual circumstances based on a careful reading of the specified authoritative literature.

.02 The illustrative financial statements do not include other transactions not unique to life and health insurance entities, such as disclosures about segments, employee benefit plans, certain risks and uncertainties, or postemployment benefits other than pensions. Preparers and auditors should consult authoritative pronouncements for guidance on presenting such other information.

.03 The illustrative financial statements do not reflect rules and releases of the Securities and Exchange Commission (SEC) that, for SEC registrants, have an authority similar to other officially established accounting principles. SEC Regulation S-X, Article 7, Insurance Companies, should be referred to.

.04 The illustrative financial statements are in conformity with accounting standards issued up to and including SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Preparers and auditors of financial statements should refer to subsequent FASB Statements and other GAAP for additional requirements.

.05 Life and health insurance entities generally present unclassified balance sheets.
## ABC LIFE INSURANCE COMPANY

### Balance Sheet

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

(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt and equity securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities, held to maturity, at amortized cost</td>
<td>$44,864</td>
<td>$46,310</td>
</tr>
<tr>
<td>(estimated fair value: $47,830 in 19X2 and $45,255 in 19X1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities, available for sale, at estimated fair value</td>
<td>255,893</td>
<td>214,563</td>
</tr>
<tr>
<td>(amortized cost: $247,525 in 19X2 and $219,565 in 19X1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading account securities, at estimated fair value</td>
<td>3,950</td>
<td>4,190</td>
</tr>
<tr>
<td>(cost: $4,220 in 19X2 and $4,419 in 19X1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>79,258</td>
<td>106,692</td>
</tr>
<tr>
<td>Real estate</td>
<td>6,410</td>
<td>6,147</td>
</tr>
<tr>
<td>Policy loans</td>
<td>43,549</td>
<td>51,013</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>7,515</td>
<td>6,321</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>441,439</strong></td>
<td><strong>435,236</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>5,285</td>
<td>3,343</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>6,660</td>
<td>8,026</td>
</tr>
<tr>
<td>Premiums due and other receivables, net of allowance</td>
<td>1,647</td>
<td>1,092</td>
</tr>
<tr>
<td>of $4,500 and $2,100 for doubtful accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinsurance receivable on paid and unpaid losses</td>
<td>596</td>
<td>407</td>
</tr>
<tr>
<td>Reinsurance receivable related to contractholder liabilities</td>
<td>5,714</td>
<td>3,048</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>38,936</td>
<td>36,429</td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation</td>
<td>501</td>
<td>420</td>
</tr>
<tr>
<td>Other assets</td>
<td>152</td>
<td>158</td>
</tr>
<tr>
<td>Separate account assets</td>
<td>732</td>
<td>525</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$501,662</strong></td>
<td><strong>$488,684</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future policy benefits</td>
<td>$345,887</td>
<td>$341,207</td>
</tr>
<tr>
<td>Guaranteed interest contracts</td>
<td>21,342</td>
<td>23,555</td>
</tr>
<tr>
<td>Policyholders' funds on deposit</td>
<td>49,408</td>
<td>46,202</td>
</tr>
<tr>
<td>Unpaid claims</td>
<td>5,418</td>
<td>4,737</td>
</tr>
<tr>
<td>Policyholders' dividends</td>
<td>2,335</td>
<td>3,450</td>
</tr>
<tr>
<td>Amounts held in escrow and accrued expenses</td>
<td>4,977</td>
<td>4,562</td>
</tr>
<tr>
<td>Deferred federal income taxes</td>
<td>1,412</td>
<td>1,027</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>253</td>
<td>4,465</td>
</tr>
<tr>
<td>Separate account liabilities</td>
<td>732</td>
<td>525</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>431,764</strong></td>
<td><strong>429,730</strong></td>
</tr>
<tr>
<td>Commitments and contingencies (Note 12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders' Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock: authorized—5,000,000 shares of $2 par value; 3,341,624 shares issued and outstanding</td>
<td>6,683</td>
<td>6,683</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>57,776</td>
<td>55,522</td>
</tr>
<tr>
<td>Net unrealized appreciation (depreciation) of available for sale securities, net of taxes</td>
<td>5,439</td>
<td>(3,251)</td>
</tr>
<tr>
<td><strong>Total shareholders' equity</strong></td>
<td><strong>69,898</strong></td>
<td><strong>58,954</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders' equity</strong></td>
<td><strong>$501,662</strong></td>
<td><strong>$488,684</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
ABC LIFE INSURANCE COMPANY
Statement of Income
Years Ended December 31, 19X2 and 19X1
(Amounts in Thousands, Except per Share Data)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premiums and Other Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Premiums:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life and annuity premiums</td>
<td>$24,833</td>
<td>$24,783</td>
</tr>
<tr>
<td>Accident and health premiums</td>
<td>10,141</td>
<td>9,153</td>
</tr>
<tr>
<td>Other premiums</td>
<td>20</td>
<td>43</td>
</tr>
<tr>
<td>Contractholder fees</td>
<td>1,961</td>
<td>1,844</td>
</tr>
<tr>
<td>Net investment income</td>
<td>32,998</td>
<td>35,141</td>
</tr>
<tr>
<td>Net realized gains (losses) on investments</td>
<td>4,222</td>
<td>(2,670)</td>
</tr>
<tr>
<td>Total premiums and other revenues</td>
<td>74,175</td>
<td>68,294</td>
</tr>
<tr>
<td><strong>Benefits and Other Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policyholder benefits</td>
<td>39,158</td>
<td>30,815</td>
</tr>
<tr>
<td>Interest credited to policyholder accounts</td>
<td>4,363</td>
<td>4,156</td>
</tr>
<tr>
<td>General expenses</td>
<td>4,288</td>
<td>4,984</td>
</tr>
<tr>
<td>Amortization of deferred acquisition costs</td>
<td>1,276</td>
<td>1,305</td>
</tr>
<tr>
<td>Underwriting, acquisition, and insurance expenses</td>
<td>18,029</td>
<td>17,266</td>
</tr>
<tr>
<td>Policyholders’ dividends</td>
<td>4,665</td>
<td>6,898</td>
</tr>
<tr>
<td>Total benefits and expenses</td>
<td>71,779</td>
<td>65,424</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>2,396</td>
<td>2,870</td>
</tr>
<tr>
<td><strong>Income taxes:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>1,547</td>
<td>601</td>
</tr>
<tr>
<td>(Prepaid) Deferred</td>
<td>(1,405)</td>
<td>540</td>
</tr>
<tr>
<td>Total income taxes</td>
<td>142</td>
<td>1,141</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>2,254</td>
<td>1,729</td>
</tr>
<tr>
<td><strong>Net income per common share</strong></td>
<td>.67</td>
<td>.52</td>
</tr>
<tr>
<td><strong>Dividends per common share</strong></td>
<td>—</td>
<td>.98</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
## ABC LIFE INSURANCE COMPANY
### Statement of Shareholders' Equity
#### Years Ended December 31, 19X2 and 19X1

