Checklists and illustrative financial statements for property and liability insurance companies: a financial accounting and reporting practice aid, December 1993 edition

American Institute of Certified Public Accountants. Technical Information Division

Karyn M. Waller

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Checklists and Illustrative Financial Statements for Not-for-Profit Organizations
Checklist and Illustrative Financial Statements for Personal Financial Statement Engagements
Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies
Checklists and Illustrative Financial Statements for Prospective Financial Statement Engagements
Checklists and Illustrative Financial Statements for Savings Institutions
Checklists and Illustrative Financial Statements for State and Local Governmental Units
Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies

A Financial Accounting and Reporting Practice Aid

Edited by
Karyn M. Waller, CPA
Technical Manager, Technical Information Division

Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR PROPERTY AND LIABILITY INSURANCE COMPANIES

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

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

- The checklists and illustrative financial statements have been updated through SAS No. 72, FASB Statement of Financial Accounting Standards No. 117, FASB Interpretation No. 40, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 93-5, AICPA Audit and Accounting Guide, Audits of Property and Liability Insurance Companies (with conforming changes as of May 1, 1993), AICPA Practice Bulletin No. 10, and EITF consensuses adopted up to and including the July 22, 1993, Emerging Issues Task Force meeting. In addition, disclosures related to Statement on Standards for Attestation Engagement No. 2 have been included and a supplemental checklist outlines disclosure requirements for property and liability insurance companies that are SEC registrants. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

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

- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

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

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

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

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

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

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

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

- Debt securities classified as held-to-maturity are reported at amortized cost. Debt and equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings. Debt and equity securities classified as available-for-sale are reported at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.
Checklists—General

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

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

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

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

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

- The checklists are not all-inclusive and are not intended to present minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

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

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

.02 Explanation of References:

AC = Reference to section number in FASB Accounting Standards—Current Text
APB = AICPA Accounting Principles Board Opinion
ARB = AICPA Accounting Research Bulletin
AU = Reference to section number in AICPA Professional Standards (vol. 1)
FASBI = FASB Financial Accounting Standards Board Interpretation
FTB = Technical Bulletin issued by the staff of the FASB
AAG = AICPA Audit and Accounting Guide, Audits of Property and Liability Insurance Companies (with conforming changes as of May 1, 1993)
PBM = AICPA Practice Bulletin
SAS = AICPA Statement on Auditing Standards
SFAS = AICPA Statement of Financial Accounting Standards
SOP = AICPA Statement of Position
EITF = Emerging Issues Task Force Consensus (up to and including the July 22, 1993, Emerging Issues Task Force meeting)
App. K = Appendix K of AAG containing SOP 92-3, Accounting for Foreclosed Assets
App. M = Appendix M of AAG containing SOP 92-5, Accounting for Foreign Property and Liability Insurance
App. N = Appendix N of AAG containing SOP 92-8, Auditing Property/Casualty Insurance Entities' Statutory Financial Statement—Applying Certain Requirements of the NAIC Annual Statement Instructions

.03 Checklist Questionnaire

General

A. Titles and References

1. Are the financial statements suitably titled?
   [SAS 62, par. 7 (AU 623.07)]
   
   Yes   No   N/A

2. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statement presentation?
   [SAS 32, par. 2 (AU 431.02)]
   
   Yes   No   N/A
## B. Disclosure of Accounting Policies

1. Is a description of all significant accounting policies of the reporting company, including the following, presented as an integral part of the financial statements:
   - a. Principles of consolidation? 
   - b. Basis of presentation? 
   - c. Bases of investments? 
   - d. Realized gains and losses? 
   - e. Cash equivalents? 
   - f. Recognition of premium revenues? 
   - g. Deferred policy acquisition costs? 
   - h. Property and equipment? 
   - i. Insurance liabilities? 
   - j. Participating policies? 
   - k. Reinsurance? 
   - l. Income taxes? 
   - m. Foreign insurance? 

   [APB 22, par. 8 (AC A10.102); FASBI 40, par. 5 (AC Re6.114); AAG, App. M (SOP 92-5, par. 19)]

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

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

4. For GAAP reporting purposes, are the following regulatory accounting practices avoided:
   - a. Recording bonds and stocks at carrying amounts required by the National Association of Insurance Commissioners (NAIC)? 
   - b. Exclusion of nonadmitted assets from the balance sheet? 
   - c. Expensing of policy acquisition costs when incurred? 
   - d. Reporting of policyholder dividends as liabilities when declared? 
   - e. Recording minimum liabilities for losses based on statutory formulas? 
   - f. Recognition of salvage and subrogation amounts on the cash basis? 
   - g. No deferred federal income taxes recorded? 

   [AAG, par. 8.22]

5. Are the separate financial statements of all consolidated and unconsolidated subsidiaries presented in conformity with GAAP? 
   [SFAS 94, par. 13 (AC C51.102); AAG, par. 8.22]

6. Are the principles relating to the recognition of premium revenue and related expenses disclosed? 
   [AAG, par. 3.33]

7. For those financial statements in which FASB Interpretation 40 is not adopted, are the following disclosed:
   - a. A description of the Interpretation? 
   - b. The Interpretation’s effective date and transition provisions (for fiscal years beginning after December 15, 1994)?
c. The fact that financial statements prepared on the basis of statutory accounting practices that will no longer be described as prepared in conformity with generally accepted accounting principles (for fiscal years beginning after December 15, 1994)? [FASB 40, par. 6 (AC In6.166A)]

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C. Accounting Changes

1. For all changes in accounting principle, are the following disclosures made in the year of change:
   a. Nature of the change? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]
   b. Justification for the change? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]
   c. Effect on income before extraordinary items and on net income? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]
   d. Effect on related per-share amounts? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]

2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—21 and 25 (AC A06.115—.118 and .121)]

3. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]

4. Is the GAAP hierarchy in SAS 69 (AU 411) followed in justifying a change in accounting principle? [SFAS 111, par. 17 (AC A06.112)]

5. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:
   a. Effect on income before extraordinary items and on net income? [APB 20, par. 33 (AC A06.132)]
   b. Effect on related per-share amounts? [APB 20, par. 33 (AC A06.132)]

6. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements? [APB 20, pars. 36—37 (AC A35.105)]
   b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts? [APB 20, pars. 36—37 (AC A35.105)]

7. If interim financial data and disclosures are not separately reported for the fourth quarter, and an accounting change is made during the fourth quarter, is disclosure of the following made in the year of change:
   a. The effect on the interim periods? [APB 28, par. 31; SFAS 3, par. 14 (AC I73.147)]
   b. Cumulative effect? [APB 28, par. 31; SFAS 3, par. 14 (AC I73.147)]

8. Are the provisions of EITF 93-6 applied for companies with reinsurance contracts with retrospective rating provisions resulting in changes in the amount or timing of future contractual cash flows (including premium adjustments, settlement adjustments, or refunds to the ceding company) or changes in the contract's future coverage in one of the following ways:
   a. By recognition of the net effect of applying the provisions at the beginning of a company's current fiscal year as a cumulative effect of a change in accounting principle?
   b. By restatement of financial statements for all periods presented as long as that restatement is not prohibited by SFAS 113?

D. Comparative Financial Statements

1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance?

[ARB 43, Ch. 2A, par. 2 (AC F43.102)]

3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?

[ARB 43, Ch. 2A, par. 3 (AC F43.103), as amended by APB 20]

E. Business Combinations

1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, do the statements and notes include the required disclosures?

[APB 16, pars. 63—65 (AC B50.122—.124)]

2. If a business combination is accounted for by the purchase method, do the statements and notes include the required disclosures?

[APB 16, pars. 95—96 (AC B50.164—.165)]

3. Where the company purchased an enterprise and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, where the subsidiary has not yet been disposed of, is the disclosure guidance in EITF 90-6, if applicable, followed?

[EITF 90-6]

F. Consolidations (See Exhibit B)

1. If consolidated statements are presented:
   a. Is the consolidation policy disclosed?
      [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]
   b. Are material intercompany balances and transactions eliminated?
      [ARB 51, par. 6 (AC C51.109)]

G. Related-Party Transactions and Economic Dependency

1. For related-party transactions do disclosures include:
   a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?
      [SFAS 57, par. 2 (AC R36.102)]
   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?
      [SFAS 57, par. 2 (AC R36.102)]
   c. The dollar amounts of transactions for each of the periods for which an income statement is presented and the effects of any change in the method of establishing the terms from that used in the preceding period?
      [SFAS 57, par. 2 (AC R36.102)]
   d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement?
      [SFAS 57, par. 2 (AC R36.102)]

2. If the company is part of a group that files a consolidated tax return, is the aggregate amount of current and deferred tax expense disclosed for each of the periods for which an income statement is presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?

[SFAS 109, par. 49a (AC I27.148a)]
3. If the company is part of a group that files a consolidated tax return, are the principal provisions of the method by which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which an income statement is presented?

[SFAS 109, par. 49b (AC I27.148b)]

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

[SFAS 21, par. 9 (AC S20.103)]

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

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

H. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for certain financial instruments specifically exempted by SFAS 105 (AC F25)), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:

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

b. The nature and terms, including, at a minimum, a discussion of:
   (1) The credit and market risk of those instruments?
   (2) The cash requirements of those instruments?
   (3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)?

[SFAS 105, par. 17 (AC F25.112)]

2. For financial instruments with off-balance-sheet risk (except as noted above in Step 1.), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:

a. The amount of accounting loss the company would incur if any party to the financial instrument failed completely to perform according to the terms of the contract, and if the collateral or other security, if any, for the amount due proved to be of no value to the company?

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

[SFAS 105, par. 18 (AC F25.113)]

3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:

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

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

2 Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports, have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), “class of financial instrument” refers to those classifications.
b. The amount of the accounting loss due to credit risk the company would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the company?

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

[SFAS 105, par. 20 (AC F25.115)]

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4. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, either in the body of the financial statements or in the accompanying notes (for those companies with less than $150 million in assets, the effective date of SFAS 107 is for financial statements issued for fiscal years ending after December 15, 1995)?

[SFAS 107, par. 10 (AC F25.115C)]

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5. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed?

[SFAS 107, par. 10 (AC F25.115C)]

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6. If it is not practicable to estimate the fair market value of a financial instrument, are the following disclosed:

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

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

[SFAS 107, par. 14 (AC F25.115G)]

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I. Foreign Currency

1. Is the aggregate transaction gain or loss included in net income for the period disclosed?

[SFAS 52, par. 30 (AC F60.140)]

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2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:

a. Beginning and ending amount of cumulative translation adjustments?

b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?

c. The amount of income taxes for the period allocated to translation adjustments?

d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity?

[SFAS 52, par. 31 (AC F60.141)]

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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)]

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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)]

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5. Is disclosure of principal amounts of spot and forward exchange contracts considered?

