1-1-2004

Checklists and illustrative financial statements for depository and lending institutions : a financial accounting and reporting practice aid, June 2004 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Lori Pombo

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A Financial Accounting and Reporting Practice Aid

Prepared By
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Checklists and Illustrative Financial Statements for Depository and Lending Institutions 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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ISBN 0-87051-518-7

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FSP Section 2000

Checklists and Illustrative Financial Statements for Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies

.01 These checklists and illustrative materials have been developed by the AICPA Accounting and Auditing Publications Staff 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 financial institution 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 financial institutions in preparing financial statements in conformity with generally accepted accounting principles (GAAP). The checklist does not include disclosures prescribed by pronouncements whose applicability to depository and lending institutions 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 June 30, 2004. Those pronouncements include:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*, and revised FASB Statements issued through June 30, 2004, including:
    - FASB Statement No. 132 (revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*
- FASB Interpretation (FASBI) No. 46 (revised December 2003), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Staff Positions (FSP) issued through June 30, 2004
- FASB Emerging Issues Task Force (EITF) consensuses adopted through the March 2004 meeting
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*

- AICPA Statement on Auditing Standards (SAS) No. 101, *Auditing Fair Value Measurements and Disclosures*
- AICPA Statement of Position (SOP) 03-5, *Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide* Audits of Investment Companies
- AICPA Statement on Standards for Attestation Engagements (SSAE) No. 12, *Amendment to Statement on Standards for Attestation Engagements No. 10,* Attestation Standards: Revision and Recodification
- AICPA Statement on Standards for Accounting and Review Services (SSARS) No. 11, *Standards for Accounting and Review Services*
- AICPA Audit and Accounting Guide *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies* (new edition as of January 1, 2004)
- Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*

.03 Depository and lending institutions operate under comprehensive state and federal regulations. These regulations greatly influence accounting and financial reporting. Depository and lending institutions are also subject to examination by federal and state bank examiners and periodic examinations by the institution's board of directors. Common accounting and reporting features of depository and lending institutions are described in the AICPA Audit and Accounting Guide *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies* (new edition as of January 1, 2004).

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

.05 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 2000 through 2500 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 2100
Checklists—General

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

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

.03 To use this checklist, simply check "yes," "no," or "not applicable" for each question. If additional information needs to be documented, include separate cross-referenced memoranda. A "no" answer to a question indicates a potential GAAP departure. If a "no" answer is checked, then the auditor or accountant should investigate the reasons for the noncompliance and should determine the effects of the GAAP departure on the overall financial statements. All work and conclusions related to a "no" answer should be documented in the working papers. 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.

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

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
- The checklist may require modification based on the engagement circumstances.
- The checklist may not be all-inclusive.
- Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.

FSP Section 2200
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 for use by preparers and auditors of financial statements. As used in this checklist the term "depository institutions" means banks, credit unions, and savings institutions. The terms "financial institutions" or "institutions" refer to all entities covered by the AICPA Audit and Accounting Guide *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies* (new edition as of January 1, 2004).

The checklists and illustrative financial statements may not include all disclosures and presentation items required by GAAP; as a result, pronouncements deemed unlikely to be encountered in financial statements of banks and savings institutions are not included.

.02 Explanation of References:

SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Financial Accounting Standards Board Interpretation
AC =	Reference to section number in FASB *Accounting Standards—Current Text*
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
FTB =	Technical Bulletin issued by the staff of the FASB[1]
AAG-DEP =	AICPA Audit and Accounting Guide *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies and Mortgage Companies* (new edition as of January 1, 2004)
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force Consensus
FSP =	FASB Staff Position
PB =	AICPA Accounting Standards Division Practice Bulletin
AIN =	AICPA Accounting Interpretations
SAS =	AICPA Statement of Auditing Standards
SSAE =	AICPA Statement on Standards for Attestation Engagements
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)

Some questions in this checklist do not cite a specific authoritative reference but indicate that the disclosure is generally accepted. Most organizations disclose that information even though a requirement to do so in the authoritative literature cannot be identified.

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[1] The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

.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 bank or savings institution. Place a check mark by the topics or sections considered applicable; these sections should be completed. For example, if an entity did not enter into any business combinations during the year, do not place a check by General, Section W, "Business Combinations," and skip this section when completing the checklist.

		Place ✓ by Applicable Sections
• General		
A.	Titles and References	________
B.	Comparative Financial Statements	________
C.	Consolidated Financial Statements	________
• Balance Sheet		
A.	General	________
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C.	Federal Funds and Repurchase Agreements	________
D.	Investments in Debt and Equity Securities	________
E.	Investments Accounted for by the Equity Method	________
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H.	Allowance for Loan Losses	________
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J.	Premises and Equipment	________
K.	Other Assets and Other Investments	________
L.	Intangible Assets and Goodwill	________
L1.	Transitional Disclosures for Goodwill and Other Intangible Assets	________
M.	Deposits	________
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F.	Income Taxes	________
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• Statement of Changes in Stockholders' Equity		________
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A.	Significant Accounting Policies	________
B.	Accounting Changes	________
C.	Regulatory Capital Matters	________

Place ✓ by Applicable Sections

D. Risks and Uncertainties ______
E. Contingencies and Commitments ______
F. Environmental Remediation Liabilities ______
G. Related-Party Transactions and Economic Dependency ______
H. Lessor Leases ______
I. Lessee Leases ______
J. Employee Stock Ownership Plans ______
K. Employers' Disclosures About Pensions and Other Postretirement Benefits ______
L. Financial Instruments ______
M. Guarantees ______
N. Foreign Currency Translation ______
O. Long-Lived Assets and Disposal Groups to Be Disposed of ______
P. Impairment of Long-Lived Assets to Be Held and Used ______
Q. Asset Retirement Obligations ______
R. Transfers and Servicing of Financial Assets and Securitizations ______
S. Extinguishments of Debt ______
T. Nonmonetary Transactions ______
U. Subsequent Events ______
V. Costs Associated With Exit of Disposal Activities ______
W. Business Combinations ______
X. Acquisitions of Certain Financial Institutions ______
Y. Segment Information ______
Z. Postemployment Benefits ______
AA. Stock Compensation Plans ______
BB. Insurance Activities ______

- Auditors' Reports Checklist ______
- Supplemental Information for Depository and Lending Institutions That Are SEC Registrants ______
- Illustrative Financial Statements ______

Yes *No* *N/A*

Note: Reminder—A "no" answer is indicative of a potential GAAP departure. The reason for the "no" answer and the resolution of the matter should be documented in the working papers.

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? ____ ____ ____

	Yes	No	N/A
e. Description of accounting policies?	____	____	____
f. Notes to the financial statements? [Generally Accepted]	____	____	____
2. Are the financial statements suitably titled? [Generally Accepted]	____	____	____
3. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [Generally Accepted]	____	____	____

B. Comparative Financial Statements

	Yes	No	N/A
1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	____	____	____
2. Are the disclosures included in the prior years' 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 have 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)]	____	____	____

C. Consolidated Financial Statements

	Yes	No	N/A
1. If consolidated statements are presented, is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	____	____	____
2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94, par. 13 (AC C51.103)]	____	____	____
3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51, par. 4 (AC C51.107)]	____	____	____

Consolidation of Variable Interest Entities

Important: FASBI 46 (revised December 2003), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, contains different effective dates based on the nature of the entity applying its provisions. Also, FASBI 46 (revised December 2003) contains scope exceptions that should be considered in determining whether its provisions apply to a particular entity. Financial statement preparers and auditors should familiarize themselves with the effective date guidance and scope exceptions contained in FASBI 46 (revised December 2003), which can be obtained on the FASB Web site at www.fasb.org. Note that FASBI 46 (revised December 2003) replaces the original FASBI 46 that was issued in January 2003.

