Checklists and illustrative financial statements for property and liability insurance companies: a financial accounting and reporting practice aid, December 1999 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR PROPERTY AND LIABILITY INSURANCE COMPANIES

A Financial Accounting and Reporting Practice Aid

Edited by

Robert Durak, CPA
Technical Manager, Accounting and Auditing Publications

Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
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FSP Section 17,000

Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies

.01 These checklists and illustrative materials have been developed by the AICPA Accounting and Auditing Publications Team to serve as nonauthoritative practice aids for use by preparers and auditors of financial statements. The auditor’s report checklist addresses those requirements most likely to be encountered when reporting on financial statements of a property and liability insurance company prepared in conformity with generally accepted accounting principles. It does not include reporting requirements relating to other matters such as internal control, agreed-upon procedures, etc. The financial statement and notes checklist includes disclosures that should be considered by property and liability insurance companies in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The checklist does not include disclosures prescribed by pronouncements whose applicability to property and liability insurance companies is considered to be remote.

.02 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with GAAP are not included in the checklist.

The financial statements and notes checklist has been updated to include relevant disclosure guidance in accounting pronouncements issued through September 30, 1999. Those pronouncements include:

- FASB Statement of Financial Accounting Standards (SFAS) No. 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133
- FASB Interpretation No. 43, Real Estate Sales
- FASB Technical Bulletin No. 97-1, Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option
- AICPA Statement of Position 99-3, Accounting and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters
- AICPA Practice Bulletin 15, Accounting by the Issuer of Surplus Notes
- FASB EITF consensus positions adopted at meetings of the EITF held through September 1999
- AICPA Statement on Auditing Standards (SAS) No. 87, Restricting the Use of an Auditor’s Report
- AICPA Statement on Standards for Accounting and Review Services No. 7, Omnibus Statement on Standards for Accounting and Review Services—1992
- AICPA Audit and Accounting Guide Audits of Property and Liability Insurance Companies (with conforming changes as of May 1, 1999)
.03 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at 888-777-7077.

Note: This publication was extracted from sections 17,000 through 17,600 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 17,100

Introduction

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

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

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

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

.05 The National Association of Insurance Commissioners (NAIC) has undertaken a project to codify SAP because the current prescribed-or-permitted statutory accounting model results in practices that may vary not only from state to state, but also for insurance entities within a state. The codification is expected to result in a hierarchy of statutory accounting practices that will provide a comprehensive basis of accounting that can be applied consistently to all insurance entities. In March 1998, the NAIC adopted the Codification of Statutory Accounting Principles. The new guidance will become effective January 1, 2001 and will be referred to as the NAIC Accounting Practices and Procedures Manual. The effect of this new guidance will be significant. The AICPA is currently reviewing its guidance on reporting statutory accounting practices and will modify existing guidance as necessary.
FSP Section 17,200  
Checklists—General

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

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

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

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

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

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

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

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

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
- The checklist may require modification based on the engagement circumstances. The checklist may not be all-inclusive.
- Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.
.07 These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.
FSP Section 17,300

Financial Statements and Notes Checklist

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

.02 Explanation of References:

AC = Reference to section number in FASB Accounting Standards—Current Text
APB = Accounting Principles Board Opinion
ARB = 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
PB = AICPA Practice Bulletin
SAS = AICPA Statement on Auditing Standards
SFAS = FASB Statement of Financial Accounting Standards
SOP = AICPA Statement of Position
EITF = Emerging Issues Task Force Consensus
App. K = Appendix K of AAG containing SOP 92-3, Accounting for Foreclosed Assets
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
App. P = Appendix P of AAG containing SOP 94-5, Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises

.03 Checklist Questionnaire:

This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the property and liability insurance company.

Place ✓ by
Sections Not Applicable

- General
  A. Titles and References
  B. Disclosure of Accounting Policies
C. Accounting Changes
D. Comparative Financial Statements
E. Business Combinations
F. Consolidations
G. Related-Party Transactions and Economic Dependency
H./H1. Financial Instruments
I. Derivatives
J. Foreign Currency
K. Nonmonetary Transactions
L. Contingencies and Commitments
M. Environmental Remediation Liabilities
N. Subsequent Events
O. Employee Stock Ownership Plans
P. Employers' Disclosures about Pensions and Other Postretirement Benefits
Q. Transfers and Servicing of Financial Assets
R. Futures Contracts
S. Lease Finance Receivables
T. Valuation Allowances
U. Segment Information
V. Stock Compensation Plans
W. Risks and Uncertainties
X. Costs to Exit an Activity
Y. Postemployment Benefits

• Balance Sheet
  A. Investment Securities
  B. Investments Accounted for by the Equity Method
  C. Impairment of a Loan
  D. Cash
  E. Premium and Agents' Balances
  F. Reinsurance Receivables
  G. Deferred Acquisition Costs
  H. Property and Equipment
  I. Lessee Leases
  J. Other Assets
  K. Policy Liabilities
  L. Income Taxes
  M. Long-Term Debt and Extinguishments of Liabilities
  N. Other Liabilities
  O. Shareholders' Equity
  P. Deposit Accounting

• Income Statement
  A. General
  B. Investment Income
  C. Other Income
  D. Benefits and Expenses
  E. Income Taxes
  F. Discontinued Operations
  G. Extraordinary Items
  H. Earnings Per Share
<table>
<thead>
<tr>
<th>Sections Not Applicable</th>
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<tbody>
<tr>
<td>Place ✓ by</td>
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</tbody>
</table>

I. Comprehensive Income
J. Other

- Statement of Changes in Shareholders’ Equity
- Statement of Cash Flows
- Auditors’ Reports Checklist
- Supplemental Information for Property and Liability Insurance

Companies That Are Securities and Exchange Commission Registrants

General

A. Titles and References

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

2. Are the financial statements suitably titled? ___ ___ ___

3. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statement presentation? ___ ___ ___

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? ___ ___ ___
<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>k.</td>
<td>Reinsurance?</td>
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<td>l.</td>
<td>Income taxes?</td>
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<td>m.</td>
<td>Foreign reinsurance?</td>
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<td></td>
<td>[APB 22, par. 8 (AC A10.102); FASB 40, par. 5 (AC Re6.114); AAG, par. 6.80]</td>
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<td>2.</td>
<td>Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations?</td>
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<td></td>
<td>[APB 22, par. 12 (AC A10.105)]</td>
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<td>3.</td>
<td>Do those principles and methods identified in Step 2 include all instances in which there:</td>
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<td></td>
<td>a. Is a selection from existing acceptable alternatives?</td>
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<td></td>
<td>b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?</td>
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<td></td>
<td>c. Are unusual or innovative applications of GAAP?</td>
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<td>[APB 22, par. 12 (AC A10.105)]</td>
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<td>4.</td>
<td>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?</td>
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<td>[APB 22, par. 14 (AC A10.107)]</td>
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<td>5.</td>
<td>Is policy for defining a cash equivalent disclosed?</td>
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<td>[SFAS 95, par. 10 (AC C25.108)]</td>
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<td>6.</td>
<td>If consolidated statements are presented, is the consolidation policy disclosed?</td>
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<td>[ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]</td>
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<td>7.</td>
<td>Is the policy for requiring collateral or other security disclosed if the entity has entered into repurchase agreements or securities lending transactions?</td>
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<td></td>
<td>[SFAS 125, par. 17a]</td>
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<td>8.</td>
<td>If material, is the accounting policy used in recognizing amounts related to a modification of an operating lease (that does not change the lease classification) disclosed?</td>
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<td>[EITF 95-17]</td>
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<td>9.</td>
<td>Is the disclosure made about whether anticipated investment income is considered in determining whether a premium deficiency relating to short-duration contracts exists?</td>
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<td>[AAG, par. 3.33]</td>
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<td>10.</td>
<td>When permitted practices differ from prescribed statutory accounting practices, is the following information about permitted statutory accounting practices that individually or in the aggregate affect statutory surplus or risk-based capital, including GAAP practices, disclosed:</td>
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<td>a. A description of the permitted statutory accounting practices?</td>
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<td>b. A statement that the permitted statutory accounting practice differs from the prescribed statutory accounting practices?</td>
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<td></td>
<td>c. The monetary effect on statutory surplus?</td>
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<tr>
<td></td>
<td>[SOP 94-5, par. 8]</td>
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</table>
11. When prescribed statutory accounting practices do not address the accounting for a transaction, is the following information about permitted statutory accounting practices, excluding GAAP practices used, disclosed:
   a. A description of the transaction and of the permitted statutory accounting practice used? __ __ __
   b. A statement that prescribed statutory accounting practices do not address the accounting for the transaction? [SOP 94-5, par. 8]
       __ __ __

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

13. If material, is the accounting policy used in recognizing amounts related to a modification of an operating lease (that does not change the lease classification) disclosed? [EITF 95-17]
       __ __ __

C. Accounting Changes

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

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

3. If appropriate, is the cumulative effect of a change in accounting principle shown separately between the captions “extraordinary items” and “net income”? [APB 20, pars. 20 and 21 (AC A06.116 and .117 and E09.104)]
       __ __ __

4. Is the reason for not reporting the cumulative effect of the change and not disclosing the pro forma amounts for prior years disclosed if it is impossible to determine such effect? [APB 20, pars. 25 and 26 (AC A06.121 and .122)]
       __ __ __
5. For changes in accounting principle that are required to be accounted for by applying retroactively the new method in restatements of prior periods, is the effect of the change on income before extraordinary items, net income, and related per share amounts disclosed? 
   [APB 20, par. 28 (AC A10.115)] 

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

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

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

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

10. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:
    a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year? 
    b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated? 
    [SFAS 16, par. 15 (AC A35.111)]

D. Comparative Financial Statements

1. Are comparative statements considered? 
   [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]

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

3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? 
   [ARB 43, Ch. 2A, par. 3 (AC F43.103), as amended by APB 20]
E. Business Combinations

Pooling of Interests Method

1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, are the following disclosed:
   a. The fact that a combination accounted for by the pooling-of-interests method has occurred during the period disclosed?
      [APB 16, pars. 63 and 64b (AC B50.122 and .123b)]
     
   b. The name and a brief description of the enterprises combined?
      [APB 16, par. 64a (AC B50.123a)]
     
   c. A description and the number of shares of stock issued in the combination?
      [APB 16, par. 64c (AC B50.123c)]
     
   d. Details (including revenue, extraordinary items, net income, other changes in shareholders' equity, and amount of and manner of accounting for intercompany transactions) of the results of operations of the previously separate enterprises for the period before the combination is consummated that are included in the current combined net income?
      [APB 16, par. 64d (AC B50.123d)]
     
   e. Descriptions of the nature of adjustments of net assets of the combining enterprises to adopt the same accounting practices and the effects of the changes on net income previously reported separately and now presented in comparative financial statements?
      [APB 16, par. 64e (AC B50.123e)]
     
   f. Details (including at least revenue, expenses, extraordinary items, net income, and other changes in shareholders' equity for the period excluded from the reported results of operations) of increases or decreases in retained earnings from changing the fiscal year of a combining enterprise?
      [APB 16, par. 64f (AC B50.123f)]
     
   g. Reconciliations of amounts of revenue and earnings previously reporting by the enterprise that issued the stock to effect the combination with the combined amounts currently presented in financial statements and summaries? (Or if a new enterprise was formed to effect the combination, the earnings of the separate enterprises that comprise combined earnings for prior periods may be disclosed.)
      [APB 16, par. 64g (AC B50.123g)]

