Checklists and illustrative financial statements for life and Health insurance entities: a financial accounting and reporting practice aid, December 2003 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Lori A. West

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Checklists and Illustrative Financial Statements for Life and Health Insurance Entities

A Financial Accounting and Reporting Practice Aid

Prepared By
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Technical Manager,
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Checklists and Illustrative Financial Statements for Life and Health Insurance Entities has not been approved, disapproved, or otherwise acted upon by any senior technical committee 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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Comment Card
FSP Section 20,000

Checklists and Illustrative Financial Statements for Life and Health Insurance Entities

.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 financial statements and notes checklist have been updated to include relevant disclosure guidance in accounting pronouncements issued through December 31, 2003. Those pronouncements include:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 150, Instruments With Characteristics of Both Liabilities and Equity, including revised Statements issued through December 2003

- FASB Interpretation (FASBI) No. 46 (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51


- FASB Emerging Issues Task Force (EITF) consensuses adopted through the November 2003 EITF meeting

- AICPA Statement on Auditing Standards (SAS) No. 101, Auditing Fair Value Measurements and Disclosures

- AICPA Statement of Position (SOP) 03-2, Attest Engagements on Greenhouse Gas Emissions Information

- AICPA Practice Bulletin (PB) No. 15, Accounting by the Issuer of Surplus Notes

- AICPA Statement on Standards for Accounting and Review Services (SSARS) No. 9, Omnibus Statement on Standards for Accounting and Review Services—2002

- AICPA Audit and Accounting Guide Life and Health Insurance Entities (with conforming changes as of May 1, 2003)

The checklists and illustrative financial statements should be modified, as appropriate, for pronouncements issued subsequent to the above. In determining the applicability of a pronouncement, its effective date should also be considered.
.02 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 Audit and Accounting Guide Life and Health Insurance Entities.

.03 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.

.04 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 1-888-777-7077.

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 The function of insurance is to pool the risks of many persons who are exposed to similar risks. For a payment known as a premium, insurance companies undertake to relieve the policyholder of all or part of a risk and to spread the total cost of similar risks among large groups of policyholders. One of the primary purposes of life insurance is to provide financial assistance to named beneficiaries at the time of the death of the insured. The long-term nature of the coverage involving the risk of death—a risk that increases with age—is the distinguishing characteristic that sets life insurance apart from other forms of insurance. Traditionally, life insurance entities provided life and health products to protect against the loss of financial stability resulting from premature death or illness, and provided annuity products to protect against the risk of outliving one's financial resources. The primary emphasis was on meeting the customer's insurance needs. The provisions of the AICPA Audit and Accounting Guide Life and Health Insurance Entities, apply to all life and health insurance entities including stock, mutual, fraternal and assessment entities.

.02 In 1999, the National Association of Insurance Commissioners (NAIC) completed a process to codify statutory accounting practices for certain insurance enterprises, resulting in a revised Accounting Practices and Procedures Manual, effective January 1, 2001 (the revised Manual). The insurance laws and regulations of most states require insurance companies domiciled in those states to comply with the guidance provided in the NAIC Accounting Practices and Procedures Manual except as prescribed or permitted by state law.

.03 In December 2001, the AICPA issued SOP 01-5, Amendment to Specific AICPA Pronouncements for Changes Related to the NAIC Codification, which amends SOP 94-5, Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises, as a result of the completion of the National Association of Insurance Commissioners (NAIC) Codification of statutory accounting practices for certain insurance enterprises.

.04 The amendments to SOP 94-5 included in SOP 01-5 require insurance enterprises to disclose, at the date each balance sheet is presented, a description of the prescribed or permitted statutory accounting practice and the related monetary effect on statutory surplus of using an accounting practice that differs from either state prescribed statutory accounting practices or NAIC statutory accounting practices.

.05 Those disclosures should be made if (a) state prescribed statutory accounting practices differ from NAIC statutory accounting practices or (b) permitted state statutory accounting practices differ from either state prescribed statutory accounting practices or NAIC statutory accounting practices, and the use of prescribed or permitted statutory accounting practices (individually or in the aggregate) results in reported statutory surplus or risk-based capital that is significantly different from the statutory surplus or risk-based capital that would have been reported had NAIC statutory accounting practices been followed.

.06 Those disclosures should be applied by a U.S. insurance enterprise, a U.S. enterprise with a U.S. insurance subsidiary, or a foreign enterprise with a U.S. insurance subsidiary, if the enterprise prepares U.S. generally accepted accounting principles (GAAP) financial statements. If a foreign insurance enterprise that does not have a U.S. insurance subsidiary prepares U.S. GAAP financial statements or is included in its parent's consolidated U.S. GAAP financial statements, the notes to the financial statements should disclose permitted regulatory accounting practices that significantly differ from the prescribed regulatory accounting practices of its respective regulatory authority and their monetary effects.

.07 SOP 01-5 also includes the following auditing guidance that has been updated as a result of the completion of the NAIC Codification: AICPA SOP 95-5, Auditor's Reporting on Statutory Financial Statements
Life and Health Insurance Entities

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 These checklists consist of a number of questions or statements that are accompanied by references to applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to indicate that it has been considered. Users should check or initial:

- Yes—If the disclosure is required and has been made appropriately.
- No—If the disclosure is required but is not made.
- N/A (Not applicable)—If the disclosure is not required to be made.

Users may find it helpful to include references to the place where each disclosure for which a "Yes" is indicated can be found in the financial statements. It may also be helpful to include either on the checklist or elsewhere the reasons that items marked "N/A" do not apply in the circumstances of the particular report.

.04 It is important that the effect of any "No" response be considered on the auditor's report. A "No" response that is material to the financial statements may warrant the issuance of a qualified or adverse report on the financial statements. (See paragraphs 35–60 of SAS No. 58, Reports on Audited Financial Statements, as amended [AICPA, Professional Standards, vol. 1, AU sec. 508.35–60].) If a "No" response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements) or to indicate the effect that the response will have on the auditor’s report.

.05 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.

.06 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.
.07 These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.
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 preparers and auditors of financial statements.

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 = Accounting Principles Board Opinion
- ARB = Accounting Research Bulletin
- FTB = Technical Bulletin issued by the staff of the FASB
- AAG = AICPA Audit and Accounting Guide Life and Health Insurance Entities
- SOP = AICPA Statement of Position
- EITF = Emerging Issues Task Force Consensus
- FSP = FASB Staff Position
- PB = AICPA Practice Bulletin
- SAS = AICPA Statement on Auditing Standards
- AU = Reference to section number in AICPA Professional Standards (vol. 1)

.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.

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Life and Health Insurance Entities

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Financial Statements and Notes Checklist

Y. Demutualizations and Formations of Mutual Insurance Holding Companies
Z. Guarantees

• Auditors’ Reports Checklist
• Supplemental Information for Life Insurance Companies That Are Securities and Exchange Commission Registrants

Note: 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 working papers.

Balance Sheet

A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications, with totals presented for current assets and current liabilities?
   [ARB 43, Ch. 3A, pars. 2–8; 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)]

2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?
   [ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]

3. Are valuation allowances for assets shown as deductions from their related assets with appropriate disclosure?
   [APB 12, par. 3 (AC V18.102)]

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)]

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]
Life and Health Insurance Entities

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<td>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.</td>
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### C. Investment Securities

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

2. Are the carrying amounts of investment securities on deposit with regulatory authorities disclosed?  
   [AAG, App. C, par. 1]

3. 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)]

4. If an enterprise presents a classified statement of financial position, are all individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities reported as either current or noncurrent, as appropriate, under the provisions of ARB 43, Chapter 3A, “Working Capital—Current Assets and Current Liabilities”?  
   [SFAS 115, par. 17 (AC I80.116), as amended by SFAS 135]

### 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 securities classified as available-for-sale, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:
   - Aggregate fair value?
   - Total gains for securities with net gains in accumulated other comprehensive income?
   - Total losses for securities with net losses in accumulated other comprehensive income?  
     [SFAS 115, par. 19 (AC I80.118)]

6. For securities classified as held-to-maturity, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:
   - Aggregate fair value?
   - Gross unrecognized holding gains or losses?

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c. Net carrying amount?

d. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities?
   [SFAS 115, par. 19 (AC I80.118)]

7. For investments in debt securities classified as available-for-sale or 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)?
   [SFAS 115, par. 20 (AC I80.119)]

b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed?

8. 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 that have been included in earnings as a result of those sales?
   b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (i.e., specified identification, average cost, or other method used)?
   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?
   d. The amount of the net unrealized holding gain or loss on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period?
   e. The portion of trading gains and losses for the period that relates to trading securities still held at the reporting date?
   [SFAS 115, par. 21 (AC I80.120)]

9. 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. Net carrying amount of the sold or transferred security?
   b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security?
   c. Related realized or unrealized gain or loss?
   d. The circumstances leading to the decision to sell or transfer the security?
   [SFAS 115, par. 22 (AC I80.121)]

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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 (except those held for sale) reported at cost less accumulated depreciation? [SFAS 60, par. 48, as amended (AC In6.154); AAG, par. 11.77]

13. Are reductions in the carrying amounts of real estate investments resulting from the application of SFAS 144, 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 (AC In6.154)]

14. 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]

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

16. Are adjustments to deferred acquisition costs (DAC) and other assets and liabilities as a result of including unrealized gains or losses as part of shareholders equity in accordance with SFAS 115 disclosed? [AAG, App. C, par. 3]

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 I82.110)]

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?
   [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]
   b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110, 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?
   [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]
   b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]

5. Does the life insurance entity disclose any contingent obligations or commitments for additional funding or guarantees of obligations of the investee? [AAG, par. 11.81]

### 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?

---

1 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 Questions 2a and 2b (1)-(3).
(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 I08.118 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 Question 2 above? [EITF 96-22]

F. Accounts and Notes Receivable and Agents’ Balances

1. Are premiums due reported as assets? [AAG, Table 3.1]

2. Are deferred premiums offset against liabilities for future policy benefits? [AAG, Table 3.1 and par. 7.19]

3. Are hypothecation or other pledging of receivables disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]

4. 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)]

5. If a note is noninterest bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?
   b. Does the disclosure include the effective interest rate and face amount of the note?
   c. Is amortization of discount or premium reported as interest in the income statement? [APB 21, par. 16 (AC I69.109)]
6. 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 120.120)]

Note: SOP 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend or Finance the Activities of Others, is effective for fiscal years beginning after December 15, 2001. Questions 7–15 below apply to organizations that (1) extend credit to customers (constituents) to encourage them to purchase products and services, (2) make mortgage loans, or (3) make secured or unsecured loans to constituents (for example, tenant loans). This checklist includes only the disclosure requirements for the more common activities within the scope of SOP 01-6. If the organization purchases or sells loans or servicing rights, forecloses on a loan, or engages in other more complex lending activities, the disclosure requirements of SOP 01-6 not included herein also should be considered.

7. Does the accounting policy note include the following:
   a. The basis of accounting for loans, trade receivables, and lease financings, including those classified as held for sale?  
   b. The method used in determining the lower of cost or fair value of nonmortgage loans held for sale (that is aggregate or individual asset basis)?
   c. The method for recognizing interest income on loan and trade receivables, including the entity's policy for treatment of related fees and costs and the method of amortizing net deferred fees or costs?
   d. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment?
   e. The accounting policies and methodology the entity used to estimate its allowance for loan losses, allowance for doubtful accounts, any liability for off-balance sheet credit losses, and any related charges for loan, trade receivable or other credit losses, including a description of the factors that influenced management's judgment?
   f. The policy for placing loans (and trade receivables if applicable) on nonaccrual status (or discontinuing accrual of interest) and recording payments received on nonaccrual loans (and trade receivables if applicable), and the policy for resuming accrual of interest?
   g. The policy for charging off uncollectible loans and receivables?
   h. The policy for determining past due or delinquency status (that is, whether that status is based on most recent payment or on contractual terms)?  
   [SOP 01-6, par. 13a thru c]

8. The aggregate amount of gains or losses on sales of loans or trade receivables (including adjustments to record loans held for sale at the lower of cost or fair value) presented separately in the financial statement or disclosed in the notes?  
[SOP 01-6, par. 13d]
9. Loans or trade receivables may be presented on the balance sheet as aggregated amounts. However,
   a. Loans or trade receivables held for sale should be presented on the balance sheet in a separate balance-sheet category?  
      __ __ __
   b. Major categories of loans or trade receivables should be presented separately either in the balance sheet or in the notes?
      __ __ __
   c. The allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, should be disclosed in the financial statements?
      __ __ __
      [SOP 01-6, par. 13e]

10. Foreclosed and repossessed assets classified as a separate balance-sheet amount or included in other assets on the balance sheet with separate disclosures in the notes?
    [SOP 01-6, par. 13f]
    __ __ __

11. Are certain returned or repossessed assets, such as inventory, subsequently to be utilized by the entity in operations, not classified separately?
    [SOP 01-6, par. 13f]
    __ __ __

12. Is the recorded investment in loans (and trade receivables if applicable) on nonaccrual status as of each balance sheet date disclosed in the notes to the financial statements?
    [SOP 01-6, par. 13g]
    __ __ __

13. Is the recorded investment in loans (and trade receivables if applicable) past due ninety days or more and still accruing interest disclosed?
    [SOP 01-6, par. 13g]
    __ __ __

14. Is the carrying amount of securities deposited disclosed if insurance subsidiaries are required to deposit securities with state regulatory authorities?
    [SOP 01-6, par. 13h]
    __ __ __

15. Is the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings disclosed pursuant to paragraphs 18 and 19 of SFAS 5, Accounting for Contingencies?  
    [SOP 01-6, par. 13i]
    __ __ __

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)]
   __ __ __

2. Are the following disclosed in relation to ceded insurance transactions:
   a. Nature of the transaction(s)?
      __ __ __
   b. Purpose of the transaction(s)?
      __ __ __
   c. Effect of the transaction(s)?
      __ __ __
   d. The fact that the insurer is not relieved of its primary obligation to the policyholder in a reinsurance transaction?
      __ __ __
      [SFAS 113, par. 27a (AC In6.191a)]
3. Are the following disclosed for short-duration reinsurance contracts on both a written and an earned basis:
   a. Premiums from direct business?
   b. Reinsurance assumed?
   c. Reinsurance ceded?
   [SFAS 113, par. 27b (AC In6.191b)]

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. 27b (AC In6.191b)]

5. Are the methods used for income recognition on reinsurance contracts disclosed?
   [SFAS 113, par. 27c (AC In6.191c)]

6. Are concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums disclosed for a ceding enterprise under the provisions of paragraph 15A of SFAS 107, Disclosures About Fair Value of Financial Instruments, as amended by SFAS 133, Accounting for Derivative Instruments and Hedging Activities?
   [SFAS 113, par. 28 (AC In6.192); SFAS 133, par. 533]

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); AAG, par. 12.30]

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)]

FSP §20,300.03
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 classified in the balance sheet as assets?
   [AAG, par. 10.22]

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, App. C, par. 5; 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)]

4. If a public company acquires a life insurance entity accounted for as a purchase and the acquirer recognizes an asset for the present value of future profits (PVP) is the following disclosed:
   a. A description of the company’s accounting policy?
   b. An analysis of the PVP asset account for each year for which an income statement is presented, including the PVP balance at the beginning of the year, the amount of PVP additions during the year arising from acquisitions of insurance entities, the amount of interest accrued on the unamortized PVP balance during the year, the interest accrual rate, the amount of amortization during the year, the amount of any write-offs during the year attributable to impairment and how those write-offs were determined, and the PVP balance at the end of the year?
   c. The estimated amount or percentage of the end of the year PVP balance to be amortized during each of the next five years?
      [AAG, App. C, par. 6]

J. Property and Equipment

1. Is the carrying basis of property and equipment disclosed?
   [AAG, App. B; 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)]

Note: Subsequent to the adoption of SFAS 143, the following consensus does not apply to obligations for asbestos removal that are within the scope of SFAS 143.