(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>Capital Stock</th>
<th>Retained Earnings</th>
<th>Net Unrealized Appreciation (Depreciation), Net of Taxes</th>
<th>Total Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 19X1</td>
<td>$6,683</td>
<td>$57,068</td>
<td>$(1,521)</td>
<td>$62,230</td>
</tr>
<tr>
<td>Net income for 19X1</td>
<td>—</td>
<td>1,729</td>
<td>—</td>
<td>1,729</td>
</tr>
<tr>
<td>Shareholders' dividends</td>
<td>—</td>
<td>(3,275)</td>
<td>—</td>
<td>(3,275)</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses of available for sale securities</td>
<td>—</td>
<td>—</td>
<td>(1,730)</td>
<td>(1,730)</td>
</tr>
<tr>
<td>Balance at December 31, 19X1</td>
<td>6,683</td>
<td>55,522</td>
<td>(3,251)</td>
<td>58,954</td>
</tr>
<tr>
<td>Net income for 19X2</td>
<td>—</td>
<td>2,254</td>
<td>—</td>
<td>2,254</td>
</tr>
<tr>
<td>Net change in unrealized gains and losses of available for sale securities</td>
<td>—</td>
<td>—</td>
<td>8,690</td>
<td>8,690</td>
</tr>
<tr>
<td>Balance at December 31, 19X2</td>
<td>$6,683</td>
<td>$57,776</td>
<td>$5,439</td>
<td>$69,898</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
ABC LIFE INSURANCE COMPANY
Statements of Cash Flows
Years Ended December 31, 19X2 and 19X1
(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$2,254</td>
<td>$1,729</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest credited to interest sensitive contracts</td>
<td>4,564</td>
<td>6,289</td>
</tr>
<tr>
<td>Interest credited to universal life policies</td>
<td>3,363</td>
<td>4,156</td>
</tr>
<tr>
<td>Accrual of discount on investments, net</td>
<td>(976)</td>
<td>(1,328)</td>
</tr>
<tr>
<td>Net realized (gains) losses on investments</td>
<td>(4,222)</td>
<td>2,670</td>
</tr>
<tr>
<td>Depreciation</td>
<td>194</td>
<td>181</td>
</tr>
<tr>
<td>Amortization of deferred policy acquisition costs</td>
<td>2,847</td>
<td>3,353</td>
</tr>
<tr>
<td>Deferred federal income taxes</td>
<td>(2,538)</td>
<td>540</td>
</tr>
<tr>
<td>Change in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>1,366</td>
<td>880</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>(7,354)</td>
<td>(5,340)</td>
</tr>
<tr>
<td>Policy liabilities</td>
<td>1,407</td>
<td>(16,234)</td>
</tr>
<tr>
<td>Other items, net</td>
<td>(644)</td>
<td>3,269</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>261</td>
<td>165</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |         |         |
| Cost of investments purchased: |         |         |
| Fixed maturities and equity securities | (228,053) | (122,495) |
| Mortgage loans and real estate | (921)   | —       |
| Proceeds from investments sold, redeemed, or matured: |         |         |
| Fixed maturities and equity securities | 206,051 | 95,227  |
| Mortgage loans and real estate | 27,970  | 18,621  |
| Policy loans, net | 2,320   | 6,468   |
| Short-term investments, net | 409     | 15,446  |
| Net cash provided by investing activities | 7,776   | 13,217  |

| **Cash flows from financing activities:** |         |         |
| Dividends to shareholders | —       | (3,275) |
| Premiums and deposits to interest-sensitive contracts | 677     | 1,082   |
| Receipts from universal life policies credited to contractholder account balances | 7,241   | 7,283   |
| Return of contractholder account balances on universal life policies | (4,165) | (3,718) |
| Withdrawals from interest-sensitive contracts | (9,848) | (13,046) |
| Cash used in financing activities | (6,095) | (11,674) |
| Net increase in cash and cash equivalents | 1,942   | 1,708   |
| Cash and cash equivalents, beginning of year | 3,343   | 1,635   |
| Cash and cash equivalents, end of year | $5,285  | $3,343  |