[SFAS 80 (AC F80)]

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J. Nonmonetary Transactions

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

K. Contingencies and Commitments

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

2. For loss contingencies not accrued, do disclosures indicate:
   a. Nature of the contingency?
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]

3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that are sold)? [SFAS 5, par. 12 (AC C59.113); FASB 34, pars. 1—3 (AC C59.114)]

4. Are gain contingencies adequately disclosed to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]

5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80)]

L. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)]

2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09)]

M. Pension Plans

1. If there is a defined benefit plan, do disclosures include:
   a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 54a (AC P16.150a)]
   b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?
      (1) If the net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 (AC P16), does that net total include:
(i) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)? 

(ii) Amortization of the net gain or loss from earlier periods?

(iii) Amortization of unrecognized prior service cost?

(iv) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16.150]?

[c] A schedule reconciling the funded status of the plan with amounts reported in the employer’s statement of financial position, showing separately:

(1) The fair value of plan assets?

(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?

(3) The amount of unrecognized prior-service cost?

(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?

(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?

(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?

(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—130) (which is the net result of combining the preceding six items)?

[d] The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?

[e] If applicable, the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?

[f] If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)?

2. If more than one defined benefit plan exists:

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

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

c. Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions?

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

a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]

4. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:
   a. Is the substance of the plan to provide a defined benefit?  
    [SFAS 87, par. 66 (AC P16.163)]
   b. If answer is yes, are disclosures required for a defined benefit plan made?

5. If there is a multiemployer plan, do disclosures include:
   a. A description of the multiemployer plan, including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 66 (AC P16.166)]
   b. The amount of cost recognized during the period? [SFAS 87, par. 69 (AC P16.166)]

6. For a multiemployer plan where a situation arises where the withdrawal from the plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied? [SFAS 87, par. 70 (AC P16.167)]

7. If there is a settlement or curtailment of a defined benefit pension plan, or termination benefits under such plan, do disclosures include:
   a. A description of the nature of the event(s)?
   b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]

8. If a company terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following considered:

Assets contributed to a defined contribution plan:
   a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?
   b. Is the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset?
      (1) Is the income attributed to such securities, including dividends, interest and realized gains and losses, reported in a manner consistent with the employer's reporting of similar items?
   c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?
   d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements? [EITF 86-27]

Assets contributed to an ESOP:
   a. If the excess contribution is not allocated to individual participants, are the unallocated shares of the employer's own common stock reported as a reduction of stockholders' equity, as if they were treasury stock?
   b. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?
c. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements?

[89x649]EITF 86-27]

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

1. If there are one or more defined benefit postretirement plans, do disclosures include:
   a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?
   b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components?
   c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:
      1. The fair value of plan assets?
      2. The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and active plan participants?
      3. The amount of unrecognized prior-service cost?
      4. The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?
      5. The amount of any remaining unrecognized transition obligation or transition asset?
      6. The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?
   d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible charges) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?
   e. The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?

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3 The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:

   a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
   b. Amortization of unrecognized prior service cost.
   c. Amortization of the net gain or loss from earlier periods.
   d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 (AC P40.156)).
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:

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

(2) The accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)?

g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?

h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (AC P40.148 or .155)?

i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?

SFAS 106, par. 74 (AC P40.169]

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

SFAS 106, par. 74a—j (AC P40.169a—j]

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

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

SFAS 106, par. 77 (AC P40.172]

b. Are plans that primarily provide postretirement health care benefits and plans that primarily provide other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?

SFAS 106, par. 78a (AC P40.173]

c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?

SFAS 106, par. 78 (AC P40.173]

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

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

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

SFAS 106, par. 82a—b (AC P40.178]

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

Yes  No  N/A

(2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?

Yes  No  N/A

4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:

   a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?

      Yes  No  N/A

   b. The amount of cost recognized during the period?

      Yes  No  N/A

O. Futures Contracts

1. If a futures contract is accounted for as a hedge, does the disclosure include:

   a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?

      Yes  No  N/A

   b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts?

      Yes  No  N/A

P. Troubled Debt Restructurings (Assumes adoption of SFAS 114—See Exhibit C if SFAS 114 has not been adopted)

1. For loans sold with recourse, are the following disclosures made:

   a. For each period for which an income statement is presented, the amount of proceeds?

      Yes  No  N/A

   b. At date of each balance sheet presented, balance of sold receivables that remains uncollected?

      Yes  No  N/A

Q. Lease Finance Receivables

1. Do disclosures include:

   a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?

      Yes  No  N/A

   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?

      Yes  No  N/A

   c. Total contingent rentals included in income for each period for which an income statement is presented?

      Yes  No  N/A

2. Are leasing arrangements described?

   Yes  No  N/A

   [SFAS 13, pars. 23a—c and 29 (AC L10.125 and .130k—I); SFAS 91, par. 25 (AC L10.119a(1)—(3)); SFAS 98, pars. 17—18 (AC L10.130k—m)]

3. Are leveraged leases appropriately accounted for and reported?

   Yes  No  N/A

   [SFAS 13, pars. 41—47 (AC L10.143—149)]

R. Valuation Allowances

1. Are valuation reserves for losses anticipated on assets deducted from the assets to which they relate?

   Yes  No  N/A

   [APB 12, par. 3 (AC V18.102); AAG, par. 8.22]

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5. Other Matters

1. If required (SFAS 21 (AC S20)), does the financial statement presentation include segment information?
   [SFAS 14 (AC S20); SFAS 24, par. 5 (AC S20.109—.110); SFAS 30, par. 6 (AC S20.145); FTBs 79-4, 79-5 and 79-8 (AC S20.501—.507)]

Balance Sheet

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

1. Are there separate captions for each of the following investment categories:
   a. Fixed maturities?
   b. Equity securities?
   c. Mortgage loans on real estate?
   d. Investment real estate?
   e. Policy loans?
   f. Other long-term investments?
   g. Short-term investments?
      [AAG, App. C (Exh. C-1)]

2. Are mortgage loans reported at outstanding balances, net of the unamortized balances of loan origination, commitment, other fees and costs, purchase premiums and discounts and allowance for losses?
   [SFAS 91, par. 21 (AC L20.120)]

3. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported in income as prescribed in SFAS 114?
   [SFAS 60, par. 47 (AC In6.153); AAG, par. 5.26]

4. Are real estate investments reported at cost less accumulated depreciation and an allowance for any impairment in value?
   [SFAS 60, par. 48 (AC In6.154); AAG, par. 5.26]

5. Are changes in the allowance for any impairment in value relating to real estate investments included in realized gains and losses?
   [SFAS 60, par. 48 (AC In6.154); AAG, par. 5.26]

6. Is an explanation of the company's accounting policies for debt securities held, including the basis for classification into balance sheet captions, such as investment or trading, disclosed?
   [AAG, App. J (SOP 90-11, par. 8)]

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

8. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each balance sheet presented:
   a. Aggregate fair value?
   b. Gross unrealized holding gains?
   c. Gross unrealized holding losses?
   d. Amortized cost basis?
      [SFAS 115, par. 19 (AC I80.118)]
9. For the most recent balance sheet presented, are the contract maturities (including the fair value and amortized cost of debt securities) of investment in debt securities classified as available-for-sale or held-to-maturity disclosed, based on at least the following maturity groupings:
   a. In one year or less? Yes No N/A
   b. After one year through five years? Yes No N/A
   c. After five years through ten years? Yes No N/A
   d. After ten years? Yes No N/A
   [SFAS 115, par. 20 (AC I80.119); AAG, App. J (SOP 90-11, par. 9)]

10. Are the following major-security types disclosed:
   a. Equity securities? Yes No N/A
   b. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies? Yes No N/A
   c. Debt securities issued by states of the U.S. and political subdivisions of the states? Yes No N/A
   d. Debt securities issued by foreign governments? Yes No N/A
   e. Corporate-backed securities? Yes No N/A
   f. Mortgage-backed securities? Yes No N/A
   g. Other debt securities? Yes No N/A
   h. Other security types, as deemed appropriate? Yes No N/A
   [SFAS 115, par. 19 (AC I80.118); AAG, App. J (SOP 90-11, par. 9)]

11. For securities not due at a single maturity date, is consideration given to disclosing the following:
   a. The securities separately rather than allocated over several maturity groupings? Yes No N/A
   b. The basis for allocation if such securities are allocated? Yes No N/A
   [SFAS 115, par. 20 (AC I80.119)]

B. Cash
   1. Is separate disclosure made for restricted cash? Yes No N/A
   [ARB 43, Ch. 3A, par. 6 (AC B05.107)]

C. Accounts Receivable and Agents' Balances
   1. Are insurance premiums and agents' balances uncollected included? Yes No N/A
   [AAG, par. 3.17]
   2. Are hypothecation or other pledging of receivables disclosed? Yes No N/A
   [SFAS 5, pars. 18 and 19 (AC C59.120)]

D. Reinsurance Recoverable on Paid Losses
   1. Does the company treat fronting arrangements as reinsurance arrangements for purposes of disclosures required by SFAS 60? Yes No N/A
   [PB, par. 6]
   2. Are the following disclosed in relation to ceded insurance transactions:
      a. Nature of the transaction(s)? Yes No N/A
      b. Purpose of the transaction(s)? Yes No N/A
      c. Effect of the transaction(s)? Yes No N/A
      d. The fact that the insurer is not relieved of its primary obligation to the policyholder in a reinsurance transaction? Yes No N/A
      [SFAS 113, par. 27(a) (AC I6.191)]
   3. Are the following disclosed for short-duration reinsurance contracts on both a written and an earned basis:
      a. Premiums from direct business? Yes No N/A
b. Reinsurance assumed?

c. Reinsurance ceded?

[SFAS 113, par. 27(b) (AC In6.191)]

4. Are the following disclosed for long-duration reinsurance contracts:

   a. Premiums and amounts assessed against policyholders from direct business?
   
   b. Reinsurance assumed?
   
   c. Reinsurance ceded?
   
   d. Premiums and amounts earned?

   [SFAS 113, par. 27(b) (AC In6.191)]

5. Are the methods used for income recognition on reinsurance contracts disclosed?

   [SFAS 113, par. 27(c) (AC In6.191)]

6. Are the following items reported separately as assets for those companies participating in ceding transactions:

   a. Estimated reinsurance receivables arising from ceding transactions?
   
   b. Amounts paid to the reinsurer relating to the unexpired portion of reinsured contracts (prepaid reinsurance premiums)?

   [SFAS 113, par. 14 (AC In6.176—.192)]

7. Are amounts receivable and payable between the ceding company and an individual reinsurer offset only when a right of offset exists as defined in FASB Interpretation 39?

   [SFAS 113, par. 15 (AC In6.176—.192)]

8. Are the amounts of earned premiums ceded and recoveries recognized under reinsurance contracts reported in the statements of earnings as separate line items or disclosed in the notes?

   [SFAS 113, par. 16 (AC In6.176—.192)]

E. Deferred Acquisition Costs

1. Are the following disclosed relating to deferred acquisition costs:

   a. The nature of costs capitalized?

   b. The method of amortizing these costs?

   c. The amount of these costs amortized for the period?