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4. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):

	Yes	No	N/A
a. The nature, purpose, size, and activities of the variable interest entity?	_____	_____	_____
b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations?	_____	_____	_____
c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary? [FASBI 46(R), par. 23]	_____	_____	_____
5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:			
a. The nature of its involvement with the variable interest entity and when that involvement began?	_____	_____	_____
b. The nature, purpose, size, and activities of the variable interest entity?	_____	_____	_____
c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity? [FASBI 46(R), par. 24]	_____	_____	_____
6. Are disclosures required by SFAS 140 about a variable interest entity included in the same note to the financial statements as the information required by FASBI 46(R)? [FASBI 46(R), par. 25]	_____	_____	_____
7. If an entity does not apply FASBI 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FASBI 46(R), is the following information disclosed:			
a. The number of entities to which this Interpretation is not being applied and the reason why the information required to apply this Interpretation is not available?	_____	_____	_____
b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise's involvement with the entity(ies)?	_____	_____	_____
c. The reporting enterprise's maximum exposure to loss because of its involvement with the entity(ies)?	_____	_____	_____
d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.) [FASBI 46(R), par. 26]	_____	_____	_____
8. If it is reasonably possible that an enterprise will initially consolidate or disclose information about a variable interest entity when FASBI 46(R) becomes effective, does the enterprise disclose the following information in all financial statements issued after December 31, 2003, regardless of the date on which the variable interest entity was created:			
a. The nature, purpose, size, and activities of the variable interest entities?	_____	_____	_____

	Yes	*No*	*N/A*
b. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity? [FASBI 46(R), par. 27]	_____	_____	_____

Balance Sheet

A. General

1. Are trust assets excluded from the financial statements? [AAG-DEP, par. 20.16]	_____	_____	_____

B. Cash and Cash Equivalents

1. Does cash and cash equivalents include cash items in the process of collection, deposits with other financial institutions, including corporate credit unions, balances with Federal Reserve Banks (FRBs) and Federal Home Loan Banks (FHLBs), federal funds sold, and cash and cash equivalents on hand? [AAG-DEP, par. 6.01]	_____	_____	_____
2. Are overdrafts of reciprocal "due to/from" balances reclassified as liabilities, unless the financial institution has other accounts at the same financial institution against which such overdrafts can be offset? [AAG-DEP, par. 6.10; SOP 01-6, par. 14*b*]	_____	_____	_____
3. Are reciprocal "due to/from" balances offset for balance sheet presentation, if they will be offset in the process of collection or payment? [AAG-DEP, par. 6.10; SOP 01-6, par. 14*b*]	_____	_____	_____
4. Are any restrictions on the use or availability of certain cash balances, such as deposits with an FRB, FHLB, or correspondent financial institutions to meet reserve requirements or deposits under formal compensating balance agreements, disclosed in the financial statements? [AAG-DEP, par. 6.09; ARB 63, Ch. 3A, par. 6 (AC B05.107); SFAS 5, par. 18 (AC C59.120); SOP 01-6, par. 14*a*]	_____	_____	_____
5. Are held checks (those written before but not released until after the balance sheet date) reclassified to accounts payable? [Generally Accepted]	_____	_____	_____
6. Is the policy for defining a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108); AAG-DEP, par. 6.24]	_____	_____	_____

C. Federal Funds and Repurchase Agreements

1. Are federal funds and repurchase agreements presented gross, except where a right of offset exists and the conditions described in FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*, have been met? [AAG-DEP, par. 14.30]	_____	_____	_____

D. Investments in Debt and Equity Securities

1. Are debt securities classified as (*a*) held-to-maturity, (*b*) available-for-sale, or (*c*) trading? [SFAS 115, par. 6 (AC I80.103); AAG-DEP, par. 7.63]	_____	_____	_____

	Yes	No	N/A
2. If an enterprise presents a classified statement of financial position, are all individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities reported as either current or noncurrent, as appropriate, under the provisions of ARB 43, Chapter 3A, *Working Capital—Current Assets and Current Liabilities*? [SFAS 115, par. 17 (AC I80.116), as amended by SFAS 135]	_____	_____	_____

Practice Tip

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

	Yes	No	N/A
3. 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?	_____	_____	_____
b. Total gains for securities with net gains in accumulated other comprehensive income?	_____	_____	_____
c. Total losses for securities with net losses in accumulated other comprehensive income? [SFAS 115, par. 19 (AC I80.118), as amended by SFAS 133; AAG-DEP, par. 7.98]	_____	_____	_____
4. 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), as amended by SFAS 133; AAG-DEP, par. 7.98]	_____	_____	_____
5. In complying with the above requirements, has disclosure been made of major security types including:			
a. Equity securities?	_____	_____	_____
b. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?	_____	_____	_____
c. Debt securities issued by the states of the United States and political subdivisions of the states?	_____	_____	_____
d. Debt securities issued by foreign governments (including those classified as loans)?	_____	_____	_____
e. Corporate debt securities?	_____	_____	_____
f. Mortgage-backed securities?	_____	_____	_____
g. Other debt securities? [SFAS 115, par. 19 (AC I80.118); AAG-DEP, par. 7.98]	_____	_____	_____
6. For investments in debt securities classified as available-for-sale or held-to-maturity:			

	Yes	No	N/A
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?	_____	_____	_____
c. Do disclosures include the fair value and net carrying amount (if different than fair value) of debt securities based on at least the four following maturity groupings:			
(1) Within one year?	_____	_____	_____
(2) After one year through five years?	_____	_____	_____
(3) After five years through ten years?	_____	_____	_____
(4) After ten years? [SFAS 115, par. 20 (AC I80.119); AAG-DEP, par. 7.98]	_____	_____	_____
7. For each period for which an income statement is presented, are the following disclosed:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses 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., specific 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), as amended by SFAS 133; AAG-DEP, par. 7.99]	_____	_____	_____
8. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Net carrying amount of the sold or transferred security?	_____	_____	_____
b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security?	_____	_____	_____
c. Related realized or unrealized gain or loss?	_____	_____	_____
d. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121), as amended by SFAS 133; AAG-DEP, par. 7.100]	_____	_____	_____

	Yes	No	N/A
9. For those entities that enter into options with no intrinsic value at acquisition in order to purchase securities accounted for under SFAS 115, is the accounting policy for premiums paid (time value) to acquire options classified as held-to-maturity or available-for-sale disclosed? [EITF 96-11]	____	____	____
10. Certain quantitative and qualitative disclosures are required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS 115 and SFAS 124 that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. For those investments with unrealized losses that have not been recognized as other- than-temporary impairments, does the investor disclose:			
a. As of each date for which a statement of financial position is presented, quantitative information, aggregated by each category of investment that the investor discloses in accordance with SFAS 115 and SFAS 124, and cost method investments, in tabular form:			
(1) The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value)?	____	____	____
and			
(2) The aggregate related fair value of investments with unrealized losses?	____	____	____

Notes: The disclosures in (1) and (2) above should be segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.

The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For enterprises that do not prepare interim financial information, the reference point would be the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon either (*a*) the recognition of an other-than-temporary impairment or (*b*) the investor becoming aware of a recovery of fair value up to (or beyond) the cost of the investment during the period.