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

Practice Tip

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

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

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

   b. The method of accounting for the combination—that is, the purchase method?
      [APB 16, par. 95b (AC B50.164b)]

   c. The period for which results of operations of the acquired enterprise are included in the income statement of the acquiring enterprise?
      [APB 16, par. 95c (AC B50.164c)]

   d. The cost of the acquired enterprise and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the shares?
      [APB 16, par. 95d (AC B50.164d)]

   e. A description of the plan for amortization of acquired goodwill, the amortization method, and period?
      [APB 16, par. 95e (AC B50.164e)]

   f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment (including consideration that is issued or issuable at the end of a contingency period or that is held in escrow)?
      [APB 16, pars. 78 and 95f (AC B50.136 and .164f)]

   g. For public companies only, the following as supplemental information (including at least revenue, income before extraordinary items, net income, and earnings per share) on a pro forma basis:
      
      (1) Results of operations for the current period as though the enterprises had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period?
      [APB 16, par. 96a (AC B50.165a); SFAS 79, par. 6 (AC B50.165)]

      (2) Results of operations for the immediately preceding period as though the enterprises had combined at the beginning of that period if comparative statements are presented?
      [APB 16, par. 96b (AC B50.165b); SFAS 79, par. 6 (AC B50.165)]

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

3. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:
a. Are the following disclosures made for the period in which a purchase business combination occurs:

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

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

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

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

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

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

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

F. Consolidations

1. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94, par. 13 (AC C51.103)]

2. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51, par. 4 (AC C51.107)]

G. Related-Party Transactions and Economic Dependency

1. For related-party transactions do disclosures include:

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

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

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d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement?

[SFAS 57, par. 2 (AC R36.102)]

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

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

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H. Financial Instruments

Note: If SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted, the following steps do not apply. See section H1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:

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

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   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, Disclosure of Accounting Policies (AC A10)?

      [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]

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2. Do the disclosures in Steps 1.a. and 1.b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?

[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]

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3. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial statement:

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

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

[SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]

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

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

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

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

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

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

a. The entity is nonpublic.

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

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

5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial condition?

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

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

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

1 If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.
7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed?  
[SFAS 107, par. 10 (AC F25.115C)]

8. If it is not practicable to estimate the fair market value of 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?
   [SFAS 107, par. 14 (AC F25.115G)]
   b. The reasons why it is not practicable to estimate fair value?

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

10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a balance sheet is presented for comparative purposes?  
[SFAS 107, par. 17]

11. For a written put option involving a reporting entity’s own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework?  
[EITF 96-13]

12. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity’s own stock that give the reporting entity a choice of settlement methods?  
[EITF 96-13]

H1. Financial Instruments

*Note: The following disclosures apply only if SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.*

*Derivative Instruments and Hedging Activities*

1. If an entity holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?
2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?  

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

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

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

[SFAS 133, par. 44 (AC D50)]  

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

Fair value hedges  

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

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

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

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

Cash flow hedges  

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

(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?
(2) A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months?

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

(4) The amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur?

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

Hedges of the net investment in a foreign operation

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

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

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

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

Disclosures about Fair Value of Financial Instruments

8. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value?

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

9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position?

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

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2 If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement as amended.
10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASB Interpretation No. 39, Offset of Amounts Related to Certain Contracts, or the exceptions for master netting arrangements in paragraph 10 of Interpretation 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASB Interpretation No. 41, Offset of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements? [SFAS 107, par. 14 (AC F25)]

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

Note: SFAS 126, Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, makes the disclosures about fair values of financial instruments prescribed in SFAS 107, Disclosures about Fair Value of Financial Instruments, optional for reporting entities that:
   a. Are nonpublic entities.
   b. Have total assets of less than $100 million on the date of the financial statements.
   c. Have no instrument that, in whole or in part, is accounted for as a derivative instrument under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, during the reporting period.

Disclosure about Concentrations of Credit Risk of All Financial Instruments

12. Except as indicated in paragraph 15B3 of SFAS 107, has the entity disclosed all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (Group concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A (AC F25)]

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

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3 SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:
   a. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans, are subject to the reporting of paragraph 15A).
   b. The financial instruments described in paragraphs 8(a), 8(c), and 8(f) of SFAS 107, as amended by SFAS 112, Employers' Accounting for Postemployment Benefits, SFAS 123, Accounting for Stock-Based Compensation, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

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

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

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

Yes  No  N/A

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

14. Has the entity disclosed quantitative information about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks (encouraged, but not required)?

Yes  No  N/A

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

15. For a written put option involving a reporting entity’s own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework?

Yes  No  N/A

[EITF 96-13]

16. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity’s own stock that give the reporting entity a choice of settlement methods?

Yes  No  N/A

[EITF 96-13]

Note: If SFAS 133 has been adopted, replace Steps 10, 11, 12, and 13 in Section A of the “Balance Sheet” section with the following steps:

17. For securities classified as available-for-sale, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:

a. Aggregate fair value?

Yes  No  N/A

b. Total gains for securities with net gains in accumulated other comprehensive income?

Yes  No  N/A

4 Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate repricing or maturity dates, (d) the duration of the financial instruments, or (e) the entity’s value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.
c. Total losses for securities with net losses in accumulated other comprehensive income?
   [SFAS 115, par. 19 (AC I80.118)]

18. For securities classified as held-to-maturity, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:
   a. Aggregate fair value?
   b. Gross unrecognized holding gains or losses?
   c. Net carrying amount?
   d. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities?
   [SFAS 115, par. 19 (AC I80.118)]

19. For investments in debt securities classified as available-for-sale or held-to-maturity:
   a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?
   b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed?
   [SFAS 115, par. 20 (AC I80.119)]

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

21. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:
   a. Net carrying amount of the sold or transferred security?
   b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security?
c. Related realized or unrealized gain or loss?

Yes  No  N/A

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d. The circumstances leading to the decision to sell or transfer the security?

[SFAS 115, par. 22 (AC I80.121)]

I. Derivatives

Note: If SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted, the following steps do not apply. See section H1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:

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

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   b. The nature and terms, including a discussion of:

      (1) Credit and market risk?

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      (2) Cash requirements?

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      (3) Related accounting policy as required by APB 22?

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   c. Do disclosures in Steps 1.a. and 1.b. above distinguish between financial instruments held or issued for:

      (1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?

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      (2) Purposes other than trading?

      [SFAS 119, pars. 8 and 9 (AC F25.115L and .115M)]

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2. If the company holds or issues derivative financial instruments for trading purposes, is the following disclosed:

   a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?

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   b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement:

      (1) If the disaggregation is other than by class, did the company also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?

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   c. The average fair value for assets and liabilities from the trading of other types of financial instruments or non financial assets? (This disclosure is encouraged but not required.)

   [SFAS 119, par. 10 (AC F25.115N)]

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3. Does a company that holds or issues derivative financial instruments for purposes other than trading disclose:

   a. A description of:

      (1) The objectives for holding or issuing?

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      (2) The context needed to understand those objectives?
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<td>(3) The strategies for achieving those objectives?</td>
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<td>(4) The classes of derivative financial instruments used?</td>
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<td>b. A description of how each class of derivative financial instrument is reported in the financial statements, including:</td>
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<td>(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?</td>
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<td>(2) When recognized, where the instruments and related gains and losses are reported?</td>
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</tr>
<tr>
<td>c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:</td>
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<tr>
<td>(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?</td>
<td></td>
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<tr>
<td>(2) A description of the classes of derivative financial instruments used to hedge?</td>
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<tr>
<td>(3) The amount of explicitly deferred hedging gains and losses?</td>
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<tr>
<td>(4) A description of the transaction or events that result in recognition in earnings of the deferred gains or losses?</td>
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</table>

4. Are the following encouraged, but not required, quantitative disclosures made:
   a. Interest rate? | | | |
   b. Foreign exchange? | | | |
   c. Commodity price? | | | |
   d. Other market risks consistent with management’s strategies? | | | |
   e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? | | | |

J. Foreign Currency

1. Is the aggregate transaction gain or loss included in net income for the period disclosed? (Note: for this disclosure, gains and losses on forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52 shall be considered transaction gains or losses.)

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

6 If SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted, the phrase “forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52 shall be considered transaction gains or losses” is replaced by “derivative instruments shall comply with paragraph 45 of SFAS 133.” SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.
2. Is an analysis of changes during the period in the accumulated amount of translation adjustments reported in equity included, and does it 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?  
      \(\text{Note: Paragraph 45c of SFAS 133 specifies additional disclosures for instruments designated as hedges of the foreign currency exposure of a net investment in a foreign operation. See section H1.}\)  
   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?  
      \[\text{SFAS 52, par. 31 (AC F60.141)}\]

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

4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant?  
   \[\text{ARB 43, Ch. 12, par. 5 (AC F65.102)}\]

K. Nonmonetary Transactions

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

L. 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?  
   \[\text{SFAS 5, par. 9 (AC C59.108)}\]

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?  
      \[\text{SFAS 5, par. 10 (AC C59.109)}\]

3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that are sold)?  
   \[\text{SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 2 and 3 (AC C59.114)}\]
4. Are gain contingencies adequately disclosed to avoid any misleading implications about likelihood of realization?  
   [SFAS 5, par. 17 (AC C59.118)]

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

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

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

8. Is disclosure made if a subsidiary entity has guaranteed parent company debt?  
   [SFAS 57, par. 1 (AC R36.101)]

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

M. Environmental Remediaion Liabilities

1. Is there disclosure of the following accounting policies:
   a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?  
   [SOP 96-1 (Ch. 7, pars. 11 and 12)]

   b. The policy concerning the timing of recognition of recoveries?  
      *(Encouraged, but not required.)*
      [SOP 96-1 (Ch. 7, pars. 11 and 12)]

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

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

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

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

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

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

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

\[
\begin{array}{ccc}
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\end{array}
\]

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

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

\[
\begin{array}{ccc}
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\]

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

\[
\begin{array}{ccc}
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\end{array}
\]

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

(1) The total amount accrued for the site?

\[
\begin{array}{ccc}
\hline
\end{array}
\]

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

\[
\begin{array}{ccc}
\hline
\end{array}
\]

(3) Whether other potentially responsible parties are involved and the entity's estimated share of the obligation?
(4) The status of regulatory proceedings?  
Yes  No  N/A

(5) The estimated time frame for resolution of the contingency?  
Yes  No  N/A

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

Probable But Not Reasonably Estimable Losses

5. If the reporting entity's probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed?  
Yes  No  N/A

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

6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? (Encouraged, but not required)  
Yes  No  N/A

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

Environmental Remediation Costs Recognized Currently

7. Is the amount of environmental remediation costs recognized in the income statement disclosed in the following detail: (Encouraged, but not required.)  
Yes  No  N/A

a. The amount recognized for environmental remediation loss contingencies in each period?  
Yes  No  N/A

b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period?  
Yes  No  N/A

c. The income statement caption in which environmental remediation costs and credits are included?  
Yes  No  N/A

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

Other Matters

8. Do the financial statements include a contingency conclusion that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? (Optional.)  
Yes  No  N/A

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

9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? (Optional.)  
Yes  No  N/A

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

N. 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?  
Yes  No  N/A

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

2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading?  
Yes  No  N/A

[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05-.07, .09, and 561.01-.09 (AU 560.05-.07, .09, and 561.01-.09)]
Note: Consider the appropriateness of dual-dating the auditor's report if a subsequent event is disclosed in the financial statements (AU 530.05).