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

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

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

F. Property and Equipment

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

   [AAG, App. C (Exh. C-1)]

2. For depreciable assets, are the following disclosed:

   a. Depreciation expense for each period for which an income statement is presented?

   b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date?

   c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date?

   d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets?

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

3. Are pledged, mortgaged, or liened assets disclosed?

   [SFAS 5, pars. 18 and 19 (AC C59.120)]
4. For any accounting period in which interest costs are capitalized, is the total amount of interest cost incurred during the period, and the amount thereof capitalized, disclosed?

[SFAS 34, par. 21 (AC 167.118)]

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G. Lessee Leases

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

   a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function (this information may be combined with the comparable information for owned assets)?

   b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the next five fiscal years, with separate deductions from the total for executory costs, including any profit thereon that is included in the minimum lease payments and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value?

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

   d. Total contingent rentals actually incurred for each period for which an income statement is presented?

   e. Separate identification of:

      (1) Assets recorded under capital leases?

      (2) Accumulated amortization of capital leases?

      (3) Obligations under capital leases?

      (4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense?

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

2. Are the following disclosed for operating leases having initial or remaining noncancelable lease terms in excess of one year:

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

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

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

3. For all operating leases, are the following disclosed:

   a. Rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals (rental payments under leases with terms of a month or less that were not renewed need not be included)?

   b. A general description of the lessee’s leasing arrangements including, but not limited to, the following:

      (1) The basis on which contingent rental payments are determined?

      (2) The existence and terms of renewal or purchase options and escalation clauses?

      (3) Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing?

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

1. For foreclosed assets held for sale:
   a. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, is the deficiency recognized and disclosed as a valuation allowance? [AAG, App. K (SOP 92-3, par. 12)]
   b. Are changes in the valuation allowance based upon fluctuations in the fair value (less disposal costs) charged or credited to income and disclosed, if material? [AAG, App. K (SOP 92-3, par. 12)]

2. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means? [AAG, App. K (SOP 92-3, par. 15)]

3. If foreclosed assets originally classified as held-for-sale are to be held for production of income, is the net effect reported in income from continuing operations for the period in which the decision to retain the assets is made? [AAG, App. K (SOP 92-3, par. 16)]

4. In the period of transition for the adoption of SOP 92-3, is the nature of change disclosed in the financial statements for the period in which the change is made? [AAG, App. K (SOP 92-3, par. 17)]

5. Are the amounts of premiums, claims, and expenses in the underwriting account disclosed for each balance sheet presented? [AAG, App. M (SOP 92-3, par. 19)]

I. Policy Liabilities

1. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed? [SFAS 60, par. 60a (AC 1966a)]

2. Are 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 1966d); AAG, App. L (SOP 92-4, par. 1.05)]

3. Is an unearned premium reserve presented as a liability for the portion of premiums applicable to the unexpired periods of policies? [SFAS 60, par. 60a (AC 1966a)]

J. 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 127.116)]

2. Are the components of the total of all deferred tax assets and valuation allowance recognized in the statement of financial position disclosed? [SFAS 109, par. 43b-c (AC 127.142b-c)]

3. Are the components of the total of all deferred tax liabilities recognized in the balance sheet disclosed? [SFAS 109, par. 43a (AC 127.142a)]

4. Is the following information disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23 (as amended by SFAS 109):
   a. A description of the types of temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable?
   b. The cumulative amount of each type of temporary difference?
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? 

Yes  No  N/A

d. The amount of the deferred tax liability for temporary differences other than those in Step 4.c. above (e.g., undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC section 127.130 and .131)?

[SFAS 109, par. 44 (AC 127.143)]

5. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:

a. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes?

b. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital?

[SFAS 109, par. 48 (AC 127.147)]

K. Long-Term Debt

1. Are the following disclosed for each of the five years following the date of the latest balance sheet presented:

a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria of SFAS 47 and that are recognized on the purchaser's balance sheet?

b. The combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings?

c. The amount of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates, separately by issue or combined?

[SFAS 47, par. 10 (AC C32.105)]

2. Are conversion features appropriately accounted for and disclosed?

[APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]

3. For troubled debt restructuring occurring during the current period, do disclosures include:

a. Description of the principal changes in terms, the major features of settlement, or both?

b. Aggregate gain on restructuring of payables and the related income tax effect?

c. Aggregate net gain or loss on transfers of assets recognized during the period?

d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect?

[SFAS 15, par. 25 (AC D22.121)]

4. For periods after a troubled debt restructuring, do disclosures include:

a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?

b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?

[SFAS 15, par. 26 (AC D22.122)]

5. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount identified as a separate or extraordinary item?

[SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]
6. Do disclosures for extinguishments of debt described in Step 5. above include:
   a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?  
   b. Income tax effect in the period of extinguishment?  
   c. The per-share amount of the aggregate gain or loss net of related income tax effect?  
      [SFAS 4, par. 9 (AC D14.107)]

7. If debt is considered extinguished through an in-substance defeasance, does the disclosure include:
   a. A general description of the transaction?  
   b. The amount of debt that is considered extinguished at the end of the period, so long as the debt remains outstanding?  
      [SFAS 76, par. 6 (AC D14.108)]

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

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

2. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated?  
   [SFAS 88, par. 15 (AC P16.185)]

3. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability?  
   [SFAS 77, par. 8 (AC R20.108)]

4. Are net credits arising from financing-type reinsurance agreements treated as a deferred credit or liability by the ceding company?  
   [AAG, par. 6.21]

5. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 (AC C39) or SFAS 43 (AC C44) only because the amount cannot be reasonably estimated and the financial statements are for a fiscal year beginning after December 15, 1993, is this fact of nonaccrual disclosed in the financial statements?  
   [SFAS 112, par. 7 (AC P32.105)]

6. If the company discounts environmental liabilities and the effect of such discounting is material, do the financial statements disclose the following:
   a. The undiscounted amounts of the liability?  
   b. The related recovery?  
   c. The discount rate used?  
      [EITF 93-5]

M. Capital Stock
1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share?  
   [APB 12, par. 10 (AC C08.102)]
2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)?
[APB 15, par. 19 (AC E09.110)]

3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented?
[SFAS 47, par. 10 (AC C32.105)]

4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate?
[APB 10, par. 10 (AC C16.101)]

5. For stock option and stock purchase plans, do disclosures include:
   a. The number of shares under option?
   b. The option price?
   c. The number of shares as to which options are exercisable?
   d. For shares exercised, the number of shares exercised and option price?
[APB 43, Ch. 13B, par. 15 (AC C47.123); FASBI 28 (AC C47.119—.122 and .138—.146); FTB 82-2, pars. .10—.12 (AC C47.513—.515); FASBI 38 (AC C47.135A-.135E)]

6. Does disclosure of the following aspects of capital instruments include:
   a. Bases for calculation of dividends?
   b. Redemption provisions?
   c. Liquidation accounts for converted institutions?
   d. Cumulative dividends in arrears?
   e. Changes in control provisions?
   f. Other matters necessary for a clear understanding of the company’s financial condition?
[APB 10, par. 11 (AC C16.102); AAG, par. 14.15]

N. Retained Earnings
1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed?
[SFAS 5, par. 18 (AC C59.120)]

2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders’ equity?
[SFAS 5, par. 15 (AC C59.117)]

3. After completion of a quasi reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant?
[ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46, par. 2 (AC Q15.111)]

O. Other Stockholders’ Equity Accounts (Also see Exhibit B if SFAS 115 has not been adopted)
1. Are cumulative translation adjustments separately disclosed?
[SFAS 52, par. 31 (AC F60.141)]

2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?
[FTB 85-6, par. 3 (AC C23.501—.503)]

3. Do the stockholders’ equity accounts include:
   a. Capital stock?
b. Capital in excess of par?
   
   [AAG, App. C (Exh. C-1)]

4. If statutory surplus is below the minimum required by law, is disclosure of the relevant facts made?
   [AAG, par. 8.04]

5. Is the following information relating to stockholders' equity, statutory capital and surplus, and the effects of statutory accounting practices on the ability to pay dividends to stockholders disclosed:
   a. The amount of statutory capital and surplus?
   b. The amount of statutory capital and surplus necessary to satisfy regulatory requirements (based on current operations) if significant in relation to the statutory capital and surplus?
   c. The nature of statutory restrictions on the payment of dividends and the amount of retained earnings that is not available for the payment of dividends to stockholders?
      [SFAS 60, par. 60h (AC In6.166h)]

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

Income Statement

A. Investment Income

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

2. Except as specified in SFAS 91, paragraph 20 (AC L20.119), is the interest method used as the method of amortization?
   [SFAS 91, par. 18 (AC L20.117)]

3. Is investment income presented net of investment expenses?
   [AAG, par. 5.21]

4. Are realized gains and losses on all investments (except for those that are accounted for as hedges as described in SFASs 52 and 80) reported in the statement of earnings as a component of other income, on a pretax basis?
   [SFAS 97, par. 28 (AC In6.156)]

B. Other Income

1. Are commitments or other fees that are either being amortized on the straight-line method or included in income when the commitment expires, reported as service fee income?
   [SFAS 91, par. 22 (AC L20.121)]

2. For investments in common stock accounted for by the equity method:
   a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties?
      [APB 18, par. 19a (AC I82.109a)]
   b. Is the investor's share of earnings shown as a single amount, except for investee extraordinary items and prior-period adjustments that are material to the investor?
      [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]
C. Benefits and Expenses

1. Compensation:
   a. For a compensatory stock issuance plan, is compensation expense accrued in the proper periods?
      [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]
   b. For deferred compensation agreements, are estimated amounts to be paid properly accrued?
      [APB 12, pars. 6—7 (AC C38.101—.102)]

2. Is discount or premium on notes receivable and payable amortized to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period (the interest method) and reported as interest?
   [APB 12, pars. 16—17 (AC I69.108, fn. 4); APB 21, pars. 15—16 (AC I69.108—.109)]

D. 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 the notes thereto:
   a. Current tax expense or benefit?
   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?
   c. Investment tax credits?
   d. Government grants (to the extent recognized as a reduction of income tax expense)?
   e. The benefits of operating loss carryforwards?
   f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?
   g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?
   h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?
      [SFAS 109, par. 45a—h (AC I27.144a—h)]
   i. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?
   j. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital?
      [SFAS 109, par. 48 (AC I27.147)]

3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS 109 (AC I27.134—.138)) disclosed for each year for which those items are presented?
   [SFAS 109, pars. 46 (AC I27.145)]

4. Is the nature of significant reconciling items disclosed?
   [SFAS 109, par. 47 (AC I27.146)]

5. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods presented disclosed?
6. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented? _____ Yes _____ No _____ N/A

b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? _____ Yes _____ No _____ N/A

[SFAS 109, par. 49a-b (AC I27.148a-b)]

7. Is the effect of initially applying SFAS 109 reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20), except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income? _____ Yes _____ No _____ N/A

[SFAS 109, par. 51]