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]

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 depreciation expense?  
      [SFAS 13, par. 13 (AC L10.112)]
2. Are the following disclosed for operating leases that have initial or remaining noncancelable lease terms in excess of one year:

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

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

      [SFAS 13, par. 16 (AC L10.112)]

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

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 determined?

   b. The existence and terms of renewal or purchase options and escalation clauses?

   c. Restrictions imposed by lease agreements, such as those concerning 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)]

L. Other Assets

Note: If SFAS 142, Goodwill and Other Intangible Assets, has not been adopted, the following questions do apply. See section M for the disclosures required after the effective date of SFAS 142. SFAS 142, is effective starting with fiscal years beginning after December 15, 2001. SFAS 142 is required to be applied at the beginning of an entity’s fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date.

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. Intangible Assets and Goodwill (Only applicable if the provisions of SFAS 142 are being applied to the financial statements)

FSP §20,300.03
Note: SFAS 142 is not applicable to goodwill and other intangible assets arising from combinations between mutual enterprises until the Financial Accounting Standards Board completes its deliberation with respect to application of the purchase method by those entities. Goodwill and intangible assets acquired in a combination between two or more mutual enterprises for which the acquisition date is after June 30, 2001, shall continue to be accounted for in accordance with APB 17.

1. At a minimum, are all intangible assets aggregated and presented as a separate line item in the statement of financial position? (This requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.)
   [SFAS 142, par. 42 (AC G40.141)]

2. Are amortization expense and impairment losses for intangible assets presented in income statement line items within continuing operations as deemed appropriate for each entity?
   [SFAS 142, par. 42 (AC G40.141)]

3. Is the aggregate amount of goodwill presented as a separate line item in the statement of financial position?
   [SFAS 142, par. 43 (AC G40.142)]

4. Is the aggregate amount of goodwill impairment losses presented as a separate line item in the income statement before the subtotal income from continuing operations (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation?
   [SFAS 142, par. 43 (AC G40.142)]

5. Is a goodwill impairment loss associated with a discontinued operation included (on a net-of-tax basis) within the results of discontinued operations?
   [SFAS 142, par. 43 (AC G40.142)]

6. For intangible assets acquired either individually or with a group of assets, is the following information disclosed in the notes to the financial statements in the period of acquisition:
   a. For intangible assets subject to amortization:
      (1) The total amount assigned and the amount assigned to any major intangible asset class?
      (2) The amount of any significant residual value, in total and by major intangible asset class?
      (3) The weighted-average amortization period, in total and by major intangible asset class?
   b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class?
   c. The amount of research and development assets acquired and written off in the period and the line item in the income statement in which the amounts written off are aggregated?
      [SFAS 142, par. 44 (AC G40.143)]

7. Has the following information been disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:

FSP §20,300.03
a. For intangible assets subject to amortization:
   (1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class? 
   (2) The aggregate amortization expense for the period? 
   (3) The estimated aggregate amortization expense for each of the five succeeding fiscal years? 

b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class? 

c. The changes in the carrying amount of goodwill during the period including:
   (1) The aggregate amount of goodwill acquired? 
   (2) The aggregate amount of impairment losses recognized? 
   (3) The amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit? 

8. If the entity reports segment information in accordance with SFAS 131, is the above information about goodwill provided in total and for each reportable segment and are any significant changes in the allocation of goodwill by reportable segment disclosed? 
   [SFAS 142, par. 45 (AC G40.144)] 

9. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, is that unallocated amount and the reasons for not allocating that amount disclosed? 
   [SFAS 142, par. 45 (AC G40.144)] 

10. For each impairment loss recognized related to an intangible asset, is the following information disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized: 
   a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment? 
   b. The amount of the impairment loss and the method for determining fair value? 
   c. The caption in the income statement in which the impairment loss is aggregated? 
   d. If applicable, the segment in which the impaired intangible asset is reported under SFAS 131? 
      [SFAS 142, par. 46 (AC G40.145)] 

11. For each goodwill impairment loss recognized, is the following information disclosed in the notes to the financial statement that include the period in which the impairment loss is recognized: 
   a. A description of the facts and circumstances leading to the impairment? 
   b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses, a present value or other valuation technique, or a combination thereof)? 
   c. If a recognized impairment loss is an estimate that has not yet been finalized (refer to SFAS 142, par. 22), that fact and the reasons
therefor and, in subsequent periods, the nature and amount of any
significant adjustments made to the initial estimate of the impair-
ment loss?
[SFAS 142, par. 47 (AC G40.146–148)]

### M1. Transitional Disclosures for Goodwill and Other Intangible Assets

**Note:** Readers should refer to paragraphs 48–61 of SFAS 142 for effective
date and transition guidance related to SFAS 142.

1. Upon completion of the first step of the transitional goodwill impairment
test, is the reportable segment or segments in which an impairment loss might have to be recognized and the period in which that potential loss will be measured disclosed in any interim financial information?
[SFAS 142, par. 60]

2. In the period of initial application and thereafter until goodwill and all other intangible assets have been accounted for in accordance with SFAS 142 in all periods presented, is the following information displayed either on the face of the income statement or in the notes to the financial statements:
   a. Income before extraordinary items and net income for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in these periods related to goodwill?
   b. Intangible assets that are no longer being amortized?
   c. Any deferred credit related to an excess over cost (amortized in accordance with APB 16)?
   d. Equity method goodwill?
   [SFAS 142, par. 61]

3. Does the adjusted income before extraordinary items and net income also reflect any adjustments for changes in amortization periods for intangible assets that will continue to be amortized as a result of initially applying SFAS 142 (including any related tax effects)?
[SFAS 142, par. 61]

4. Is a reconciliation of reported net income to the adjusted net income disclosed?
[SFAS 142, par. 61]

5. Are adjusted earnings per share amounts for all periods presented in either the face of the income statement or in the notes?
[SFAS 142, par. 61]

### N. Separate Account Assets

1. Are separate account assets reported as summary totals in the financial statements?
[SFAS 60, par. 54 (AC In6.160)]

### O. Deposit Accounting

1. Has a description of the contracts accounted for as deposits and the separate amounts of total deposit assets and total deposit liabilities reported in the statement of financial position been disclosed?
[SOP 98-7, par. 18; AAG, App. C, par. 22]
2. Has the following information regarding the changes in the recorded amount of the deposit arising from an insurance or reinsurance contract that transfers only significant underwriting risk been disclosed?

   a. The present values of initial expected recoveries that will be reimbursed under the insurance or reinsurance contracts that have been recorded as an adjustment to incurred losses?

   b. Any adjustment of amounts initially recognized for expected recoveries? (The individual components of the adjustment (meaning, interest accrual, the present value of additional expected recoveries, and the present value of reductions in expected recoveries) should be disclosed separately.)

   c. The amortization expense attributable to the expiration of coverage provided under the contract?

   [SOP 98-7, par. 19; AAG, App. C, par. 22]

P. Policy Liabilities

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

   [SFAS 60, par. 60a (AC In6.166a); AAG, App. C, par. 7a]

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

   [SFAS 60, par. 60b (AC In6.166b); AAG, App. C, par. 10]

3. Is the carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at present value in the financial statements and the range of interest rates used to discount those liabilities disclosed?

   [SFAS 60, par. 60d (AC In6.166d); AAG, App. C, par. 7b]

4. For each fiscal year for which an income statement is presented is the following information about the liability for unpaid claims and claim adjustment expenses disclosed:

   a. The balance in the liability for unpaid claims and claim adjustment expenses at the beginning and end of the period presented with, if net balances are presented, separate disclosure of 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 period and for increases or decreases in the provision for insured events of prior fiscal years?

   c. Payments of claims and claim adjustment expenses with separate disclosure of payments of claims and claim adjustment expenses attributable to insured events of the current fiscal year and to insured events of the prior period?

   [SOP 94-5, par. 10; AAG, App. C, par. 8]

5. If changes in incurred claims and claim adjustment expenses recognized in the income statement are attributable to insured events of prior periods 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-period effects?  
[SOP 94-5, par. 10, as amended by SOP 01-5; AAG, App. C, par. 9]  

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6. Is the fact that the company considers anticipated investment income in determining if a premium deficiency relating to short-duration contracts exists disclosed?  
[SFAS 60, par. 60e (AC In6.166e); AAG, App. C, par. 7c]  

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7. For participating insurance, does disclosure include:  
   a. The relative percentage?  
   b. The method of accounting for policyholders' dividends?  
   c. The amount of dividends?  
   d. The amount of any additional income allocated to participating policyholders?  
[SFAS 60, par. 60g (AC In6.166g); AAG, App. C, par. 16]  

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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*).

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

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

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10. Are annual policyholder dividends:  
    a. Reported separately as an expense in the statement of income?  
[SOP 95-1, par. 14]  

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11. 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]  

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2 [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]
Q. 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 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 carryforwards) classified according to the expected reversal date of the temporary difference?  
   [SFAS 109, pars. 41 and .288p (AC I27.140)]
Financial Statements and Notes Checklist

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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)]  

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

1. All current deferred tax liabilities and assets?  
2. All noncurrent deferred tax liabilities and assets?  
[SFAS 109, par. 42 (AC I27.141)]  

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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?  

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b. The portion of retained earnings in excess of statutory unassigned surplus upon which no income tax provisions have been made and the reasons therefor?  
[AAG, App. C, par. 11]  

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R. 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?  

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b. Collections received in advance of the performance of services?  

c. Debts that arise from operations directly related to the operating cycle?  

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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?  
[ARB43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109); SFAS78, par. 5 (AC B05.109a)]  

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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); FASBI 8, pars. 2–4 (AC B05.117, .138 and .139)]  

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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)]  

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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?  

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FSP §20,300.03
b. The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings?  

[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?
   c. Is amortization of the discount or premium reported as interest expense?
   d. Are issue costs reported in the balance sheet as deferred charges?  
[APB 21, par. 16 (AC I69.109)]

7. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include:
   a. A general description of the financing agreement?
   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)]

8. For a troubled debt restructuring occurring during the current period, do disclosures include:
   a. Description of the principal changes in terms, the major features of settlement, or both?  
   b. Aggregate gain on restructuring of payables and the related income tax effect?
   c. Aggregate net gain or loss on transfers of assets recognized during the period?
   d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect?  
[SFAS 15, par. 25 (AC D22.121)]

9. For periods after a troubled debt restructuring, do disclosures include:
   a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?
   b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?  
[SFAS 15, par. 26 (AC D22.122)]

10. 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)]
11. 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:
   
   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 140, par. 17(b) (AC L35.109a)] ______ ______ ______

12. 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 140, par. 17(c) (AC L35.109b)] ______ ______ ______

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

14. If a covenant on a long-term loan agreement is not met, and thus, the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements, is the debt classified as noncurrent unless both of the following are met:
   
   a. The covenant violation occurred at the balance-sheet date or would have occurred absent a loan modification? ______ ______ ______
   
   b. It is probable the company will not be able to comply with the covenant at a measurement date within the next 12 months? [EITF 86-30] ______ ______ ______

15. 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] ______ ______ ______

16. In accordance with PB 15, *Accounting by the Issuer of Surplus Notes*, are surplus notes classified as debt in the financial statements of the issuer, and are existing disclosure requirements for debt instruments complied with? [AAG, par. 14.15, App. C, par. 12] ______ ______ ______

17. In accordance with PB 15, is the Insurance Commissioner’s role and ability to approve or disapprove any interest or principal payments disclosed? [AAG, par. 14.15, App. C, par. 13] ______ ______ ______

FSP §20,300.03
18. If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under SFAS 133 when the debt is extinguished, is the reclassified amount not classified as extraordinary? [EITF 00-9]

S. Other Liabilities

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

2. For insurance-related assessments:
   a. If amounts relating to insurance-related assessments have been discounted pursuant to the provisions of SOP 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments, has the entity disclosed in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used? [SFAS 97-3, par. 27; AAG, App. C, par. 23]
   b. If amounts have not been discounted, has the entity disclosed in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized?

T. 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 liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]
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. 7 (AC C24.105)]

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?^3
    [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111); SFAS 111, par. 8(a)3]

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?

13. 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)]

14. 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 in other comprehensive income, 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)]

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^3 As stated in paragraph 8(a)3 of SFAS 111, the dating would rarely, if ever, be of significance after a period of ten years.
15. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?
[FTB 85-6, pars. 1–3 (AC C23.501-.503)]

16. 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, App. C, par. 14]

17. 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]

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**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 (AC In6.116A)]

**B. Investment Income**

1. Are amounts of interest income, loan origination, commitment, amortization amounts, and other fees and costs recognized as an adjustment of yield reported as part of interest income?
[SFAS 91, par. 22 (AC L20.121); AAG, par. 11.55]

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 either hedges of net investments in foreign operations or cash flow hedges as described in SFAS 133) reported in the statement of income as a component of other income, on a pretax basis?
[SFAS 97, par. 28 (AC In6.156)]

4. For all three categories of investments under SFAS 115, is interest and dividend income, including amortization of premium and discount, included in earnings?
[AAG, par. 11.12]
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)]

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?
   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? [SOP 93-7, par. 49]

2. Are payments to policyholders that represent a return of policyholder balances not reported as expenses in the statement of earnings? [AAG, par. 9.19; SFAS 97, par. 21]

3. Do amounts reported as expenses include benefit claims in excess of the related policyholder balances, expenses of contract administration, interest accrued to policyholders, and amortization of capitalized acquisition costs? [AAG, par. 9.19]

4. Are depreciation and other related charges or credits related to real estate investments recorded as investment expense or operating expense depending on the balance-sheet classification of the underlying assets? [AAG, par. 11.77; SFAS 60, par. 48 (AC In6.154)]

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?