O. Employee Stock Ownership Plans

1. If an employer sponsors an employee stock ownership plan (ESOP), do the employer's disclosures include:
   a. A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented:
      (1) For leveraged ESOPs and pension reversion ESOPs, does the description include the basis for releasing shares and how dividends on allocated and unallocated shares are used? □
   b. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for EPS computations?
      (1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies for both blocks of shares disclosed? □
   c. The amount of compensation cost recognized during the period? □
   d. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date? □
      (1) If the entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares? □
   e. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6? □
   f. The existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? [SOP 93-6, par. 53]

2. Are all the items listed in Step 8 above disclosed even if the employer with an ESOP does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992? [SOP 93-6, par. 55]

3. For leveraged ESOPs and for nonleveraged ESOPs where the assets from the pension plan are used by the ESOP to purchase shares, when the employer reports the issuance of shares or the sale of treasury shares to the ESOP, is the charge to unearned ESOP shares presented as a separate item in the balance sheet as a contra-asset account? [SOP 93-6, pars. 13 and 46]

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7 This disclosure need not be made for old ESOP shares for which the entity does not apply the guidance in SOP 93-6.
8 Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments. [SOP 93-6, par. 95]
4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported on the employer’s balance sheet? [SOP 93-6, par. 26]

5. If the employer sponsors an ESOP with an employer loan, is the ESOP’s note payable and the employer’s note receivable from the ESOP not reported in the employer’s balance sheet? [SOP 93-6, par. 27]

P. Employers’ Disclosures about Pensions and Other Postretirement Benefits

Reduced Disclosure Requirements for Nonpublic Entities

1. For a nonpublic entity⁹ has the election been made to disclose the following for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of SFAS 132:
   a. The benefit obligation, fair value of plan assets, and funded status of the plan? [SFAS 132, par. 8a (AC P16.150A, P40.169A)]
   b. Employer contributions, participant contributions, and benefits paid? [SFAS 132, par. 8b (AC P16.150A, P40.169A)]
   c. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit pre-paid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8c (AC P16.150A, P40.169A)]
   d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8d (AC P16.150A, P40.169A)]
   e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets? [SFAS 132, par. 8e (AC P16.150A, P40.169A)]
   f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 8f (AC P16.150A, P40.169A)]
   g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by

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⁹ A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market or (c) that is controlled by an entity covered by (a) or (b).
insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period?  
[SFAS 132, par. 8g (AC P16.150A, P40.169A)]

h. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements?  
[SFAS 132, par. 8h (AC P16.150A, P40.169A)]

### Pensions and Other Postretirement Benefits

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

   a. A reconciliation of beginning and ending balances of the benefit obligation\(^\text{10}\) showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes\(^\text{11}\) benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits?  
   [SFAS 132, par. 5a (AC P16.150, P40.169)]

   b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes,\(^\text{12}\) contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements?  
   [SFAS 132, par. 5b (AC P16.150, P40.169)]

   c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:

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

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

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

\(^{12}\) Refer to footnote 11.
d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment?

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

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

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

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f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets?

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

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

SFAS 132, par. 5g (AC P40.169)

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

SFAS 132, par. 5h (AC P40.169)

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

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

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

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

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

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

<table>
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<th>Yes</th>
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l. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event?

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

<table>
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m. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132? [SFAS 132, par. 5m (AC P16.150, P40.169)]

2. Are amounts related to the employer's results of operations disclosed for each period for which an income statement is presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]

3. Are amounts related to the employer's statement of financial position disclosed for each balance sheet presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]

**Employers with Two or More Plans**

1. The disclosures required by SFAS 132 may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7 of SFAS 132. Has the entity elected to aggregate these disclosures?

2. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligation in excess of assets. The same aggregation is permitted for postretirement plans. Has the entity elected to aggregate these disclosures?

3. If those disclosures are combined, has the employer disclosed the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets?

4. Has the aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets also been disclosed?

5. Do disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately? [SFAS 132, par. 6 (AC P16.153, P40.172)]

6. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions. Has the entity elected to combine these disclosures? [SFAS 132, par. 7 (AC P16.153A, P40.173)]

**Defined Contribution Plans**

1. Has the employer disclosed the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans?

2. Do the disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture? [SFAS 132, par. 9 (AC P16.162, P40.198)]
Multiemployer Plans

1. Has the employer disclosed the amount of contributions to multiemployer plans during the period?  

2. Has the employer chosen to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits? If so, do the disclosures include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture?  

   [SFAS 132, par. 10 (AC P16.166, P40.178)]

3. In some situations, withdrawal from a multiemployer plan may result in an employer’s having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, have the provisions of SFAS 5, Accounting for Contingencies, been applied?  

   [SFAS 132, par. 11 (AC P16.166)]

4. In some situations, withdrawal from a multiemployer plan may result in employer’s having an obligation to the plan for a portion of the plan’s unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer’s contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a “maintenance of benefits” clause), has the employer applied the provisions of SFAS 5, Accounting for Contingencies?  

   [SFAS 132, par. 11 (AC P40.179)]

Q. Transfers and Servicing of Financial Assets

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

   [SFAS 125, par. 17d]

2. For all servicing assets and servicing liabilities are the following disclosures made:
   a. The amounts of servicing assets or liabilities recognized and amortized during the period?  
   b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?  
   c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 37 of SFAS 125?  
   d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented?  

   [SFAS 125, par. 17e]
R. Futures Contracts

**Note:** If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has been adopted, Step 1 does not apply. See section H1 for the required disclosures. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

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

[SFAS 80, par. 12 (AC F80.112)]

---

S. Lease Finance Receivables

1. Do disclosures include:
   a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?
   b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?
   c. Total contingent rentals included in income for each period for which an income statement is presented?

[SFAS 13, par. 23, as amended by SFAS 91, par. 25d (AC L10.119a)]

2. Are leasing arrangements described?
   [SFAS 13, pars. 23 and 29 (AC L10.119 and .125); SFAS 91, par. 25 (AC L10.119a(1)–(3)); SFAS 98, pars. 17–19 (AC L10.130k–m)]

3. Are leveraged leases appropriately accounted for and reported?
   [SFAS 13, pars. 41–47 (AC L10.143–149)]

---

T. Valuation Allowances

1. Are valuation reserves for losses anticipated on assets deducted from the assets to which they relate?
   [APB 12, par. 3 (AC V18.102)]

---

U. Segment Information

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

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

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

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

   (1) Revenues from external customers?  
   (2) Revenues from transactions with other operating segments of the reporting entity?  
   (3) Interest revenue?  
   (4) Interest expense?  
   (5) Depreciation, depletion, and amortization expense?  
   (6) Unusual items as described in paragraph 26 of APB 30?  
   (7) Equity in the net income of investees accounted for by the equity method?  
   (8) Income tax expense or benefit?  
   (9) Extraordinary items?  
   (10) Significant noncash items other than depreciation, depletion, and amortization expense?  
       [SFAS 131, par. 27 (AC F30.126)]

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

   (1) The amount of investment in equity method investees?  
   (2) Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets?  
       [SFAS 131, par. 28 (AC F30.127)]

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

   a. The basis of accounting for any transactions between reportable segments?  
   b. The nature of any differences between the reporting entity's consolidated income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principle?  
   c. The nature of any differences between the measurements of the reportable segments' assets and the reporting entity's consolidated assets?  
   d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss?
e. The nature and effect of any asymmetrical allocations to segments?  
[SFAS 131, par. 31 (AC F30.130)]

7. Are reconciliations of the totals of the reportable segments’ revenues, 
measures of profit or loss, assets, and every other significant item of 
information disclosed to corresponding consolidated amounts presented 
with all significant reconciling items separately identified and described?  
[SFAS 131, par. 32 (AC F30.131)]

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

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

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

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

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

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

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

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

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

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

c. Information about the extent of the reporting entity’s reliance on its major customers, including the following:
(1) If revenues from transactions with any single customer amount to 10 percent or more of the reporting entity's revenues, that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenue? [SFAS 131, par. 39 (AC F30.138)]

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

V. Stock Compensation Plans

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

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

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

5. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:
   a. The range of exercise prices?  
   b. The weighted-average exercise price?  
   c. The weighted-average remaining contractual life?  
   [SFAS 123, par. 48 (AC C36.147)]

6. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:
   a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?  
   b. The number and weighted-average exercise price of options currently exercisable?  
   [SFAS 123, par. 48 (AC C36.147)]

W. Risks and Uncertainties

1. Is a description of the major products and services the entity sells or provides and the principal markets, including the location of those markets disclosed?  
[SOP 94-6, par. 10]

2. If the company operates in more than one business, are the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed?  
[SOP 94-6, par. 10]

3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management’s estimates included?  
[SOP 94-6, par. 11]

4. Is disclosure regarding an estimate made when known information available before the financial statements are issued indicates that it is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and the effect of the change will be material?  
[SOP 94-6, par. 13]
5. Does the disclosure in Step 4 above indicate the nature of the uncertainty and include an indication that it is reasonably possible that a change in estimate will occur in the near term?[^13] [SOP 94-6, par. 14]  

6. If the estimate in Step 4 involves a loss contingency covered by SFAS 5, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made?[^14] [SOP 94-6, par. 14]  

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

8. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the entity's home country that meet the criteria of paragraph 21 of SOP 94-6, are the following disclosed:  
   a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year? [SOP 94-6, par. 24]  
   b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the entity's home country?  

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

X. Costs to Exit an Activity  

1. 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]  

2. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), the following disclosures made in all periods until the plan of termination is completed:  
   a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?  
   b. The number of employees to be terminated?  
   c. A description of the employee group(s) to be terminated?  

[^13]: If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.  
[^14]: See footnote 13.
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?

---

Yes  No  N/A

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

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

---

Yes  No  N/A

b. No disclosure made on the face of the income statement for earnings per share effect?

---

Yes  No  N/A

c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income?

---

Yes  No  N/A

4. If activities that will not be continued are significant to the company’s revenue or operating results, or if exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:

a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?

---

Yes  No  N/A

b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?

---

Yes  No  N/A

c. A description of the type and amount of exit costs paid and charged against the liability?

---

Yes  No  N/A

d. The amount of any adjustment(s) to the liability?

---

Yes  No  N/A

e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations?

---

Yes  No  N/A

Y. Postemployment Benefits

1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements?