8. When initially presented, do the financial statements for the year SFAS 109 is first adopted disclose the following:

a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (e.g., the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented? _____ Yes _____ No _____ N/A

b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per-share amounts) for each year for which restated financial statements are presented? _____ Yes _____ No _____ N/A

[SFAS 109, par. 52a-b]

9. Are the amounts of income taxes applicable to the results of discontinued operations disclosed on the income statement or in related notes? _____ Yes _____ No _____ N/A

[APB 30, par. 8 (AC I13.105)]

10. Are the income taxes applicable to extraordinary events disclosed on the face of the income statement or in related notes? _____ Yes _____ No _____ N/A

[APB 30, par. 11 (AC I17.102)]

E. Discontinued Operations

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

a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? _____ Yes _____ No _____ N/A

[APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]

b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? _____ Yes _____ No _____ N/A

[APB 30, par. 8 (AC I13.105)]

2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? _____ Yes _____ No _____ N/A

[APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]

3. If the company sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? _____ Yes _____ No _____ N/A

[FASB 37, par. 2 (AC F60.120)]

4. For the period encompassing the measurement date, do notes to the financial statements disclose:
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Identity of the segment discontinued?</td>
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<td>b. Expected disposal date, if known?</td>
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<td>c. Expected manner of disposal?</td>
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<td>d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?</td>
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<td>e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?</td>
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<tr>
<td>f. If applicable, a statement that the loss on disposal cannot be estimated within reasonable limits?</td>
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<tr>
<td>[APB 30, par. 18 (AC 113.108—.109)]</td>
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<td>5. For periods after measurement date and including the period of disposal, do notes to the financial statements disclose the information required by Steps 4.a.—d. above and the information required by Step 4.e. above compared with prior estimates?</td>
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<tr>
<td>[APB 30, par. 18 (AC 113.108—.109)]</td>
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<td>6. If the company plans to dispose of two segments of a business, and a net gain is expected (one has a net gain and the other a net loss), is that gain shown net of the loss?</td>
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<tr>
<td>[EITF 85-36]</td>
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<td>7. If the company accounts for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment writedown of the individual assets classified in continuing operations?</td>
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<td>[EITF 90-16]</td>
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<tr>
<td>F. Extraordinary Items</td>
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<tr>
<td>1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?</td>
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<td></td>
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<tr>
<td>[APB 30, pars. 10—12 (AC 117.102—.103)]</td>
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<tr>
<td>2. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement?</td>
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<td></td>
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<tr>
<td>[APB 30, par. 11 (AC 117.102)]</td>
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<tr>
<td>3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses?</td>
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<tr>
<td>[APB 30, par. 11 (AC 117.102)]</td>
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<td>4. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):</td>
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<tr>
<td>a. Reported as a separate component of income from continuing operations?</td>
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<tr>
<td>b. Accompanied by disclosure of the nature and financial effects of each event?</td>
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<tr>
<td>[APB 30, par. 26 (AC 122.101)]</td>
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<td>5. For an existing property with an asbestos problem, are the costs incurred to treat the problem (if charged to expense) not classified as an extraordinary item?</td>
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<tr>
<td>[EITF 89-13]</td>
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<tr>
<td>G. Other</td>
<td></td>
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<tr>
<td>1. Are the following excluded from determination of net income or results of operations under all circumstances:</td>
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<tr>
<td>a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?</td>
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<tr>
<td>b. Transfers to and from accounts properly designated as appropriated retained earnings?</td>
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</tbody>
</table>

30
c. Adjustments made pursuant to a quasi reorganization?  
   [APB 9, par. 28 (AC C08.101)]

2. Is earnings-per-share information for public entities presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation?  
   [APB 15 (AC E09)]

3. For nonpublic entities, if there is a restructuring charge, is it reflected using the most meaningful income statement presentation within the framework of APB 30?  
   [EITF 87-4]

4. Are the following disclosed for each period for which an income statement is presented for foreign insurance accounted for by the open year method:
   a. The amounts of premiums, claims, and expenses recognized as income on closing underwriting balances?  
   b. The additions to underwriting balances for the year for reported premiums, claims, and expenses?  
   [AAG, App. M (SOP 92-5, par. 19)]

**Statement of Changes in Stockholders' Equity**

A. Are changes in separate component accounts of stockholders' equity disclosed?  
   [APB 12, par. 10 (AC C08.102)]

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

C. Are prior-period adjustments limited to correction of an error(s) in financial statements of prior periods?  
   [SFAS 109, par. 288n (AC A35.103)]

D. Are prior-period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?  
   [APB 9, par. 26 (AC A35.107)]

E. For a correction of an error, are the following disclosed in the period in which the error is discovered and corrected:
   1. Nature of the error in previously issued financial statements?  
   2. Effect of its correction on income before extraordinary items, net income, and related per-share amounts (if applicable)?  
   [APB 20, par. 37 (AC A35.105)]

**Statement of Cash Flows**

A. Is a statement of cash flows presented as a basic financial statement for each period for which an income statement is presented?  
   [SFAS 95, par. 3 (AC C25.101)]

B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows?  
   [SFAS 95, pars. 27—28 (AC C25.125—.126)]

1. Are cash receipts and cash payments from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows?  
   [SFAS 102, par. 8 (AC C25.122A)]

2. Are cash receipts and cash payments resulting from acquisitions and sales of loans (if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market) classified as operating cash flows?  
   [SFAS 102, par. 9 (AC C25.122B)]

C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:
   1. Cash receipts from sales, such as premiums collected?
2. Cash receipts from interest and dividends?  

3. All other cash receipts that do not stem from transactions defined as investing or financing activities?  

4. Cash payments to suppliers and employees, such as losses and loss adjustment expenses paid?  

5. Cash payments to governments for taxes, duties, fines, and other fees or penalties?  

6. Cash payments to lenders and other creditors for interest?  

7. All other cash payments that do not stem from transactions defined as investing or financing activities?  

[D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?  
[SFAS 95, pars. 22—23 (AC C25.120—121)]

E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:  
1. Receipts from collections or sales of loans?  
2. Receipts from sales of property or investments and from returns of investments in those instruments?  
3. Loans to other entities?  
4. Payments to acquire property or investment?  
[SFAS 95, pars. 16—17 (AC C25.114—115)]

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

G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:  
1. Proceeds from issuing debt or capital stock?  
2. Repayment of amounts borrowed?  
3. Dividend payments to shareholders?  
4. Acquisition of treasury stock?  
5. Other principal payments to creditors who have extended long-term credit?  
[SFAS 95, pars. 19—20 (AC C25.117—118)]

H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on the statement of cash flows?  
[SFAS 95, par. 25 (AC C25.123)]

I. Is the change in cash and cash equivalents shown?  
[SFAS 95, par. 7 (AC C25.105)]

J. Is the policy for defining cash equivalents disclosed?  
[SFAS 95, par. 10 (AC C25.108)]

K. Is a reconciliation of net income to net cash flow from operating activities presented, either within the statement of cash flows or in a separate schedule?  
[SFAS 95, pars. 29—30 (AC C25.127—128)]

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

M. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed?  
[SFAS 95, par. 29 (AC C25.127)]
Exhibit A—Postretirement Health Care Benefits

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

A. Postretirement Health Care and Life Insurance Benefits

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

Exhibit B—Various

The effective date of SFAS 115 is for fiscal years beginning after December 15, 1993. It is to be initially applied as of the beginning of a fiscal year and cannot be applied retroactively to prior years' financial statements. A company may elect to apply this Statement as of the end of an earlier fiscal year for which annual financial statements have not previously been issued. Until such application, the following disclosures remain in effect.

A. Consolidations

1. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?
   [SFAS 12, par. 20 (AC 189.114)]

B. Investment Securities

1. Are bonds reported at amortized cost if the company has both the ability and the intent to hold the bonds until maturity?
   [SFAS 60, par. 45 (AC In6.151); AAG, par. 5.21] ___ ___ ___

2. Are bonds reported at market value if the company is a trader in bonds and there is no decline in the market value other than a temporary decline?
   [SFAS 60, par. 45 (AC In6.151); AAG, par. 5.21] ___ ___ ___

3. If bonds are reported at market value, are temporary changes in market value recognized as unrealized gains or losses and shown, net of applicable income taxes, as a separate component of stockholders' equity?
   [SFAS 60, par. 50 (AC In6.156); AAG, par. 5.21] ___ ___ ___

4. Are common and nonredeemable preferred stocks reported at market value and temporary changes in market value recognized as unrealized gains and losses?
   [SFAS 60, par. 46 (AC In6.152); AAG, par. 5.22] ___ ___ ___

5. Are redeemable preferred stocks reported at amortized cost if the company has both the ability and the intent to hold them until redemption and there is no decline in the market value other than a temporary decline?
   [SFAS 60, par. 46 (AC In6.152); AAG, par. 5.22] ___ ___ ___

6. If declines in marketable securities are judged to be other than temporary, are these securities shown net of realized losses?
   [SFAS 12, par. 21 (AC 189.115)] ___ ___ ___

C. Other Stockholders' Equity Accounts

1. Is the valuation allowance for marketable equity securities separately disclosed?
   [SFAS 12, par. 11 (AC 189.104)] ___ ___ ___
Exhibit C—Various

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

A. Troubled Debt Restructurings

1. For outstanding loans whose terms are modified (regardless of when the restructuring occurred) in troubled debt restructurings (except for those receivables where subsequent to the restructuring, its effective interest rate is equal to or greater than the creditor was willing to accept for a new receivable with comparable risk), are the following required disclosures by major categories of receivables made in accordance with SFAS 15 (these disclosures are not required for real estate loans secured by one-to-four family residential properties or loans to individuals for household, family, or other personal expenditures):
   a. The aggregate recorded investment?
   b. The gross interest income that would have been recognized in the period if those receivables had been current in accordance with their original terms and had been outstanding throughout the period (or since origination, if held for only part of the period)?
   c. The amount of interest income that is included in the current period?
   d. The amount of commitments, if any, to lend additional funds to the troubled debtors?

B. Investment Securities

1. Are changes in the allowance for uncollectible amounts relating to mortgage loans reported as unrealized gains and losses?