	Yes	No	N/A
b. As of the date of the most recent statement of financial position, additional information, in narrative form, that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the investor considered (both positive and negative) in reaching the conclusion that the impairments are not other than temporary, whose disclosure could include:			
(1) The nature of the investment(s)?	____	____	____
(2) The cause(s) of the impairment(s)?	____	____	____
(3) The number of investment positions that are in an unrealized loss position?	____	____	____
(4) The severity and duration of the impairment(s)?	____	____	____
(5) Other evidence considered by the investor in reaching its conclusion that the investment is not other-than-temporarily impaired, including, for example, industry analyst reports,			

Yes No N/A

sector credit ratings, volatility of the security's fair value, and/or any other information that the investor considers relevant? ____ ____ ____
[EITF 03-1, par. 21]

11. Certain quantitative and qualitative disclosures are required for cost method investments that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized and certain quantitative information about cost method investments not tested for impairment under Step 1 of the impairment model in paragraphs 6–20 of EITF 03-1. For cost method investments, does the investor disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:
    a. The aggregate carrying amount of all cost method investments? ____ ____ ____
    b. The aggregate carrying amount of cost method investments that the investor did not evaluate for impairment? ____ ____ ____
    c. The fact that the fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment, and
        (1) The investor determined, in accordance with paragraphs 14 and 15 of SFAS 107, that it is not practicable to estimate the fair value of the investment? ____ ____ ____

        or

        (2) The investor is exempt from estimating fair value under SFAS 126? ____ ____ ____
        [EITF 03-1, par. 22]

E. Investments Accounted for by the Equity Method ☐

1. Are investments in common stock shown in the balance sheet of the investor as a single amount, and is the investor's share of earnings or losses of the investee shown in the income statement as a single amount (except for extraordinary items or prior period adjustments)? ____ ____ ____
   [APB 18, par. 19 (AC I82.109c)]

2. Are the following disclosures made for investments in common stock accounted for by the equity method:
    a. The name of each investee and their percentage of ownership of common stock? ____ ____ ____
    b. The accounting policies of the investor with respect to investments in common stock? ____ ____ ____
    c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets? ____ ____ ____
    d. The accounting treatment of the difference described in *c*? ____ ____ ____
    e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? ____ ____ ____
    (This is not required for investments in common stock of subsidiaries.)

	Yes	No	N/A
f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?	_____	_____	_____
g. Material effects of conversions of outstanding convertible securities, exercises, or contingent issuances? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]	_____	_____	_____
4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:			
a. The name of such investee?	_____	_____	_____
b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC I82.110, fn. 14)]	_____	_____	_____

Practice Tip

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

F. Loans Held for Sale

Note: For sales and servicing of assets, see part R, "Transfers and Servicing of Financial Assets" of the "Other Financial Statement Disclosures" section of this checklist.

	Yes	No	N/A
1. Does the institution distinguish between (*a*) loans held for sale and (*b*) loans held for long-term investment? [SFAS 65, par. 28 (AC Mo4.129), as amended by SFAS 115]	_____	_____	_____
2. Has the method used in determining the lower of cost or market value of loans (that is, aggregate or individual loan basis) been disclosed? [SFAS 65, par. 29 (AC Mo4.130), as amended by SFAS 115; AAG-DEP, par. 10.34]	_____	_____	_____
3. Are the fair value and the method(s) and significant assumptions used to estimate the fair value disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
4. Are loans held for sale reported separately in the balance sheet at the lower of cost or market value? [AAG-DEP, par. 10.33]	_____	_____	_____

Yes *No* *N/A*

5. Is the aggregate amount of gains or losses on sales of loans or trade receivables (including adjustments to record loans held for sale at the lower of cost or fair value) presented separately in the financial statements or disclosed in the notes to the financial statements? [AAG-DEP, par. 10.33; SOP 01-6, par. 13*d*] _____ _____ _____

G. Loans or Trade Receivables

1. Are the following disclosed in the summary of significant accounting policies:

   a. The basis of accounting for loans or trade receivables and lease financings, including those classified as held for sale? _____ _____ _____

   b. The methods used in determining the lower of cost or fair value of non-mortgage loans held for sale (that is, aggregate or individual asset basis) (required for mortgage loans by paragraph 29 of SFAS 65)? _____ _____ _____

   c. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interest in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment? _____ _____ _____

   d. The method for recognizing interest income on loans and trade receivables, including a statement about the entity's policy for the treatment of related fees and costs, including the method of amortizing net deferred fees or costs. As well as including the entity's policy for recognizing interest income on impaired loans, including how cash receipts are recognized? _____ _____ _____

   e. The policy for placing loans (and trade receivables, if applicable) on non-accrual status (or discontinuing accrual of interest), and recording payments received on non-accrual loans (and trade receivables, if applicable), and the policy for resuming accrual of interest? _____ _____ _____

   f. The policy for determining past due or delinquency status (that is, whether past due status is based on how recently payments have been received or contractual terms)? _____ _____ _____

   g. The policy for charging off uncollectible loans and trade receivables? _____ _____ _____
   [AAG-DEP, pars. 8.108 and 9.40; SOP 01-6, par. 13*a* and *c*]

2. Are the following disclosed separately either in the balance sheet or in the notes to the financial statements:

   a. Major categories of loans or trade receivables? _____ _____ _____

   b. The allowance for credit losses? _____ _____ _____

   c. The allowance for doubtful accounts? _____ _____ _____

   d. As applicable, any unearned income? _____ _____ _____

   e. As applicable, any unamortized premiums and discounts? _____ _____ _____

   f. As applicable, any net unamortized deferred fees and costs? _____ _____ _____
   [AAG-DEP, par. 8.109; SOP 01-6, par. 13*e*]

3. Are the following recorded investments in loans (and trade receivables, if applicable) disclosed:

   a. Those on nonaccrual status as of each balance-sheet date? _____ _____ _____

	Yes	No	N/A
b. Those that are past due ninety days or more and still accruing? [AAG-DEP, par. 8.110; SOP 01-6, par. 13*g*]	_____	_____	_____
4. If the institution continues to account for certain restructured loans that were restructured in a trouble debt restructuring involving a modification of terms before the effective date of SFAS 114 and that are not impaired based on the terms of the restructuring agreement, has the following information about those troubled debt restructurings been made as of the date of each balance sheet presented:			
a. The aggregate recorded investment?	_____	_____	_____
b. The gross interest income that would have been recorded in the period then ended if those loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period?	_____	_____	_____
c. The amount of interest income on those loans that were included in net income for the period?	_____	_____	_____
(***Note:*** The institution may disclose the above information by major category, for the aggregate of outstanding reduced-earning and nonearning loans rather than separately for outstanding loans whose terms have been modified in troubled debt restructurings.) [AAG-DEP, par. 8.109, fn. 16; SFAS 114, par. 27; SFAS 15, pars. 40 and 41 (AC D22.136 and .137)]			
5. Has the amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings been disclosed? [SFAS 15, par. 40b (AC D22.136); AAG-DEP, par. 8.122]	_____	_____	_____
6. If impairment of loans has been recognized, has the following information been disclosed either in the body of the financial statements or in the accompanying notes: (***Note:*** Information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures under *a.* and *c.* below in years after the restructuring if (1) 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 (2) the loan is not impaired based on the terms specified by the restructuring agreement.)			
a. As of the date of each statement of financial position presented:			
(1) The total recorded investment in the impaired loans at the end of each period?	_____	_____	_____
(2) 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 the allowance?	_____	_____	_____
(3) The amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with SFAS 114?	_____	_____	_____
b. The creditor's policy for recognizing interest income on impaired loans, including how cash receipts are recorded?	_____	_____	_____
c. For each period for which results of operations are presented:			
(1) The average recorded investment in the impaired loans during each period?	_____	_____	_____

	Yes	No	N/A
(2) The related amount of interest income recognized during the time within that period that the loans were impaired?	_____	_____	_____
(3) If practicable, the amount of interest income recognized using a cash-basis method of accounting during the time within that period that the loans were impaired? [SFAS 118, par. 6i (AC I08.118); AAG-DEP, pars. 8.110 and 8.111]	_____	_____	_____
7. When a loan is restructured in a troubled debt restructuring (as defined in SFAS 15) into two (or more) loan agreements, are the restructured loans considered separately when assessing the applicability of the disclosures described in Question 6*a* and *c* above? [EITF 96-22]	_____	_____	_____
8. 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]	_____	_____	_____
9. Are loans to related parties disclosed? [AAG-DEP, par. 8.12; SFAS 57, par. 2 (AC R36.102)]	_____	_____	_____
10. Are loans that are accounted for as real estate investments or joint ventures classified in other assets or other real estate owned? [AAG-DEP, par. 8.100]	_____	_____	_____
11. Is the accounting policy, the net amount capitalized at the balance-sheet date, and the amortization period(s) with respect to credit card fees and costs for both purchased and originated credit cards disclosed? [EITF 92-5]	_____	_____	_____

Note: The disclosures in SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, are effective for loans acquired in fiscal years beginning after December 15, 2004. Early application is encouraged, but not required. SOP 03-3 does not apply to loans originated by the entity.