FSP §20,300.03
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<td>d. The benefits of operating loss carryforwards?</td>
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<td>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?</td>
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<td>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?</td>
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<td>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)]</td>
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<td>h. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?</td>
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<td>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 I.147)]</td>
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<td>3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35–39 of SFAS 109 (AC I27.134–138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]</td>
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<td>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 to (ii) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?</td>
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<td>5. If the company is a public enterprise, is the estimated amount and the nature of each significant reconciling item disclosed?</td>
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<td>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)]</td>
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<td>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:</td>
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<td>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?</td>
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<td>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 Question a above are presented? [SFAS 109, par. 49a and b (AC I27.148A and B)]</td>
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F. Extraordinary Items, Unusual Items, Infrequent 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. Are the income taxes applicable to extraordinary events disclosed on the face of the statement of operations or in related notes?
   [APB 30, par. 11 (AC I17.102)]

6. 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)]

7. 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?
   [APB 30, par. 26 (AC I22.101)]

   b. Accompanied by disclosure of the nature and financial effects of each event?

8. If the losses and costs incurred as a result of the September 11, 2001 attacks meet the criteria for disclosure of unusual or infrequently occurring items, are they reported as a separate component of income from continuing operations, either on the face of the statement of operations or in the notes to the financial statements?
   [EITF 01-10]

9. Is the following information disclosed in the notes to the financial statements in the period(s) in which business interruption (BI) insurance recoveries are recognized:
   a. The nature of the event resulting in business interruption losses?

   b. The aggregate amount of BI insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts reported as an extraordinary item pursuant to APB 30)?
   [EITF 01-13]
G. Earnings Per Share

*Note:* SFAS 128, *Earnings per Share*, applies only to entities with publicly held common stock or potential common stock.

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?

   [SFAS 128, par. 40 (AC E11.135)]

   b. The effect that has been given to preferred dividends in arriving at income available to common shareholders' in computing basic EPS?

   [SFAS 128, par. 41 (AC E11.136)]

   c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented?

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)]
H. Comprehensive Income

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 C49.108)]

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. Has the enterprise reported a total for comprehensive income in condensed financial statements of interim periods? [SFAS 130, par. 27 (AC C49.121)]

12. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133? [SFAS 133, par. 46 (AC D50)]

13. As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 26 of SFAS 130, Reporting Comprehensive Income, has the entity separately disclosed the beginning and ending accumulated derivative gain or loss, the related net change associated with current period hedging transactions, and the net amount of any reclassification into earnings? [SFAS 133, par. 47 (AC D50)]

I. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:
   a. Adjustments or charges or credits resulting from transactions in the company’s own capital stock?
   b. Transfers to and from accounts properly designated as appropriated retained earnings?
   c. Adjustments made pursuant to a quasi reorganization? [APB 9, par. 28 (AC C08.101)]

2. Is the amount of revenue and expense recognized from advertising barter transactions disclosed for each income statement period presented? [EITF 99-17]

3. If the entity engages in advertising barter transactions for which the fair value is not determinable within the limits of EITF Issue 99-17, is information regarding the volume and type of advertising surrendered and received (such as the number of equivalent pages, the number of minutes, or the overall percentage of advertising volume) disclosed for each income statement period presented? [EITF 99-17]

4. At a minimum, is a description of the nature and amounts of losses and costs recognized as a result of the September 11 events and the amount of related insurance recoveries (if any) recognized disclosed in the notes to the financial statements in all periods affected by the September 11, 2001 attacks? [EITF 01-10]

5. Are losses and costs incurred as a result of the September 11, 2001 attacks classified as part of income from continuing operations? [EITF 01-10]
Financial Statements and Notes Checklist

6. Does a vendor disclose the following in regard to revenue arrangements with multiple deliverables:
   a. Its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting)?
   b. The description and natures of such arrangements, including performance, cancellation, termination, or refund-type provisions? [EITF 00-21]

7. Is the income statement classification of the expense associated with a “free” product or service delivered at the time of sale of another product or service classified as cost of sales? [EITF 01-9]

Statement of Changes in Shareholders’ Equity

1. Are changes in the separate accounts of shareholders’ equity disclosed? [APB 12, par. 10 (AC C08.102)]

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

3. 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 applicable 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?
   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)]

Practice Tip

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

4. 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 (components of an entity, if SFAS 144 is effective), 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); SFAS 3, par. 14]

5. 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 I73.147)]
6. 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 a statement of income is presented) if financial statements present both financial position and results of operations?
   [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 resulting from purchases and sales of securities classified as trading securities as discussed in SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, classified as operating cash flows?
   [SFAS 102, par. 8, as amended by SFAS 115, as amended by SFAS 145 (AC C25.122A)]
   b. 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)]
   c. Are cash receipts and cash payments resulting from purchases, 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?
Financial Statements and Notes Checklist

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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. Is cash payment made to settle an asset retirement obligation classified in the statement of cash flows as an operating activity?
   [EITF 02-6]

5. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?
   [SFAS 95, par. 31 (AC C25.129)]

6. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:
   a. Receipts from collections or sales of loans?
   b. Receipts from sales of property, plant, and equipment?
   c. Loans to others?
   d. Payments to acquire property, plant, and equipment?
   e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?
   f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in a trading account?
   [SFAS 95, pars. 16 and 17, as amended by SFAS 102, as amended by SFAS 115 (AC C25.114 and .115)]

7. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows?
   [SFAS 95, par. 31 (AC C25.129)]

8. 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?
   h. Proceeds received from derivative instruments and distributions to counterparties of derivative instruments that include financing elements at inception?
   [SFAS 95, pars. 19 and 20, as amended by SFAS 149 (AC C25.117 and .118); EITF 95-13]

9. 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)]

10. Is the change in cash and cash equivalents shown?
    [SFAS 95, pars. 7 and 26 (AC C25.105 and .124)]
11. Is the policy for defining cash equivalent disclosed?  
   [SFAS 95, par. 10 (AC C25.108)]

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**Practice Tip**

Any change in policy for determining which items are treated as cash equivalents is a change in accounting principle.

12. Are noncash investing and financing activities, such as converting debt to equity, summarized in a separate schedule?  
   [SFAS 95, par. 32 (AC C25.134)]

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13. 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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14. 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, pars. 29 and 30 (AC C25.128)]

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15. 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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16. 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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17. If the indirect method is used, is the reduction of income taxes paid as a result of a deduction triggered by employee exercise of stock options classified as an operating cash flow?  
   [EITF 00-15]

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18. If a material income tax benefit realized as a result of the deduction triggered by employee exercise of stock options is not presented as a separate line item in the statement of cash flows or in the statement of changes in stockholders' equity, is disclosure made of the material income tax benefit realized?  
   [EITF 00-15]

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19. If an other-than-insignificant financing element is present at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments (that is, the forward points in an at-the-money forward contract), does the borrower report all cash inflows and outflows associated with that derivative instrument in a manner consistent with financing activities as described in paragraphs 18–20 of SFAS 95?

[SFAS 133, par. 45A, as amended by SFAS 149, par. 18 (AC D50.142A)]

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
   a. Balance sheet?
   b. Statement of income (operations)?
   c. Statement of retained earnings or changes in shareholders’ equity?
   d. Statement of cash flows?
   e. Description of accounting policies?
   f. Notes to the financial statements?
      [Generally Accepted]

2. Are the financial statements suitably titled?
   [Generally Accepted]

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

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)]

2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations?
   [APB 22, par. 12 (AC A10.105)]

3. Do those principles and methods identified in Question 2 include all instances in which there:
   a. Is a selection from existing acceptable alternatives?
   b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?
   c. Are unusual or innovative applications of GAAP?
      [APB 22, par. 12 (AC A10.105)]

4. Does disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?
   [APB 22, par. 14 (AC A10.107)]
5. Is the company's accounting policy with respect to vendor's sales incentive arrangements disclosed? [EITF 03-10]  

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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)]

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7. If (a) state prescribed statutory accounting practices differ from NAIC statutory accounting practices or (b) permitted state statutory accounting practices differ from either state prescribed statutory accounting practices or NAIC statutory accounting practices, is the following information about the use of prescribed or permitted statutory accounting practices (individually or in the aggregate) results in reported statutory surplus or risk-based capital that is significantly different from the statutory surplus or risk-based capital that would have been reported had NAIC statutory accounting practices been followed, disclosed:
   a. If an insurance enterprise's risk-based capital would have triggered a regulatory event had it not used a permitted practice, is that fact disclosed in the financial statements?
   b. A description of the prescribed or permitted statutory accounting practice by insurance enterprises at the date each financial statement is presented?
   c. The related monetary effect on statutory surplus of using an accounting practice that differs from either state prescribed statutory accounting practices or NAIC statutory accounting practices by insurance enterprises at the date each financial statement is presented?
      [SOP 94-5, par. 8, as amended by SOP 01-5]

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8. Are managements' policies and methodologies for estimating a liability for unpaid claims and claim adjustment expenses for difficult-to-estimate liabilities such as for claims for toxic waste cleanup, asbestos-related illnesses, or other environmental remediation exposures disclosed? [SOP 94-5, par. 11, as amended by SOP 01-5]

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9. Do the notes to the accompanying insurance enterprise's statutory financial statements contain a summary of significant accounting policies that discuss the following:
   a. Statutory accounting practices?
   b. Describe how this basis differs from GAAP?
      [SOP 95-5, par. 17, as amended by SOP 01-5]

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10. For general-use statutory financial statements, are the effects of the differences between statutory accounting practices and GAAP, if quantified, disclosed?
    [SOP 95-5, par. 17, as amended by SOP 01-5]

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11. If consolidated statements are presented; is the consolidation policy disclosed?
    [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]

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4 Disclosures in this question should be applied by a U.S. insurance enterprise, a U.S. enterprise with a U.S. insurance subsidiary, or a foreign enterprise with a U.S. insurance subsidiary, if the enterprise prepares U.S. generally accepted accounting principles (GAAP) financial statements. If a foreign insurance enterprise that does not have a U.S. insurance subsidiary prepares U.S. GAAP financial statements or is included in its parent's consolidated U.S. GAAP financial statements, the notes to the financial statements should disclose permitted regulatory accounting practices that significantly differ from the prescribed regulatory accounting practices of its respective regulatory authority and their monetary effects.

FSP §20,300.03
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)]

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 A10.124)]

6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:

FSP §20,300.03
a. Effect on income before extraordinary items and on net income?
   [APB 20, par. 33 (AC A06.132)]

b. Effect on related per-share amounts?
   [APB 20, par. 37 (AC A06.133)]

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 A06.133)]

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 A06.133)]

10. 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?
    b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated?
       [SFAS 16, par. 15 (AC A06.113)]

11. If the accounting practice for internal replacements, other than replacements by a universal life-type contract, is changed and the effect is material, does the life insurance entity reflect the accounting change as well as disclose the change in their financial statements as a change in accounting principle, as described in paragraphs 18 through 26 of APB 20?
    [AAG, par. 10.52]

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 the disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the following criteria have been met:
   a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events?
   [SOP 94-6, par. 13]

5. Does the disclosure in Question 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?5
   [SOP 94-6, par. 14]

6. If the estimate in Question 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?6
   [SOP 94-6, pars. 13 and 14]

7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made if, based on information known to management before the financial statements are issued, the criteria in paragraph 21 of SOP 94-6 are met?
   [SOP 94-6, pars. 21 and 22]

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?
   [SOP 94-6, par. 24]

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

10. Are applicable disclosures related to the attacks of September 11 made in the notes to the financial statements in all periods affected by the September 11, 2001 attacks, pursuant to SOP 94-6?
    [EITF 01-01]

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5 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.

6 See footnote 5.
F. Contingencies and Commitments (See also section “Z. Guarantees”)

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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<th>Yes</th>
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<th>N/A</th>
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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 45, par. 13 (AC G80.112)]
   
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization?  
   [SFAS 5, par. 17 (AC C59.118)]
   
<table>
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<th>Yes</th>
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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)]
   
<table>
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<tr>
<th>Yes</th>
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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]
   
<table>
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<tr>
<th>Yes</th>
<th>No</th>
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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)]
   
<table>
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<th>Yes</th>
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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); AAG, par. 5.113c]
   
<table>
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<tr>
<th>Yes</th>
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9. Is a description of contingencies resulting from the September 11 events that have not yet been recognized in the financial statements but that are reasonably expected to impact the entity’s financial statements in the near term disclosed in the notes to the financial statements in all periods affected by the September 11, 2001 attacks?  
   [EITF 01-10]
   
<table>
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<tr>
<th>Yes</th>
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G. Environmental Remediation Liabilities

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

FSP §20,300.03
1. Is there disclosure of the following accounting policies:
   a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?  
      Yes __ No __ N/A __
   b. The policy concerning the timing of recognition of recoveries? (Encouraged, but not required.)
      [SOP 96-1 (Ch. 7, pars. 11 and 12)]
      Yes __ No __ N/A __

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)]
   Yes __ No __ N/A __

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?
      Yes __ No __ N/A __
   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?
      Yes __ No __ N/A __
   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)]
      Yes __ No __ N/A __

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?
      Yes __ No __ N/A __
   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?
      Yes __ No __ N/A __
   c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? (Encouraged, but not required.)
      Yes __ No __ N/A __
   d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? (Encouraged, but not required.)
      Yes __ No __ N/A __
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)]
<table>
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<th>Yes</th>
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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)]
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10. Are applicable disclosures about environmental obligations (and recoveries) related to the attacks of September 11 disclosed in the notes to the financial statements in all periods affected by the September 11, 2001 attacks, pursuant to SOP 96-1? *(Optional.)*
   [EITF 01-10]
<table>
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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.)?
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<th>Yes</th>
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   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?
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<tr>
<th>Yes</th>
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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)]
<table>
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<tr>
<th>Yes</th>
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I. Employee Stock Ownership Plans

1. If an employer sponsors an employee stock ownership plan (ESOP), do the employer's disclosures include:
   
   a. A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented?
<table>
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<th>Yes</th>
<th>No</th>
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FSP §20,300.03
(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? 

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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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?

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

(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?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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c. The amount of compensation cost recognized during the period?

<table>
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<tr>
<th>Yes</th>
<th>No</th>
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d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?

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

(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?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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e. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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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?  

[SOP 93-6, par. 53]

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<th>Yes</th>
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2. Are all the items listed in Question 1 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]

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<thead>
<tr>
<th>Yes</th>
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3. For leveraged ESOPs and for nonleveraged ESOPs where the assets from the pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP, is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account?  

[SOP 93-6, pars. 13 and 46]

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<thead>
<tr>
<th>Yes</th>
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4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported on the employer's balance sheet?  