---

Yes  No  N/A

Balance Sheet

A. Investment Securities

1. Are there separate captions for each of the following investment categories:
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Trading securities?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>b. Securities available for sale?</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>c. Securities held to maturity?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Mortgage loans on real estate?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Real estate?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[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 60, par. 47 (AC In6.153); 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, Accounting by Creditors for Impairment of a Loan? [SFAS 60, par. 47, as amended by SFAS 114, par 23 (AC In6.153)]

4. Are real estate investments reported at cost less accumulated depreciation? [SFAS 60, par. 48, as amended by SFAS 121, par 28(a) (AC In6.154)]

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

6. Is an explanation of the company's accounting policies for debt securities held, including the basis for classification into balance sheet captions disclosed? [AAG, App. C (Exh. C-5)]

7. If investments in high-risk CMOs are significant, are the following disclosures made in the financial statements:¹⁵
   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. Are debt and equity securities classified as (a) held-to-maturity, (b) available-for-sale, or (c) trading? [SFAS 115, par. 6 (AC I80.103)]

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

¹⁵ These disclosure requirements do not apply to instruments subject to SFAS 125, paragraph 14.
Practice Tip

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

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

**Note:** SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, modifies the disclosure requirements of SFAS 115, paragraphs 19, 20, 21, and 22. If SFAS 133 has been adopted, replace Steps 10, 11, 12, and 13 below with Steps 17, 18, 19, 20, and 21 in Section H1 of the “General” section of this checklist.

10. For investments in debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made by major-security type, for each balance sheet presented:

   a. Aggregate fair value?
   b. Gross unrealized holding gains or losses?
   c. Amortized cost basis?
   d. Disclosure of major-security types including:
      1. Equity securities?
      2. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?
      3. Debt securities issued by states of the United States and political subdivisions of the states?
      4. Debt securities issued by foreign governments?
      5. Corporate debt securities?
      6. Mortgage-backed securities?
      7. Other debt securities?
   
   [SFAS 115, par. 19 (AC I80.118)]

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

   a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)?
   b. Is disclosure made of the fair value and the amortized cost of debt securities in at least four maturity groupings:
      1. Within one year?
      2. After one year through 5 years?
      3. After five years through 10 years?
      4. After 10 years?
   c. Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, is the basis for allocation disclosed?
   
   [SFAS 115, par. 20 (AC I80.119)]
12. For each period for which an income statement is presented, are the following disclosed:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>The proceeds from sales of available-for-sale securities and gross realized gains and losses for those sales?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>The basis on which cost was determined in computing realized gain or loss (i.e., specific identification, average cost, or other method used)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>The change in net unrealized holding gain or loss on available-for-sale securities that is included in other comprehensive income?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>The change in net unrealized holding gain or loss on trading securities that has been included in earnings?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[SFAS 115, par. 21 (AC I80.120)]

13. For any sales of, or transfers from, securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Amortized cost amount of the sold or transferred security?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Related realized or unrealized gain or loss?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>The circumstances leading to the decision to sell or transfer the security?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[SFAS 115, par. 22 (AC I80.121)]

14. [SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which is effective for all fiscal quarters of fiscal years beginning after June 15, 2000, supersedes SFAS 105. If SFAS 133 has been adopted, refer to the disclosure requirements listed in section H1.]

Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed?

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

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

15. For those entities that enter into options with no intrinsic value at acquisition in order to purchase securities accounted for under SFAS 115, is disclosure made of the accounting policy for the premium paid (time value) to acquire the option that is classified as held-to-maturity or available-for-sale?

|   | Yes | No | N/A |

[EITF 96-11]

B. Investments Accounted for by the Equity Method

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

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

[APB 18, par. 19 (AC I82.109c)]

2. Are the following disclosures made for investments in common stock accounted for by the equity method:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>The name of each investee and their percentage of ownership of common stock?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>The accounting policies of the investor with respect to investments in common stock?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
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<tr>
<td>c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>d. The accounting treatment of the difference described in c.?</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Material effects of conversions of outstanding convertible securities, exercises or contingent issuances?</td>
<td></td>
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</tr>
</tbody>
</table>

3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The name of such investee?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The reasons why the equity method is not considered appropriate?</td>
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</table>

3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:

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<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The name of such investee?</td>
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<tr>
<td>b. The reasons why the equity method is not considered appropriate?</td>
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</table>

4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:

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<thead>
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<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The name of such investee?</td>
<td></td>
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<tr>
<td>b. The reasons why the equity method is considered appropriate?</td>
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</table>

Practice Tip

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

C. Impairment of a Loan

1. Is the following information about loans that meet the definition of impaired loans in SFAS 114 disclosed as of the date of each balance sheet presented:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>a. The total recorded investment in the impaired loans?</td>
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<tr>
<td>b. The amount of that recorded investment for which there is a related allowance for credit losses determined in accordance with SFAS 114 and the amount of that allowance?</td>
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<td></td>
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</tr>
<tr>
<td>c. The amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with SFAS 114?</td>
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</tbody>
</table>

2. Is the policy for recognizing interest income on impaired loans, including how cash receipts are handled, disclosed?

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<th>Yes</th>
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<th>N/A</th>
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46
3. Are the following disclosures made for each period for which an income statement is presented:

   a. The average recorded investment in the impaired loans during the period?  
   
   b. The related amount of interest income recognized during the time within the period that the loans were considered impaired?  
   
   c. Unless not practicable, the amount of interest income recognized using a cash-basis method of accounting during the time within the period that the loans were impaired?  
   
   d. Activity in the total allowance for credit losses related to loans, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off?  
   
   (Note: The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with SFAS 5 and SFAS 114.)  
   
   [SFAS 118, par. 6i (AC I08.118c)]  

   Yes  No  N/A

Practice Tip

Information about impaired loans that have been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by Steps 1 and 3.a.–c. above in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified in the restructuring agreement. That exception must be applied consistently for Steps 1 and 3.a.–c. above to all loans restructured in a troubled debt restructuring that meet the specified criteria.

4. In years after a restructuring, are loans that are restructured in a troubled debt restructuring into two (or more) loan agreements considered separately when assessing the applicability of the disclosures in paragraphs 20(a) and 20(c) of SFAS 114 as amended by SFAS 118 (Steps 1 and 3.a.–c. above)?  

   [EITF 96-22]  

5. If the reporting entity is an SEC registrant, is adequate disclosure made of the impact of the multiple loan structures on impaired loan disclosures for loans restructured in troubled debt restructurings?  

   [EITF 96-22]  

D. Cash

1. Is restricted cash appropriately segregated from cash available for current operations?  

   [ARB 43, Ch. 3A, par. 6 (AC B05.107)]  

2. Are restrictions on cash appropriately disclosed?  

   [SFAS 5, pars. 18 and 19 (AC C59.120)]  

3. If the company has material bank overdrafts or a material balance of undelivered checks as of the balance-sheet date, are:
   
   a. Bank overdrafts presented as a separate caption within current liabilities?  

   Yes  No  N/A
b. Undelivered checks classified as accounts payable?  
[Generally Accepted]  

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

4. [SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999, supersedes SFAS 105, and therefore this step. If SFAS 133 has been adopted, refer to the disclosure requirements listed in section H1.]  
If a concentration of credit risk arises from deposits in excess of federally insured limits, is it disclosed?  
[SFAS 105, par. 20 (AC F25.115)]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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E. Premium and Agents' Balances  
1. Are hypothecation or other pledging of receivables disclosed?  
[SFAS 5, pars. 18 and 19 (AC C59.120)]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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F. Reinsurance Receivables  
1. Does the company treat fronting arrangements as reinsurance arrangements for purposes of disclosures required by SFAS 60?  
[PB 9, par. 6]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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2. Are the following disclosed in relation to ceded insurance transactions:  
   a. Nature of the transaction(s)?  
   b. Purpose of the transaction(s)?  
   c. Effect of the transaction(s)?  
   d. The fact that the insurer is not relieved of its primary obligation to the policyholder in a reinsurance transaction?  
[SFAS 113, par. 27(a) (AC In6.191)]  

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

3. Are the following disclosed for short-duration reinsurance contracts on both a written and an earned basis:  
   a. Premiums from direct business?  
   b. Reinsurance assumed?  
   c. Reinsurance ceded?  
[SFAS 113, par. 27(b) (AC In6.191)]  

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

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)]  

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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5. Are the methods used for income recognition on reinsurance contracts disclosed?  
[SFAS 113, par. 27(c) (AC In6.191)]  

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<th>Yes</th>
<th>No</th>
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6. Are concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums disclosed for a ceding enterprise?
under the provisions of SFAS 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk?

[Note: If SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted, replace the phrase “SFAS 105, Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk?” with the phrase “paragraph 15A of SFAS 107, Disclosures about Fair Value of Financial Instruments, as amended by SFAS 133, Accounting for Derivative Instruments and Hedging Activities?”.]

[SFAS 113, par. 28 (AC In6.192); SFAS 133, par. 533]

7. Are the following items reported separately as assets for those companies participating in ceding transactions:
   a. Estimated reinsurance receivables arising from ceding transactions? __
   b. Amounts paid to the reinsurer relating to the unexpired portion of reinsured contracts (prepaid reinsurance premiums)? __

[SFAS 113, par. 14 (AC In6.178)]

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

[SFAS 113, par. 15 (AC In6.179)]

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

[SFAS 113, par. 16 (AC In6.180)]

G. 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); AAG, par. 3.33]

H. Property and Equipment

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

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

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)]

Yes  No  N/A

3. Are pledged assets and material commitments for property expenditures disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]

Yes  No  N/A

4. For any accounting period in which interest costs are capitalized, is the total amount of interest cost incurred during the period, and the amount thereof capitalized, disclosed? [SFAS 34, par. 21 (AC I67.118)]

Yes  No  N/A

5. Is the amount of interest cost incurred and charged to expense during the period disclosed for an accounting period in which no interest cost is capitalized? [SFAS 34, par. 21 (AC I67.118)]

Yes  No  N/A

6. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13]

Yes  No  N/A

7. If an impairment loss is recognized for assets to be held or used, are the following disclosures made in financial statements that include the period of impairment write-down:

   a. A description of the impaired assets and the facts and circumstances leading to the impairment?

   Yes  No  N/A

   b. The amount of the impairment and how fair value was determined?

   Yes  No  N/A

   c. The caption in the statement of income in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?

   Yes  No  N/A

   d. The business segment(s) affected, if applicable? [SFAS 121, par. 14]

   Yes  No  N/A

8. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, are the following disclosed in financial statements that include a period which those assets are held:

   a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?

   Yes  No  N/A

   b. The business segment(s) in which assets to be disposed of are held, if applicable?

   Yes  No  N/A

   c. The loss, if any, resulting from the application of paragraph 15 of SFAS 121?

   Yes  No  N/A

   d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?

   Yes  No  N/A

   e. The caption in the statement of income in which the gains or losses in Steps 8.c. and 8.d. are aggregated if those gains have not been presented as a separate caption or reported parenthetically on the face of the statement?

   Yes  No  N/A

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f. The results of operations for assets to be disposed of to the extent that those results are included in the company's statement of income for the period and can be identified? [SFAS 121, par. 19]

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

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I. 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)?

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    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?

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    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?

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

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    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)]

       |   | Yes | No | N/A |
       |---|-----|----|-----|
       |   |     |    |     |

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?

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<th>Yes</th>
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    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)]

    |   | Yes | No | N/A |
    |---|-----|----|-----|
    |   |     |    |     |

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)?