	Yes	No	N/A
12. For loans meeting the scope criteria of paragraph 3 of SOP 03-3:			
a. Do the notes to the financial statements describe how prepayments are considered in the determination of contractual cash flows and cash flows expected to be collected?	_____	_____	_____
b. If the condition in paragraph 16 of SFAS 115 or paragraph 8(a) of SFAS 5 is met, is information about the loans included in the disclosures in Question 5*a* and *c* above? [SOP 03-3, pars. 14 and 15]	_____	_____	_____
13. For loans meeting the scope criteria of paragraph 3 of SOP 03-3, in addition to disclosures required by other generally accepted accounting principles, is the following information disclosed for each period for which a statement of financial position is presented:			
a. Separately for both those loans that are accounted for as debt securities and those loans that are not accounted for as debt securities:			
(1) The outstanding balance and related carrying amount at the beginning and end of the period?	_____	_____	_____

	Yes	No	N/A
(2) The amount of accretable yield at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from nonaccretable difference during the period?	_____	_____	_____
(3) For loans acquired during the period, the contractually required payments receivable, cash flows expected to be collected, and fair value at the acquisition date?	_____	_____	_____
(4) For those loans within the scope of SOP 03-3 for which the income recognition model in SOP 03-3 is not applied in accordance with paragraph 6, the carrying amount at the acquisition date for loans acquired during the period and the carrying amount of all loans at the end of the period?	_____	_____	_____
b. Further, for those loans that are not accounted for as debt securities:			
(1) The amount of any expense recognized pursuant to paragraph 8(*a*) of SOP 03-3 and any reductions of the allowance recognized pursuant to paragraph 8(*b*)(1) of SOP 03-3 for each period for which an income statement is presented?	_____	_____	_____
(2) The amount of the allowance for uncollectible accounts at the beginning and end of the period? [SOP 03-3, par. 16]	_____	_____	_____

H. Allowance for Loan Losses

	Yes	No	N/A
1. Is the allowance for loan losses disclosed in the financial statements and deducted from the related assets? [AAG-DEP, par. 8.109; APB 12, par. 3 (AC V18.102)]	_____	_____	_____
2. Are allowances necessary for off-balance-sheet instruments reported separately as liabilities and not as part of the allowance for loan losses? [AAG-DEP, par. 9.15]	_____	_____	_____
3. Is a description of the accounting policies and the methodology used to estimate the allowance for loan losses, allowance for doubtful accounts, and any liability for off-balance-sheet credit losses and related charges for loan, trade receivable or other credit losses, including a description of the factors that influenced management's judgment, included in the notes to the financial statements? [AAG-DEP, par. 9.40; SOP 01-6, par. 13*b*]	_____	_____	_____
4. For each period for which an income statement is presented, has disclosure been made of the activity in the allowance for loan losses including the following:			
a. Opening balance?	_____	_____	_____
b. Additions charged to operations?	_____	_____	_____
c. Direct write-down charged against the allowance?	_____	_____	_____
d. Recoveries of amounts previously charged off?	_____	_____	_____
e. Ending balance? [SFAS 118, par. 6 (AC 108.118 and 118A); AAG-DEP, par. 8.112]	_____	_____	_____

I. Foreclosed Assets

	Yes	No	N/A
1. Are foreclosed and repossessed assets disclosed either as a separate balance-sheet amount or included in other assets in the balance sheet, and disclosed separately in the notes to the financial statements? [AAG-DEP, par. 11.09; SOP 01-6, par. 13*f*]	_____	_____	_____

	Yes	No	N/A
2. Are certain returned or repossessed assets, such as inventory, not classified separately if the assets subsequently are to be utilized by the entity in operations? [AAG-DEP, par. 11.09; SOP 01-6, par. 13*f*]	_____	_____	_____

J. Premises and Equipment

	Yes	No	N/A
1. Are premises and equipment shown on the balance sheet net of accumulated depreciation? [AAG-DEP, par. 12.18]	_____	_____	_____
2. Is the carrying basis of premises and equipment disclosed? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
3. Are the balances of major classes of depreciable assets by nature or function disclosed, if material? [APB 12, par. 5b (AC D40.105b); AAG-DEP, par. 12.18]	_____	_____	_____
4. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c); AAG-DEP, par. 12.18]	_____	_____	_____
5. Is depreciation expense for the period disclosed? [APB 12, par. 5 (AC D40.105a)]	_____	_____	_____
6. Is the method or methods used in computing depreciation for each major class of depreciable assets disclosed? [APB 12, par. 5 (AC D40.105d)]	_____	_____	_____
7. Are material commitments for property expenditures disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____

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

	Yes	No	N/A
8. 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]	_____	_____	_____
9. Is the amount of assets under capitalized leases disclosed in the financial statements? [AAG-DEP, par. 12.18]	_____	_____	_____
10. For premises and equipment, are net gains or net losses on dispositions included in noninterest income or noninterest expense? [SOP 01-6, par. 14*c*; AAG-DEP, par. 12.14]	_____	_____	_____

K. Other Assets and Other Investments

	Yes	No	N/A
1. If material, are amounts disclosed separately for:			
a. Accrued interest receivable?	_____	_____	_____
b. Premises and equipment?	_____	_____	_____
c. Other real estate, such as foreclosed assets?	_____	_____	_____
d. Servicing assets?	_____	_____	_____

	Yes	No	N/A
e. Identifiable intangible assets, such as core deposit intangibles, and purchased credit card relationships?	_____	_____	_____
f. Goodwill?	_____	_____	_____
g. Customers' liabilities on acceptances?	_____	_____	_____
h. Deferred tax assets?	_____	_____	_____
i. Federal Home Loan Bank, Federal Reserve Bank, or other restricted stocks?	_____	_____	_____
j. National Credit Union Share Insurance Fund deposits or other share insurance deposits?	_____	_____	_____
k. Payroll deductions receivable?	_____	_____	_____
l. Investments in equity securities that are not readily marketable (which meet definition of a security in SFAS 115 but are not subject to its provisions because they are not readily marketable), such as stock in the Federal Agricultural Mortgage Corporation (Farmer Mac) or stock in banker's banks?	_____	_____	_____
m. Other equity investments, including investments in joint ventures or venture capital investments, and credit union investments in Credit Union Service Organizations (CUSOs)?	_____	_____	_____
n. Investments in nonnegotiable certificates of deposits? [AAG-DEP, par. 12.01]	_____	_____	_____
2. If an institution receives contributed services that meet the requirements in paragraph 9 of SFAS 116, are the following disclosed:			
a. A description of the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized in revenues for the period?	_____	_____	_____
b. The fair value of contributed services received but not recognized as revenues if practicable (encouraged, but not required)? [SFAS 116, par. 10]	_____	_____	_____
3. If the institution is the recipient of unconditional promises to give that meet the requirements in paragraph 6 of SFAS 116, are the following disclosed:			
a. The amounts of promises receivable in:			
(1) Less than one year?	_____	_____	_____
(2) In one to five years?	_____	_____	_____
(3) In more than five years?	_____	_____	_____
b. The amount of the allowance for uncollectible promises to give? [SFAS 116, par. 24]	_____	_____	_____
4. If the institution is the recipient of conditional promises to give that meet the requirements in paragraph 6 of SFAS 116, are the following disclosed:			
a. The total of the amounts promised?	_____	_____	_____