[SOP 93-6, par. 26]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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5. 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]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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6. If SOP 76-3 is still being followed for ESOP shares purchased before December 31, 1992 and if the reporting entity has guaranteed the debt of an ESOP or made a commitment to make future contributions to  

---

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]
J. Employers' Disclosures About Pensions and Other Postretirement Benefits

Note: In December 2003, the FASB issued a revised SFAS 132, Employers' Disclosures About Pensions and Other Postretirement Benefits. This revised Statement retains the disclosure requirements contained in the original SFAS 132, which it replaces. It requires additional disclosures to those in the original SFAS 132. The following disclosures reflect the revised SFAS 132. Disclosures added by the revision are indicated at the end of the question. The provisions of SFAS 132 remain in effect until the provisions of the revised Statement are adopted. The revised SFAS 132 is effective for financial statements with fiscal years ending after December 15, 2003. The interim-period disclosures required by the revised SFAS 132 are effective for interim periods beginning after December 15, 2003. Disclosure of estimated future benefit payments required by paragraph 5(f) of revised SFAS 132 is effective for fiscal years ending after June 15, 2004. Disclosure of information for nonpublic entities required by paragraphs 8(c)–(f) and 8(j) of revised SFAS 132 (Questions 9c–f and 9j below) is effective for fiscal years ending after June 15, 2004. See the revised SFAS 132 for information about the effective date of disclosure information about foreign plans.

Reduced Disclosure Requirements for Nonpublic Entities

Note: A nonpublic entity is not required to disclose the information required by paragraphs 5(a)–(c), 5(m), and 5(o)–(r) of SFAS 132. See the related disclosure questions above.

1. For a nonpublic entity\(^9\) that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans, has the following information been disclosed, separately for pension plans and other postretirement benefit plans:
   a. The benefit obligation, fair value of plan assets, and funded status of the plan?  
      [SFAS 132, par. 8a (AC P16.150A, P40.169A)]
   b. Employer contributions, participant contributions, and benefits paid?  
      [SFAS 132, par. 8b (AC P16.150A, P40.169A)]
   c. Information about plan assets:
      (1) For each major category of plan assets which shall include, but is not limited to, equity securities, real estate, and all other

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\(^9\) A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market or (c) that is controlled by an entity covered by (a) or (b).
assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented? *(Added by revised SFAS 132.)*

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(2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations? *(Added by revised SFAS 132.)*

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(3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined? *(Added by revised SFAS 132.)*

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*Note:* Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets. *(Added by revised SFAS 132.)*

[SFAS 132, par. 8c]

d. For defined benefit pension plans, the accumulated benefit obligation? *(Added by revised SFAS 132.)*

[SFAS 132, par. 8d]

e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter? (The expected benefits should be estimated based on the same assumptions used to measure the company’s benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.) *(Added by revised SFAS 132.)*

[SFAS 132, par. 8e]

f. The employer’s best estimate, as soon as it can be reasonably determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented? (Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.) *(Added by revised SFAS 132.)*

[SFAS 132, par. 8f]

g. The amounts recognized in the statements of financial position, including net pension and other postretirement benefit prepaid

FSP §20,300.03
assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8g]

h. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8h]

i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost? (Partly added by revised SFAS 132.) [SFAS 132, par. 8i]

j. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations? (Added by revised SFAS 132.) [SFAS 132, par. 8j]

k. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 8k]

l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 8l]

m. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements? [SFAS 132, par. 8m]

2. Are amounts related to the employer’s results of operations disclosed for each period for which a statement of income is presented? [SFAS 132, par. 8]

3. Are amounts related to the employer’s statement of financial position disclosed as of the measurement date used for each statement of financial position presented? [SFAS 132, par. 8]

Disclosures in Interim Financial Reports

4. If the entity is publicly traded, does it disclose the following information in its interim financial statements that include a statement of income:  

FSP §20,300.03
a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment? \textit{(Added by revised SFAS 132.)}  

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

b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.) \textit{(Added by revised SFAS 132.)}  

[SFAS 132, par. 9]  

5. If the entity is nonpublic, does it disclose in interim periods, for which a complete set of financial statements is presented, the total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 8(f) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.) \textit{(Added by revised SFAS 132.)}  

[SFAS 132, par. 10]  

\textbf{Pensions and Other Postretirement Benefits}  

1. If an employer sponsors one or more defined benefit pension plans or one or more defined benefit postretirement plans has the following information been provided, separately for pension plans and other postretirement benefit plans:  

a. A reconciliation of beginning and ending balances of the benefit obligation\textsuperscript{10} showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes\textsuperscript{11} benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits?  

[SFAS 132, par. 5a (AC P16.150, P40.169)]  

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

b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes\textsuperscript{12} contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements?  

[SFAS 132, par. 5b (AC P16.150, P40.169)]  

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

\textsuperscript{10} For defined benefit pension plans, the benefit obligation is the projected benefit obligation—the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation—the actuarial present value of benefits attributed to employee service rendered to a particular date.  

\textsuperscript{11} The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to SFAS 52, \textit{Foreign CurrencyTranslations}.  

\textsuperscript{12} Refer to footnote 10.
Financial Statements and Notes Checklist

| c. | The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including: |
|    | (1) The amount of any unamortized prior service cost? |
|    | (2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)? |
|    | (3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of SFAS 87 or SFAS 106? |
|    | (4) The net pension or other postretirement benefit, prepaid assets, or accrued liabilities? |
|    | (5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 5c (AC P16.150, P40.169)] |

| d. | Information about plan assets: |
|    | (1) For each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented? (Added by revised SFAS 132.) |
|    | (2) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined? (Added by revised SFAS 132.) |
|    | (3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined? (Added by revised SFAS 132.) |
|    | (4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets? (Added by revised SFAS 132.) [SFAS 132, par. 5d] |
| e. | For defined benefit pension plans, the accumulated benefit obligation? (Added by revised SFAS 132.) [SFAS 132, par. 5e] |
| f. | The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. |
The expected benefits should be estimated based on the same
assumptions used to measure the company’s benefit obligation at
the end of the year and should include benefits attributable to
estimated future employee service? *(Added by revised SFAS 132.)*
[SFAS 132, par. 5f]

---

The employer’s best estimate, as soon as it can reasonably be
determined, of contributions expected to be paid to the plan
during the next fiscal year beginning after the date of the latest
statement of financial position presented. Estimated contributions
may be presented in the aggregate combining (a) contributions
required by funding regulations or laws, (b) discretionary contribu-
tions, and (c) noncash contributions? *(Added by revised SFAS
132.)*
[SFAS 132, par. 5g]

---

The amount of net periodic benefit cost recognized, showing
separately the service cost component, the interest cost com-
ponent, the expected return on plan assets for the period, the amor-
tization of the unrecognized transition obligation or transition
asset, the amount of recognized gains and losses, the amount of
prior service cost recognized, and the amount of gain or loss
recognized due to a settlement or curtailment?
[SFAS 132, par. 5h]

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The amount included within other comprehensive income for the
period arising from a change in the additional minimum pension
liability recognized pursuant to paragraph 37 of SFAS 87, as
amended?
[SFAS 132, par. 5i]

---

On a weighted-average basis, the following assumptions used in
the accounting for the plans: assumed discount rates, rates of
compensation increase (for pay-related plans), and expected long-
term rates of return on plan assets specifying, in a tabular format,
the assumptions used to determine the benefit obligation and the
assumptions used to determine net benefit cost? *(Added by revised
SFAS 132.)*
[SFAS 132, par. 5j]

---

The measurement date(s) used to determine pension and other
postretirement benefit measurements for the pension plans and
other postretirement benefit plans that make up at least the major-
ity of plan assets and benefit obligations? *(Added by revised SFAS
132.)*
[SFAS 132, par. 5k]

---

The assumed health care cost trend rate(s) for the next year used
to measure the expected cost of benefits covered by the plan (gross
eligible charges) and a general description of the direction and
pattern of change in the assumed trend rates thereafter, together
with the ultimate trend rate(s) and when that rate is expected to
be achieved?
[SFAS 132, par. 5l]

---

The effect of a one-percentage-point increase and the effect of a
one-percentage-point decrease in the assumed health care cost
trend rates on (1) the aggregate of the service and interest cost
components of net periodic postretirement health care benefit
cost and (2) the accumulated postretirement benefit obligation
for health care benefits? (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)

[SFAS 132, par. 5m]

n. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period?

[SFAS 132, par. 5n]

o. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106?

[SFAS 132, par. 5o]

p. If applicable, any substantive commitment such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation?

[SFAS 132, par. 5p]

q. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event?

[SFAS 132, par. 5lq]

r. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132?

[SFAS 132, par. 5r]

2. Are amounts related to the employer’s results of operations disclosed for each period for which an income statement is presented?

[SFAS 132, par. 5 (AC P16.150, P40.169)]

3. Are amounts related to the employer’s statement of financial position disclosed for each balance sheet presented?

[SFAS 132, par. 5 (AC P16.150, P40.169)]

Employers With Two or More Plans

1. Are the disclosures required by SFAS 132 aggregated for all of an employer’s defined benefit pension plans and for all of an employer’s other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by paragraph 6 of SFAS 132 and paragraph 7 of SFAS 132?

[SFAS 132, par. 6]

2. Unless otherwise stated, are disclosures as of the measurement date for each statement of financial position presented?

[SFAS 132, par. 6]

3. Does the disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately?

[SFAS 132, par. 6]
Life and Health Insurance Entities

**Note:** Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. [SFAS 132, par. 6]

4. If aggregate disclosures are presented, does the employer disclose:
   a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented?
   b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets? [SFAS 132, par. 6]

5. If a U.S. reporting entity combines disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans, are the benefit obligations of the plans outside the United States not significant relative to the total benefit obligation and do those plans not use significantly different assumptions? [SFAS 132, par. 7]

**Note:** A foreign reporting entity that prepares financial statements in Conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceeding guidance to its domestic and foreign plans.

**Defined Contribution Plans**

1. Does the employer disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans? [SFAS 132, par. 11]

2. Do the disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 11]

**Multiemployer Plans**

1. Has the employer disclosed the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented? [SFAS 132, par. 12]

2. If the employer chooses to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans, do the disclosures include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 12]

FSP §20,300.03
3. In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, have the provisions of SFAS 5, Accounting for Contingencies, been applied (SFAS 87, paragraph 70)?

[SFAS 132, par. 13]

4. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) 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 (a “maintenance of benefits” clause), has the employer applied the provisions of SFAS 5 (SFAS 106, par. 83)?

[SFAS 132, par. 13]

Other Matters

5. If the matters addressed in EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, apply, are the disclosure requirements of that EITF Issue complied with?

[EITF 03-2]

K. Consolidations

1. If consolidated statements are presented, is the consolidation policy disclosed?

[ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]

2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated?

[SFAS 94, par. 13 (AC C51.103)]

3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed?

[ARB 51, par. 4 (AC C51.107)]

Consolidation of Variable Interest Entities

Important: SFAS 46 (revised December 2003), Consolidation of Variable Interest Entities, an interpretation of ARB 51, contains different effective dates based on the nature of the entity applying its provisions. Also, FASB 46(R) contains scope exceptions that should be considered in determining whether its provisions apply to a particular entity. Financial statement preparers and auditors should familiarize themselves with the effective date guidance and scope exceptions contained in FASB 46(R), which can be obtained on the FASB Web site at www.fasb.org. Note that FASB 46(R) replaces the original FASBI 46 that was issued in January 2003.

Separate accounts of life insurance entities as described in the AICPA Audit and Accounting Guide Life and Health Insurance Entities, are not subject to consolidation according to the requirements of FASBI 46.
4. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):
   a. The nature, purpose, size, and activities of the variable interest entity?
   b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity’s obligations?
   c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary?
      [FASBI 46(R), par. 23]

5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:
   a. The nature of its involvement with the variable interest entity and when that involvement began?
   b. The nature, purpose, size, and activities of the variable interest entity?
   c. The enterprise’s maximum exposure to loss as a result of its involvement with the variable interest entity?
      [FASBI 46(R), par. 24]

6. Are disclosures required by SFAS 140 about a variable interest entity included in the same note to the financial statements as the information required by FASBI 46(R)?
   [FASBI 46(R), par. 25]

7. If an entity does not apply FASBI 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FASBI 46(R), is the following information disclosed:
   a. The number of entities to which this Interpretation is not being applied and the reason why the information required to apply this Interpretation is not available?
   b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise’s involvement with the entity(ies)?
   c. The reporting enterprise’s maximum exposure to loss because of its involvement with the entity(ies)?
   d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.)
      [FASBI 46(R), par. 26]

L. Financial Instruments

Derivative Instruments and Hedging Activities

1. If an entity holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments
pursuant to paragraphs 37 and 42 of SFAS 133, as amended by SFAS 138) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?

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2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?

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3. Does the description also indicate the entity’s risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?

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4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?

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5. Qualitative disclosures about an entity’s objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of an entity’s overall risk management profile. If appropriate, an entity is encouraged, but not required, to provide such additional qualitative disclosures. Have such disclosures been made?

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6. Do the entity’s disclosures for every reporting period for which a complete set of financial statements is presented also include the following:

**Fair value hedges**

a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

   1. The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges’ ineffectiveness and (b) the component of the derivative instruments’ gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?

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   2. The amount of net gain or loss recognized in earnings when a hedged firm commitment no longer qualifies as a fair value hedge?

   [SFAS 133, par. 45a (AC D50)]

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**Cash flow hedges**

b. For derivative instruments that have been designated and have qualified as cash flow hedging instruments and for the related hedged transactions:

   1. The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges’ ineffectiveness and (b) the component of the derivative instruments’

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gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?

(2) A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months?

(3) The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments?

(4) The amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within an additional two-month period of time thereafter? [SFAS 133, par. 45b, as amended by SFAS 138, par. 4r (AC D50)]

Hedges of the net investment in a foreign operation

c. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133, par. 45c (AC D50)]

7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the entity presented a more complete picture of its activities by disclosing that information? (Encouraged, but not required.) [SFAS 133, par. 45 (AC D50)]

Disclosures About Fair Value of Financial Instruments

8. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes\(^\text{13}\) the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value? [SFAS 107, par. 10 (AC F25)]

9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the

\(^{13}\) If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement as amended.
fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position?

[SFAS 107, par. 10 (AC F25)]

10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASBI 39, *Offsetting of Amounts Related to Certain Contracts*, or the exceptions for master netting arrangements in paragraph 10 of FASBI 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements?*

[SFAS 107, par. 14 (AC F25)]

11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:

a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?

b. The reasons why it is not practicable to estimate fair value?

[SFAS 107, par. 14 (AC F25)]

Note: SFAS 126, *Exemption From Certain Required Disclosures About Financial Instruments for Certain Nonpublic Entities*, as amended,* makes the disclosures about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

a. Are nonpublic entities.

b. Have total assets of less than $100 million on the date of the financial statements.

c. Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, during the reporting period.