**Supplemental Cash Flow Information:**

Income taxes paid | $1,205 | $785 |

See accompanying notes to financial statements.
ABC LIFE INSURANCE COMPANY
Notes to Financial Statements

Note 1: Organization and Significant Accounting Policies

Organization. ABC Life Insurance Company (ABC or the Company) is a stock life insurance company incorporated in the state of ABC State that offers individual life, disability income, long-term care, annuity, and investment products. ABC does business in the continental United States, with a concentration in New York, New Jersey, and Connecticut.

Basis of Presentation. The significant accounting policies followed by ABC that materially affect financial reporting are summarized below. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) which differ from statutory accounting practices used for regulatory authorities. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments. Fixed maturity securities available for sale consist of bonds, notes, redeemable and nonredeemable preferred stock not classified as either trading or held to maturity and are reported at estimated fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses shown net of applicable taxes, deferred policy acquisition cost offsets for universal life type contracts and amounts attributable to certain participating contracts are included in shareholders' equity as a separate component of shareholder's equity. Fixed maturity securities held to maturity consist of bonds, notes, redeemable, and nonredeemable preferred stock which the insurance company has the intent and ability to hold to maturity, and are reported at amortized cost, and are adjusted for amortization of premiums or discounts and other than temporary declines in fair value. Trading account securities consist of bonds, notes, redeemable and nonredeemable preferred stock, and common stock held principally for resale in the near term, and are recorded at their estimated fair values. Realized and unrealized gains and losses on trading account securities are included in net realized gains (losses) on investments. Mortgage loans on real estate are carried at unpaid balances, and adjusted for amortization of premium or discount, less allowance for losses. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and losses which are considered other than temporary. Real estate, including real estate acquired in satisfaction of debt, is carried at depreciated cost. Impaired real estate is written down to fair value with the impairment loss being included in net realized gains (losses) on investments. Upon foreclosure (including in-substance foreclosure), the carrying value of the property is recorded at the lower of cost or fair value (less selling costs if to be sold), which becomes its new cost basis. The estimated fair value for real estate is determined based upon independent appraisals and other available information about the property, which may take into consideration a number of factors, including: (a) discounted cash flows; (b) sales of comparable properties; (c) geographic location of property and related market conditions; and (d) disposition costs. Foreclosed properties are actively managed by the company in order to maximize their value. Subsequent to foreclosure, the carrying value of the property is periodically evaluated and a valuation allowance is established, if necessary, to reflect any additional amounts considered unrecoverable upon sale. At the time of the sale, the difference between the sales price and the carrying value is recorded as a realized gain or loss. Policy loans are carried at unpaid balances. Short-term investments are stated at amortized cost which approximates market value. Provisions for impairments are included in net realized gains and losses. Realized gains and losses are determined by specific identification.

Cash and Cash Equivalents. Cash equivalents are carried at cost which approximates market value. Cash equivalents are highly liquid financial instruments with an original maturity of three months or less.
Deferred Policy Acquisition Costs. Commissions and other costs of acquiring traditional life insurance, universal life insurance and investment products, and accident and health insurance, that vary with and are primarily related to the production of new and renewal business have been deferred. Traditional life insurance and accident and health insurance acquisition costs are being amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. For universal life-type contracts and investment contracts that include significant surrender charges or that yield significant revenues from sources other than the investment of contractholders' funds, the deferred contract acquisition cost amortization is matched to the recognition of gross profit.

Otherwise, deferred contract acquisition costs on investment contracts are amortized using an accounting method that recognizes acquisition as expenses at a constant rate applied to net policy liabilities.

Property and Equipment. Property and equipment are reported at cost, net of accumulated depreciation of $1,915,000 and $1,721,000 in 19X2 and 19X1, respectively, using the straight-line method of depreciation over their estimated useful lives.

Future Policy Benefits and Expenses. The liabilities for traditional life insurance and accident and health insurance contract benefits and expenses are computed using a net level premium method including assumptions as to investment yields, mortality, withdrawals, and other assumptions based on ABC's experience modified as necessary to reflect anticipated trends and to include provisions for possible unfavorable deviations. Reserve interest assumptions are graded and range from 3 percent to 10 percent. Benefit liabilities for traditional life insurance contracts include certain deferred profits on limited-payment policies that are being recognized in income over the contract term. Contract benefit claims are charged to expense in the period that the claims are incurred.

Included in contractholders' account balances is a provision for contractholder dividends. Benefit liabilities for contractholders' account balances are computed under a retrospective deposit method and represent contract account balances before applicable surrender charges. Contract benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related contract account balances. Interest crediting rates for universal life and investment products range from 5.50 percent to 9.25 percent. Benefits and expenses are charged against the account balance to recognize costs as incurred over the estimated lives of the contracts. Expenses include interest credited to contract account balances and benefits paid in excess of contract account balances.

Income Taxes. Federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using enacted income tax rates and laws.