Yes No N/A

b. A description and amount for each group of promises having similar characteristics, such as amounts of promises conditioned on established new programs, completing a new building, and raising matching gifts by a specified date? [SFAS 116, par. 25] ____ ____ ____

L. Intangible Assets and Goodwill

1. At a minimum, are all intangible assets aggregated and presented as a separate line item in the statement of financial position? (This requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.) [SFAS 142, par. 42 (AC G40.141); AAG-DEP, par. 12.36] ____ ____ ____

2. Are amortization expense and impairment losses for intangible assets presented in income statement line items within continuing operations as deemed appropriate for each entity? [SFAS 142, par. 42 (AC G40.141); AAG-DEP, par. 12.36] ____ ____ ____

3. Is the aggregate amount of goodwill presented as a separate line item in the statement of financial position? [SFAS 142, par. 43 (AC G40.142); AAG-DEP, par. 12.36] ____ ____ ____

4. Is the aggregate amount of goodwill impairment losses presented as a separate line item in the income statement before the subtotal *income form continuing operations* (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation? [SFAS 142, par. 43 (AC G40.142); AAG-DEP, par. 12.36] ____ ____ ____

5. Is a goodwill impairment loss associated with a discontinued operation included (on a net-of-tax basis) within the results of discontinued operations? [SFAS 142, par. 43 (AC G40.142); AAG-DEP, par. 12.36] ____ ____ ____

6. For intangible assets acquired either individually or with a group of assets, is the following information disclosed in the notes to the financial statements in the period of acquisition:

   a. For intangible assets subject to amortization:

   (1) The total amount assigned and the amount assigned to any major intangible asset class? ____ ____ ____

   (2) The amount of any significant residual value, in total and by major intangible asset class? ____ ____ ____

   (3) The weighted-average amortization period, in total and by major intangible asset class? ____ ____ ____

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

   c. The amount of research and development assets acquired and written off in the period and the line item in the income statement in which the amounts written off are aggregated? [SFAS 142, par. 44 (AC G40.143)] ____ ____ ____

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

	Yes	No	N/A
a. For intangible assets subject to amortization:			
(1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class?	_____	_____	_____
(2) The aggregate amortization expense for the period?	_____	_____	_____
(3) The estimated aggregate amortization expense for each of the five succeeding fiscal years?	_____	_____	_____
b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class?	_____	_____	_____
c. The changes in the carrying amount of goodwill during the period including:			
(1) The aggregate amount of goodwill acquired?	_____	_____	_____
(2) The aggregate amount of impairment losses recognized?	_____	_____	_____
(3) The amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit? [SFAS 142, par. 45 (AC G40.144)]	_____	_____	_____
8. If the entity reports segment information in accordance with SFAS 131, is the above information about goodwill provided in total and for each reportable segment and are any significant changes in the allocation of goodwill by reportable segment disclosed? [SFAS 142, par. 45 (AC G40.144)]	_____	_____	_____
9. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, is that unallocated amount and the reasons for not allocating that amount disclosed? [SFAS 142, par. 45 (AC G40.144)]	_____	_____	_____
10. For each impairment loss recognized related to an intangible asset, is the following information disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:			
a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and the method for determining fair value?	_____	_____	_____
c. The caption in the income statement in which the impairment loss is aggregated?	_____	_____	_____
d. If applicable, the segment in which the impaired intangible asset is reported under SFAS 131? [SFAS 142, par. 46 (AC G40.145)]	_____	_____	_____
11. For each goodwill impairment loss recognized, is the following information disclosed in the notes to the financial statement that include the period in which the impairment loss is recognized:			
a. A description of the facts and circumstances leading to the impairment?	_____	_____	_____
b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses, a present value or other valuation technique, or a combination thereof)?	_____	_____	_____

Yes | No | N/A

c. If a recognized impairment loss is an estimate that has not yet been finalized (refer to SFAS 142, par. 22), that fact and the reasons therefor and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss? ____ ____ ____
[SFAS 142, par. 47 (AC G40.146–.148)]

L1. Transitional Disclosures for Goodwill and Other Intangible Assets

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

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

2. In the period of initial application and thereafter until goodwill and all other intangible assets have been accounted for in accordance with SFAS 142 in all periods presented, is the following information displayed either on the face of the income statement or in the notes to the financial statements:

   a. Income before extraordinary items and net income for all periods presented adjusted to exclude amortization expense (including any related tax effects) recognized in these periods related to goodwill? ____ ____ ____

   b. Intangible assets that are no longer being amortized? ____ ____ ____

   c. Any deferred credit related to an excess over cost (amortized in accordance with APB 16)? ____ ____ ____

   d. Equity method goodwill? ____ ____ ____
   [SFAS 142, par. 61]

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

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

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

M. Deposits

1. Are overdrawn checking accounts reclassified as loans? ____ ____ ____
[AAG-DEP, par. 13.34]

2. Are checks deposited by customers that are in the process of collection and are not available for withdrawal recorded as assets and liabilities? ____ ____ ____
[AAG-DEP, par. 13.35; SOP 01-6, par. 10*c*]

	Yes	No	N/A
3. Are all member deposit accounts of credit unions, including member shares, reported unequivocally as liabilities in the statement of financial position either by:			
a. Presenting deposit accounts as the first item in the liabilities and equity section?	____	____	____
or			
b. Includes deposit accounts within a captioned subtotal for total liabilities? [SOP 01-6, par. 11*d*; AAG-DEP, par. 13.36]	____	____	____
4. Is the interest paid or accrued on member deposit accounts, commonly referred to as dividends, reported as an expense on the statement of income, and the amount of interest payable to members included as a liability in the statement of financial condition? [EITF 89-3; SOP 01-6, par. 11*d*; AAG-DEP, par. 13.36]	____	____	____
5. Are the following disclosures included in the financial statements:			
a. The aggregate amount of time deposit accounts (including CDs) in denominations of $100,000 or more at the balance-sheet date?	____	____	____
b. For deposits payable on demand or with no defined maturities, has the fair value been disclosed as the amount payable on demand at the reporting date?	____	____	____
c. Securities, mortgage loans, or other financial instruments that serve as collateral for deposits, that are otherwise not disclosed under SFAS 140?	____	____	____
d. The aggregate amount of any demand deposits that have been reclassified as loan balances, such as overdrafts, at the balance-sheet date?	____	____	____
e. Deposits that are received on terms other than those available in the normal course of business?	____	____	____
f. The fair values of deposits (in conformity with SFAS 107, *Disclosures About Fair Value of Financial Instruments*)? [AAG-DEP, pars. 13.39 and 13.40; SOP 01-6, par. 14*e*]	____	____	____

N. Deferred Income Tax Assets and Liabilities

Practice Tip

SFAS 109 requires that deferred taxes be determined separately for each tax-paying component in each tax jurisdiction (for example, federal, state, or local). A component may be an individual entity or a group of entities that is consolidated for tax purposes.