[SFAS 15, pars. 40—41 (AC D22.136—.137); FTB's 79-6 and 79-7 (AC D22.501—.505)]
## Auditors' Reports Checklist

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

.02 Explanation of References:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>AR</td>
<td>Reference to section number in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>AAG</td>
<td>AICPA Audit and Accounting Guide, Audits of Stock Life Insurance Companies (with conforming changes as of May 1, 1993)</td>
</tr>
<tr>
<td>SAS</td>
<td>AICPA Statement on Auditing Standards</td>
</tr>
<tr>
<td>SOP</td>
<td>AICPA Statement of Position—AICPA Auditing Standards Division</td>
</tr>
<tr>
<td>SSAE</td>
<td>Statement on Standards for Attestation Engagements</td>
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</tbody>
</table>

.03 Checklist Questionnaire

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<th>Yes</th>
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<tbody>
<tr>
<td>1. Does the auditor's report include appropriate:</td>
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<td>a. Address?</td>
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<td>[SAS 58, par. 9 (AU 508.09)]</td>
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<td>b. Date (or dual dates) of the report?</td>
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<tr>
<td>[SAS 1, sec. 530 (AU 530.01); SAS 29, par. 5 (AU 30.05); SAS 58, par. 46 (AU 508.46)]</td>
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<td>c. A title that includes the word &quot;independent&quot;?</td>
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<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<tr>
<td>2. If the auditor is not independent:</td>
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<tr>
<td>a. For a nonpublic company, is a disclaimer of opinion or a compilation report discussing the lack of independence issued?</td>
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<tr>
<td>[SAS 26, par. 10 (AU 504.10)]</td>
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<td>b. For a public company, is the appropriate disclaimer expressed regardless of the extent of services provided?</td>
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<tr>
<td>[SAS 26, pars. 5 and 9—10 (AU 504.05 and .09—.10)]</td>
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<td>3. Is the reporting language appropriate for:</td>
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<td>a. Financial statements of a single year or period?</td>
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<tr>
<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<td>b. Comparative financial statements?</td>
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<td>[SAS 58, par. 8 (AU 508.08)]</td>
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<td>4. Does the auditor's report include appropriate language for the following:</td>
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<td>a. The auditor's opinion is based in part on the report of another auditor?</td>
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<td>[SAS 58, pars. 12—13 (AU 508.12—.13)]</td>
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<td>b. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation?</td>
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<td>[SAS 58, pars. 14—15 (AU 508.14—.15)]</td>
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c. The financial statements are affected by uncertainties concerning future events, 
the outcome of which is not susceptible to reasonable estimation as of the 
auditor's report date? 
[SAS 58, pars. 16—33 (AU 508.16—.33)]

Note: Consult the Topical Index to the AICPA Professional Standards under 
"Uncertainties" for additional references to specific types of uncertainties.

d. There is substantial doubt as to the company’s ability to continue as a going 
concern for a reasonable period of time and that conclusion is expressed 
through the use of the phrase “substantial doubt about its (the company’s) 
ability to continue as a going concern”? 
[SAS 64, par. 1 (AU 341.12)]

e. There is a material change between periods in accounting principles or in the 
method of their application? 
[SAS 58, pars. 34—36 (AU 508.34—.36)]

f. Selected quarterly financial data required by the SEC is omitted or is not 
reviewed? 
[SAS 71, pars. 41—42 (AU 722.41—.42)]

g. Supplemental information FASB or GASB requires to be presented outside the 
basic financial statements in an auditor-submitted document? 
[SAS 52, par. 15 (AU 551.15)]

h. The auditor decides to emphasize a matter in the report? 
[SAS 58, par. 37 (AU 508.37)]

i. A change in financial reporting from a regulatory basis to GAAP or vice versa?

5. Does the report include appropriate language for the following situations:
   a. Only one basic financial statement is presented and there are no scope 
      limitations? 
      [SAS 58, pars. 47—48 (AU 508.47—.48)]
   b. Audited and unaudited financial statements are presented in comparative 
      form? 
      [SAS 26, pars. 14—17 (AU 504.14—.17)]

6. If the financial statements are restated, does the introductory paragraph indicate 
that a predecessor auditor reported on the financial statements of the prior period 
before restatement? 
[SAS 58, par. 83 (AU 508.83)]

7. If sufficient procedures are applied to satisfy the successor auditor as to the 
appropriateness of any restatement adjustments made by the predecessor auditor, 
does the report comply with SAS 58, paragraph 83? 
[SAS 58, par. 83 (AU 508.83)]

8. If, following a pooling-of-interest transaction, an auditor is engaged to report on 
restated financial statements for one or more prior years when other auditors 
audited one or more of the entities included in such financial statements, does the 
report include explanatory language in accordance with SAS 64, paragraph 3? 
[SAS 64, par. 3 (AU 543.16)]

9. Is a qualified opinion or disclaimer of opinion expressed if scope limitations 
preclude application of one or more auditing procedures considered necessary in 
the circumstances? 
[SAS 58, pars. 40—45 (AU 508.40—.45); SAS 31, par. 22 (AU 326.23); SAS 19, 
par. 12 (AU 333.12)]

Note: Consult the Topical Index to the AICPA Professional Standards under 
"Scope of Audit—Limitations" for additional references to specific types of scope 
limitations that could result in either a qualified or disclaimer of opinion.
10. Is an adverse opinion expressed if the financial statements do not present fairly, in the auditor's judgment, the financial position, results of operations, and cash flows in conformity with GAAP?
   [SAS 58, pars. 67—69 (AU 508.67—.69)]

11. Is a qualified opinion or adverse opinion expressed if there is a departure from GAAP (including inadequate disclosure)?
   [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03)]
   **Note:** Consult the Topical Index to the AICPA Professional Standards under "Departures from Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departure that could result in either a qualified or adverse opinion.

12. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified?
   [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]
   **Note:** Consult the Topical Index to the AICPA Professional Standards under “Departures from Standard Report” for additional references to specific auditor's report modifications.

13. For special reports, are the provisions of SAS 35 and SAS 62 complied with?
   [SAS 35 (AU 622); SAS 62, pars. 2—8, 11—14, 19—21, 22—26 (AU 623.02—.08, .11—.14, .19—.21, .22—.26)]

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

15. If the company is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, is the auditor's report appropriately modified if:
   a. Required supplementary information is omitted?
   b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?
   c. The auditor is unable to complete the procedures prescribed by SAS 52?
   [SAS 52, par. 2 (AU 558.08)]

16. If a report on internal accounting control is to be issued to the audit committee or board of directors as required by SAS 60 (AU 325) (refer to NAIC Model Rule section 11 for more details), is the appropriate form used for:
   a. Expression of an opinion on the company's system of internal accounting control in effect as of a specified date or during a specific period of time?
   [SAS 30, pars. 37—46 (AU 642.37—.46)]
   b. Communication to the audit committee of internal control structure-related matters noted in an audit or other agreed upon matters?
   [SAS 60, pars. 12—19 (AU 325.12—.19)]
c. Report on all or part of the company’s system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies’ pre-established criteria? [SAS 30, pars. 54—59 (AU 642.54—.59)]

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d. Other special purpose reports on all or part of the company’s system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60—61 (AU 642.60—.61); SAS 70, par. 58 (AU 324.35, .41 and .46)]

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17. Does the report conform to SSAE 2 if reporting was on agreed-upon procedures applied to part of a company’s existing or proposed internal control structure when management does not present a written assertion? [SSAE 2, par. 9 (AT 400.09)]

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18. If a report is issued on the effectiveness of the company’s internal control structure, does it not state that no reportable conditions were noted? [SSAE 2, par. 45 (AT 400.46)]

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19. Does the report conform to SSAE 2 if management presents its assertion in a separate report that will accompany the practitioner’s report on the effectiveness of the company’s internal control structure? [SSAE 2, pars. 50—51 (AT 400.51)]

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20. If management does not present a written assertion that accompanies the practitioner’s report, is the report appropriately modified? [SSAE 2, pars. 53—54 (AT 400.52)]

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21. Is the report properly modified if any conditions exist as detailed in SSAE 2, paragraph 55? [SSAE 2, pars. 55—79 (AT 400.52—82)]

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22. If the company will not agree to revise Schedule P-Part 1 (a NAIC regulatory disclosure), does the auditor issue a separate report on Schedule P-Part 1 and include a description of the misstatement in that report? [AAG, App. N (SOP 92-8, par. 08)]

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

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

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

.03 Explanation of References

<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
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<tbody>
<tr>
<td>FRR</td>
<td>SEC Financial Reporting Release</td>
</tr>
<tr>
<td>SAB</td>
<td>SEC Staff Accounting Bulletin</td>
</tr>
<tr>
<td>Reg. S-X</td>
<td>SEC Regulation S-X</td>
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</table>

.04 Checklist Questionnaire

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

A. Investments—Other Than Investments in Related Parties (Reg. S-X, Rule 7-03-1; SAB Topic No. 6)

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

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

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

   c. Mortgage loans on real estate?

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

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

   e. Policy loans?

   f. Other long-term investments?

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

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

      (1) Do the notes disclose any amounts subject to withdrawal or usage restrictions?
### h. Total investments?

<table>
<thead>
<tr>
<th>Yes</th>
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2. Does the balance sheet include, parenthetically or otherwise:

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<tr>
<td>a. The basis of determining the investment amounts shown in the balance sheet?</td>
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<td>b. The aggregate cost or aggregate carrying value at the balance-sheet date of fixed maturities and equity securities?</td>
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3. Is consideration given to discussion of "Valuation Securities" in section 403.03 of the SEC Codification of Financial Reporting Practices?

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4. Is consideration given to disclosure of material changes in market value of investments between balance-sheet date and report date?

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5. Do the notes state the name of any person in which the total amount invested (aggregate indebtedness, stocks issued, and real estate purchased) in the person and its affiliates exceeds 10% of total stockholders' equity?

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<tbody>
<tr>
<td>a. Is the amount included in each subcaption disclosed (no disclosure needs to be made of investments in bonds and notes of the U.S. government or its agencies that exceed 10% of stockholders' equity)?</td>
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6. For investments in fixed maturities, mortgage loans on real estate, investment real estate, and other long-term investments, do the notes disclose the amount of nonincome-producing investments for the 12 months preceding the balance-sheet date?

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### B. Cash (Reg. S-X, Rule 7-03-2)

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

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<tbody>
<tr>
<td>a. Are the provisions of any restrictions, including legally restricted deposits held as compensating balances, contracts entered into with others or the companies' intentions about particular deposits, described in the notes?</td>
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<tr>
<td>b. Are nonlegally restricted compensating balance arrangements disclosed?</td>
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<tr>
<td>c. Do the notes disclose compensating balances maintained under an agreement to assure future credit availability?</td>
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### C. Securities and Indebtedness of Related Parties (Reg. S-X, Rule 7-03-3)

1. Are investments in related parties disclosed?

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2. Is indebtedness from related parties disclosed?

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### D. Accrued Investment Income (Reg. S-X, Rule 7-03-4)

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

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### E. Accounts and Notes Receivable (Reg. S-X, Rule 7-03-5)

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

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2. Is the amount of uncollected premiums included?

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

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

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### F. Reinsurance Recoverable on Paid Losses (Reg. S-X, Rule 7-03-6)

1. Are the amounts disclosed?

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### G. Deferred Policy Acquisition Costs (Reg. S-X, Rule 7-03-7)

1. Are the amounts disclosed?

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### H. Property and Equipment (Reg. S-X, Rule 7-03-8)

1. Is the basis of determining the amounts disclosed?

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

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
I. **Title Plant** (Reg. S-X, Rule 7-03-9)
   1. Is the amount disclosed?  