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

(2) The existence and terms of renewal or purchase options and escalation clauses? Yes No N/A

(3) Restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing? Yes No N/A

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

J. Other Assets

1. For foreign reinsurance accounted for by the open year method, are the following disclosures made for each period for which an income statement is presented:

a. The amounts of premiums, claims, and expenses recognized as income on closing underwriting balances? Yes No N/A

[AAG, par. 6.80]

b. The additions to underwriting balances for the year for reported premiums, claims, and expenses? Yes No N/A

[AAG, par. 6.80]

2. Are the amounts of premiums, claims, and expenses in the underwriting account disclosed for every balance sheet presented? Yes No N/A

[AAG, par. 6.80]

3. Are separate account assets reported as summary totals in the financial statements? Yes No N/A

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

4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired in a combination initiated after September 30, 1982, is the method and period of amortization disclosed? Yes No N/A

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

K. Policy Liabilities

1. Is the basis for estimating the liabilities for unpaid claims and claim adjustment expenses disclosed? Yes No N/A

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

2. Are the methods and assumptions used in estimating the liability for future policy benefits and the average rate of assumed investment yields in effect for the current year disclosed? Yes No N/A

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

3. Is the carrying amount of liabilities for unpaid claims and claim adjustment expenses relating to short-duration contracts that are presented at present value in the financial statements, and the range of interest rates used to discount those liabilities, disclosed? Yes No N/A

[SFAS 60, par. 60d (AC In6.166d); AAG, App. L (SOP 92-4)]
4. Is an unearned premium reserve presented as a liability for the portion of premiums applicable to the unexpired periods of policies? [AAG, par. 3.30]  

5. For each fiscal year for which an income statement is presented, is the following information about the liability for unpaid claims and claim adjustment expenses disclosed:
   a. The balance in the liability for unpaid claims and claim adjustment expenses at the beginning and end of each fiscal year presented, and the related amount of reinsurance recoverable?  
   b. Incurred claims and claim adjustment expenses with separate disclosure of the provision for insured events of the current fiscal year and of increases or decreases in the provision for insured events of prior fiscal years?  
   c. Payments of claims and claim adjustment expenses with separate disclosure of payments of claims and claim adjustment expenses attributable to insured events of the current fiscal year and to insured events of prior fiscal years? [SOP 94-5, par. 10]  

6. If changes in the provision for incurred claims and claim adjustment expenses are attributable to insured events of prior fiscal years, are the following disclosed in the financial statements:
   a. The reasons for the change?  
   b. Whether additional premiums or return premiums have been accrued as a result of the prior-year effects? [SOP 94-5, par. 10]  

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

8. For participating insurance, do disclosures include:
   a. The relative percentage?  
   b. The method of accounting for policyholders' dividends?  
   c. The amount of dividends?  
   d. The amount of any additional income allocated to participating policyholders? [SFAS 60, par. 60g (AC In6.166g)]  

L. Income Taxes
1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual company or group of companies that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)]  
2. Are the components of the total of all deferred tax assets and valuation allowance recognized in the statement of financial position disclosed? [SFAS 109, par. 43b-c (AC I27.142b-c)]
3. Are the components of the total of all deferred tax liabilities recognized in the balance sheet disclosed?  
[SFAS 109, par. 43a (AC I27.142a)]  

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<thead>
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<th>Yes</th>
<th>No</th>
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4. Is the following information disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23, *Accounting for Income Taxes—Special Areas*, as amended by SFAS 109, *Accounting for Income Taxes*:  

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

b. The cumulative amount of each type of temporary difference?  

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

d. The amount of the deferred tax liability for temporary differences other than those in Step 4.c. above (e.g., undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC section I27.130 and .131)?  
[SFAS 109, par. 44 (AC I27.143)]  

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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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5. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:  

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

b. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital?  
[SFAS 109, par. 48 (AC I27.147)]  

<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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M. Long-Term Debt and Extinguishments of Liabilities  

1. Are major categories of debt (notes payable to banks, mortgages payable, notes to related parties) identified on the balance sheet or in the notes to the financial statements?  
[Generally Accepted]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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2. Are the following disclosed for each of the five years following the date of the latest balance sheet presented:  

a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria of SFAS 47, *Disclosure of Long-Term Obligations*, and that are recognized on the purchaser's balance sheet?  

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

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>
3. If a note is noninterest bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?    __  __  __
   b. Does the disclosure include the effective interest rate and face amount of the note?    __  __  __
   c. Is amortization of the discount or premium reported as interest expense?    __  __  __
   d. Are issue costs reported in the balance sheet as deferred charges? [APB 21, par. 16 (AC 169.109)]    __  __  __

4. If a short-term obligation is to be excluded from current liabilities in a classified balance sheet, do disclosures include:
   a. A general description of the financing agreement?    __  __  __
   b. The terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]    __  __  __

5. 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)]    __  __  __

6. 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)]    __  __  __

7. 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)]    __  __  __

8. If there is an early extinguishment of debt, is the difference between reacquisition price and carrying amount identified as income in the period of extinguishment as gain or loss? [APB 26, pars. 20 and 21 (AC D14.103 and .104)]    __  __  __

9. Do disclosures for extinguishments of debt classified as extraordinary items 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?

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c. The per share amount of the aggregate gain or loss of net related income tax effect?

[SFAS 4, par. 9 (AC D14.107)]

10. Is the following disclosed if debt was considered to be extinguished by in-substance defeasance under the provisions of SFAS 76, Extinguishment of Debt, prior to the effective date of SFAS 125:

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a. A general description of the transaction?

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b. The amount of debt that is considered extinguished at the end of the period so long as that debt remains outstanding?

[SFAS 125, par. 17b (AC L35.109a)]

11. If assets are set aside after January 1, 1997 solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on those assets?

[SFAS 125, par. 17c (AC L35.109b)]

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

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

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b. The obligation contains a grace period within which the debtor may cure the violation and it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable?

[SFAS 78, par. 5 (AC B05.109A)]

13. If an obligation under Step 11 above is included in long-term liabilities (or in the case of an unclassified balance sheet is included as a long-term liability in the disclosure of debt maturities), are the circumstances disclosed?

[SFAS 78, par. 5 (AC B05.118)]

14. If a covenant on a long-term loan agreement is not met, and thus, the lender has the right to call the debt, and the lender waives that right for a period of greater than one year but retains the future covenant requirements, is the debt classified as noncurrent unless both of the following are met:

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a. The covenant violation occurred at the balance-sheet date or would have occurred absent a loan modification?

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b. It is probable the company will not be able to comply with the covenant at a measurement date within the next 12 months?

[EITF 86-30]

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

[EITF 90-19]
16. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor’s carrying amount of the debt, is the debt obligation classified as a current liability?

   [EITF 95-15]

17. Are borrowings outstanding under a revolving credit agreement that includes both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower’s customers reduce the debt outstanding classified as short-term obligations?

   [EITF 95-22]

N. Other Liabilities

1. Are significant categories of current liabilities, such as accounts payable, accrued expenses, deferred revenue, interest payable, and amounts due to officers and employees segregated and presented separately?

   [Generally Accepted]

2. If a classified balance sheet is presented, is a total for current liabilities shown?

   [SFAS 6, par. 15 (AC B05.118)]

3. For classified balance sheets, do current liabilities include:
   a. Obligations for items that entered the operating cycle?
   b. Collections received in advance of the performance of services?
   c. Debts that arise from operations directly related to the operating cycle?
   d. Other liabilities whose regular and ordinary liquidation is likely to occur within a relatively short time period?
   e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance-sheet date, even though liquidation may not be expected within that period?

   [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109); SFAS 78, par. 5 (AC B05.109A)]

4. Do current liabilities exclude short-term obligations that the company intends to refinance on a long-term basis, provided the company has demonstrated the ability to consummate the long-term financing?

   [SFAS 6, pars. 8–14 (AC B05.113–116); FASBI 8, pars. 2–4 (AC B05.117, .138, and .139)]

5. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures (such as assets pledged as collateral, and covenants to reduce debt, and maintain working capital)?

   [FASCON 5, par. 11; SFAS 5, par. 18 (AC C59.120)]

6. If the reporting entity has not accrued compensated absences (SFAS 43) because the amount cannot be reasonably estimated, is that fact disclosed?

   [SFAS 43, par. 6 (AC C44.104)]
7. If an obligation for postemployment benefits is not accrued in accordance with SFAS 5 (AC C59) or SFAS 43, *Accounting for Compensated Absences* (AC C44), only because the amount cannot be reasonably estimated, is this fact of nonaccrual disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]

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O. Shareholders' Equity

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

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

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3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]

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

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5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]

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6. Are the following disclosed on the face of the balance sheet or in the notes:

   a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise? [SFAS 129, par. 7 (AC C24.105)]

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   b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 8 (AC C24.105)]

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

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

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9. Are restrictions on payment of dividends disclosed? 
   [SFAS 5, pars. 18 and 19 (AC C59.120)]
   Yes  No  N/A

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

11. Are the carrying basis, cost and number of shares of any treasury stock 
    held by the reporting entity disclosed? 
    [Generally Accepted]
   Yes  No  N/A

12. If treasury stock is purchased for purposes other than retirement or if 
    ultimate disposition has not yet been decided is its cost:
    a. Shown separately as a deduction from the total of capital stock, 
       additional paid-in capital, and retained earnings? 
    [APB 6, par. 12b (AC C23.103)]
   Yes  No  N/A

13. If state laws relating to acquisition of stock restrict the availability of 
    retained earnings for payment of dividends or other significant ef-
    fects, is appropriate disclosure made? 
    [APB 6, par. 13 (C23.104)]
   Yes  No  N/A

14. If an additional liability required to be recognized pursuant to SFAS 
    87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service 
    cost, is the excess (which would represent a net loss not yet recognized 
    as net periodic pension cost) reported in other comprehensive income, 
    net of any tax benefits that result from considering such losses as 
    temporary differences, for purposes of applying the provisions of 
    SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287? 
    [SFAS 87, par. 37 (AC P16.131)]
   Yes  No  N/A

15. For treasury shares purchased at a stated price significantly in excess 
    of current market price, is the allocation of amounts paid and the 
    accounting treatment for such amounts disclosed? 
    [TB 85-6, pars. 1–3 (AC C23.501–503)]
   Yes  No  N/A

16. If statutory surplus is below the minimum required by law, is disclo-
    sure of the relevant facts made? 
    [Generally Accepted]
   Yes  No  N/A

17. 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? 
    [SFAS 60, par. 60h (AC In6.166h)]
   Yes  No  N/A

18. 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]
   Yes  No  N/A
P. Deposit Accounting

1. Is a description of the contracts accounted for as deposits and the separate amounts of total deposit assets and total deposit liabilities reported in the statement of financial position disclosed?
   [SOP 98-7, par. 18]

2. Is the following information regarding the changes in the recorded amount of the deposit arising from an insurance or reinsurance contract that transfers only significant underwriting risk disclosed:
   a. The present values of initial expected recoveries that will be reimbursed under the insurance or reinsurance contracts that have been recorded as an adjustment to incurred losses?
   b. Any adjustment of amounts initially recognized for expected recoveries (the individual components of the adjustment [meaning, interest accrual, the present value of additional expected recoveries, and the present value of reductions in expected recoveries] should be disclosed separately)?
   c. The amortization expense attributable to the expiration of coverage provided under the contract?