	Yes	No	N/A
1. Are deferred tax assets and liabilities classified as current or noncurrent based on the classification of the related asset or liability? [SFAS 109, par. 41 (AC I27.140)]	____	____	____
2. Are deferred tax assets not related to an asset or liability, including those related to carryforwards, classified according to the expected reversal date of the temporary difference pursuant to SFAS 37? [SFAS 109, par. 41 (AC I27.140)]	____	____	____
3. Is the valuation allowance for each particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro rata basis? [SFAS 109, par. 41 (AC I27.140)]	____	____	____

	Yes	No	N/A
4. For each particular tax-paying component of the reporting entity and within each particular tax jurisdiction:			
a. Are all current deferred tax liabilities and assets offset and presented as a single amount?	_____	_____	_____
b. Are all noncurrent deferred tax liabilities and assets offset and presented as a single amount? [SFAS 109, par. 42 (AC I27.141)]	_____	_____	_____
5. Are the components of the total of net deferred tax liability or asset recognized in the statement of condition disclosed?	_____	_____	_____
a. The total of all deferred tax liabilities (measured as described in paragraph 17b of SFAS 109)?	_____	_____	_____
b. The total of all deferred tax assets (measured as described in paragraphs 17c and d of SFAS 109)?	_____	_____	_____
c. The total valuation allowance for deferred tax assets (measured as described in paragraph 17e of SFAS 109)?	_____	_____	_____
6. Is the net change during the year in the valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
7. If the reporting entity is a **public enterprise**:			
a. Is the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed?	_____	_____	_____
b. If the reporting entity is not subject to income taxes because its income is taxed directly to its owners, is that fact and the net difference between the tax bases and reported amounts of the enterprises' assets and liabilities disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
8. If the reporting entity is a **nonpublic enterprise**, are the types of temporary differences and carryforwards that give rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
9. If a deferred tax liability is not recognized because of certain exceptions addressed by APB 23, *Accounting for Income Taxes—Special Areas* (as amended by SFAS 109), is the following information disclosed:			
a. A description of the types of temporary differences for which a deferred tax liability has not been 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 joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement such determination is not practicable?	_____	_____	_____
d. The amount of the deferred tax liability for other temporary differences that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109? [SFAS 109, par. 44; AAG-DEP, par. 16.23]	_____	_____	_____

Yes No N/A

O. Debt

1. Are significant categories of borrowings presented as:
   a. Separate line items in the liability section of the balance sheet? ____ ____ ____
   or
   b. As a single line item with appropriate note disclosure of components? ____ ____ ____
   [AAG-DEP, par. 15.33; SOP 01-6, par. 14*f*]

2. If alternatively, debt is presented based on the debt's priority (that is, senior or subordinated) is separate disclosure of significant categories of borrowings presented? ____ ____ ____
   [AAG-DEP, par. 15.35; SOP 01-6, par. 14*f*]

3. Do the notes to the financial statements for debt disclose the principal terms of the respective agreements including, but not limited to the following:
   a. The title or nature of the agreement, or both? ____ ____ ____
   b. The interest rate (and whether it is fixed or floating)? ____ ____ ____
   c. The payment terms and maturity date(s)? ____ ____ ____
   d. Collateral? ____ ____ ____
   e. Conversion or redemption features? ____ ____ ____
   f. Whether borrowings are senior or subordinated? ____ ____ ____
   g. Restrictive covenants (such as dividend restrictions), if any? ____ ____ ____
   h. Maturities and sinking-fund requirements for each of the next five years? ____ ____ ____
   i. If the debt is considered in-substance defeased, a general description of the transaction and the amount of the debt that is considered extinguished at the end of the period as long as the debt remains outstanding? ____ ____ ____
   [AAG-DEP, pars. 15.34 and 15.40; SFAS 140, par. 17(b) (AC L35.109a); SFAS 47, par. 7b (AC C.32.102b); SOP 01-6, par. 14*h*]

4. For troubled debt restructurings occurring during the period for which financial statements are presented do disclosures include:
   a. For each restructuring, a description of the principal changes in terms? ____ ____ ____
   b. Aggregate gain on restructuring of payables? ____ ____ ____
   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? ____ ____ ____
   [SFAS 15, par. 25 (AC D22.121)]

5. For the period after a troubled debt restructuring, do disclosures include:
   a. The 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)]

	Yes	*No*	*N/A*
6. If the entity issued debt securities convertible into a fixed number of common shares, and upon conversion the entity either is requested or has the option to satisfy all or part of the obligation in cash, is the conversion feature and debt obligation presented on the balance sheet as one amount? [EITF 90-19]	____	____	____
7. If a long-term obligation is or will be callable because a loan covenant violation is included as a long-term (or is classified as a long-term liability in the disclosures for an unclassified balance sheet) because it is probable the violation will be cured within a specified grace period, are the circumstances disclosed? [SFAS 78, par. 5]	____	____	____
8. Are mortgage-backed bonds classified as debt on the institution's balance sheet and presented separately from advances, other notes payable, and subordinated debt? [AAG-DEP, par. 15.39; SOP 01-6, par. 14*i*]	____	____	____
9. 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]	____	____	____
P. Other Liabilities			
1. If the institution has not accrued a liability for compensated absences because the amount cannot be reasonably estimated, has that fact been disclosed? [SFAS 43, par. 6 (AC C44.104)]	____	____	____
2. For insurance-related assessments:			
a. If amounts relating to insurance-related assessments have been discounted pursuant to the provisions of SOP 97-3, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments*, has the entity disclosed in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used?	____	____	____
b. If amounts have not been discounted, has the entity disclosed in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized? [SOP 97-3, par. 27]	____	____	____
3. For liabilities, generally called "securities sold, not yet purchased," is the fair value adjustment presented in the income statement with gains and losses on securities? [AAG-DEP, par. 7.93; SOP 01-6, par. 10*b*]	____	____	____
Q. 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]	____	____	____

	Yes	No	N/A
2. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]	_____	_____	_____
3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]	_____	_____	_____
4. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]	_____	_____	_____
5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]	_____	_____	_____
6. Are the following disclosed on the face of the balance sheet or in the notes:			
a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise?	_____	_____	_____
b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 7 (AC C24.105)]	_____	_____	_____
7. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet? [SFAS 129, par. 8 (AC C24.106)]	_____	_____	_____
8. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]	_____	_____	_____
9. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
10. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant?[2] [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	_____	_____	_____
11. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed? [Generally Accepted]	_____	_____	_____

[2] As stated in paragraph 8(a)3 of SFAS 111, the dating would rarely, if ever, be of significance after a period of ten years.

	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?	____	____	____
or			
b. Accorded the accounting treatment appropriate for retired stock? [APB 6, par. 12b (AC C23.103)]	____	____	____
13. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made? [APB 6, par. 13 (AC C23.104)]	____	____	____
14. 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)]	____	____	____
15. Do disclosures for contingently convertible securities include:			
a. The significant terms of the conversion features to enable users of the financial statements to understand the circumstances of the contingency and the potential impact of conversion, including:			
(1) Events or changes in circumstances that would cause the contingency to be met and any significant features necessary to understand the conversion rights and the timing of those rights (for example, the periods in which (1) the contingency might be met and (2) the securities may be converted if the contingency is met)?	____	____	____
(2) The conversion price and the number of shares into which the security is potentially convertible?	____	____	____
(3) Events or changes in circumstances, if any, that could adjust or change the contingency, conversion price, or number of shares, including significant terms of those changes?	____	____	____
(4) The manner of settlement upon conversion and any alternative settlement methods (for example, cash, shares, or a combination)?	____	____	____
b. Whether the shares that would be issued if the contingently convertible securities were converted are included in the calculation of diluted EPS, as the reasons why or why not? [FSP 129-1, pars. 3 and 4]	____	____	____

Income Statement

A. General

	Yes	No	N/A
1. Are the important components of income separately disclosed? [Generally Accepted]	____	____	____
2. At a minimum, is the following information disclosed in the notes to the financial statements in all periods affected by the September 11, 2001 attacks:			
a. A description of the nature and amounts of losses and costs recognized as a result of the September 11 events and the amount of related insurance recoveries (if any) recognized?	____	____	____