Reinsurance. In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and coinsurance contracts. The Company retains a maximum of $400,000 of coverage per individual life. Amounts paid or deemed to have been paid for reinsurance contracts are recorded as reinsurance receivable.

Insurance Premium Revenues. Traditional life premiums, which include those products with fixed and guaranteed premiums and benefits and consist principally of whole life insurance contracts, limited-payment life insurance contracts, and certain annuities with life contingencies, are generally recognized as revenue when due. Revenues on universal life and investment-type contracts consist of contract charges against contractholders' funds for the cost of insurance, administration, surrender charges, actuarial margin and other fees. Accident and health insurance premiums are recognized as revenue pro rata over the terms of the contracts.

Separate Accounts. Separate account assets and liabilities generally represent funds maintained in accounts to meet specific investment objectives of contractholders who bear the investment risk. In-
investment income and investment gains and losses accrue directly to such contractholders. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. The assets and liabilities are carried at market value. Deposits, net investment income, and realized and unrealized capital gains and losses on separate account assets are not reflected in the Statements of Income of ABC and are reflected directly in separate account liabilities.

Business Risks and Uncertainties. The development of liabilities for future policy benefits for the Company’s products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. Such estimates are primarily based on historical experience and, future expectations of mortality, morbidity, expense, persistency, and investment assumptions. Actual results could differ materially from those estimates. Management monitors actual experience, and where circumstances warrant, revises its assumptions and the related future policy benefit estimates.

The Company’s investments are primarily comprised of fixed maturity securities, equity securities, real estate, and mortgage loans. Significant changes in prevailing interest rates and geographic conditions may adversely affect the timing and amount of cash flows on such investments, as well as their related values. In addition, the value of these investments is often derived from an appraisal, an estimate or opinion of value. A significant decline in the market value of these investments could have an adverse affect on the Company’s balance sheet.

The Company regularly invests in mortgaged backed securities and other securities subject to prepayment and call risk. Significant changes in prevailing interest rates may adversely affect the timing and amount of cash flows on such securities. In addition, the amortization of market premium and accretion of market discount for mortgage backed securities is based on historical experience and estimates of future payment speeds on the underlying mortgage loans. Actual prepayment speeds will differ from original estimates and may result in material adjustments to amortization or accretion recorded in future periods.

Note 2: Investments

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 are as follows:

<table>
<thead>
<tr>
<th>December 31, 19X2 (Amounts in Thousands)</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held to Maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total corporate debt securities</td>
<td>$ 44,864</td>
<td>$ 3,134</td>
<td>$(168)</td>
<td>$ 47,830</td>
</tr>
<tr>
<td>Available for Sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury securities and obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of U.S. government corporations and</td>
<td>$ 2,340</td>
<td>$ 73</td>
<td>—</td>
<td>$ 2,413</td>
</tr>
<tr>
<td>agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations of states of the U.S. and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>political subdivisions of the states</td>
<td>1,434</td>
<td>162</td>
<td>—</td>
<td>1,596</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>142,075</td>
<td>7,109</td>
<td>(1,294)</td>
<td>147,890</td>
</tr>
<tr>
<td>Mortgaged-backed securities</td>
<td>101,676</td>
<td>2,673</td>
<td>(355)</td>
<td>103,994</td>
</tr>
<tr>
<td>Total</td>
<td>$247,525</td>
<td>$10,017</td>
<td>$(1,649)</td>
<td>$255,893</td>
</tr>
</tbody>
</table>

Fixed maturities held in the “held to maturity” category are stated at amortized cost on the balance sheet.
Fixed maturities held in the “available for sale” category are stated at estimated fair value on the balance sheet.

The carrying amounts and estimated fair values of the company’s fixed maturity investments at December 31, 19X1 are as follows:

<table>
<thead>
<tr>
<th>December 31, 19X1 (Amounts in Thousands)</th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held to Maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total corporate debt securities</td>
<td>$ 46,310</td>
<td>$1,970</td>
<td>$(3,025)</td>
<td>$ 45,255</td>
</tr>
<tr>
<td>Available for Sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury securities and obligations</td>
<td>$ 3,569</td>
<td>$ 63</td>
<td>$(29)</td>
<td>$ 3,603</td>
</tr>
<tr>
<td>of U.S. government corporations and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations of states of the U.S. and</td>
<td>3,347</td>
<td>98</td>
<td>(1)</td>
<td>3,444</td>
</tr>
<tr>
<td>political subdivisions of the states</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>138,831</td>
<td>1,818</td>
<td>(8,597)</td>
<td>132,052</td>
</tr>
<tr>
<td>Mortgaged-backed securities</td>
<td>73,818</td>
<td>1,989</td>
<td>(343)</td>
<td>75,464</td>
</tr>
<tr>
<td>Total</td>
<td>$219,565</td>
<td>$3,968</td>
<td>$(8,970)</td>
<td>$214,563</td>
</tr>
</tbody>
</table>

The amortized cost and estimated fair value of debt securities for each investment category, by contractual maturity, are as follows (expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties):