**Disclosure About Concentrations of Credit Risk of All Financial Instruments**

12. Except as indicated in paragraph 15b of SFAS 107, has the entity disclosed all significant concentrations of credit risk arising from all

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* In April 2003 the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which, among other matters, amends paragraph 2(c) of SFAS 126, as amended by SFAS 133 by adding the following phrase, *other than commitments related to the origination of mortgage loans to be held for sale*, before the phrase, *during the reporting period*. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, except as stated in paragraph 40 of the Statement. SFAS 149 is also effective for hedging relationships designated after June 30, 2003, except as stated in paragraph 40 of the Statement. All provisions of the Statement should be applied prospectively, except as stated in paragraph 40.

14 SFAS 107 paragraph 15b provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

a. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (Financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 87, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15a).

b. The financial instruments described in paragraphs 8a, 8c, 8e, and 8f of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Postemployment Benefits*, SFAS 123, *Accounting for Stock-Based Compensation*, and SFAS 140, except for reinsurance receivables and prepaid reinsurance premiums.
financial instruments, whether from an individual counterparty or groups of counterparties? (Group concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.) [SFAS 107, par. 15a (AC F25)]

13. Has the entity made the following disclosures about each significant concentration:

a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?

c. The entity’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

d. The entity’s policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements for which the entity is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the entity’s maximum amount of loss due to credit risk?

[SFAS 107, par. 15a (AC F25)]

14. Has the entity disclosed quantitative information\(^{15}\) about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? (Encouraged, but not required.) [SFAS 107, par. 15c (AC F25)]

15. Are the classification and presentation consensuses reached in EITF 00-19, regarding derivative financial instruments indexed to, and potentially settled in, a company’s own stock complied with? [EITF 00-19]

16. Are gains and losses (realized and unrealized) on all derivative instruments within the scope of SFAS 133 shown net when recognized in the income statement, whether or not settled physically, if the derivative instruments are held for trading purposes? [EITF 02-3]

\(^{15}\) Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate repricing or maturity dates, (d) the duration of the financial instruments, or (e) the entity’s value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.
Disclosures About Certain Financial Instruments With Characteristics of Both Liabilities and Equity

Important: Depending upon whether an entity is a nonpublic entity, a public entity, or an SEC registrant, FSP 150-3 defers the effective date for applying the provisions of SFAS 150, Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity. Readers should read FSP 150-3 to understand the various effective dates of SFAS 150. FSP 150-3 is available at the FASB Web site at www.fasb.org.

Early adoption of the provisions of SFAS 150 for instruments within the scope of the indefinite deferrals established by FSP 150-3 is precluded during the deferral period.

During the deferral period, all public entities as well as nonpublic entities that are SEC registrants are required to follow the disclosure requirements in paragraphs 26 and 27 of SFAS 150 (Questions 19 and 20 below) as well as disclosures required by other applicable guidance.

17. For items within the scope of SFAS 150, are they presented as liabilities (or assets in some circumstances), and are those items not presented between the liabilities section and the equity section of the statement of financial position? [SFAS 150, par. 18]

18. If the entity has no equity instruments outstanding but has financial instruments in the form of shares, all of which are mandatorily redeemable financial instruments:
   a. Are they classified as liabilities?
   b. Are they described in the statement of financial position as “shares subject to mandatory redemption?”
   c. Are payments to holders of such instruments and related accruals presented separately from payments to and interest due to other creditors in statements of cash flows and income? [SFAS 150, pars. 19 and 28]

19. Do the entities referred to in Question 17 above disclose the components of the liability that would otherwise be related to shareholders' interest and other comprehensive income, if any, subject to the redemption feature (for example, par value and other paid-in amounts of mandatorily redeemable instruments should be disclosed separately from the amount of retained earnings or accumulated deficit)? [SFAS 150, par. 28]

20. For issuers of financial instruments within the scope of SFAS 150:
   a. Are the nature and terms of the financial instruments and the rights and obligations embodied in those instruments disclosed?
   b. Does that disclosure include information about settlement alternatives, if any, in the contract and identify the entity that controls the settlement alternatives? [SFAS 150, par. 26]

21. For all outstanding financial instruments within the scope of SFAS 150 and for each settlement alternative, do issuers disclose:

FSP §20,300.03
a. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date?

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b. How changes in the fair value of the issuer’s equity shares would affect those settlement amounts (for example, “the issuer is obligated to issue an additional x shares or pay an additional y dollars in cash for each $1 decrease in the fair value of one share”)?

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c. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable?

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d. The maximum number of shares that could be required to be issued, if applicable?

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e. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable?

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f. For a forward contract or an option indexed to the issuer’s equity shares, the forward price or option strike price, the number of issuer’s shares to which the contract is indexed, and the settlement date or dates of the contract, as applicable?

| SFAS 150, par. 27 |

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22. Are mandatorily redeemable financial instruments classified as liabilities unless the redemption is required to occur only upon the liquidation or termination of the reporting entity? [SFAS 150, par. 9]

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23. Are financial instrument, other than an outstanding share, that, at inception, (a) embodies an obligation to repurchase the issuer’s equity shares, or is indexed to such an obligation, and (b) requires or may require the issuer to settle the obligation by transferring assets, classified as liabilities (or assets in some circumstances)? [SFAS 150, par. 11]

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24. Are financial instruments that embody an unconditional obligation, or financial instruments other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, classified as liabilities (or assets in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the items indicated in paragraph 12 of SFAS 150? [SFAS 150, par. 12]

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M. Foreign Currency

1. Is the aggregate transaction gain or loss included in net income for the period disclosed? (Note: for this disclosure, gains and losses on derivative instruments shall comply with paragraph 45 of SFAS 133.) [SFAS 52, par. 30, as amended by SFAS 133 (AC F60.140)]

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2. Is an analysis of changes during the period in the accumulated amount of translation adjustments reported in equity, included, and does it disclose:

FSP §20,300.03
Financial Statements and Notes Checklist

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)]

N. Impairment of Long-Lived Assets to Be Held and Used

1. Is an impairment loss recognized for a long-lived asset (asset group) to be held and used included in income from continuing operations before income taxes in the income statement of a business enterprise? [SFAS 144, par. 25 (AC I08.160)]

2. Is the following information disclosed in the notes to the financial statements that include the period in which an impairment loss is recognized:

   a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment?

   b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement that includes the loss?

   c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)?

   d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under SFAS 131, Disclosures About Segments of an Enterprise and Related Information? [SFAS 144, par. 26 (AC I08.161)]

O. Long-Lived Assets and Disposal Groups to Be Disposed Of Reporting Discontinued Operations

1. Are the results of operations of a component of an entity (as that phrase is defined in SFAS 144) that either has been disposed of or is classified as held for sale reported in discontinued operations in accordance with paragraph 43 of SFAS 144 (Questions 2, 3, 4, and 5 below) if both of the following conditions are met:

FSP §20,300.03
1. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction, and—

   

2. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction?

   [SFAS 144, par. 42 (AC I14.102)]

3. In a period in which a component of an entity either has been disposed of or is classified as held for sale, does the income statement for current and prior periods report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of SFAS 144, in discontinued operations?

   [SFAS 144, par. 43 (AC I14.103)]

4. Are the results of operations of a component classified as held for sale reported in discontinued operations in the period(s) in which they occur?

   [SFAS 144, par. 43 (AC I14.103)]

5. Are the results of discontinued operations, less applicable income taxes (benefit), reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable)?

   [SFAS 144, par. 43 (AC I14.103)]

6. Is the gain or loss recognized on the disposal disclosed either on the face of the income statement or in the notes to the financial statements?

   [SFAS 144, par. 43 (AC I14.103)]

7. Are adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period classified separately in the current period in discontinued operations?

   [SFAS 144, par. 44 (AC I14.104)]

8. Are the nature and amount of such adjustments (as discussed in question 6 above) disclosed?

   [SFAS 144, par. 44 (AC I14.104)]

9. Reporting Gains or Losses in Continuing Operations

10. Is a gain or loss, that is recognized on the sale of a long-lived asset (disposal group) that is not a component of an entity, included in income from continuing operations before income taxes in the income statement?

   [SFAS 144, par. 45 (AC D60.118)]

11. If a subtotal such as "income from operations" is presented, does it include the amounts of those gains or losses considered in question 8 above?

   [SFAS 144, par. 45 (AC D60.118)]

12. Reporting a Long-Lived Asset or Disposal Group Sold or Classified as Held for Sale

13. If the criteria of paragraph 30 of SFAS 144 are met (and thus a long-lived asset is classified as held for sale) after the balance sheet...
date but before issuance of the financial statements, does the long-lived asset continue to be classified as held and used in those financial statements when issued and is the information required by paragraph 47(a) of SFAS 144 (Question 15a below) disclosed in the notes to the financial statements?

[SFAS 144, par. 33 (AC D60.110)]

11. Is a long-lived asset that is classified as held for sale presented separately in the statement of financial position?

[SFAS 144, par. 46 (AC D60.119)]

12. Are the assets and liabilities of a disposal group that is classified as held for sale presented separately in the asset and liability sections, respectively, of the statement of financial position?

[SFAS 144, par. 46 (AC D60.119)]

13. Are those assets and liabilities considered in Question 12 above, not offset and presented as a single amount?

[SFAS 144, par. 46 (AC D60.119)]

14. Are the major classes of assets and liabilities that are classified as held for sale separately disclosed either on the face of the statement of financial position or in the notes to financial statements?

[SFAS 144, par. 46 (AC D60.119)]

15. Is the following information disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:

   a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group?

   [SFAS 144, par. 47 (AC D60.120 and I14.105)]

   b. The gain or loss recognized in accordance with paragraph 37 of SFAS 144 and if not separately presented on the face of the income statement, the caption in the income statement that include that gain or loss?

   c. If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations?

   d. If applicable, the segment in which the long-lived asset (disposal group) is reported under SFAS 131?

16. If either paragraph 38 or 40 of SFAS 144 applies, is a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and its effect on the results of operations for the period and any prior periods presented disclosed in the notes to the financial statements that include the period of that decision?

[SFAS 144, par. 48 (AC D60.121 and I14.106)]

17. If a long-lived asset is to be disposed of other than by sale, does it continue to be classified as held and used until it is disposed of?

[SFAS 144, par. 27 (AC D60.104)]

FSP §20,300.03
P. Transfers and Servicing of Financial Assets and Securitizations

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<td>1. Is the policy for requiring collateral or other security disclosed if the entity has entered into repurchase agreements or securities lending transactions? [SFAS 140, par. 17(a) (AC F39.110a)]</td>
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<td>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? [SFAS 140, par. 17(d) (AC F39.110b)]</td>
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| 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? |   |   |   |
|  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? |   |   |   |
|  c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140? |   |   |   |
|  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 140, par. 17(e) (AC F35.102a)] |   |   |   |
| 4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type: 
  a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value? |   |   |   |
|  b. The characteristics of securitizations (a description of the transferor’s continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations? |   |   |   |
|  c. The key assumptions’ used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)? |   |   |   |

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

FSP §20,300.03
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?
[SFAS 140, par. 17(f) (AC F39.110c)]

5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:
   a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?
   b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?
   c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under b. above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?
   d. For the securitized assets and any other financial assets that it manages together with them:

1. The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?
2. Delinquencies at the end of the period?
3. Credit losses, net of recoveries, during the period?

Disclosure of average balances during the period is encouraged, but not required.
[SFAS 140, par. 17(g) (AC F39.110d)]

Collateral

6. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15(a) of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented?
[SFAS 140, par. 17(a)(2) (AC F39.110a)]

7. If the entity has accepted collateral that it is permitted by contract or custom to sell or pledge, is the fair value, as of the date of each

* Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.
statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140, par. 17(a)(3) (AC F39.110a)]

8. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140, par. 17(a)(3) (AC F39.110a)]

Q. Nonmonetary Transactions

1. Do disclosures for nonmonetary transactions during the period include:
   a. Nature of the transactions?
   b. Basis of accounting for the assets transferred?
   c. Gains or losses recognized on the transfers? [APB 29, par. 28, fn. 7 (AC C11.102 and N35.120); FASBI 30 (AC N35.114–119)]

2. Is the amount of gross operating revenue recognized as a result of nonmonetary transactions addressed by EITF 00-8, Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services, disclosed in each period’s financial statements? [EITF Issue 00-8]

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–.10 (AU 560.03, .04, .07, and 561.01–10)]

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); SAS 1, secs. 560.05–.07, .09, and 561.01–.09 (AU 560.05–.07, .09, and 561.01–09)]

Note: Consider the appropriateness of dual-dating the auditor’s report if a subsequent event is disclosed in the financial statements. [SAS 1, sec. 530.05 (AU 530.05)]

S. Costs Associated With Exit or Disposal Activities

Note: SFAS 146, Accounting for Costs Associated With Exit or Disposal Activities, is effective for exit or disposal activities initiated after December 31, 2002. Early application is permitted. For the purposes of SFAS 146, an exit or disposal activity is initiated when management, having the authority to approve the action, commits to an exit or disposal plan or otherwise disposes of a long-lived asset (disposal group) and, if the activity involves the termination of employees, the criteria for a plan of termination in paragraph 8 of SFAS 146 are met. The provisions of EITF 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF 94-3 prior to SFAS 146’s initial application. Questions 1 through 3 apply only if the provisions of SFAS 146 are not effective.
1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 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? ______ ______ ______
   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 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] ______ ______ ______

Note: Questions 4 through 8 apply only if the provisions of SFAS 146 are effective. The provisions of SFAS 146 are effective for exit or disposal activities initiated after December 31, 2002. Early application is permitted.
4. Is the following information disclosed in notes to the financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:

   a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date?

   b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):

      (1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date?

      (2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustment to the liability with an explanation of the reason(s) therefor?

   c. The line item(s) in the income statement in which the costs in b above are aggregated?

   d. For each reportable segment:

      (1) The total amount of costs expected to be incurred in connection with the activity?

      (2) The amount incurred in the period?

      (3) The cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor?

   e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor?

      [FASB 146, par. 20 (AC L32.120)]

5. Are costs associated with an exit or disposal activity that does not involve a discontinued operation included in income from continuing operations before income taxes, for example, in a subtotal such as “income from operations”?

   [FASB 146, par. 18 (AC L32.118)]

6. Are costs associated with an exit or disposal activity that involves a discontinued operation included in the results of discontinued operation?

   [FASB 146, par. 18 (AC L32.118)]

7. If an event or circumstance occurs that discharges or removes an entity’s responsibility to settle a liability for a cost associated with an exit or disposal activity recognized in a prior period, is the liability reversed?

   [FASB 146, par. 19 (AC L32.119)]

8. Are the related costs reversed through the same line item(s) in the income statement used when those costs were recognized initially?