	Yes	No	N/A
b. A description of contingencies resulting from the September 11 events that have not yet been recognized in the financial statements but that are reasonably expected to impact the entity's financial statements in the near term?	____	____	____
c. Applicable disclosures pursuant to SOP 94-6?	____	____	____
d. Applicable disclosures about environmental obligations (and recoveries) pursuant to SOP 96-1? [EITF 01-10]	____	____	____
3. Are losses and costs incurred as a result of the September 11, 2001 attacks classified as part of income from continuing operations? [EITF 01-10]	____	____	____
4. Is the following information disclosed in the notes to the financial statements in the period(s) in which business interruption insurance recoveries are recognized:			
a. The nature of the event resulting in business interruption losses?	____	____	____
b. The aggregate amount of business interruption insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts reported as an extraordinary item pursuant to APB 30)? [EITF 01-13]	____	____	____
5. Is the income statement classification of the expense associated with a "free" product or service delivered at the time of sale of another product or service classified as cost of sales? [EITF 01-9]	____	____	____
B. Interest Income			
1. If the enterprise anticipates prepayments in applying the interest method, has the policy and the significant assumptions underlying the prepayment estimates been disclosed? [SFAS 91, par. 19 (AC L20.118)]	____	____	____
2. Are amounts of loan origination, commitment, and other fees and costs recognized as an adjustment of yield reported as part of interest income? [SFAS 91, par. 22 (AC L20.121)]	____	____	____
C. Interest Expense			
1. If significant, is interest on short positions reported as interest expense? [AAG-DEP, par. 7.93; SOP 01-6, par. 10*b*]	____	____	____
2. If no interest is capitalized during the period, are the amount of interest cost and charge to expense disclosed? [SFAS 34, par. 21a (AC I67.118a)]	____	____	____
3. If some interest cost is capitalized during the period, is the total amount of interest cost incurred during the period and the amount thereof that has been capitalized been disclosed? [SFAS 34, par. 21b (AC I67.118b)]	____	____	____
4. Are interest costs associated with product financing arrangements identified separately? [SFAS 49, par. 9 (AC D18.107)]	____	____	____

Yes | No | N/A

D. 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 income? ____ ____ ____
[SFAS 91, par. 22 (AC L20.121)]

2. Are delinquency fees recognized in income when chargeable, assuming collectibility is reasonably assured? ____ ____ ____
[AAG-DEP, par. 8.79; SOP 01-6, par. 8*j*]

3. For redeemable preferred stock of a subsidiary accounted for as a minority interest in a subsidiary in a parent's consolidated financial statement, are dividends presented as minority interest in income of a subsidiary? ____ ____ ____
[SOP 01-6, par. 14*l*]

E. Other 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]

F. Income Taxes

1. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:
   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. The benefits of operating loss carryforwards? ____ ____ ____
   e. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets, of an acquired entity? ____ ____ ____
   f. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise? ____ ____ ____
   g. Adjustments of the beginning-of-the year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? ____ ____ ____

	Yes	No	N/A
h. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes?	____	____	____
i. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? [SFAS 109, pars. 45 and 48 (AC I27.144 and .147)]	____	____	____
2. Are the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35–39 of SFAS 109 (AC I27.134–.138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145); AAG-DEP, par. 16.25]	____	____	____
3. If the reporting entity is a **public enterprise**:			
a. Is there a reconciliation using percentages or dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?	____	____	____
b. Is the estimated amount and the nature of each significant reconciling item disclosed?	____	____	____
c. If not otherwise evident, are the nature and effect of any other significant matters affecting comparability of information for all periods present? [SFAS 109, par. 47 (AC I27.146)]	____	____	____
4. If the reporting entity is a **nonpublic enterprise**, is there disclosure of the nature of significant items required to reconcile the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income form continuing operations (omission of numerical reconciliation is permitted)? [SFAS 109, par. 47 (AC I27.146)]	____	____	____
5. If the institution 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 condition presented?	____	____	____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in *a* above are presented? [SFAS 109, par. 49a and b (AC I27.148a and b)]	____	____	____
6. If the reporting entity is an S corporation, partnership, or proprietorship, is the reason that no income tax expense is recorded disclosed? [Generally Accepted]	____	____	____

	Yes	No	N/A

G. Extraordinary Items

1. 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)] _____ _____ _____

2. Is the caption *extraordinary items* used to identify separately the effects of events and transactions, other than disposals of components of an entity, that meet the criteria for classification as extraordinary as discussed in APB 30 (AC I17.106–.111)? [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. Are the income taxes applicable to extraordinary events disclosed on the face of the statement of operations or in related notes? [APB 30, par. 11 (AC I17.102)] _____ _____ _____

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

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

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

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

Yes No N/A

H. Earnings Per Share ☐

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

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

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

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

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

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

   a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations? ____ ____ ____

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

   c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? ____ ____ ____
   [SFAS 128, par. 40 (AC E11.135)]

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

	Yes	No	N/A

I. Comprehensive Income

Practice Tip

A listing of items in other comprehensive income under current accounting standards can be found in AC C49.106.

1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized? [SFAS 130, par. 14 (AC C49.108)] _____ _____ _____

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

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

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

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

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

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

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

	Yes	No	N/A
9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in the balance sheet with a descriptive title such as *accumulated other comprehensive income?* [SFAS 130, par. 26 (AC C49.120)]	____	____	____
10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the balance sheet, in the statement of changes in shareholders' equity, or in the notes? [SFAS 130, par. 26 (AC C49.120)]	____	____	____
11. Has the enterprise reported a total for comprehensive income in condensed financial statements of interim periods? [SFAS 130, par. 27 (AC C49.121)]	____	____	____
12. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133? [SFAS 133, par. 46 (AC D50)]	____	____	____
13. As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 26 of SFAS 130, *Reporting Comprehensive Income*, has the entity separately disclosed the beginning and ending accumulated derivative gain or loss, the related net change associated with current period hedging transactions, and the net amount of any reclassification into earnings? [SFAS 133, par. 47 (AC D50)]	____	____	____
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 entity's own capital stock?	____	____	____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	____	____	____
c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)]	____	____	____
2. Is the amount of revenue and expense recognized from advertising barter transactions disclosed for each income statement period presented? [EITF 99-17]	____	____	____

Yes *No* *N/A*

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

Statement of Changes in Stockholders' Equity

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

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

C. 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:

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

Practice Tip

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

D. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:

1. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year? _____ _____ _____
2. Income from continuing operations, net income, and related per share amounts for each prior interim period restated? [SFAS 16, par. 15 (AC A35.1110)] _____ _____ _____

E. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter, disposals of segments of a business (components of an entity if SFAS 144 is effective), extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements? [APB 28, par. 31; SFAS 3, par. 4 (AC I73.147)] _____ _____ _____

F. 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

	Yes	No	N/A
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)]	_____	_____	_____
G. For redeemable preferred stock of a parent treated as capital, but displayed in the balance sheet as mezzanine capital, are dividends included in the statement of changes in shareholders' equity? [SOP 01-6, par. 14*l*]	_____	_____	_____

Statement of Cash Flows

	Yes	No	N/A
A. Does the statement of cash flows report net cash provided or used by 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)]	_____	_____	_____
B. Is the accounting policy for determining which items are treated as cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
C. If the direct method of reporting net cash flow from operating activities is used, do cash flows from operating activities separately report:			
1. Cash received from customers?	_____	_____	_____
2. Interest and dividends received?	_____	_____	_____
3. Other operating cash receipts?	_____	_____	_____
4. Cash paid to employees and suppliers?	_____	_____	_____
5. Interest paid?	_____	_____	_____
6. Income taxes and other payments to government?	_____	_____	_____
7. Other operating cash payments, if any? [SFAS 95, par. 27 (AC C25.125)]	_____	_____	_____
D. If the direct method is used, is a separate reconciling schedule provided to reconcile net income to net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128); AAG-DEP, par. 6.15]	_____	_____	_____
E. If the direct method of reporting net cash flow from operating activities is not used, is the 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. 28 (AC C25.126)]	_____	_____	_____
F. Is the reconciliation of net income to net cash flow from operating activities, including separate reporting of all major classes of reconciling items, presented? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____
G. If the indirect method of reporting net cash flow from operating activities is used, are amounts of interest paid (net of amounts capitalized) and income taxes paid during the period provided in related disclosures? [SFAS 95, par. 29 (AC C25.127); AAG-DEP, par. 6.16]	_____	_____	_____
H. Are cash receipts and cash payments resulting from the following transactions classified as operating cash flows:			