J. **Other Assets** (Reg. S-X, Rule 7-03-10)
   1. Is there separate disclosure on the balance sheet or in the notes of the amount of any "other asset" in excess of 5% of total assets?  
   2. If the company acquires a life insurance company in a transaction accounted for as a purchase and the acquirer recognizes an asset for the present value of future profits (PVP), are the following disclosed:
      a. A description of the registrant's accounting policy?  
      b. An analysis of the PVP asset account for each year for which an income statement is presented?  
      c. The estimated amount or percentage of the end-of-the-year PVP balance to be amortized during each of the next five years?  
      [EITF 92-9]

K. **Assets Held in Separate Accounts** (Reg. S-X, Rule 7-03-11)
   1. Does the caption include aggregate amount of assets used to fund liabilities related to variable annuities, pension funds, and similar activities?  
   2. Do the notes to the financial statements describe the general nature of the activities being reported on in the separate accounts?  

L. **Policy Liabilities and Accruals** (Reg. S-X, Rule 7-03-13; SAB 62, 74 and 87; FRR 20)
   1. Is the amount of future policy benefits and losses, and claims and losses, separately disclosed in the balance sheet?  
   2. Is the amount of unearned premiums separately disclosed in the balance sheet?  
   3. Are other policy claims and benefits payable separately disclosed in the balance sheet?  
   4. Do the notes disclose the basis of assumptions (e.g., interest rates, mortality, withdrawals) for future policy benefits and claims and settlements stated at present value?  
   5. Do the notes disclose the general nature of reinsurance transactions, including a description of significant types of reinsurance agreements executed?
      a. Do the disclosures include the nature of the contingent liability in connection with insurance ceded?  
      b. Do the disclosures include the nature and effect of material nonrecurring reinsurance transactions?  
   6. For fiscal years beginning December 15, 1992, or prior, are the following disclosures considered:
      a. A brief description of SFAS 106, the date that adoption is required, and the date that the company plans to adopt (if earlier)?  
      b. A discussion of the methods of adoption allowed by SFAS 106 and the method expected to be utilized by the company, if determined?  
      c. A discussion of the impact that adoption of SFAS 106 is expected to have on the financial statements of the company, unless not known or reasonably estimable, in which case, a statement to that effect may be made?  
      d. Disclosure of the potential impact of other significant matters that the company believes might result from the adoption of SFAS 106 (such as technical violations of debt covenant agreements and planned or intended changes in business practices)?  
   7. If the company adopts a new policy or changes its existing policy of discounting certain unpaid claims liabilities relating to short-duration insurance contracts, is the appropriate disclosure made in accordance with SAB 62?
8. Are the appropriate disclosures made concerning reserves for unpaid claims and claim adjustment expenses in accordance with FRR 20 for the following areas:
   a. Certain significant transactions during the reporting periods?  
   b. Changes in historical reserve amounts for the latest ten years?  
   c. The company's reserving practices, including those used in estimating inflation, and any significant changes in these practices?  
   d. The effect, if any, of the discounting of reserves?  
   e. Any difference between reserves reflected in reports to state regulatory authorities and those appearing in GAAP financial statements?  

9. Does the company consider the disclosures regarding contingency on property-casualty insurance reserves for unpaid claims discussed in SAB No. 87?  

M. Other Policyholders' Funds (Reg. S-X, Rule 7-03-14)
1. Does the caption include the aggregate amount of supplementary contracts without life contingencies, policyholders' dividend accumulations, undistributed earnings on participating policies, dividends to policyholders and retrospective return premiums and similar items?  
2. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5% of total liabilities?  
3. Do the notes disclose the relative significance of participating insurance as a percentage of (1) insurance in force and (2) premium income?  
   a. Do the notes disclose the method by which earnings and dividends allocable to such insurance is determined?  

N. Other Liabilities (Reg. S-X, Rule 7-03-15)
1. Is there separate disclosure in the balance sheet or in the notes of any item the amount of which is in excess of 5% of total liabilities?  
2. Is there separate disclosure in the balance sheet or in the notes of (1) income taxes currently payable and (2) deferred income taxes?  
   a. Is there separate disclosure of the amount of deferred income taxes applicable to unrealized appreciation of equity securities?  

O. Notes Payable, Bonds, Mortgages and Similar Obligations, Including Capitalized Leases (Reg. S-X, Rule 7-03-16)
1. Is the amount of short-term debt separately disclosed?  
   a. If the aggregate of short-term borrowings (from banks, factors and other financial institutions and commercial paper issued) exceeds 5% of total liabilities, do the notes disclose the amount and terms (including commitment fees and the conditions under which lines may be withdrawn) of unused lines of credit for short-term financing?  
   b. Is the amount of the lines of credit that support commercial paper borrowing arrangements separately identified?  
2. Is the amount of long-term debt including capitalized leases separately disclosed?  
   a. Is there disclosure of the general character of each type of debt?  
   b. Is the interest rate disclosed?  
   c. Is the maturity date or, if maturing serially, a brief indication of the serial maturities disclosed?  
   d. If the payment of principal or interest is contingent, is there appropriate indication of such contingency?  
   e. Is there a brief indication of priority?
f. If convertible, is the basis disclosed? [Reg. S-X, Rule 5-02-22]

<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>

### P. Indebtedness to Related Parties (Reg. S-X, Rules 7-03-17 and 4-08(k))

1. Are related-party transactions identified and the amount stated on the face of the balance sheet, income statement, or statement of cash flows?  
2. If there are separate financial statements for the registrant, certain investees or subsidiaries, is separate disclosure of the amounts in the related consolidated statements that are (1) eliminated and (2) not eliminated?  
3. If any intercompany profit or losses resulting from transactions with related parties are not eliminated, are the effects disclosed?

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

### Q. Liabilities Related to Separate Accounts (Reg. S-X, Rule 7-03-18)

1. Is the amount disclosed?

<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>

### R. Commitments and Contingent Liabilities (Reg. S-X, Rule 7-03-19)

1. Are the proper disclosures made?

<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>

### S. Minority Interest in Consolidated Subsidiaries (Reg. S-X, Rules 5-02-27 and 7-03-20)

1. Do the notes disclose the amounts represented by preferred stock and the applicable dividend requirements if the preferred stock is material in relation to the consolidated stockholders' equity?

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

### T. Preferred Stock Subject to Mandatory Redemption (Reg. S-X, Rules 5-02-28 and 7-03-21)

1. Is the title of each issue, the carrying amount, and redemption amount stated on the balance sheet?  
2. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable?  
3. If the carrying value is different from the redemption amount, is there a description of the accounting treatment for such difference?  
4. Is there disclosure, for each issue, of the number of shares authorized, issued, and outstanding?

<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>

### U. Nonredeemable Preferred Stock (Reg. S-X, Rules 5-02-29 and 7-03-22)

1. Is the title of each issue and the carrying amount disclosed on the balance sheet or in the notes?  
2. Is the dollar amount of any shares subscribed but unissued shown together with the deduction of subscriptions receivable?  
3. Is there disclosure, for each issue, of the number of shares authorized, issued, and outstanding?  
4. Is there disclosure in a note or in a separate statement of the changes in each class of preferred stock for which an income statement is required to be filed?

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

### V. Common Stock (Reg. S-X, Rules 5-02-30 and 7-03-23)

1. Does the face of the balance sheet disclose the number of shares issued and outstanding?  
2. If convertible, is that fact indicated on the face of the balance sheet?  
3. Is there disclosure, for each class of common stock, of the title of each issue, the number of shares authorized, and the basis of conversion?  
4. Is the dollar amount of any shares subscribed, but unissued, shown together with the deduction of subscriptions receivable?  
5. Do the notes or a separate statement disclose the changes in each class of common stock for which an income statement is required to be filed?

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

43
W. Other Stockholders' Equity (Reg. S-X, Rules 5-02-31(b), (c) and 7-03-24)

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

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

3. Do the notes disclose, for each life insurance and property and liability legal company, the amount of statutory stockholders' equity as of the date of each balance sheet presented?  

4. Is there disclosure of the amount of statutory net income or loss for each period for which an income statement is presented?  

Income Statement

A. Premiums (Reg. S-X, Rule 7-04-1)

1. Do the amounts represent premiums earned?  

B. Net Investment Income (Reg. S-X, Rule 7-04-2)

1. Do the notes disclose the amount of investment income for each category of investment listed in the balance sheet above that exceeds 5% of total investment income?  

2. Do the notes disclose total investment income?  

3. Do the notes disclose applicable investment expenses?  

4. Do the notes disclose net investment income?  

C. Other Income (Reg. S-X, Rule 7-04-3)

1. Are items in excess of 5% of total revenue separately disclosed?  

D. Benefits, Claims, Losses and Settlement Expenses (Reg. S-X, Rule 7-04-4)

1. Are the amounts disclosed?  

E. Policyholders' Share of Earnings on Participating Policies, Dividends and Similar Items (Reg. S-X, Rules 7-03-14(b) and 7-04-5)

1. Are the amounts disclosed?  

2. Is the relative significance of participating insurance expressed as percentages of insurance in force and premium income and the method by which earnings and dividends allocable to such insurance is determined stated in a note to the financial statements?  

F. Gains and Losses

1. Are the following items disclosed:
   a. Policies with respect to the manner in which the financial statements report or include investment income and realized gains and losses allocable to separate accounts and policyholders?  

   b. The amounts of such allocable investment income and realized gains and losses included in the financial statements?  

   [Reg S-X, FRR 40]  

G. Underwriting, Acquisition and Insurance Expenses (Reg. S-X, Rule 7-04-6)

1. Do the statements or notes disclose:
   a. The amount of deferred policy acquisition cost amortized to income for each period?
b. The amount of other operating expenses with separate disclosure of any material amounts?

**H. Income Tax Expense** (Reg. S-X, Rules 4-08(h) and 7-04-8)

1. Does the income statement or notes disclose:
   a. The domestic component of income (loss) before income tax expense (benefit)?
   b. The foreign component of income (loss) before income tax expense (benefit)?
   c. Taxes currently payable?
   d. The net tax effects of timing differences?

2. Is there a reconciliation between the amount of reported total income tax expense (benefit) and the amount of tax computed at the applicable statutory federal income tax rate?

**I. Minority Interest in Income of Consolidated Subsidiaries** (Reg. S-X, Rule 7-04-9)

1. Are the amounts disclosed?

**J. Equity in Earnings of Unconsolidated Subsidiaries and 50% or Less Owned Persons** (Reg. S-X, Rule 7-04-10)

1. Is the amount stated net of any applicable tax provision?
2. Are gains or losses on investments excluded?
3. Is the amount of dividends received disclosed?