   [FASB 146, par. 19 (AC L32.119)]

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T. Business Combinations

Note: This section does not apply if the provisions of SFAS 141 are being applied to the financial statements. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. SFAS 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. If the provisions of SFAS 141 are being applied, refer to section T1 below.

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)]
   — — —
   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)]
   — — —
   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)]
   — — —
   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)]
   — — —
   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)]
   — — —

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)]

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**Practice Tip**

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

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**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)]

   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 involuntary 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] __ __ __

6. Is any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC section I27.129 and .135) disclosed? [SFAS 109, par. 48 (AC I27.147)] __ __ __
T1. Business Combinations

**Notes:** This section applies if the provisions of SFAS 141 are being applied to the financial statements. The provisions of SFAS 141 apply to all business combinations initiated after June 30, 2001. SFAS 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. If the provisions of SFAS 141 are not being applied, refer to section T above.

For combinations between two or more **mutual enterprises**, SFAS 141 will not be effective until interpretive guidance related to application of the purchase method to those transactions issued. The FASB intends to consider issues related to the application of the purchase method to combinations between two or more mutual enterprises in a separate project.

1. Do the notes to the financial statements of a combined entity disclose the following information in the period in which a material business combination is completed:
   
   a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?  
   
   b. The primary reasons for the acquisition, including a description of the factors that contributed to a purchase price that results in recognition of goodwill?  
   
   c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?  
   
   d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?  
   
   e. A condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the acquired entity at the acquisition date?  
   
   f. Contingent payments, options, or commitments specified in the acquisition agreement and the accounting treatment that will be followed should any such contingency occur?  
   
   g. The amount of purchased research and development assets acquired and written off in the period (refer to paragraph 42 of SFAS 141) and the line item in the income statement in which the amounts written off are aggregated?  
   
   h. For any purchase price allocation that has not been finalized, that fact and the reasons therefore?  
   
   i. In subsequent periods, the nature and amount of any material adjustment made to the initial allocation of the purchase price? [SFAS 141, par. 51 (AC B51.164)]

2. Is the following information disclosed in the notes to the financial statements in the period in which a material business combination is completed if the amounts assigned to goodwill or to other intangible assets acquired are significant in relation to the total cost of the acquired entity:
a. For intangible assets subject to amortization:
   (1) The total amount assigned and the amount assigned to a major intangible asset class?
   (2) The amount of any significant residual value, in total and by major intangible asset class?
   (3) The weighted-average amortization period, in total and by major intangible asset class?

b. For intangible assets not subject to amortization the total amount assigned and the amount assigned to any major intangible asset class?

c. For goodwill:
   (1) The total amount of goodwill and the amount that is expected to be deductible for tax purposes?
   (2) The amount of goodwill by reportable segment (if the combined entity is required to disclose segment information in accordance with SFAS 131), unless not practicable.
      [SFAS 141, par. 52 (AC B51.165)]

3. If a series of individually immaterial business combinations completed during the period are material in the aggregate, is the following disclosed:
   a. The number of entities acquired and a brief description of those entities?
   b. The aggregate cost of the acquired entities, the number of equity interests, (such as common shares, preferred shares, or partnership interests) issued or issuable, and the value assigned to those interests?
   c. The aggregate amount of any contingent payments, options, or commitments and the accounting treatment that will be followed should any contingency occur (if potentially significant in relation to the aggregate cost of the acquired entities)?
   d. The information described in Question 2 above, if the aggregate amount assigned to goodwill or to other intangible assets acquired is significant in relation to the aggregate cost of the acquired entities?
      [SFAS 141, par. 53 (AC B51.166)]

4. If the combined entity is a public business enterprises, is the following supplemental information on a pro forma basis for the period in which a material business combinations occurs (or for the period in which a series of individually immaterial business combinations occur that are material in the aggregate) disclosed:
   a. Results of operations for the current period as though the business combination or combinations had been completed at the beginning of the period unless the acquisition was at or near the beginning of the period?
   b. Results of operations for the comparable period as though the business combination or combinations had been completed at the beginning of that period if comparative financial statements are presented?
      [SFAS 141, par. 54 (AC B51.167)]
5. Does the supplemental pro forma information display revenue, income before extraordinary items and the cumulative effect of accounting changes, net income, and earnings per share at a minimum? [SFAS 141, par. 55 (AC B51.168)]

Note: In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period. [SFAS 141, par. 55]

6. Does the supplemental pro forma information disclose the nature and amount of material, nonrecurring items included in the reported pro forma results of operations, if any? [SFAS 141, par. 55 (AC B51.168)]

7. In the period in which an extraordinary gain is recognized related to a business combination, do the notes to the financial statements disclose the information required by paragraph 11 of Opinion 30? [SFAS 141, par. 56 (AC B51.169)]

8. If a material business combination is completed after the balance sheet date but before the financial statements are issued, is the information required by question numbers 1 and 2 above disclosed if practicable? [SFAS 141, par. 57 (AC B51.170)]

Interim Financial Information

9. For summarized interim financial information of a public business enterprise is the following information disclosed if a material business combination is completed during the current year up to the date of the most recent interim statement of financial position presented:

   a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?

   b. The primary reasons for the acquisition, including a brief description of the factors that contributed to a purchase price that results in recognition of goodwill?

   c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?

   d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?

   e. Supplemental pro forma information that discloses the results of operations for the current interim period and the current year up to the date of the most recent interim statement of financial position presented (and for the corresponding periods in the preceding year) as though the business combination had been completed as of the beginning of the period reported on?

   f. The nature and amount of any material, nonrecurring items included in the reported pro forma results of operations?
### Financial Statements and Notes Checklist

#### g. Do the pro forma information disclosures in e above display at a minimum, revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share?

[SFAS 141, par. 58 (AC B51.171)]

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### Other Disclosures and Presentation Items

10. Is any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill and other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC section I27.129 and I35) disclosed?

[SFAS 109, par. 48 (AC I27.147)]

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11. If a material liability is recognized by the combined institution for costs incurred to (1) exit and activity, (2) involuntarily terminate employees of an acquired institution, or (3) relocate employees of an acquired entity, are disclosures made in accordance with EITF 95-3, Recognition of Liabilities in Connection With a Purchase Business Combination?

[EITF 95-3]

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### U. Segment Information

**Note:** 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)]

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2. Are the types of products and services from which each reportable segment derives its revenues disclosed?

[SFAS 131, par. 26 (AC F30.125)]

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3. Has a measure of profit or loss and total assets been reported for each reportable segment?

[SFAS 131, par. 27 (AC F30.126)]

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4. If the following specified amounts (a) are included in the measure of segment profit or loss reviewed by the chief operating decision maker or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss, are they disclosed for each reportable segment:

   a. Revenues from external customers?

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   b. Revenues from transactions with other operating segments of the reporting entity?

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   c. Interest revenue?

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   d. Interest expense?

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FSP §20,300.03
e. Depreciation, depletion, and amortization expense?  

f. Unusual items as described in paragraph 26 of APB 30?  

g. Equity in the net income of investees accounted for by the equity method?  

h. Income tax expense or benefit?  

i. Extraordinary items?  

j. Significant noncash items other than depreciation, depletion, and amortization expense?  

[SFAS 131, par. 27 (AC F30.126)]  

5. If the following specified amounts are (a) included in the determination of segment assets reviewed by the chief operating decision maker or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment assets, are they disclosed for each reportable segment:  

a. The amount of investment in equity method investees?  

b. Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets?  

[SFAS 131, par. 28 (AC F30.127)]  

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

a. The basis of accounting for any transactions between reportable segments?  

b. 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?  

c. The nature of any differences between the measurements of the reportable segments’ assets and the reporting entity’s consolidated assets?  

d. 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?  

e. The nature and effect of any asymmetrical allocations to segments?  

[SFAS 131, par. 31 (AC F30.130)]  

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?  

[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 Question 10a 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. Postemployment Benefits

1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements?  
[SFAS 112, par. 7 (AC F32.105)]
W. Stock Compensation Plans

1. Has the entity disclosed the following information in the “Summary of Significant Accounting Policies” or its equivalent:
   a. The method used—either the intrinsic value method or the fair value based method—to account for stock-based employee compensation in each period presented?
   b. For an entity the adopts the fair value recognition provisions of SFAS 123, for all financial statements in which the period of adoption is presented, is there a description of the method of reporting the change in accounting principle?
   c. If awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of APB 25 for any period for which an income statement is presented, is there a tabular presentation of the following information for all periods presented:
      (1) Net income and basic and diluted earnings per share as reported?
      (2) The stock-based employee compensation cost, net of related tax effects, included in the determination of net income, as reported?
      (3) The stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards?
      (4) Pro forma net income as if the fair value based method had been applied to all awards?
      (5) Pro forma basic and diluted earnings per share as if the fair value based method had been applied to all awards?
      [SFAS 123, par. 45, as amended by SFAS 148 (AC C36.144)]

2. Does the required pro forma amounts reflect the difference in stock-based employee compensation cost, if any, included in the net income and the total cost measured by the fair value based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair value based method had been applied to all awards?
   [SFAS 123, par. 45, as amended by SFAS 148]

3. Does the required pro forma per share amounts reflect the change in the denominator of the diluted earnings per share calculation as if the assumed proceeds under the treasury stock method, including measured but unrecognized compensation cost and the excess tax benefits credited to additional paid-in capital, were determined under the fair value based method?
   [SFAS 123, par 45, as amended by SFAS 148]

4. 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)]

5. Are the following disclosed for each year for which an income statement is presented:

FSP §20,300.03
Financial Statements and Notes Checklist

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**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)]*

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

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

7. 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)]*

8. 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?

*FSP §20,300.03*
Life and Health Insurance Entities

b. The number and weighted-average exercise price of options currently exercisable? 
   [SFAS 123, par. 48 (AC C36.147)]

9. For bonus arrangements issued in connection with the grant of stock compensation awards, is any amount recognized as a bonus liability during the service period that exceeds the ultimate bonus paid to the employee reclassified to equity? 
   [EITF 00-23]

10. Is the accounting policy for recognizing compensation cost related to fixed stock awards with pro rata vesting disclosed? 
    [EITF 00-23]

11. Are changes in fair value of an option award granted to employees, in unrestricted, publicly traded shares of an unrelated entity prior to vesting characterized as compensation expense in the employer's income statement? 
    [EITF 02-8]

X. Asset Retirement Obligations

1. Is the following information about its asset retirement obligations disclosed:
   a. A general description of the asset retirement obligations and the associated long-lived assets? 
   [SFAS 143, par. 22 (AC A50.122)]
   b. The fair value of assets that are legally restricted for purposes of settling asset retirement obligations? 
   c. A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations showing separately the changes attributable to (1) liabilities incurred in the current period, (2) liabilities settled in the current period, (3) accretion expense, and (4) revisions in estimated cash flows, whenever there is a significant change in one or more of those four components during the reporting period? 
   [SFAS 143, par. 22 (AC A50.122)]

2. If the fair value of an asset retirement obligation cannot be reasonably estimated is that fact and the reasons therefore disclosed? 
   [SFAS 143, par. 22 (AC A50.122)]

3. In addition to the disclosures required by paragraphs 19 (c), 19 (d), and 21 of APB 20, is the liability for the asset retirement obligation computed on a pro forma basis disclosed in the footnotes for the beginning of the earliest year presented and at the end of all years presented as if SFAS 143 had been applied during all periods affected? 
   [SFAS 143, par. 27]

Y. Demutualizations and Formations of Mutual Insurance Holding Companies

1. Are the nature and terms of a demutualization or formation of and MIHC and the basis of presentation and terms of operation of the closed block disclosed? 
   [SOP 00-3, par. 24]

FSP §20,300.03
2. Is a general description of the method of emergence of earnings from the closed block, presentation of assets and liabilities of the closed block, and policyholder dividend obligation provided? [SOP 00-3, par. 24]

3. If a closed block has formed, is the following disclosed: [Note: Refer to SOP 00-3 Appendix A, “Illustrative Guidance—Footnote Disclosure for the Closed Block,” for an illustrative example]

   a. A general description of the closed block, including the purpose of the closed block, the types of insurance policies included, and the nature of the cash flows that increase and decrease the amount of closed block liabilities? [SOP 00-3, par. 25a]

   b. An indication the continuing responsibility of the insurance enterprise to support the payment of contractual benefits and the nature of expenses charged to the closed block operations? [SOP 00-3, par. 25a]

4. Is summarized financial data of the closed block as of, or for periods ending on the date of, the financial statements presented, including at a minimum:

   a. The carrying amounts for the major types of invested assets of the closed block?

   b. Future policy benefits and policyholders’ account balances?

   c. Policyholder dividend obligation?

   d. Premiums?

   e. Net investment income?

   f. Realized investment gains and losses?

   g. Policyholder benefits?

   h. Policyholder dividends?

   i. The amount of maximum future earnings remaining to inure to the benefit of stockholders from the assets and liabilities of the closed block as well as an analysis of the changes in the policyholder dividend obligation? [SOP 00-3, par. 25b]

Note: GAAP disclosures that typically would be required for the various specific elements included in the closed block need not be made separately for the closed block if the nature of the information for the closed block would not differ significantly from that already included for the reporting entity as a whole. For example, it is not necessary to show a separate schedule of contractual maturities of closed block fixed maturity securities if the relative composition of contractual maturities is similar to those of the reporting entity taken as a whole. However, if the relative maturities of the closed block fixed maturities securities differ from those of the reporting entity taken as a whole, separate disclosures should be made. [SOP 00-3, par. 25c]

Z. Guarantees

1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor’s having to make any payments under the guarantee is remote:

FSP §20,300.03
a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?

b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?

c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?

d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, are the reasons why the maximum potential amount cannot be estimated disclosed?

e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?

f. The nature of—

(1) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee, and?

(2) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee? [FASBI 45, par. 13 (AC G80.112)]

g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FASBI 45, par 13 (AC G80.112)]

2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASBI 45 pursuant to paragraph 7(b) of FASBI 45 (collectively referred to as product warranties), is the following information disclosed:

a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?

b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?

c. Does the tabular reconciliation present—

(1) The beginning balance of the aggregate product warranty liability?

(2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?
(3) The aggregate changes in the liability for accruals to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?

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(4) The ending balance of the aggregate product warranty liability?