Income Statement

A. General

1. Are the important components of income separately disclosed?
   [Generally Accepted]

B. Investment Income

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

2. Are realized gains and losses on all investments (except for those that are classified as trading securities and those that are accounted for as hedges as described in SFAS 52 and SFAS 80) reported in the statement of income as a component of other income, on a pretax basis?
   [Note: If SFAS 133, Accounting for Derivative Instruments and Hedging Activities, is adopted, replace the preceding phrase "as hedges as described in SFAS 52 and SFAS 80" with the phrase "as either hedges of net investments in foreign operations or cash flow hedges as described in SFAS 133"][SFAS 97, par. 28 (AC In6.156)]

3. For freestanding contracts indexed to and potentially settled in a company’s own stock are gains and losses included (in contracts requiring a net cash settlement and those with the option of a net cash settlement or settlement in shares) in earnings and disclosed in the financial statements?
   [EITF 94-7]

C. Other Income

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

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

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

   c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a write-down to net realizable value and the reasons for such a write-down? __________

   d. The total amount of advertising reported as assets in each balance sheet? [SOP 93-7, par. 49] __________

E. Income Taxes

1. Are the types of significant temporary differences and carryforwards disclosed? __________
   [SFAS 109, par. 43 (AC 127.142)]

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 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 127.144a–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 127.147)] __________
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 127.134–138)) disclosed for each year for which those items are presented? 
[SFAS 109, par. 46 (AC 127.45)]

4. Is the nature of significant reconciling items disclosed? 
[SFAS 109, par. 47 (AC 127.146)]

5. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods presented disclosed? 
[SFAS 109, par. 47 (AC 127.146)]

6. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:
   a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented? 
   [SFAS 109, par. 49a–b (AC 127.148a–b)]
   b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? 
   [SFAS 109, par. 49a–b (AC 127.148a–b)]

7. Is the effect of initially applying SFAS 109 reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20), except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income? 
[SFAS 109, par. 51]

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

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

F. Discontinued Operations

1. Are operations of any segments that have been or will be discontinued reported separately from income from continuing operations and as a component of income before extraordinary items and the cumulative effect of accounting changes (if any)? 
[APB 30, par. 8 (AC II3.105)]

2. Is any gain or loss from disposal of any discontinued segments reported in conjunction with results of discontinued operations as a component of income before extraordinary items? 
[APB 30, par. 8 (AC II3.105)]

3. Are amounts of income taxes applicable to the results of discontinued operations and the gains or losses from disposals disclosed on the face of the income statement or in the notes to the financial statements? 
[APB 30, par. 8 (AC II3.105)]
4. Are revenues applicable to discontinued operations separately disclosed in the notes to the financial statements?
   [APB 30, par. 8 (AC I13.105)]

5. For the period encompassing the measurement date, do notes to financial statements disclose:
   a. Identity of the segment discontinued?
   b. Expected disposal date, if known?
   c. Expected manner of disposal?
   d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?
   e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?
   f. The fact that the loss on disposal cannot be estimated within reasonable limits, if applicable?
   [APB 30, par. 18 and par. 18, fn. 7 (AC I13.108 and .109)]

6. For periods after the measurement date and including the period of disposal, do notes to financial statements disclose the information in Steps 3.a.–e. above compared with the prior estimates?
   [APB 30, par. 18 (AC I13.108)]

7. If any losses on disposals of business segments that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as a gain or loss on disposal of a segment?
   [APB 30, par. 18 (AC I13.104)]

8. If an entity decides to dispose of a segment of a business accounted for in accordance with APB 30 and the measurement date occurs after the balance sheet date but before the financial statements for the prior period have been issued and a loss is expected, are the segment’s operating results presented as discontinued operations in the income statement of the not yet released financial statements (assuming that the loss does not result from a discrete and identifiable event that occurs unexpectedly after the balance sheet date)?
[ EITF 95-18 ]

9. If an entity has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment of the individual assets classified in continuing operations?
   [EITF 90-16]

10. If the entity 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?
   [EITF 85-36]

G. Extraordinary Items

1. Do extraordinary items meet both criteria of (1) unusual nature and (2) infrequency of occurrence?
   [APB 30, par. 20 (AC I17.107)]
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?
   [APB 30, par. 11 (AC I17.102)]

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

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

5. Is each adjustment in the current period of an element of an extraordinary item that was reported in a prior period separately disclosed as to year of origin, nature, and amount and classified separately in the current period as an extraordinary item?
   [SFAS 16, par. 16c (AC I17.119)]

6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):
   a. Reported as a separate component of income from continuing operations?
   b. Accompanied by disclosure of the nature and financial effects of each event?
      [APB 30, par. 26 (AC I22.101)]

7. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:
   a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the 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 I17.104)]

8. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying amount of the debt, is the loss that is recognized classified as an extraordinary item, net of income taxes?
   [EITF 95-15]

H. Earnings Per Share

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

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

[SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]

Yes  No  N/A

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

[SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]

Yes  No  N/A

3. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in the period, are the basic and diluted per share amounts for those line items presented on the face of the income statement or in the notes?

[SFAS 128, par. 37 (AC E11.132)]

Yes  No  N/A

4. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax?

[SFAS 128, par. 37 (AC E11.132)]

Yes  No  N/A

5. Are the following disclosed for each period for which an income statement is presented:
   a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?

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

   Yes  No  N/A

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

   Yes  No  N/A

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

   Yes  No  N/A

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

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

Yes  No  N/A

I. Comprehensive Income

1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized?

[SFAS 130, par. 14 (AC C49.108)]

Yes  No  N/A

2. Is a total amount for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported?

[SFAS 130, par. 14 (AC C49.108)]

Yes  No  N/A

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

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

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

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

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

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

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

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

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

Note: Steps 12 and 13 apply only if SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.
12. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133? 
[SFAS 133, par. 46 (AC D50)]

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

14. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences, for purposes of applying the provisions of SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287? 
[SFAS 87, par. 37 (AC P16.131)]

J. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:
   a. Adjustments or charges or credits resulting from transactions in the company’s own capital stock? 
   [APB 9, par. 28 (AC C08.101)]

Statement of Changes in Shareholders’ Equity

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

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

3. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax applicable to the prior period adjustments) appropriately disclosed:
   a. For single-period statements, does the disclosure indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period? 
   [APB 9, par. 26 (AC A35.107)]
Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

4. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of segments of a business, extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements? [APB 28, par. 31 (AC I73.147); SFAS 3, par. 14]

5. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23-26 of APB 28 or by paragraphs 9-13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made? [SFAS 3, par. 14 (AC I73.147)]

Statement of Cash Flows

1. Is a statement of cash flows presented as a basic financial statement [for each period for which a statement of income is presented] if financial statements present both financial position and results of operations? [SFAS 95, par. 26 (AC C25.124)]

2. Does the statement of cash flows report net cash provided or used by the operating, investing, and financing activities and the effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents? [SFAS 95, par. 26 (AC C25.124)]

3. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27 and 28 (AC C25.125 and .126)]
   a. Are cash receipts and cash payments from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)]
   b. Are cash receipts and cash payments resulting from acquisitions and sales of loans (if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market) classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)]

4. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:
   a. Cash receipts from sales of goods or services?
   b. Cash receipts from interest and dividends?
   c. All other cash receipts that do not stem from transactions defined as investing or financing activities?
   d. Cash payments to suppliers and employees, such as losses and loss adjustment expenses paid?
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<th>Yes</th>
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<td>e. Cash payments to governments for taxes, duties, fines, and other fees or penalties?</td>
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<td>f. Cash payments to lenders and other creditors for interest?</td>
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<td>g. All other cash payments that do not stem from transactions defined as investing or financing activities? [SFAS 95, pars. 22 and 23 (AC 25.120 and .121)]</td>
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<td>5. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC 25.129)]</td>
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<td>6. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities: a. Receipts from collections or sales of loans?</td>
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<td>b. Receipts from sales of property, plant, and equipment?</td>
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<td>c. Loans to others?</td>
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<td>d. Payments to acquire property, plant, and equipment?</td>
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<td>e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?</td>
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<td>f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account? [SFAS 95, pars. 16 and 17 (AC 25.114 and .115)]</td>
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<td>7. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC 25.129)]</td>
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<td>8. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities: a. Proceeds from issuing equity instruments?</td>
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<td>b. Proceeds from issuing bonds, mortgages, notes, and from other short- or long-term borrowing?</td>
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<td>c. Repayment of amounts borrowed?</td>
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<td>d. Dividend payments to shareholders?</td>
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<td>e. Acquisition of treasury stock?</td>
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<td>f. Other principal payments to creditors who have extended long-term credit?</td>
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<td>g. Debt issue costs? [SFAS 95, pars. 19 and 20 (AC 25.117 and .118); EITF 95-13]</td>
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<td>9. 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 25.123)]</td>
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<td>10. Is the change in cash and cash equivalents shown? [SFAS 95, pars. 7 and 26 (AC 25.105 and .124)]</td>
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11. If the direct method is used, is a separate schedule provided to reconcile net income to net cash flow from operating activities?  
[SFAS 95, par. 29 (AC C25.128)]

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

   b. Is the reconciliation of net income to net cash flows from operating activities reported, either within the statement of cash flows or provided in a separate schedule, with the statement of cash flows reporting only the net cash flow from operating activities?  
   [SFAS 95, par. 30 (AC C25.128)]

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

14. 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)]

15. Are the following classes of operating cash receipts and payments for life insurance companies using the direct method, at a minimum, separately disclosed:
   a. Cash collected from customers, including lessees, licensees, and the like?  
   [SFAS 95, par. 27 (AC C25.125)]

   b. Interest and dividends received?

   c. Other operating cash receipts, if any?

   d. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like?

   e. Interest paid?

   f. Income taxes paid?

   g. Other operating cash payments, if any?  
   [SFAS 95, par. 27 (AC C25.125)]
FSP Section 17,400
Auditors’ Reports Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

SAS= AICPA Statement on Auditing Standards
SOP= AICPA Statement of Position
AU= Reference to section number in AICPA Professional Standards (vol. 1)
SSARS= AICPA Statement on Standards for Accounting and Review Services
AAG= AICPA Audit and Accounting Guide Audits of Property and Liability Insurance Companies (with conforming changes as of May 1, 1998)
AR= Reference to section number in AICPA Professional Standards (vol. 2)
App. N= Appendix N of AAG containing SOP 92-8, Auditing Property/Casualty Insurance Entities’ Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions

.03 Checklist Questionnaire:

1. Is each set of financial statements audited specifically identified in the introductory paragraph of the auditor’s report? ____ ____ ____
   [SAS 58, par. 6 (AU 508.06)]

2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor’s report match the titles of the financial statements presented? ____ ____ ____
   [Generally Accepted]

3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor’s report match the dates of the financial statements presented? ____ ____ ____
   [Generally Accepted]

4. Is the report appropriately addressed? ____ ____ ____
   [SAS 58, par. 9 (AU 508.09)]

5. Does the auditor’s report include:
   a. A title that includes the word “independent”? ____ ____ ____
      [SAS 58, par. 8a (AU 508.08a)]
   b. A statement that the financial statements identified in the report were audited? ____ ____ ____
      [SAS 58, par. 8b (AU 508.08b)]
   c. A statement that the financial statements are the responsibility of management and that the auditor’s responsibility is to express an opinion on the financial statements based on his or her audit? ____ ____ ____
      [SAS 58, par. 8c (AU 508.08c)]

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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<td>d. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]</td>
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<td>e. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]</td>
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<td>f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]</td>
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<td>g. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]</td>
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<td>h. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]</td>
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<td>i. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]</td>
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<td>j. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]</td>
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**Practice Tip**

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

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

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

8. If the opinion is based in part on the report of another auditor:
   a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors? |   |   |   |
   b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)] |   |   |   |
9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]

10. If there is substantial doubt about the entity's ability to continue as a going concern:
   a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]
   b. Is that conclusion expressed through the use of the phrase “substantial doubt about its (the entity's) ability to continue as a going concern” or similar wording that includes the terms substantial doubt and going concern? [SAS 58, pars. 11d and 16 (AU 508.11d and .16)]

Practice Tip
In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for an example.