**K. Discontinued Operations** (Reg. S-X, Rule 7-04-13)

1. Is any amount separately reported?

**L. Extraordinary Items, Less Applicable Tax** (Reg. S-X, Rule 7-04-15)

1. Is any amount separately reported?

**M. Cumulative Effect of Changes in Accounting Principles** (Reg. S-X, Rule 7-04-16)

1. Is any amount separately reported?

2. For reinsurance contracts with retrospective rating provisions resulting in changes in the amount or timing of future contractual cash flows (including premium adjustments, settlement adjustments, or refunds to the ceding company) or changes in the contract's future coverage pursuant to EITF 93-6, are the nature and the significance of the transactions giving rise to the change disclosed? [EITF 93-6]

3. Are disclosures made in accordance with SAB 74 in the financial statements filed prior to the period in which this change is adopted? [EITF 93-6; SAB 74]

**N. Earnings-Per-Share Data** (Reg. S-X, Rule 7-04-18)

1. Are applicable amounts reported?

**O. Schedules** (Reg. S-X, Rule 7-05)

1. Is Schedule Number I—Summary of Investments—Other Than Investments in Related Parties (refers to Rule 7-05(c) and Rule 12-13) filed for the most recent audited balance sheet?

2. Is Schedule Number II—Amounts Receivable From Related Parties and Underwriters, Promoters, and Employees Other Than Related Parties (refers to Rule 7-05(c) and Rule 12-03) filed for each period for which an audited income statement is required?

3. Is Schedule III—Condensed Financial Information of Registrant (refers to Rule 7-05(c) and Rule 12-04) filed for the periods specified in the schedule?
4. Is Schedule IV—Indebtedness of and to Related Parties—Not Current (refers to Rule 7-05(c) and Rule 12-05) filed for each period for which an audited income statement is required?  
5. Is Schedule V—Supplementary Insurance Information (refers to Rule 7-05(c) and Rule 12-16) presented for each required balance sheet?  
6. Is Schedule VI—Reinsurance (refers to Rule 7-05(c) and Rule 12-17) filed for each period for which an audited income statement is required?  
7. Is Schedule VII—Guarantees of Securities of Other Issuers (refers to Rule 7-05(c) and Rule 12-08) filed for each period for which an audited income statement is required?  
8. Is Schedule VIII—Valuation and Qualifying Accounts (refers to Rule 7-05(c) and Rule 12-09) filed for each period for which an audited income statement is required?  
9. Is Schedule IX—Short-Term Borrowings (refers to Rule 7-05(c) and Rule 12-10) filed for each period for which an audited income statement is required?  
10. Is Schedule X—Supplemental Information Concerning Property-Casualty Insurance Operations (refers to Rule 7-05(c) and Rule 12-18) filed for the periods specified in the schedule?  

P. Other SEC Related Disclosures  
1. Are the topics discussed in the following Staff Accounting Bulletins considered for disclosure, if applicable:  
   a. SAB Topic 11-G discussing the use of tax equivalent-adjusted amounts in financial statements?  
   b. SAB Topic 6-G, added by SAB 46, discussing guidance related to quarterly financial data disclosure requirements?  
   c. SAB Topic 11-I, added by SAB 56, expressing the staff's views about the reporting of Allocated Transfer Risk Reserve (ATRR) provisions established when federal banking agencies determine that such reserves are necessary?  
   d. SAB Topic 5-V, added by SAB No. 82, discussing the staff's views regarding the accounting for transfers of nonperforming assets by financial institutions (See also SAB Topic 5-E)?  
   e. SAB Topic 11-N, also added by SAB No. 82, expressing the staff's views regarding the required disclosure by a financial institution that receives financial assistance from a federal regulatory agency?  
   f. SAB Topic 5-N, added by SAB 87, discussing contingency disclosures related to property casualty insurance reserves for unpaid claim costs?  
   g. SAB Topic 2-A, added by SAB 92, reflecting the staff views of loss contingencies assumed in a business combination accounted for as a purchase?  

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

f. Any other information that may be necessary to adequately describe the nature and extent of the obligations guaranteed and the degree of risk related to the guarantees?

[SAB 60]
Illustrative Financial Statements

.01 The following report and set of financial statements illustrate one form of currently acceptable practice and, as indicated, do not include all disclosures required under generally accepted accounting principles. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances.
Independent Auditor’s Report

To the Board of Directors and Stockholders
The Property and Liability Insurance Company
Anytown, U.S.A.

We have audited the accompanying consolidated balance sheets of The Property and Liability Insurance Company and Subsidiaries as of December 31, 19X2 and 19X1, and the related consolidated statements of income, stockholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Property and Liability Insurance Company and Subsidiaries at December 31, 19X2 and 19X1, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.
January 15, 19X3
Balance Sheets

December 31, 19X2 and 19X1

(Dollars in thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments (notes 1 and 2):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed maturities, principally at amortized cost (related market value, 19X2—$1,223,339; 19X1—$1,216,485)</td>
<td>$1,077,735</td>
<td>$1,023,098</td>
</tr>
<tr>
<td>Equity securities, at market (related cost, 19X2—$81,834; 19X1—$93,937)</td>
<td>90,544</td>
<td>102,771</td>
</tr>
<tr>
<td>Mortgage loans on real estate (less allowance for credit losses, 19X2—$2,300; 19X1—$2,070)</td>
<td>472,509</td>
<td>398,426</td>
</tr>
<tr>
<td>Real estate, net of accumulated depreciation (19X2—$12,921; 19X1—$12,774) and less allowance for impairment of value (19X2—$1,173; 19X1—$1,150)</td>
<td>31,905</td>
<td>30,028</td>
</tr>
<tr>
<td>Short-term investments, at cost which approximates market value</td>
<td>130,070</td>
<td>109,105</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>1,802,763</td>
<td>1,663,428</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td>31,564</td>
<td>28,357</td>
</tr>
<tr>
<td><strong>Accrued interest and dividends</strong></td>
<td>31,358</td>
<td>27,568</td>
</tr>
<tr>
<td><strong>Premiums and agents’ balances</strong></td>
<td>76,640</td>
<td>74,951</td>
</tr>
<tr>
<td><strong>Reinsurance recoverable on paid losses</strong></td>
<td>27,908</td>
<td>24,461</td>
</tr>
<tr>
<td><strong>Deferred policy acquisition costs (note 1)</strong></td>
<td>168,974</td>
<td>154,941</td>
</tr>
<tr>
<td>Property and equipment, at cost, less accumulated depreciation of $17,837 in 19X2 and $15,404 in 19X1 (note 1)</td>
<td>34,443</td>
<td>27,938</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>128,577</td>
<td>107,378</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$2,302,227</td>
<td>$2,109,022</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Balance Sheets—continued

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

(Dollars in thousands)

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses and loss-adjustment expenses (note 1)</td>
<td>$1,183,343</td>
<td>$1,030,345</td>
</tr>
<tr>
<td>Unearned premiums (note 1)</td>
<td>493,833</td>
<td>482,619</td>
</tr>
<tr>
<td>Dividends to policyholders</td>
<td>3,087</td>
<td>4,042</td>
</tr>
<tr>
<td>Reinsurance funds held and balances payable</td>
<td>15,727</td>
<td>35,584</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>85,780</td>
<td>82,608</td>
</tr>
<tr>
<td>Federal income taxes payable (notes 1 and 4)</td>
<td>3,166</td>
<td>7,058</td>
</tr>
<tr>
<td>Deferred income taxes (notes 1 and 4)</td>
<td>34,084</td>
<td>35,133</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>56,144</td>
<td>43,782</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1,875,164</strong></td>
<td><strong>1,721,171</strong></td>
</tr>
</tbody>
</table>

### Stockholders’ Equity (note 6)

- **Common stock ($5 par value, authorized—11,500 shares; issued—2,500 shares, including 200 shares in treasury in 19X2 and 19X1)**
  - 12,500
- **Additional paid-in capital**
  - 22,500
- **Retained earnings (notes 5 and 6)**
  - 390,815
- **Unrealized appreciation of equity securities, less applicable deferred taxes (note 2)**
  - 5,748
- **Less treasury stock, at cost**
  - (4,500)

**Total stockholders’ equity**

| Total stockholders’ equity | 427,063 | 387,851 |

**Total Liabilities and Stockholders’ Equity**

| Total Liabilities and Stockholders’ Equity | $2,302,227 | $2,109,022 |

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

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

(Dollars in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums earned (notes 1 and 3)</td>
<td>$570,885</td>
<td>$524,746</td>
</tr>
<tr>
<td>Net investment income</td>
<td>146,683</td>
<td>130,070</td>
</tr>
<tr>
<td>Net realized gains on investments (notes 1 and 2)</td>
<td>84,776</td>
<td>32,272</td>
</tr>
<tr>
<td>Other</td>
<td>13,288</td>
<td>8,784</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>815,632</td>
<td>695,872</td>
</tr>
</tbody>
</table>

|                      |        |        |
| **Expenses**         |        |        |
| Losses and loss-adjustment expenses (notes 1 and 3) | 509,568 | 432,413 |
| Policyholder dividends (note 1) | 4,833 | 7,395  |
| Policy acquisition and other underwriting expenses (note 1) | 211,239 | 185,834 |
| Other                | 8,347  | 2,215  |
| **Total expenses**   | 733,987| 627,857|

|                      |        |        |
| **Income before income taxes** | 81,645 | 68,015 |

|                      |        |        |
| **Provision (benefit) for income taxes (note 4)** |        |        |
| Current              | 26,108 | 16,291 |
| Deferred             | (1,007)| 881   |
| **Total income taxes** | 25,101 | 17,172 |

|                      |        |        |
| **Net Income**       | $56,544| $50,843|

|                      |        |        |
| **Per Share Data**   |        |        |
| Net Income           | $24.58 | $21.18 |

The accompanying notes are an integral part of these financial statements.
## Statements of Changes in Stockholders' Equity

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

(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Additional Paid-in Capital</th>
<th>Unrealized Appreciation of Investments</th>
<th>Retained Earnings</th>
<th>Treasury Stock</th>
<th>Total Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at January 1, 19X1</strong></td>
<td>2,500</td>
<td>$12,500</td>
<td>$22,500</td>
<td>$3,942</td>
<td></td>
<td>$354,620</td>
</tr>
<tr>
<td><strong>19X1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
<td>50,843</td>
<td>50,843</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Dividends ($6.00 per share)</td>
<td></td>
<td></td>
<td></td>
<td>(15,000)</td>
<td>(15,000)</td>
<td></td>
</tr>
<tr>
<td>Increase in unrealized appreciation of investments</td>
<td></td>
<td></td>
<td></td>
<td>1,888</td>
<td>1,888</td>
<td></td>
</tr>
<tr>
<td>Purchase of 200 shares of treasury stock</td>
<td></td>
<td></td>
<td></td>
<td>$(4,500)</td>
<td>(4,500)</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X1</strong></td>
<td>2,500</td>
<td>$12,500</td>
<td>$22,500</td>
<td>$351,521</td>
<td>(4,500)</td>
<td>$387,851</td>
</tr>
<tr>
<td><strong>19X2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
<td>56,544</td>
<td>56,544</td>
<td>(17,250)</td>
</tr>
<tr>
<td>Dividends ($7.50 per share)</td>
<td></td>
<td></td>
<td></td>
<td>(17,250)</td>
<td>(17,250)</td>
<td></td>
</tr>
<tr>
<td>Decrease in unrealized appreciation of investments</td>
<td></td>
<td></td>
<td></td>
<td>(82)</td>
<td>(82)</td>
<td></td>
</tr>
<tr>
<td><strong>Balance at December 31, 19X2</strong></td>
<td>2,500</td>
<td>$12,500</td>
<td>$22,500</td>
<td>$390,815</td>
<td>$(4,500)</td>
<td>$427,063</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## Statements of Cash Flows