[FASB 45, par. 14 (AC G80.113)]

FSP §20,300.03
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>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>SAS</td>
<td>AICPA Statement on Auditing Standards</td>
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<tr>
<td>SOP</td>
<td>AICPA Statement of Position</td>
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<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
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<tr>
<td>SSARS</td>
<td>AICPA Statement on Standards for Accounting and Review Services</td>
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<tr>
<td>AR</td>
<td>Reference to section number in AICPA Professional Standards (vol. 2)</td>
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.03 Checklist Questionnaire:

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<tr>
<td>1. Is every financial statement audited specifically identified in the introductory paragraph of the auditor’s report? [SAS 58, par. 6 (AU 508.06)]</td>
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</tr>
<tr>
<td>2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor’s report match the titles of the financial statements presented? [Generally Accepted]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor’s report match the dates of the financial statements presented? [Generally Accepted]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Does the auditor’s report include appropriate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. A title that includes the word ‘Independent’? [SAS 58, par. 8a (AU 508.08a)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. A statement that the financial statements are the responsibility of management and that the auditor’s responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. (Audits of Non-Public Companies Only) A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards)?
[SAS 58, par. 8d, as amended by SAS 93, (AU sec. 508.08d)]

\( e. \) (Audits of Public Companies Only) A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)?
[PCAOB Auditing Standard No. 1, Appendix, par. 3]

\( f. \) A statement that these standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement?
[SAS 58, par. 8e (AU 508.08e)]

\( g. \) A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation?
[SAS 58, par. 8f (AU 508.08f)]

\( h. \) A statement that the auditor believes that his audit provides a reasonable basis for his opinion?
[SAS 58, par. 8g (AU 508.08g)]

\( i. \) An opinion as to whether the financial statements present fairly, in all material aspects, the financial position of the reporting entity as of the balance sheet date and the results of operations and its cash flows for the period then ended in conformity with generally accepted accounting principles and an identification of the country of origin of those accounting principles (for example, accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles)?
[SAS 58, par. 8h, as amended by SAS 93, (AU sec. 508.08h)]

\( j. \) The manual or printed signature of the auditor’s firm?
[SAS 58, par. 8i (AU 508.08i)]

\( k. \) The date of the audit report?
[SAS 58, par. 8j (AU 508.08j)]

---

**Practice Tip**

Paragraph 8 of SAS 58 illustrates the form of the auditor’s standard report on financial statements covering a single year and on comparative financial statements.

---

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the related financial statements, has the need for dual-dating of the report been considered?
[SAS 1, sec. 530, as amended by SAS 98 paras. 3–5 (AU 530.03–.05)]

---

7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)?
[SAS 26, par. 10 (AU 504.10); SSARS 1, paras. 22 and 38 (AR 100.22 and .38)]

---

8. If the opinion is based in part on the report of another auditor:

\( a. \) Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?

---

FSP §20,400.03
### Auditors' Reports Checklist

#### 9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule?

[SAS 58, pars. 11b and 15 (AU 508.11b and .15)]

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

#### 10. If there is substantial doubt about the entity's ability to continue as a going concern:

- **a.** Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?

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

- **b.** Is that conclusion expressed through the use of the phrase “substantial doubt about its (the entity’s) ability to continue as a going concern” or similar wording that includes the terms substantial doubt and going concern?

[SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]

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

### Practice Tip

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern. See SAS 77 (AU sec. 341.13) for an example.

### 11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:

- **a.** Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?

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

- **b.** Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail?

[SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]

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

- **c.** If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor’s report? *(Note: A change in the reporting entity resulting from a transaction or event, such as a pooling of interest, or the creation, cessation or complete or partial purchase or disposition of a subsidiary or other business unit does not require that an explanatory paragraph about consistency be included in the auditor’s report.)*

[SAS 88, par. 8, AU 420.08]

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

### 12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:

- **a.** Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
b. Does the explanatory paragraph disclose:
   (1) The date of the auditor’s previous report?
   (2) The type of opinion previously expressed?
   (3) The circumstances or events that caused the auditor to express a different opinion?
   (4) That the auditor’s updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements?
   [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]

13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:
   a. Does the introductory paragraph of the report indicate:
      (1) That the financial statements of the prior period were audited by another auditor?
      (2) The date of the predecessor auditor’s report?
      (3) The type of report issued by the predecessor auditor?
      (4) If the report was other than a standard report, the substantive reasons therefor including a description of the nature of and reasons for the explanatory paragraph added to the predecessor’s report or his or her opinion qualification?
   b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement?
   [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]

14. Is an explanatory paragraph (or other explanatory language) added to the standard auditor’s report if the prior period’s financial statements are audited by a predecessor auditor who had ceased operations?
   [AU 9508.60–.74]

15. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact?
   [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.43)]

16. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact?
   [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8, as amended by SAS 98 (AU 558.08)]

17. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor’s report, or both require revision?
   [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]
18. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor’s report describing clearly the character of the auditor's work and the degree of responsibility the auditor is taking? [SAS 8, par. 7, as amended by SAS 98 (AU 550.07); SAS 52, par. 9, as amended by SAS 98 (AU 558.09)]

19. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as “with the foregoing (following) explanation”? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]

20. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]

21. If a qualified opinion is to be expressed because of a scope limitation:
   a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph? __  __  __
   b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of? __  __  __
   c. Is the situation described and referred to in both the scope and opinion paragraphs? __  __  __
   d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? __  __  __
      [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–27)]

Practice Tip
Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31 (AU sec. 508.31)]

Note: Consult the AU 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.

22. If an opinion is disclaimed because of a scope limitation:
   a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs? __  __  __
   b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion? __  __  __
   c. Does the report avoid identifying procedures that were performed? __  __  __
   d. Is the scope paragraph omitted? __  __  __

FSP §20,400.03
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report?  
[SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]

23. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion?  
[SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]

24. If a qualified opinion is to be expressed because of a GAAP departure:
   a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?  
   Yes No N/A

   b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of and a reference to the explanatory paragraph?  
   Yes No N/A

   c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?  
   Yes No N/A

[SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]

25. If an adverse opinion is to be expressed because of a GAAP departure:
   a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?  
   Yes No N/A

   b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?  
   Yes No N/A

   c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP?  
   Yes No N/A

[SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]

Note: Consult the AU 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.

26. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, is it accompanied by a report that:
   a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?  
   Yes No N/A

   b. Specifically identifies the accompanying information?  
   Yes No N/A

   c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?  
   Yes No N/A
Auditors’ Reports Checklist

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

d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)?

[SAS 29, par. 6 (AU 551.06)]

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Practice Tip

SAS 87, Restricting the Use of an Auditor’s Report, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

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FSP §20,400.03
FSP Section 20,500

Supplemental Information for Life Insurance Companies That Are SEC Registrants

.01 Footnote 3 to SAS 69 states, in part, that for Securities and Exchange Commission (SEC) registrants, rules and releases of the SEC have an authority similar to other officially established accounting principles.

Regulation S-X is the primary source of requirements for financial statements and related footnotes required to be included in documents filed with the SEC. In addition to Regulation S-X, preparers and auditors of financial statements should be familiar with the SEC’s Financial Reporting Releases (FRR) and Staff Accounting Bulletins (SAB). FRRs communicate the SEC’s position on accounting and auditing principles and practices. SABs represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant of the SEC. Insurance companies are subject to the requirements of Articles 1–4, 7, 10, and 12 of Regulation S-X.

When determining compliance with SEC requirements, preparers and auditors should refer to the appropriate SEC pronouncements to ensure compliance with SEC disclosure rules. In particular, the following documents should be consulted:

- Regulation S-X, Article 1, Application of Regulation S-X
- Regulation S-X, Article 2, Qualifications and Reports of Accountants
- Regulation S-X, Article 3, General Instructions as to Financial Statements
- Regulation S-X, Article 4, Rules of General Application
- Regulation S-X, Article 7, Insurance Companies
- Regulation S-X, Article 10, Interim Financial Statements
- Regulation S-X, Article 12, Form and Content of Schedules
- Staff Accounting Bulletins—SABs reflect the SEC staff’s views regarding accounting-related disclosure practices. They represent interpretations and policies followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the federal securities laws.
- Financial Reporting Releases (FRR)—FRRs adopt, change, or interpret requirements relating to accounting, auditing, and disclosure issues.
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 Audit and Accounting Guide Life and Health Insurance Entities, 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 also do not reflect the impact of laws and regulations of the insurance entity’s state of domicile. The impact on the financial statements of such laws and regulations vary by state. Many states require conformity with the codification of statutory accounting practices in the NAIC Accounting Practices and Procedures Manual to the extent it does not conflict with its own state laws and regulations. Refer to the NAIC Accounting Practices and Procedures Manual, NAIC Annual Statement Instructions, and specific state laws and regulations to determine the impact of codification and individual state laws and regulations.

.05 These illustrative financial statements are not intended to include items that should be accounted for under the requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and do not reflect the requirements of SFAS 133. Practitioners should refer to SFAS 133 for guidance on reporting derivative instruments and hedging activities. Items in the balance sheet and income statement have been cross-referenced to the applicable chapters of this Guide, for ease of locating information.

.06 Life and health insurance entities generally present unclassified balance sheets.

.07 Also, preparers and auditors of SEC-registrant financial statements are reminded that as discussed in SAB Topic 11M (SAB No. 74), and AU section 9410, Item 3, The Impact on an Auditor’s Report of an FASB Statement Prior to the Statement’s Effective Date, filings with the SEC that include financial statements for a period ending after the issuance of an accounting standard but before the required date of adoption of that accounting standard should include disclosure of the impact that the recently issued accounting standard will have on the financial position and results of operations of the registrant when such standard is adopted in a future period. The following disclosures should be considered by registrants:
• A brief description of the new standard, the date that adoption is required and the date that the registrant plans to adopt, if earlier;

• A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the registrant, if determined;

• A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless unknown or not reasonably estimable. In that case, a statement to that effect may be made;

• Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the new standard (such as technical violations of debt covenant agreements, planned or intended changes in business practices, etc.).
## ABC LIFE INSURANCE COMPANY

### Balance Sheet

**December 31, 20X2 and 20X1**

(Amounts in Thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<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 (estimated fair value: $47,830 in 20X2 and $45,255 in 20X1)</td>
<td>$44,864</td>
<td>$46,310</td>
</tr>
<tr>
<td>Fixed maturities, available for sale, at estimated fair value (amortized cost: $247,525 in 20X2 and $219,565 in 20X1)</td>
<td>255,893</td>
<td>214,563</td>
</tr>
<tr>
<td>Trading account securities, at estimated fair value (cost: $4,220 in 20X2 and $4,419 in 20X1)</td>
<td>3,950</td>
<td>4,190</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>Total investments</td>
<td>441,439</td>
<td>435,236</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 of $4,500 and $2,100 for doubtful accounts</td>
<td>1,647</td>
<td>1,092</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 contract holder 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>Total assets</td>
<td>$501,662</td>
<td>$488,684</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<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>Total liabilities</td>
<td>431,764</td>
<td>429,730</td>
</tr>
</tbody>
</table>

Commitments and contingencies (Note 12)

(continued)

---

1 SOP 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others, requires, among other things, that the summary of significant accounting policies include the basis for accounting for trade receivables, and the classification and method of accounting for other receivables. SOP 01-6 requires that a description of the accounting policies and methodology the entity used to estimate its allowance for doubtful accounts be included in the notes to the financial statements. Such a description should identify the factors that influenced management's judgment and may also include discussion of risk elements relevant to particular categories of financial instruments. In addition, SOP 01-6 requires that the summary of significant accounting policies include the policy for charging off uncollectible trade receivables.

SOP 01-6 contains other presentation and disclosure requirements that may apply to the financial statements of insurance entities. Readers should refer to the full text of SOP 01-6. All of the disclosure requirements of SOP 01-6 are not presented in these illustrative financial statements.

FSP §20,600.09
Shareholders' Equity

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock: authorized—5,000,000 shares of $2 par value; 3,341,624 shares issued and outstanding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>57,776</td>
<td>55,522</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>5,439</td>
<td>(3,251)</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>69,898</td>
<td>58,954</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>$501,662</td>
<td>$488,684</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
ABC LIFE INSURANCE COMPANY  
Statements of Income  
Years Ended December 31, 20X2 and 20X1  
(Amounts in Thousands)  

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premiums and Other Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums:</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>Contract holder 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 and other</td>
<td>4,222</td>
<td>(2,670)</td>
</tr>
<tr>
<td><strong>Total premiums and other revenues</strong></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>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 policy 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><strong>Total benefits and expenses</strong></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>Deferred</td>
<td>(1,405)</td>
<td>540</td>
</tr>
<tr>
<td><strong>Total income taxes</strong></td>
<td>142</td>
<td>1,141</td>
</tr>
<tr>
<td>Net income</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

Statements of Comprehensive Income (Loss)

Years Ended December 31, 20X2 and 20X1

(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$2,254</td>
<td>$1,729</td>
</tr>
<tr>
<td>Other comprehensive income (loss)</td>
<td>8,690</td>
<td>(1,730)</td>
</tr>
<tr>
<td>Total comprehensive income (loss)</td>
<td>$10,944</td>
<td>$(1)</td>
</tr>
</tbody>
</table>

See Note 5 to the financial statements for information about other comprehensive income (loss).
ABC LIFE INSURANCE COMPANY

Statement of Changes in Shareholders' Equity

Years Ended December 31, 20X2 and 20X1

(Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>Capital Stock</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Total Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 20X1</td>
<td>$6,683</td>
<td>$57,068</td>
<td>$(1,521)</td>
<td>$62,230</td>
</tr>
<tr>
<td>Net income for 20X1</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>Other comprehensive income (loss)</td>
<td>—</td>
<td>—</td>
<td>(1,730)</td>
<td>(1,730)</td>
</tr>
<tr>
<td>Balance at December 31, 20X1</td>
<td>6,683</td>
<td>55,522</td>
<td>(3,251)</td>
<td>58,954</td>
</tr>
<tr>
<td>Net income for 20X2</td>
<td>—</td>
<td>2,254</td>
<td>—</td>
<td>2,254</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
<td>—</td>
<td>8,690</td>
<td>8,690</td>
</tr>
<tr>
<td>Balance at December 31, 20X2</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, 20X2 and 20X1
(Amounts in Thousands)