<table>
<thead>
<tr>
<th>December 31, 19X2 (Amounts in Thousands)</th>
<th>Amortized Cost</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held to Maturity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due in one year or less</td>
<td>$ 1,612</td>
<td>$ 1,700</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>9,544</td>
<td>10,323</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>4,282</td>
<td>4,452</td>
</tr>
<tr>
<td>Due after ten years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15,438</td>
<td>16,475</td>
</tr>
<tr>
<td>Other securities with multiple repayment dates</td>
<td>29,426</td>
<td>31,355</td>
</tr>
<tr>
<td>Total</td>
<td>$ 44,864</td>
<td>$ 47,830</td>
</tr>
</tbody>
</table>

| Available for Sale:                     |                |                      |
| Due in one year or less                 | $ 1,088        | $ 1,090              |
| Due after one year through five years   | 21,753         | 22,626               |
| Due after five years through ten years  | 83,057         | 86,244               |
| Due after ten years                     | 26,826         | 28,478               |
| Total                                   | 132,724        | 138,438              |
| Mortgaged-backed securities             | 101,676        | 103,994              |
| Other securities with multiple repayment dates | 13,125         | 13,461               |
| Total                                   | $247,525       | $255,893             |

The Company owned $22,318,000 and $20,304,000 of fixed maturities considered below investment grade at December 31, 19X2 and 19X1, respectively. Investment grade is defined as “Baa” and higher on Moody’s ratings and “BBB” and higher on Standard & Poor’s bond ratings.
At December 31, 19X2 and 19X1, investments in bonds totaling $1,247,000 and $1,250,000, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

Proceeds, gross realized gains, and gross realized losses from the sales of available for sale securities follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 19X2 (Amounts in Thousands)</th>
<th>December 31, 19X1 (Amounts in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds</td>
<td>$181,137</td>
<td>$50,561</td>
</tr>
<tr>
<td>Gross realized gains</td>
<td>5,132</td>
<td>769</td>
</tr>
<tr>
<td>Gross realized losses</td>
<td>(1,169)</td>
<td>(1,409)</td>
</tr>
</tbody>
</table>

The Company's equity investments in preferred stocks at December 31, 19X1, are carried at their estimated fair value of $4,190,000. At December 31, 19X1 gross unrealized depreciation pertaining to equity securities was $229,000.

Changes in the difference between market value and cost of investments were as follows (brackets denote excess of cost over estimated fair value):

At December 31, 19X2, excess of estimated fair value over cost for “investments held to maturity” and “investments available for sale” were $2,966,000 and $8,368,000, respectively.

The carrying amounts and fair values of the Company's investments in mortgages were as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 19X2 (Amounts in Thousands)</th>
<th>December 31, 19X1 (Amounts in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Estimated Fair Value</td>
</tr>
<tr>
<td>Commercial</td>
<td>$81,849</td>
<td>$82,910</td>
</tr>
<tr>
<td>Residential</td>
<td>596</td>
<td>596</td>
</tr>
<tr>
<td></td>
<td>82,445</td>
<td>83,506</td>
</tr>
<tr>
<td>Less allowance for mortgages losses</td>
<td>(3,187)</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>$79,258</td>
<td>$83,506</td>
</tr>
</tbody>
</table>

Mortgages are stated at their aggregate unpaid balances, less an allowance for loan losses of $3,187,000 (19X2) and $2,954,000 (19X1). Activity in the allowance for mortgage loss is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2 (Amounts in Thousands)</th>
<th>19X1 (Amounts in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances at the beginning of the year</td>
<td>$2,954</td>
<td>$3,200</td>
</tr>
<tr>
<td>Provisions for potential mortgage loan losses</td>
<td>668</td>
<td>3,145</td>
</tr>
<tr>
<td>Losses charged against the mortgage loan loss reserve</td>
<td>(435)</td>
<td>(3,391)</td>
</tr>
<tr>
<td>Balances at the end of the year</td>
<td>$3,187</td>
<td>$2,954</td>
</tr>
</tbody>
</table>

The Company's mortgage portfolio is monitored closely through the review of loan and property information such as debt service coverage, annual operating statements, and property inspection.
reports. This information is evaluated in light of current economic conditions and other factors such as geographic and property-type loan concentrations. This evaluation is part of the regular review to determine whether adjustments to the allowance for potential loan losses are warranted. Management believes the mortgage loss reserve is sufficient to provide for potential loan losses. However, management cannot predict with assurance where the economy is headed or how the mortgage and real estate portfolios would be affect by various economic circumstances.

Impairment of loans having carrying values of $4,524,000 in 19X2 and $3,962,000 in 19X1 has been recognized in conformity with Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan. The total allowance for credit losses related to those loans was $900,000 and $850,000 in 19X2 and 19X1, respectively. For impairment recognized in conformity with SFAS No. 114, the entire change in present value of expected cash flows is reported as bad debt expense in the same manner in which impairment initially was recognized or as a reduction in the amount of bad debt expense that otherwise would be reported.

The Company’s mortgage loan portfolio is highly concentrated in the northeast section of the country. Approximately 58 percent of the Company’s mortgages are in the Middle Atlantic region, predominantly New York City and State, with the remainder of the portfolio being fairly evenly dispersed among other geographic regions. The Company invests in a diversity of mortgages consisting of office, apartment, retail, industrial, and residential loans. Greater than 52 percent of these mortgages are invested in apartment and retail type investments. It is the Company’s policy to generally obtain a first mortgage on properties for which the loan to value of collateral ratio is less than 75 percent.