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

**(Dollars in thousands)**

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums collected</td>
<td>$ 580,410</td>
<td>$ 536,532</td>
</tr>
<tr>
<td>Losses and loss-adjustment expenses paid</td>
<td>(356,570)</td>
<td>(352,411)</td>
</tr>
<tr>
<td>Underwriting expenses paid</td>
<td>(208,067)</td>
<td>(184,006)</td>
</tr>
<tr>
<td>Investment income received</td>
<td>142,893</td>
<td>126,860</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(30,000)</td>
<td>(21,300)</td>
</tr>
<tr>
<td>Miscellaneous receipts (payments)</td>
<td>(45,673)</td>
<td>26,266</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>82,993</td>
<td>131,941</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>585,674</td>
<td>341,906</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(641,210)</td>
<td>(451,627)</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(7,000)</td>
<td>(2,356)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(62,536)</td>
<td>(112,077)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of dividends</td>
<td>(17,250)</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>—</td>
<td>(4,500)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(17,250)</td>
<td>(19,500)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash</td>
<td>3,207</td>
<td>364</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>28,357</td>
<td>27,993</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>$ 31,564</td>
<td>$ 28,357</td>
</tr>
</tbody>
</table>

(Continued)
Statements of Cash Flows—continued

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

(Dollars in thousands)

Reconciliation of net income to net cash provided by operating activities

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 56,544</td>
<td>$ 50,843</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,580</td>
<td>2,389</td>
</tr>
<tr>
<td>Gains on sales of investment</td>
<td>(84,776)</td>
<td>(32,272)</td>
</tr>
<tr>
<td>Increase in accrued interest and dividends</td>
<td>(3,790)</td>
<td>(2,983)</td>
</tr>
<tr>
<td>Increase in premium and agents’ balances</td>
<td>(1,689)</td>
<td>(2,671)</td>
</tr>
<tr>
<td>Increase in reinsurance recoverable</td>
<td>(3,447)</td>
<td>(892)</td>
</tr>
<tr>
<td>Increase in deferred policy acquisition costs</td>
<td>(14,033)</td>
<td>(10,963)</td>
</tr>
<tr>
<td>Increase in unpaid losses and loss-adjustment expenses</td>
<td>152,998</td>
<td>112,991</td>
</tr>
<tr>
<td>Increase in unearned premiums</td>
<td>11,214</td>
<td>9,816</td>
</tr>
<tr>
<td>Decrease in dividends payable</td>
<td>(955)</td>
<td>(820)</td>
</tr>
<tr>
<td>Decrease in reinsurance funds held</td>
<td>(19,857)</td>
<td>(18,152)</td>
</tr>
<tr>
<td>Increase in accrued expenses</td>
<td>3,172</td>
<td>2,915</td>
</tr>
<tr>
<td>Decrease in income taxes</td>
<td>(4,941)</td>
<td>(3,156)</td>
</tr>
<tr>
<td>Decrease (increase) in other—net</td>
<td>(10,027)</td>
<td>24,896</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$ 82,993</td>
<td>$ 131,941</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
1. Summary of Significant Accounting Policies

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

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

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

- **Investments**: Investments are shown on the following bases:
  - Fixed maturities (bonds, notes, and redeemable preferred stocks)—at cost, adjusted for amortization of premium or discount and other-than-temporary market value declines
  - Equity securities (common and nonredeemable preferred stocks)—at current market value
  - Mortgage loans on real estate—at unpaid balances, adjusted for amortization of premium or discount, less a provision for credit losses
  - Real estate—at cost, less allowances for depreciation and impairment of value

  Realized gains and losses on sales of investments are recognized in net income on the specific identification basis. Changes in market values of equity securities, after deferred income tax effects, are reflected as unrealized appreciation or depreciation directly in stockholders’ equity and, accordingly, have no effect on net income.

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

- **Recognition of Premium Revenues**: Property and liability premiums are generally recognized as revenue on a pro rata basis over the policy term.

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

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

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

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

**Reinsurance:** Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income. Amounts applicable to reinsurance ceded for unearned premium reserves and loss and loss-adjustment expense reserves have been reported as reductions of these items, and expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

**Income Taxes:** Income tax provisions are based on income reported for financial statement purposes. Deferred federal income taxes arise from differences in the timing of recognizing certain income and expense items for financial statement and tax purposes. Such differences are related principally to the deferral of policy acquisition costs and the recognition of salvage and subrogation on an accrual basis.

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

2. **Investments**

Major categories of net investment income are summarized as follows:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed maturities</td>
<td>$93,298</td>
<td>$85,692</td>
</tr>
<tr>
<td>Equity securities</td>
<td>8,005</td>
<td>7,154</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>41,984</td>
<td>32,906</td>
</tr>
<tr>
<td>Real estate</td>
<td>2,537</td>
<td>2,779</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>9,673</td>
<td>8,575</td>
</tr>
<tr>
<td>Investment expenses</td>
<td>8,814</td>
<td>7,036</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$155,497</td>
<td>$137,106</td>
</tr>
<tr>
<td><strong>Net Appreciation</strong></td>
<td>$146,683</td>
<td>$130,070</td>
</tr>
</tbody>
</table>

Realized gains (losses) and unrealized appreciation on investments for the years 19X2 and 19X1 are summarized as follows:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Maturities</strong></td>
</tr>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>19X1</td>
</tr>
<tr>
<td><strong>Equity Securities</strong></td>
</tr>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>19X1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>19X1</td>
</tr>
<tr>
<td><strong>Unrealized</strong></td>
</tr>
<tr>
<td><strong>Equity Securities</strong></td>
</tr>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>19X1</td>
</tr>
<tr>
<td><strong>Tax Effects</strong></td>
</tr>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>19X1</td>
</tr>
<tr>
<td><strong>Net Appreciation on Equity Security</strong></td>
</tr>
<tr>
<td>19X2</td>
</tr>
<tr>
<td>19X1</td>
</tr>
</tbody>
</table>
At December 31, 19X2 and 19X1, gross unrealized appreciation pertaining to equity securities was approximately $106,430,000 and $118,636,000, and gross unrealized depreciation was approximately $97,720,000 and $109,802,000, respectively.

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

3. Reinsurance Activity

Substantial amounts of reinsurance are assumed, both domestic and foreign. Such reinsurance includes quota share, excess of loss, catastrophe, facultative, and other forms of reinsurance on essentially all property and casualty lines of insurance.

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

A reconciliation of direct to net premiums, on both a written and an earned basis, for 19X2 and 19X1 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$777,836</td>
<td>$710,580</td>
</tr>
<tr>
<td>Assumed</td>
<td>306,814</td>
<td>307,328</td>
</tr>
<tr>
<td>Ceded</td>
<td>(502,551)</td>
<td>(476,100)</td>
</tr>
<tr>
<td>Net</td>
<td>$582,099</td>
<td>$541,808</td>
</tr>
</tbody>
</table>

The amounts of premiums and recoveries pertaining to catastrophe reinsurance contracts that were deducted from earned premiums and losses incurred during 19X2 were approximately $1,924,000 and $4,892,000, respectively. Such amounts for 19X1 were approximately $2,196,000 and $3,232,000, respectively.

In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the Company would be liable for such defaulted amounts. Estimated amounts recoverable from reinsurers deducted from the reserve for losses and loss-adjustment expenses were approximately $592,622,000 and $515,172,000 for 19X2 and 19X1, respectively.

4. Income Taxes

The provision for federal income taxes differs from amounts currently payable due to certain items reported for financial statement purposes in periods that differ from those in which they are reported for tax purposes.

The items in the deferred tax provision are as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred policy acquisition costs</td>
<td>$ (772)</td>
<td>$688</td>
</tr>
<tr>
<td>Salvage and subrogation</td>
<td>(73)</td>
<td>72</td>
</tr>
<tr>
<td>Other</td>
<td>(162)</td>
<td>121</td>
</tr>
<tr>
<td>Deferred tax provision</td>
<td>$(1,007)</td>
<td>$881</td>
</tr>
</tbody>
</table>

The liability for deferred income taxes includes the tax effect of net unrealized appreciation or depreciation on investments and other equity transactions.
The difference between taxes computed at the statutory rate and the recorded taxes is as follows:

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th></th>
<th>19X1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax at statutory rate</td>
<td>$27,759</td>
<td>34.0%</td>
<td>$23,125</td>
<td>34.0%</td>
</tr>
<tr>
<td>Tax-exempt bond interest</td>
<td>(354)</td>
<td>(0.4)</td>
<td>(4,306)</td>
<td>(6.3)</td>
</tr>
<tr>
<td>Dividends-received deduction</td>
<td>(125)</td>
<td>(0.2)</td>
<td>(1,611)</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Other</td>
<td>(2,179)</td>
<td>(2.7)</td>
<td>(36)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>$25,101</td>
<td>30.7%</td>
<td>$17,172</td>
<td>25.2%</td>
</tr>
</tbody>
</table>

5. Dividends From Subsidiaries

The funding of the cash requirements of the Company (parent company) is primarily provided by cash dividends from the Company’s subsidiaries. Dividends paid by the insurance subsidiaries are restricted by regulatory requirements of the domiciliary states. Generally, the maximum dividend that may be paid without prior regulatory approval is limited to the greater of 10 percent of statutory surplus (stockholders’ equity on a statutory basis) or 100 percent of net investment income for the prior year. Dividends exceeding these limitations can generally be made subject to approval by various state insurance departments. The subsidiaries paid cash dividends to the Company of $24,754,000 and $22,100,000 in 19X2 and 19X1, respectively. At December 21, 19X2, the maximum dividend that may be paid to the Company in 19X3 without regulatory approval is approximately $146,000,000.

6. Statutory Net Income and Stockholders’ Equity

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

7. Contingencies

In November 1988, California voters passed Proposition 103, requiring insurers doing business in that state to roll back property/casualty premium prices to November 1987 levels, less an additional 20 percent discount. Insurers challenged the constitutionality of Proposition 103, and in May 1989 the California Supreme Court upheld the proposition in large part. However, the Court also ruled that the rollback provision does not apply to an insurer who demonstrates through rate filings that the rate rollback would not allow a “fair and reasonable return.” The Company filed for exemption from the rate rollback for all lines affected by Proposition 103. In September 1989, the California Insurance Commissioner announced that the Company would be afforded a hearing and using different assumptions and methods than prescribed for the original filing, determined that the Company should roll back its rates and refund premiums of $19 million. The Company disagrees with the Commissioner’s methods and conclusions, and no provision for potential rate rollbacks or premium refunds is reflected in the financial results.

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