11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:
   a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]
   b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]

12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:
   a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]
   b. Does the explanatory paragraph disclose:
      (1) The date of the auditor's previous report? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]
      (2) The type of opinion previously expressed?
      (3) The circumstances or events that caused the auditor to express a different opinion?
      (4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements?

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13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:

a. Does the introductory paragraph of the report indicate:
   (1) That the financial statements of the prior period were audited by another auditor? __ __ __
   (2) The date of the predecessor auditor's report? __ __ __
   (3) The type of report issued by the predecessor auditor? __ __ __
   (4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification? __ __ __

b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? __ __ __

[SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]

14. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? __ __ __

[SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.41)]

15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? __ __ __

[SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]

16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? __ __ __

[SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]

17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? __ __ __

[SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]

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**Practice Tip**

In December 1995, SAS 79, Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements, was issued. This Statement amends SAS 58 to eliminate the requirement that, when certain criteria are met, the auditor add an uncertainties explanatory paragraph to the auditor's report.
18. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]

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

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

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.

20. If an opinion is disclaimed because of a scope limitation:
   a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?
   b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?
   c. Does the report avoid identifying procedures that were performed?
   d. Is the scope paragraph omitted?
   e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]

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

22. If a qualified opinion is to be expressed because of a GAAP departure:
   a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?
b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of and a reference to the explanatory paragraph?

[ ] Yes [ ] No [ ] N/A

23. If an adverse opinion is to be expressed because of a GAAP departure:

a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?

[ ] Yes [ ] No [ ] N/A

b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?

[ ] Yes [ ] No [ ] N/A

c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP?

[ ] Yes [ ] No [ ] N/A

Note: Consult the Topical Index to the AICPA Professional Standards under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions," for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

24. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:

a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?

[ ] Yes [ ] No [ ] N/A

b. Specifically identifies the accompanying information?

[ ] Yes [ ] No [ ] N/A

c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?

[ ] Yes [ ] No [ ] N/A
Footnote 3 to SAS 69 states, in part, that, for Securities and Exchange Commission (SEC) registrants, rules and releases of the SEC have an authority similar to other officially established accounting principles. Regulation S-X is the primary source of requirements for financial statements and related footnotes required to be included in documents filed with the SEC. In addition to Regulation S-X, preparers and auditors of financial statements should be familiar with the SEC’s Financial Reporting Releases (FRR) and Staff Accounting Bulletins (SAB). FRRs communicate the SEC’s position on accounting and auditing principles and practices. SABs represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant of the SEC.

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

- Regulation S-X, Article 3, General Instructions as to Financial Statements
- Regulation S-X, Article 4, Rules of General Application
- Regulation S-X, Article 7, Insurance Companies
- Staff Accounting Bulletins (SAB) — SABs reflect the SEC staff’s views regarding accounting-related disclosure practices. They represent interpretations and policies followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the federal securities laws.
- Financial Reporting Releases (FRR) — FRRs adopt, change, or interpret requirements relating to accounting, auditing, and disclosure issues.
FSP Section 17,600
Illustrative Financial Statements

.01 This section illustrates financial statements of a nonpublic property and liability insurance company and the accompanying disclosures that are unique to such companies. Disclosures concerning the company’s pension plans, postretirement benefits other than pensions, stock options, lease commitments, long-term debt, extraordinary items, segments, accounting changes, and other items that are not unique to property and liability insurance companies have been omitted for purposes of this checklist. The format presented and the wording of the accompanying notes are only illustrative and are not necessarily the only possible presentations.

.02 Except for the treatment of gains and losses described in SFAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, insurance companies that are SEC registrants should follow Article 7 of SEC Regulation S-X, which prescribes the form and content of financial statements. Also, the SEC’s Financial Reporting Release (FRR) No. 20, Rules and Guide for Disclosures Concerning Reserves for Unpaid Claims and Claim Adjustment Expenses of Property-Casualty Underwriters, requires property and liability insurance companies to disclose in financial statements filed with the SEC certain information concerning reserves for unpaid claims and claim adjustment expenses. The Exchange Act requires certain supplementary information with respect to quarterly financial data. Other SEC regulations also require additional disclosures (for example, details with respect to deferred acquisition costs).

.03 GASB 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, requires public entity risk pools to present additional information beyond these illustrative financial statements. This additional information includes reporting assessments receivable from pool participants for premium deficiencies, disclosures about revenues collected in anticipation of future catastrophe losses, the aggregate outstanding amount of claims outstanding that have been settled through the purchase of annuity contracts, and the pool risk transfer agreement. Also, outstanding claims by kind of contract and ten-year claims development information on a policy-year basis should be presented as required supplementary information.

.04 SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS 130, Reporting Comprehensive Income, have not been reflected in these illustrative financial statements.

.05 Independent Auditor’s Report

To the Board of Directors and Shareholders

The Property and Liability Insurance Company

Anytown, U.S.A.

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

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

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

[Signature]

Office Town, U.S.A.

January 15, 19X3
The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP.

THE PROPERTY AND LIABILITY INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 19X2 and 19X1
(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments (Notes 1 and 2):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading securities</td>
<td>$11,683</td>
<td>$11,259</td>
</tr>
<tr>
<td>Securities available-for-sale</td>
<td>$1,006,279</td>
<td>$953,507</td>
</tr>
<tr>
<td>Securities held-to-maturity</td>
<td>$280,387</td>
<td>$270,208</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>Total investments</td>
<td>$1,802,763</td>
<td>$1,663,428</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>31,564</td>
<td>28,357</td>
</tr>
<tr>
<td>Accrued interest and dividends</td>
<td>31,358</td>
<td>27,568</td>
</tr>
<tr>
<td>Premiums and agents' balances</td>
<td>55,295</td>
<td>56,212</td>
</tr>
<tr>
<td>Prepaid reinsurance premiums</td>
<td>21,345</td>
<td>18,739</td>
</tr>
<tr>
<td>Reinsurance receivables, net of uncollectible amounts</td>
<td>27,908</td>
<td>24,461</td>
</tr>
<tr>
<td>Deferred policy acquisition costs (Note 1)</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>Other assets</td>
<td>128,577</td>
<td>107,378</td>
</tr>
<tr>
<td>Total assets</td>
<td>$2,302,227</td>
<td>$2,109,022</td>
</tr>
</tbody>
</table>

(continued)

See accompanying notes to consolidated financial statements.
<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<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 withheld 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 5)</td>
<td>3,166</td>
<td>7,058</td>
</tr>
<tr>
<td>Deferred income taxes (Notes 1 and 5)</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>1,875,164</td>
<td>1,721,171</td>
</tr>
<tr>
<td><strong>Shareholders' Equity (Note 7)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock ($5 par value, authorized – 11,500 shares; issued – 2,500 shares, including 200 shares in treasury in 19X2 and 19X1)</td>
<td>12,500</td>
<td>12,500</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>22,500</td>
<td>22,500</td>
</tr>
<tr>
<td>Retained earnings (Notes 6 and 7)</td>
<td>390,815</td>
<td>351,521</td>
</tr>
<tr>
<td>Net unrealized appreciation on securities available-for-sale, net of deferred taxes (Note 2)</td>
<td>5,748</td>
<td>5,830</td>
</tr>
<tr>
<td>Less treasury stock, at cost</td>
<td>(4,500)</td>
<td>(4,500)</td>
</tr>
<tr>
<td><strong>Total shareholders' equity</strong></td>
<td>427,063</td>
<td>387,851</td>
</tr>
<tr>
<td><strong>Total Liabilities and Shareholders' Equity</strong></td>
<td>$2,302,227</td>
<td>$2,109,022</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
THE PROPERTY AND LIABILITY INSURANCE COMPANY AND SUBSIDIARIES

Consolidated Statements of Income

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

(Dollars in thousands, except per share amounts)

<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</td>
<td>$656,517</td>
<td>$603,461</td>
</tr>
<tr>
<td>Premiums ceded</td>
<td>(85,632)</td>
<td>(78,715)</td>
</tr>
<tr>
<td>Net 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 and losses on securities available-for-sale (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>

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses and loss-adjustment expenses (Notes 1 and 3)</td>
<td>509,568</td>
<td>432,413</td>
</tr>
<tr>
<td>Policyholder dividends (Note 1)</td>
<td>4,833</td>
<td>7,395</td>
</tr>
<tr>
<td>Policy acquisition and other underwriting expenses (Note 1)</td>
<td>211,239</td>
<td>185,834</td>
</tr>
<tr>
<td>Other</td>
<td>8,347</td>
<td>2,215</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>733,987</td>
<td>627,857</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before income taxes</td>
<td>81,645</td>
<td>68,015</td>
</tr>
<tr>
<td>Provision (benefit) for income taxes (Note 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>26,108</td>
<td>16,291</td>
</tr>
<tr>
<td>Deferred</td>
<td>(1,007)</td>
<td>881</td>
</tr>
<tr>
<td><strong>Total income taxes</strong></td>
<td>25,101</td>
<td>17,172</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>$ 56,544</td>
<td>$ 50,843</td>
</tr>
<tr>
<td><strong>Per Share Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 24.58</td>
<td>$ 21.18</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
THE PROPERTY AND LIABILITY INSURANCE
COMPANY AND SUBSIDIARIES

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

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

See accompanying notes to consolidated financial statements.
# CONSOLIDATED STATEMENTS OF CASH FLOW

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>$619,862</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>Net realized gains on available-for-sale securities</td>
<td>142,893</td>
<td>126,860</td>
</tr>
<tr>
<td>Net (increase) decrease in trading securities</td>
<td>(424)</td>
<td>1,095</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(30,000)</td>
<td>(21,300)</td>
</tr>
<tr>
<td>Miscellaneous receipts (payments)</td>
<td>45,249</td>
<td>25,171</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>$212,943</td>
<td>$131,941</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows From Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of available-for-sale securities</td>
<td>(721,334)</td>
<td>(274,756)</td>
</tr>
<tr>
<td>Proceeds from sale of available-for-sale securities</td>
<td>525,669</td>
<td>195,826</td>
</tr>
<tr>
<td>Purchases of held-to-maturity securities</td>
<td>(49,826)</td>
<td>(176,871)</td>
</tr>
<tr>
<td>Proceeds from maturities of held-to-maturity securities</td>
<td>60,005</td>
<td>146,080</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(7,000)</td>
<td>(2,356)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(192,486)</td>
<td>(112,077)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<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><strong>Net cash used in financing activities</strong></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><strong>Cash at end of year</strong></td>
<td><strong>$31,564</strong></td>
<td><strong>$28,357</strong></td>
</tr>
</tbody>
</table>

*continued*
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>917</td>
<td>718</td>
</tr>
<tr>
<td>Increase in prepaid reinsurance premiums</td>
<td>(2,606)</td>
<td>(1,953)</td>
</tr>
<tr>
<td>Increase in reinsurance receivable</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 withheld</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>

See accompanying notes to consolidated financial statements.
Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations. The Property and Liability Insurance Company and subsidiaries (the Company) is a nonpublic insurance organization providing property and liability coverage to both domestic and foreign markets. The Company is principally involved in writing insurance for domestic commercial lines.