At December 31, 19X2, the Company had six commercial real estate loans, with an aggregate principal balance of $14,765,000 and accrued interest of $1,950,000 which were 60 days or more delinquent. All of these loans were in process of foreclosure. Included in the commercial real estate loans are loans with an aggregate principal balance of $8,092,000 that were non-income producing for the twelve-month period ending December 31, 19X2. At December 31, 19X2, the Company had established a mortgage loss reserve of $3,187,000 as an allowance for potential mortgage losses.

Real estate acquired through foreclosure or “in-substance foreclosure” during the year at December 31, 19X2 and 19X1 amounted to $410,000 and $147,000.

Note 3: Net Investment Income

Revenues in the accompanying statement of income for the years ended December 31, 19X2 and 19X1 include net investment income from the following sources:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities</td>
<td>$22,049</td>
<td>$20,581</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>—</td>
<td>736</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>9,035</td>
<td>11,763</td>
</tr>
<tr>
<td>Real estate</td>
<td>817</td>
<td>105</td>
</tr>
<tr>
<td>Policy loans</td>
<td>3,159</td>
<td>3,461</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>411</td>
<td>456</td>
</tr>
<tr>
<td>Other</td>
<td>41</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>35,512</td>
<td>37,119</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>2,514</td>
<td>1,978</td>
</tr>
<tr>
<td>Net investment income</td>
<td>$32,998</td>
<td>$35,141</td>
</tr>
</tbody>
</table>
Net realized investment gains (losses) by class of investment are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities</td>
<td>$5,192</td>
<td>$ 340</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>(324)</td>
<td>101</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>(632)</td>
<td>(3,132)</td>
</tr>
<tr>
<td>Real estate</td>
<td>16</td>
<td>—</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>(2)</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>(28)</td>
<td>21</td>
</tr>
<tr>
<td>Net realized gains or (losses)</td>
<td>$4,222</td>
<td>$(2,670)</td>
</tr>
</tbody>
</table>

Note 4: 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:

Short-Term Investments. For those short term instruments amortized cost is a reasonable estimate of fair value.

Investment Securities and Trading Account Assets. For securities held for trading purposes and marketable equity securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities held as investments, fair value equals quoted market price, if available. If a quoted 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 discounted cash flows. The fair value of policy loans is estimated by discounting the future cash flows using reasonable assumptions for mortality and repayments and using the current rates at which similar loans would be made to contractholders with similar credit ratings and the same remaining maturities.

The estimated fair values of ABC’s mortgage loans on real estate and policy loans are as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>$79,258</td>
<td>$83,506</td>
</tr>
<tr>
<td>Policy loans</td>
<td>43,549</td>
<td>51,013</td>
</tr>
<tr>
<td></td>
<td>112,027</td>
<td>59,000</td>
</tr>
</tbody>
</table>

Note 5: Income Taxes

Significant components of the provision for income taxes attributable to continuing operations are as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in Thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current income tax expense</td>
<td>$ 1,547</td>
<td>$ 601</td>
</tr>
<tr>
<td>(Prepaid) deferred income tax (benefit) expense</td>
<td>(1,405)</td>
<td>540</td>
</tr>
<tr>
<td>Total income tax expense</td>
<td>$ 142</td>
<td>$1,141</td>
</tr>
</tbody>
</table>
Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

<table>
<thead>
<tr>
<th>December 31, (Amounts in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td><strong>Deferred Tax Liabilities:</strong></td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
</tr>
<tr>
<td>Future policy benefits</td>
</tr>
<tr>
<td>Accrual of discount on bonds</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Total deferred tax liabilities</strong></td>
</tr>
<tr>
<td><strong>Deferred Tax Assets:</strong></td>
</tr>
<tr>
<td>Policyholder dividends</td>
</tr>
<tr>
<td>Future policy benefits</td>
</tr>
<tr>
<td>Deferred of policy acquisition costs</td>
</tr>
<tr>
<td>Investment valuation reserves</td>
</tr>
<tr>
<td>Retirement plan accruals</td>
</tr>
<tr>
<td>Investment income differences</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Total deferred tax assets</strong></td>
</tr>
<tr>
<td>Valuation allowance for deferred tax assets</td>
</tr>
<tr>
<td><strong>Net deferred tax assets</strong></td>
</tr>
<tr>
<td><strong>Net deferred tax liabilities</strong></td>
</tr>
</tbody>
</table>

A reconciliation of the provision for federal income taxes as presented in the financial statements and income taxes calculated using the statutory corporate tax rate follows:

<table>
<thead>
<tr>
<th>(Amounts in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Income from operations</td>
</tr>
<tr>
<td>Application of income tax rate</td>
</tr>
<tr>
<td>Small company deduction for life insurance companies</td>
</tr>
<tr>
<td>Policyholders' share of income (loss) in excess of (less than) dividends paid</td>
</tr>
<tr>
<td>Dividend received deduction</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Total tax expense</strong></td>
</tr>
</tbody>
</table>

**Note 6: Financial Instruments With Off-Balance-Sheet Risk and Concentrations of Credit Risk**

ABC enters into interest rate swap programs for the purpose of minimizing exposures to fluctuations in interest rates for certain assets and liabilities held. The notional amount of interest rate swaps outstanding at December 31, 19X2 and 19X1 was $500,000 and $800,000, respectively. The amount at risk, on a present value basis, of terminating or replacing at current market rates outstanding interest rate swaps in a loss position at December 31, 19X2 was $10,000. For 19X2 and
19X1, net gains (losses) of $200,000 and $(13,592), respectively, were recorded in connection with interest rate swap activity.