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$2,254</td>
<td>$1,729</td>
</tr>
<tr>
<td>Adjustments to reconcile net income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to net cash provided by operating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest credited to universal life</td>
<td>7,927</td>
<td>10,445</td>
</tr>
<tr>
<td>policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrual of discount on investments,</td>
<td>(976)</td>
<td>(1,328)</td>
</tr>
<tr>
<td>net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized (gains) losses on</td>
<td>(4,222)</td>
<td>2,670</td>
</tr>
<tr>
<td>investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,041</td>
<td>3,534</td>
</tr>
<tr>
<td>Amortization of deferred policy</td>
<td>1,276</td>
<td>1,305</td>
</tr>
<tr>
<td>acquisition costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred federal income taxes</td>
<td>(2,538)</td>
<td>540</td>
</tr>
<tr>
<td>Change in operating assets and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>1,366</td>
<td>880</td>
</tr>
<tr>
<td>Capitalization of deferred policy</td>
<td>(3,783)</td>
<td>(6,645)</td>
</tr>
<tr>
<td>acquisition costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy liabilities</td>
<td>(3,440)</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</td>
<td>261</td>
<td>165</td>
</tr>
<tr>
<td>activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of investments purchased:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities and equity securities</td>
<td>(228,053)</td>
<td>(122,495)</td>
</tr>
<tr>
<td>Mortgage loans and real estate</td>
<td>(921)</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from investments sold,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>redeemed, or matured:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities and equity securities</td>
<td>206,051</td>
<td>95,177</td>
</tr>
<tr>
<td>Mortgage loans and real estate</td>
<td>27,970</td>
<td>18,621</td>
</tr>
<tr>
<td>Policy loans, net</td>
<td>2,320</td>
<td>6,468</td>
</tr>
<tr>
<td>Short-term investments, net</td>
<td>409</td>
<td>15,446</td>
</tr>
<tr>
<td>Net cash provided by investing</td>
<td>7,776</td>
<td>13,217</td>
</tr>
<tr>
<td>activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from financing activities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends to shareholders</td>
<td>—</td>
<td>(3,275)</td>
</tr>
<tr>
<td>Receipts from universal life policies credited to contract holder account balances</td>
<td>7,918</td>
<td>8,365</td>
</tr>
<tr>
<td>Return of contract holder account balances on universal life policies</td>
<td>(4,165)</td>
<td>(3,718)</td>
</tr>
<tr>
<td>Withdrawals from interest-sensitive contracts</td>
<td>(9,848)</td>
<td>(13,046)</td>
</tr>
<tr>
<td>Cash used in financing activities</td>
<td>(6,095)</td>
<td>(11,674)</td>
</tr>
<tr>
<td>Net increase in cash and cash</td>
<td>1,942</td>
<td>1,708</td>
</tr>
<tr>
<td>equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>3,343</td>
<td>1,635</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$5,285</td>
<td>$3,343</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplemental cash flow information:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income taxes paid</td>
<td>$1,205</td>
<td>$785</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

FSP §20,600.13
ABC LIFE INSURANCE COMPANY
Notes to Financial Statements
Years Ended December 31, 20X2 and 20X1

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 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) that differ from statutory accounting practices (SAP) 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, and redeemable and nonredeemable preferred stock not classified as either trading or held to maturity, and are reported at estimated fair value. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in other comprehensive income. Deferred policy acquisition cost offsets for universal life type contracts and amounts attributable to certain participating contracts are recorded as a separate component of accumulated other comprehensive income. 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 adjusted for amortization of premium or discount. Declines in fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary have resulted in write-downs of the individual securities to their fair value. The related write-downs have been included in earnings as realized losses. Trading account securities consist of bonds, notes, and 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 other income.

Mortgage loans on real estate are carried at unpaid balances and are 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. Real estate classified as held-for-sale is no longer depreciated. 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 and other. 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: (i) discounted cash flows (ii) sales of comparable properties (iii) geographic location of property and related market conditions (iv) 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 fair value.

Provisions for impairments of securities classified as held to maturity are included in net realized gains (losses) on investments and other. Realized gains and losses are determined by specific identification.

Cash and cash equivalents. Cash equivalents are carried at cost, which approximates fair 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 contract holders’ 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 costs as expenses at a constant rate applied to net policy liabilities. The effect on the deferred acquisition costs (DAC) asset that would result from realization of unrealized gains (losses) is recognized with an offset to accumulated other comprehensive income in consolidated shareholders’ equity as of the balance sheet date.

Property and equipment. Property and equipment are reported at cost, net of accumulated depreciation of $1,915,000 and $1,721,000 in 20X2 and 20X1, respectively. Property and equipment are depreciated using the straight-line method 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. Liability 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 contract holders’ account balances is a provision for contract holder dividends. Benefit liabilities for contract holders’ 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.

Accounting policy for health liabilities. Unpaid claims on accident and health policies represent the estimated liability for benefit expenses both reported but not paid and incurred but not reported to ABC through December 31. ABC does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liabilities for unpaid claims are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

FSP §20,600.14
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 entities 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 contract holders' 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 contract holders who bear the investment risk. Investment income and investment gains and losses accrue directly to such contract holders. 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, if 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 and 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 fair value of these investments could have an adverse effect on the Company's balance sheet.

The Company regularly invests in mortgaged backed securities (MBS) 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 MBS 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.

Codification. The National Association of Insurance Commissioners revised the Accounting Practices and Procedures Manual in a process referred to as Codification. Codification became effective on January 1, 2001. The Company's state of domicile has adopted the provisions of the revised manual effective January 1, 2001. The revised manual has changed to some extent, prescribed statutory accounting practices, and has resulted in changes to the Company's statutory-based financial statements. The cumulative effect of changes in accounting principles adopted to conform to the revised Accounting Practices and Procedures Manual of $____ has been reported as
an adjustment to increase (decrease) surplus in the Company’s statutory-based financial statements as of January 1, 2001.

Guaranty Funds. Guaranty fund (and other) assessments are accrued at the time the events occur on which assessments are expected to be based.

Note 2: Earnings Per Common Share

Basic and diluted earnings per common share (EPS) are as follows.

<table>
<thead>
<tr>
<th></th>
<th>Income (Numerator)</th>
<th>Shares (Denominator)</th>
<th>Per Common Share Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X2 Net income</td>
<td>2,254</td>
<td>3,342</td>
<td>.67</td>
</tr>
<tr>
<td>Income applicable to common ownership</td>
<td>2,254</td>
<td>3,342</td>
<td>.67</td>
</tr>
<tr>
<td>20X1 Net income</td>
<td>1,729</td>
<td>3,342</td>
<td>.52</td>
</tr>
<tr>
<td>Income applicable to common ownership</td>
<td>1,729</td>
<td>3,342</td>
<td>.52</td>
</tr>
</tbody>
</table>

Note 3: Investments

In reporting disclosures about investments in securities, entities should comply primarily with the requirements of paragraphs 6, 17, 19, 20, 21, and 22 of FASB Statement No. 115 (as amended); paragraphs 47 and 48 of FASB Statement No. 60 (as amended); paragraphs 22, 23, and 28 of FASB Statement No. 91 (as amended); and Appendix C of this Audit and Accounting Guide. Other disclosure requirements may also be applicable.

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 contract holders 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>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</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>60,000</td>
</tr>
</tbody>
</table>

Note 5: Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) represents cumulative gains and losses on items that are not reflected in earnings. The balances and activity for the years 20X2 and 20X1 are as follows.

FSP §20,600.14
Illustrative Financial Statements

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in net unrealized gains (losses) on investment securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains (losses) arising during the period</td>
<td>$13,324</td>
<td>$(1,873)</td>
</tr>
<tr>
<td>Reclassification adjustment for gains (losses) included in net earnings</td>
<td>46</td>
<td>(300)</td>
</tr>
<tr>
<td>Changes in net unrealized gains (losses) on investment securities</td>
<td>13,370</td>
<td>(2,173)</td>
</tr>
</tbody>
</table>

Adjustments for:
- Policyholder liabilities, deferred acquisition costs and deferred federal income taxes | (4,680) | 443 |
- Changes in net unrealized gains (losses) net of adjustments | 8,690 | (1,730) |
- Total other comprehensive income (loss) | $ 8,690 | $(1,730) |

**Note 6: Income Taxes**

Significant components for income tax expense attributable to continuing operations are as follows.

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</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>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.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 20X2</th>
<th>December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>$13,131</td>
<td>$12,297</td>
</tr>
<tr>
<td>Future policy benefits</td>
<td>—</td>
<td>512</td>
</tr>
<tr>
<td>Accrual of discount on bonds</td>
<td>924</td>
<td>1,982</td>
</tr>
<tr>
<td>Other</td>
<td>3,641</td>
<td>1,024</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>17,696</td>
<td>15,815</td>
</tr>
</tbody>
</table>

Deferred tax assets:
- Policyholder dividends | 8,067 | 8,224 |
- Future policy benefits | 851 | — |
- Deferred policy acquisition costs | 2,078 | 1,561 |
- Investment valuation allowance | 1,087 | 1,651 |
- Retirement plan accruals | 1,917 | 497 |
- Tax credits and loss carryforwards | 1,820 | 1,945 |
- Investment income differences | 574 | 556 |
- Other | 406              | 354             |
| Total deferred tax assets | 16,800 | 14,788 |
| Valuation allowance for deferred tax assets | (516) | — |
| Net deferred tax assets | 16,284 | 14,788 |
| Net deferred tax liabilities | $ 1,412 | $ 1,027 |

A Valuation allowance has been established due to the uncertainty of realized certain tax credits and loss carryforwards, and a portion of other deferred tax assets.
A reconciliation of federal income tax expense as presented in the financial statements and income taxes calculated using the statutory corporate tax rate follows.

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from operations</td>
<td>$2,396</td>
<td>$2,870</td>
</tr>
<tr>
<td>Application of income tax rate</td>
<td>838</td>
<td>1,005</td>
</tr>
<tr>
<td>Small company deduction for life insurance companies</td>
<td>(556)</td>
<td>(496)</td>
</tr>
<tr>
<td>Policyholders' share of income (loss) in excess of (less than) dividends paid</td>
<td>(264)</td>
<td>752</td>
</tr>
<tr>
<td>Dividend received deduction</td>
<td>(3)</td>
<td>(50)</td>
</tr>
<tr>
<td>Other</td>
<td>127</td>
<td>(70)</td>
</tr>
<tr>
<td>Total tax expense</td>
<td>$142</td>
<td>$1,141</td>
</tr>
</tbody>
</table>

Note 7: Concentration of Credit Risk

At December 31, 20X2, ABC held unrated or less-than-investment grade corporate debt securities of $8,000,000, net of allowance for losses, with an aggregate market value of $7,500,000. Those holdings amounted to 4 percent of ABC’s corporate debt securities investments and less than 2 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, 20X2, 3 percent of such mortgages ($2,000,000) 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 $300,000.

Note 8: Liability for Unpaid Claims and Claim Adjustment Expenses

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 that have not yet been settled, claims reported subsequent to the balance sheet date that 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 and claim adjustment expenses for the Company’s health and disability coverages is summarized as follows.

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>$4,737</td>
<td>$7,669</td>
</tr>
<tr>
<td>Less: reinsurance recoverables</td>
<td>296</td>
<td>1,018</td>
</tr>
<tr>
<td>Net balance, beginning of year</td>
<td>4,441</td>
<td>6,651</td>
</tr>
<tr>
<td>Amount incurred, related to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years</td>
<td>$ (297)</td>
<td>$ 313</td>
</tr>
<tr>
<td>Current year</td>
<td>26,197</td>
<td>25,671</td>
</tr>
<tr>
<td>Total</td>
<td>25,900</td>
<td>25,984</td>
</tr>
<tr>
<td>Amount paid, related to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years</td>
<td>6,923</td>
<td>8,937</td>
</tr>
<tr>
<td>Current year</td>
<td>18,303</td>
<td>19,257</td>
</tr>
<tr>
<td>Total</td>
<td>25,226</td>
<td>28,194</td>
</tr>
<tr>
<td>Net balance, end of year</td>
<td>5,115</td>
<td>4,441</td>
</tr>
<tr>
<td>Plus: reinsurance recoverables</td>
<td>303</td>
<td>296</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$5,418</td>
<td>$4,737</td>
</tr>
</tbody>
</table>

As a result of changes in estimates of insured events in prior years, the claims and claim adjustment expenses (net of reinsurance recoveries of $(7,000) and $722,000 in 20X2 and 20X1, respectively) decreased by $297,000 in 20X2 reflecting lower-than-anticipated losses on ____________, and increased by $313,000 in 20X1 reflecting higher-than-anticipated losses and related expenses for claims for ____________.

FSP §20,600.14
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 include 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><strong>20X2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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><strong>20X1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>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: Guaranty Fund Assessments

At December 31, 20X2 and 20X1, ABC has recorded $45,000 and $67,000, respectively, in liabilities related to guaranty fund (and other) assessments which are included in other liabilities in the balance sheet. At December 31, 20X2 and 20X1, the carried liability was reduced by recoverables for related premium tax offsets and policy surcharges in the amount of $25,000 and $35,000, respectively. The period over which the assessments are expected to be paid and the recorded premium tax offsets and policy surcharges are expected to be realized is up to five and four years, respectively.

Note 11: 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 (ABC State) Insurance Department), in any twelve-month period is the greater of (a) net investment income for the preceding calendar year or (b) 10 percent of contract holders’ 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 20X3, based on statutory net investment income for 20X2, 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, which (state of domicile) recognizes for determining solvency under the (state of domicile) Insurance Law. The commissioner of the state of domicile Insurance Department has the right to permit other practices that may deviate from prescribed practices. Prescribed SAP are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in (state of domicile). Permitted SAP 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.
Note: Although the following reconciliation to statutory financial information is not required to be disclosed in financial statements prepared in conformity with GAAP, insurance entities sometimes include such disclosures to facilitate use of those financial statements for purposes of filing with state regulatory authorities. The second disclosure on variances from NAIC SAP (as defined below) and permitted accounting practices is required under SOP 94-5, as amended by SOP 01-5.

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>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Amounts in thousands)</td>
<td></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>38,936</td>
<td>36,429</td>
</tr>
<tr>
<td>Postretirement benefits</td>
<td>(2,272)</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(1,228)</td>
<td>(1,084)</td>
</tr>
<tr>
<td>GAAP equity</td>
<td>$69,898</td>
<td>$58,954</td>
</tr>
</tbody>
</table>

The Company’s statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the [state of domicile] Insurance Department. [State of domicile] has adopted the National Association of Insurance Commissioners’ statutory accounting practices (NAIC SAP) as the basis of its statutory accounting practices, except that it has retained the prescribed practice of writing off goodwill immediately to statutory surplus in the year of acquisition.

In addition, the commissioner of [state of domicile] Insurance Department has the right to permit other specific practices that may deviate from prescribed practices. The commissioner has permitted the Company to record its home office property at estimated fair value instead of at depreciated cost, as required by NAIC SAP. This accounting practice increased statutory capital and surplus by $X million and $X million at December 31, 20X2 and 20X1, respectively, over what it would have been had the permitted practice not been allowed. The Company’s statutory capital and surplus, including the effects of the permitted practice, was $X million and $X million at December 31, 20X2 and 20X1, respectively.
Illustrative Financial Statements

Had the Company amortized its goodwill over ten years and recorded its home office property at depreciated cost, in accordance with NAIC SAP, the Company’s capital and surplus would have been $X million and $X million at December 31, 20X2 and 20X1, respectively.

Note 12: Commitments and Contingencies

Future minimum rental payments, principally for administrative offices, under noncancellable operating leases at December 31, 20X2, are: 20X3, $1,113,000; 20X4, $1,064,000; 20X5, $1,011,000; 20X6, $976,000; 20X7, $976,000; and $3,906,000 thereafter. Rental expense was $1,164,000 in 20X2 and $1,184,000 in 20X1.

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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