The significant accounting policies followed by the Company are summarized as follows:

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

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

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

Cash Equivalents. For the purpose of presentation in the company’s statements of cash flow, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.
Recognition of Premium Revenues. Property and liability premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

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

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

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

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

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

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

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

Note 2: Investments

Major categories of net investment income are summarized as follows:

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed maturities</td>
<td>$102,971</td>
<td>$94,267</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>Investment expenses</td>
<td>8,814</td>
<td>7,036</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$146,683</strong></td>
<td><strong>$130,070</strong></td>
</tr>
</tbody>
</table>
The aggregate fair value, gross unrealized holding gains, gross unrealized holding losses, and amortized cost for available-for-sale and held-to-maturity securities by major security type at December 31, 19X2 and 19X1 are as follows:

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

<table>
<thead>
<tr>
<th>Security Type</th>
<th>December 31, 19X2</th>
<th>December 31, 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized cost</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gains</td>
</tr>
<tr>
<td>U.S. Treasury securities and obligations of U.S.</td>
<td>$155,534</td>
<td>$1,286</td>
</tr>
<tr>
<td>government corporations and agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>$112,966</td>
<td>83</td>
</tr>
<tr>
<td>Debt securities issued by foreign governments</td>
<td>24,133</td>
<td></td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>198,354</td>
<td>6,844</td>
</tr>
<tr>
<td>Equity securities</td>
<td>277,777</td>
<td>2,963</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>180,205</td>
<td>4,289</td>
</tr>
<tr>
<td>Redeemable preferred stock</td>
<td>75,689</td>
<td>916</td>
</tr>
<tr>
<td>Nonredeemable preferred stock</td>
<td>44,669</td>
<td>369</td>
</tr>
<tr>
<td>Total</td>
<td>$1,069,327</td>
<td>$16,750</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Security Type</th>
<th>December 31, 19X1</th>
<th>December 31, 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amortized cost</td>
<td>Gross Unrealized</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gains</td>
</tr>
<tr>
<td>U.S. Treasury securities and obligations of U.S.</td>
<td>$136,848</td>
<td>$2,983</td>
</tr>
<tr>
<td>government corporations and agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>90,045</td>
<td>786</td>
</tr>
<tr>
<td>Debt securities issued by foreign governments</td>
<td>20,121</td>
<td>4</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>292,330</td>
<td>5,989</td>
</tr>
<tr>
<td>Equity securities</td>
<td>168,323</td>
<td>6,297</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>135,080</td>
<td>2,926</td>
</tr>
<tr>
<td>Redeemable preferred stock</td>
<td>75,588</td>
<td>1,426</td>
</tr>
<tr>
<td>Nonredeemable preferred stock</td>
<td>23,694</td>
<td>327</td>
</tr>
<tr>
<td>Total</td>
<td>$942,029</td>
<td>$20,738</td>
</tr>
</tbody>
</table>
Held-to-Maturity Securities as of December 31, 19X2 and 19X1

<table>
<thead>
<tr>
<th>December 31, 19X2</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amortized cost</strong></td>
<td><strong>$ 85,852</strong></td>
<td><strong>$ 9,681</strong></td>
<td><strong>$(4,133)</strong></td>
</tr>
<tr>
<td>U.S. Treasury securities and obligations of U.S. government corporations and agencies</td>
<td>54,827</td>
<td>2,771</td>
<td>(1,896)</td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>159,238</td>
<td>4,718</td>
<td>(709)</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td><strong>$299,917</strong></td>
<td><strong>$17,170</strong></td>
<td><strong>$(6,738)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 19X1</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amortized cost</strong></td>
<td><strong>$ 55,105</strong></td>
<td><strong>$ 2,138</strong></td>
<td><strong>$(1,976)</strong></td>
</tr>
<tr>
<td>U.S. Treasury securities and obligations of U.S. government corporations and agencies</td>
<td>63,296</td>
<td>2,687</td>
<td>(2,859)</td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>168,747</td>
<td>5,293</td>
<td>(17,936)</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td><strong>$287,148</strong></td>
<td><strong>$10,118</strong></td>
<td><strong>$(22,771)</strong></td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>December 31,</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities and obligations of U.S. government corporations and agencies</td>
<td>$ 22,343</td>
<td>$ 20,983</td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>29,999</td>
<td>39,017</td>
</tr>
<tr>
<td>Debt securities issued by foreign governments</td>
<td>62,129</td>
<td>46,739</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>92,982</td>
<td>88,735</td>
</tr>
<tr>
<td>Equity securities</td>
<td>116,328</td>
<td>83,569</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>31,705</td>
<td>39,617</td>
</tr>
<tr>
<td>Redeemable preferred stocks</td>
<td>8,296</td>
<td>3,261</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$363,782</strong></td>
<td><strong>$311,921</strong></td>
</tr>
</tbody>
</table>

Gross unrealized gains:

<table>
<thead>
<tr>
<th>December 31,</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities and obligations of U.S. government corporations and agencies</td>
<td>$ 13,919</td>
<td>$ 18,442</td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>10,604</td>
<td>4,797</td>
</tr>
<tr>
<td>Debt securities issued by foreign governments</td>
<td>31,296</td>
<td>6,649</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>62,958</td>
<td>60,396</td>
</tr>
<tr>
<td>Equity securities</td>
<td>116,328</td>
<td>83,569</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>31,705</td>
<td>39,617</td>
</tr>
<tr>
<td>Redeemable preferred stocks</td>
<td>8,296</td>
<td>3,261</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$142,893</strong></td>
<td><strong>$185,061</strong></td>
</tr>
</tbody>
</table>

90
The scheduled maturities of available-for-sale and held-to-maturity securities at December 31, 19X2 were as follows:

<table>
<thead>
<tr>
<th>Held-to-maturity securities:</th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$ 81,666</td>
<td>$ 85,282</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>83,921</td>
<td>86,321</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>76,893</td>
<td>78,567</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>57,437</td>
<td>60,179</td>
</tr>
<tr>
<td>Total</td>
<td>$299,917</td>
<td>$310,349</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Available-for-sale securities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$193,238</td>
<td>$199,896</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>302,126</td>
<td>310,298</td>
</tr>
<tr>
<td>Due after five years through ten years</td>
<td>251,755</td>
<td>226,410</td>
</tr>
<tr>
<td>Due after ten years</td>
<td>200,950</td>
<td>198,632</td>
</tr>
<tr>
<td>Total</td>
<td>$948,069</td>
<td>$935,236</td>
</tr>
</tbody>
</table>

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

Note 3: Reinsurance Activity

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

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

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

<table>
<thead>
<tr>
<th>(Dollars in thousands)</th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Written</td>
<td>Earned</td>
</tr>
<tr>
<td>Direct</td>
<td>$477,836</td>
<td>$457,828</td>
</tr>
<tr>
<td>Assumed</td>
<td>206,814</td>
<td>198,689</td>
</tr>
<tr>
<td>Ceded</td>
<td>(102,551)</td>
<td>(85,632)</td>
</tr>
<tr>
<td>Net</td>
<td>$582,099</td>
<td>$570,885</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 and 19X1 were approximately $4,892,000 and $3,232,000, respectively.

Note 4: Liability for Unpaid Claims and Claim Adjustment Expenses

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

\[
\text{(Dollars in thousands)}
\begin{array}{lcc}
\hline
 & 19X2 & 19X1 \\
\hline
\text{Balance at January 1} & $1,030,345 & $ 947,890 \\
\text{Less reinsurance recoverables} & 23,728 & 21,275 \\
\text{Net Balance at January 1} & 1,006,617 & 926,615 \\
\text{Incurred related to:} & & \\
\text{Current year} & 509,843 & 429,294 \\
\text{Prior years} & (275) & 3,119 \\
\text{Total incurred} & 509,568 & 432,413 \\
\text{Paid related to:} & & \\
\text{Current year} & 56,015 & 42,315 \\
\text{Prior years} & 300,555 & 310,096 \\
\text{Total paid} & 356,570 & 352,411 \\
\text{Net Balance at December 31} & 1,159,615 & 1,006,617 \\
\text{Plus reinsurance recoverables} & 23,728 & 23,728 \\
\text{Balance at December 31} & $1,183,343 & $1,030,345 \\
\hline
\end{array}
\]

As a result of changes in estimates of insured events in prior years, the provision of claims and claim adjustment expenses (net of reinsurance recoveries of $X and $X in 19X2 and 19X1, respectively) decreased by $275 in 19X2 because of lower-than-anticipated losses on Hurricane Howard, and increased by $3,119 in 19X1 because of higher-than-anticipated losses and related expenses for claims for asbestos-related illnesses, toxic waste cleanup, and workers' compensation.

Note 5: Income Taxes

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

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

\[
\text{(Dollars in thousands)}
\begin{array}{lcc}
\hline
 & 19X2 & 19X1 \\
\hline
\text{Deferred policy acquisition costs} & $17,093 & $17,298 \\
\text{Salvage and subrogation} & 12,901 & 11,736 \\
\text{Other} & 4,090 & 6,101 \\
\text{Deferred tax liability} & $34,084 & $35,135 \\
\hline
\end{array}
\]

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

The Company paid income taxes of $30,000 in 19X2 and $21,300 in 19X1.
Note 6: Dividends From Subsidiaries

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

Note 7: Statutory Net Income and Shareholders’ Equity

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

Note 8: Contingencies

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

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

Note 9: Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk

At December 31, 19X2, the Company held unrated or less-than-investment grade corporate debt securities of $646,641,000 net of reserves for losses, with an aggregate market value of $639,347,986. Those holdings amounted to 6 percent of the Company’s corporate debt securities investments and less than 3 percent of total assets. The holdings of less-than-investment grade securities are widely diversified and of satisfactory quality based on the Company’s investment policies and credit standards. The Company also invests in mortgage loans principally involving commercial real estate. At December 31, 19X2, 20 percent of such mortgages ($________) involved properties located in California and Arizona. Such investments consist of first mortgage liens on completed income-producing properties, and mortgages on individual properties do not exceed $________.
Note 10: Fair Value of Financial Instruments

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>19X2</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying</td>
<td>Fair Value</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>Mortgage on real estate loans</td>
<td>$472,509</td>
<td>$474,163</td>
</tr>
<tr>
<td>Policy loans</td>
<td>19,862</td>
<td>20,974</td>
</tr>
</tbody>
</table>
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