At December 31, 19X2, ABC held unrated or less-than-investment grade corporate debt securities of $8,000, net of reserves for losses, with an aggregate market value of $7,500. Those holdings amounted to 3 percent of ABC’s corporate debt securities investments and less than 1 percent of total assets. The holdings of less-than-investment grade securities are widely diversified and of satisfactory quality based on ABC’s investment policies and credit standards. ABC also invests in mortgage loans principally involving commercial real estate. At December 31, 19X2, 3 percent of such mortgages ($10,000) 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 $5,000.

Note 7: Derivative Financial Instruments Held or Issued for Purposes Other Than Trading

The Company’s principal objective in holding or issuing derivatives for purposes other than trading is asset-liability management. The operations of the Company are subject to a risk of interest-rate fluctuations to the extent that there is a difference between the amount of the Company’s interest-earning assets and the amount of interest-bearing liabilities that mature or reprice in specified periods. The principal objective of the Company’s asset-liability management activities is to provide maximum levels of net interest income while maintaining acceptable levels of interest-rate and liquidity risk and facilitating the funding needs of the Company. To achieve that objective, the Company uses a combination of derivative financial instruments, including interest-rate forwards, futures, forward rate agreements, swaps, options, caps, floors, and other conditional exchange contracts.

Interest-rate forward and futures contracts are commitments to either purchase or sell a financial instrument at a specific future date for a specified price and may be settled in cash or through delivery of the financial instrument. Forward rate agreements are forward-like contracts that settle in cash at a specified future date based on the differential between a specified market interest rate and a fixed interest rate applied to a notional principal amount.

An interest-rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed-upon notional principal amount with at least one stream based on a specified floating-rate index. Interest-rate options are contracts that grant the purchaser, for a premium payment, the right to either purchase or sell a financial instrument at a specified price within a specified period of time or on a specified date from or to the writer of the option. Interest-rate caps and floors are option-like contracts that require the seller to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional principal amount.

Interest-rate forward and swap agreements are used to modify the repricing characteristics of interest-earning assets, while options, caps, floors and other conditional exchange agreements are used to limit the interest expense associated with the Company’s liabilities.

Income or expense on derivative financial instruments used to manage interest-rate exposure is recorded on an accrual basis as an adjustment to the yield of the related interest-earning assets or interest-bearing liabilities of the periods covered by the contracts. If a derivative financial instrument that is used to manage interest-rate risk is terminated early or results in a single payment based on the change in value of an underlying item, any resulting gain or loss is deferred and amortized as an adjustment to the yield of the designated assets or liabilities over the remaining periods originally covered by the derivative financial instrument.

Deferred gains totaling $675,000 at December 13, 19X2, resulting from terminated and expired option contracts are included in other liabilities and will be amortized as a reduction of interest expense from the Company’s short-term liabilities over the next two years.
Note 8: Liability for Unpaid Claims

The liability for unpaid claims and claim adjustment expenses is based on the estimated amount payable on claims reported prior to the balance sheet date which have not yet been settled, claims reported subsequent to the balance sheet date which have been incurred during the period then ended, and an estimate (based on prior experience) of incurred but unreported claims relating to such period.

Activity in the liability for unpaid claims adjustment expenses for the Company’s health and disability coverages is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2 (Amounts in Thousands)</th>
<th>19X1 (Amounts in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1</td>
<td>$81,638</td>
<td>$104,222</td>
</tr>
<tr>
<td>Less: reinsurance recoverables</td>
<td>4,021</td>
<td>13,831</td>
</tr>
<tr>
<td>Net balance at January 1</td>
<td>$77,617</td>
<td>$90,391</td>
</tr>
<tr>
<td>Amount incurred</td>
<td>334,699</td>
<td>370,409</td>
</tr>
<tr>
<td>Amount paid, related to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years</td>
<td>94,083</td>
<td>121,470</td>
</tr>
<tr>
<td>Current year</td>
<td>248,721</td>
<td>261,713</td>
</tr>
<tr>
<td>Total</td>
<td>342,804</td>
<td>383,183</td>
</tr>
<tr>
<td>Net balance at December 31</td>
<td>$69,512</td>
<td>$77,617</td>
</tr>
<tr>
<td>Plus: reinsurance recoverables</td>
<td>4,115</td>
<td>4,021</td>
</tr>
<tr>
<td>Balance at December 31</td>
<td>$73,627</td>
<td>$81,638</td>
</tr>
</tbody>
</table>

Note 9: Reinsurance

The Company utilizes indemnity reinsurance agreements to reduce its exposure to large losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers. The following tables includes premium amounts ceded/assumed to/from other companies.

<table>
<thead>
<tr>
<th></th>
<th>Direct Amount</th>
<th>Ceded to Other Companies</th>
<th>Assumed from Other Companies</th>
<th>Net Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Amounts in Thousands)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19X2 Premiums:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td>$2,090</td>
<td>$ 560</td>
<td>$3,330</td>
<td>$4,860</td>
</tr>
<tr>
<td>Accident and health</td>
<td>1,440</td>
<td>1,290</td>
<td>—</td>
<td>150</td>
</tr>
<tr>
<td>Annuities</td>
<td>3,130</td>
<td>—</td>
<td>70</td>
<td>3,200</td>
</tr>
<tr>
<td>Total earned premiums</td>
<td>$6,660</td>
<td>$1,850</td>
<td>$3,400</td>
<td>$8,210</td>
</tr>
<tr>
<td>19X1 Premiums:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td>$2,080</td>
<td>$ 520</td>
<td>$3,680</td>
<td>$5,240</td>
</tr>
<tr>
<td>Accident and health</td>
<td>1,510</td>
<td>1,370</td>
<td>—</td>
<td>140</td>
</tr>
<tr>
<td>Annuities</td>
<td>1,840</td>
<td>—</td>
<td>30</td>
<td>1,870</td>
</tr>
<tr>
<td>Total earned premiums</td>
<td>$5,430</td>
<td>$1,890</td>
<td>$3,710</td>
<td>$7,250</td>
</tr>
</tbody>
</table>

Note 10: Statutory Financial Information

Under the law of ABC State, the state of incorporation, the maximum dividend that may be paid (without prior approval of the (State) Insurance Department), in any 12-month period is the
greater of (i) net investment income for the preceding calendar year or (ii) 10 percent of contractholders’ surplus at the end of the preceding calendar year. In general, net investment income for dividend purposes is interpreted by the Insurance Department to be the statutory pretax net investment income including net realized capital losses but excluding net realized capital gains. The maximum permissible amount of dividends for 19X3, based on statutory net investment income for 19X2, is $20,000.

The Company, which is domiciled in ABC State, prepares its statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the ABC state insurance department. Prescribed statutory accounting practices include state laws, regulations, and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (NAIC). Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. Furthermore, the NAIC has a project to codify statutory accounting practices, the result of which is expected to constitute the only source of “prescribed” statutory accounting practices. Accordingly, that project, which is expected to be completed in 19X3, will likely change the definitions of what comprises prescribed versus permitted statutory accounting practices, and may result in changes to the accounting policies that insurance enterprises use to prepare their statutory financial statements.

[Note: Although the following statutory financial information is not required to be disclosed in financial statements prepared in conformity with generally accepted accounting principles, insurance entities sometimes include such disclosures to facilitate use of those financial statements for purposes of filing with state regulatory authorities.]

The accounting practices of insurance companies are prescribed by certain regulatory authorities. Certain of these practices differ from the generally accepted principles used in preparing the financial statements of ABC.

The following reconciles ABC’s statutory net income and statutory surplus and capital stock determined in accordance with accounting practices prescribed or permitted by the Insurance Department of Connecticut with net earnings (loss) and equity on a GAAP basis.

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Amounts in Thousands)</td>
<td></td>
</tr>
<tr>
<td>Statutory net income</td>
<td>$3,572</td>
<td>$2,719</td>
</tr>
<tr>
<td>Adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future policy benefits and policyholders’ account balances</td>
<td>572</td>
<td>894</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Deferred federal income tax (expense) benefit</td>
<td>(1,405)</td>
<td>(540)</td>
</tr>
<tr>
<td>Valuation of investments</td>
<td>115</td>
<td>270</td>
</tr>
<tr>
<td>Postretirement benefits</td>
<td>272</td>
<td>354</td>
</tr>
<tr>
<td>Other, net</td>
<td>(932)</td>
<td>(3,088)</td>
</tr>
<tr>
<td>GAAP net income</td>
<td>$2,254</td>
<td>$1,729</td>
</tr>
<tr>
<td>Statutory surplus and capital stock</td>
<td>$65,388</td>
<td>$54,505</td>
</tr>
<tr>
<td>Asset valuation reserves</td>
<td>(1,054)</td>
<td>(1,972)</td>
</tr>
<tr>
<td>Statutory surplus, capital stock and asset valuation reserves</td>
<td>(875)</td>
<td>(967)</td>
</tr>
<tr>
<td>Adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>(29,472)</td>
<td>(27,905)</td>
</tr>
<tr>
<td>Future policy benefits and policyholders’ account balances</td>
<td>115</td>
<td>270</td>
</tr>
<tr>
<td>Deferred Federal income taxes</td>
<td>(1,412)</td>
<td>(1,027)</td>
</tr>
<tr>
<td>Valuation of investments</td>
<td>772</td>
<td>891</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>39,818</td>
<td>39,445</td>
</tr>
<tr>
<td>Postretirement benefits</td>
<td>(2,272)</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(1,110)</td>
<td>(1,932)</td>
</tr>
<tr>
<td>GAAP equity</td>
<td>$69,898</td>
<td>$58,954</td>
</tr>
</tbody>
</table>
Note 11: Commitments and Contingencies

Future minimum rental payments, principally for administrative offices, under noncancellable operating leases at December 31, 19X2, are (in thousands): 19X3, $1,113; 19X4, $1,064; 19X5, $1,011; 19X6, $976; 19X7, $976; and $3,906 thereafter. Rental expense was $1,164 in 19X2, and $1,184 in 19X1.

ABC is named as defendant in a number of legal actions arising primarily from claims made under insurance contracts or in connection with previous reinsurance agreements. These actions have been considered in establishing its contract benefit liability. Management and its legal counsel are of the opinion that the settlement of these actions will not have a material effect on ABC’s financial position or results of operations.
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