	Yes	No	N/A
1. Purchases and sales of securities classified as trading securities as discussed in SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*? [SFAS 102, par. 8, as amended by SFAS 115, as amended by SFAS 145 (AC C25.122A)]	_____	_____	_____
2. Purchases and sales of other securities and other assets acquired specifically for resale and carried at market value in a trading account? [SFAS 102, par. 8, as amended by SFAS 115, as amended by SFAS 145 (AC C25.122A)]	_____	_____	_____
3. Purchases, acquisitions and sales of loans, if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market? [SFAS 102, par. 9 (AC C25.122B)]	_____	_____	_____
I. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:			
1. Interest received on loans?	_____	_____	_____
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to suppliers and employees?	_____	_____	_____
5. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities?	_____	_____	_____
8. Cash flows from purchases, sales, and maturities of trading assets? [SFAS 95, pars. 22 and 23 (AC C25.120 and .121)]	_____	_____	_____
J. Is cash payment made to settle an asset retirement obligation classified in the statement of cash flows as an operating activity? [EITF 02-6]	_____	_____	_____
K. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:			
1. Net loan principal payments and originations?	_____	_____	_____
2. Loan sale proceeds and purchases?	_____	_____	_____
3. Security sale and maturity proceeds and purchases, exclusive of those carried in a trading account (disclose separately for held-to-maturity and available-for-sale securities)?	_____	_____	_____
4. Real estate sale proceeds?	_____	_____	_____
5. Investment in real estate held for development?	_____	_____	_____
6. Net deposits withdrawn and placed with other financial institutions?	_____	_____	_____
7. Sales and purchases of loan servicing rights?	_____	_____	_____
8. Net change in reverse repos?	_____	_____	_____
9. Sales and purchases of property, plant and equipment? [SFAS 95, pars. 16 and 17 (AC C25.114 and .115); SFAS 115, par. 18 (AC I80.117); AAG-DEP, par. 6.20]	_____	_____	_____

	Yes	No	N/A
L. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:			
1. Net change in mortgage escrow deposits?	_____	_____	_____
2. Net CDs issued and matured?	_____	_____	_____
3. Net change in other deposit accounts?	_____	_____	_____
4. Proceeds from and repayments of FHLB advances and other borrowings?	_____	_____	_____
5. Net change in short-term borrowings (original maturity of three months or less)?	_____	_____	_____
6. Net change in repos and dollar repos?	_____	_____	_____
7. Proceeds from the sale of common stock or other equity instruments?	_____	_____	_____
8. Reacquisition of equity instruments (for example, purchase of treasury stock)?	_____	_____	_____
9. Dividends and other cash distributions to stockholders?	_____	_____	_____
10. Proceeds received from derivative instruments and distributions to counterparties of derivative instruments that include financing elements at inception?	_____	_____	_____
11. Debt issue costs? [SFAS 95, pars. 18–20; SFAS 149, par. 37b and c; AAG-DEP, par. 6.20; EITF 95-13]	_____	_____	_____
M. Are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows, except for the following, which may be reported on a net basis:			
1. Cash and cash equivalents?	_____	_____	_____
2. Certain items whose turnover is quick, amounts are large, and maturities are short?	_____	_____	_____
3. Certain items for which the institution is substantively holding, receiving, or disbursing cash on behalf of its customers? [SFAS 95, pars. 12, 13, and 31 (AC C25.110, .111, and .129); AAG-DEP, par. 6.18]	_____	_____	_____
N. Are investing and financing activities that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments in the period, disclosed? [SFAS 95, par. 32 (AC C25.134); AAG-DEP, par. 6.21]	_____	_____	_____
O. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
P. If the indirect method is used, is the reduction of income taxes paid as a result of a deduction triggered by employee exercise of stock options classified as an operating cash flow? [EITF 00-15]	_____	_____	_____
Q. If a material income tax benefit realized as a result of the deduction triggered by employee exercise of stock options is not presented as a separate line item in the statement of cash flows or in the statement of changes in stockholders' equity, is disclosure made of the material income tax benefit realized? [EITF 00-15]	_____	_____	_____

	Yes	No	N/A
R. If an other-than-insignificant financing element is present at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments (that is, the forward points in an at-the-money forward contract), does the borrower report all cash inflows and outflows associated with that derivative instrument in a manner consistent with financing activities as described in paragraphs 18–20 of SFAS 95? [SFAS 133, par. 45a, as amended by SFAS 149, par. 18 (AC D50.142a); AAG-DEP, par. 6.19]	_____	_____	_____

Other Financial Statement Disclosures

A. Significant Accounting Policies

Practice Tip

As you evaluate the completeness of the significant accounting policies, consider whether additions or revisions are required in response to recently issued accounting pronouncements. Also consider whether disclosure of accounting policies covered in other sections of this checklist are included. If the accounting policy disclosures called for in other sections are not included in the notes elsewhere in the financial statements, they should be included in the summary of accounting policies.

	Yes	No	N/A
1. Is a description of all significant accounting policies of the entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
3. Do those principles and methods identified in Question 2 include all instances in which there:			
a. Is a selection from existing acceptable alternatives?	_____	_____	_____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	_____	_____	_____
c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
4. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the financial statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
5. Does the disclosure of significant accounting policies include an explanation of the accounting policy for securities, including the basis for classification? [AAG-DEP, par. 7.97]	_____	_____	_____
6. Is a description of the institution's depreciation and capitalization policies included in the notes to the financial statements? [AAG-DEP, par. 12.14]	_____	_____	_____

	Yes	No	N/A
7. 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]	_____	_____	_____
8. Has disclosure been made of the lessor's accounting policy for contingent rental income? [EITF 98-9]	_____	_____	_____
9. 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]	_____	_____	_____
10. Is the institution's accounting policy with respect to vendor's sales incentive arrangements disclosed? [EITF 03-10]	_____	_____	_____
B. Accounting Changes			☐
1. For all changes in accounting principles, does disclosure in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on income before extraordinary items and 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. If a change in an accounting estimate affects several future periods, is its effect on income before extraordinary items, net income, and related per share amounts of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____

	Yes	No	N/A
6. 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)]	____	____	____
7. If a change in reporting entity occurs, are the disclosures made in accordance with APB 20, paragraphs 34 and 35? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	____	____	____
8. 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)]	____	____	____

C. Regulatory Capital Matters

Regulatory Capital Disclosures for Banks and Savings Institutions and Holding Companies

Note: The disclosures required below should be presented for banks and savings institutions and all significant subsidiaries of a holding company. Bank holding companies should also present the disclosures required below as they apply to the holding company, except for the prompt corrective action disclosure required by item *d.* in Question 1. Savings institution holding companies are not subject to regulatory capital requirements separate from those of their subsidiaries. Bank holding companies are not subject to the prompt corrective action provisions of the FDI Act.

	Yes	No	N/A
1. At a minimum, does the institution disclose the following in the notes to the financial statements:			
a. A description of regulatory capital requirements for capital adequacy purposes and established by the prompt corrective action provisions of Section 38 of the Federal Deposit Insurance Act?	____	____	____
b. The actual or possible material effects of noncompliance with such requirements?	____	____	____
c. Whether the institution is in compliance with the regulatory capital requirements, including the following with respect to quantitative measures:[3]			
(1) The institution's required and actual ratios and amounts of Tier I leverage, Tier I risk-based, and total risk-based capital, (for savings institutions) tangible capital, and (for certain banks and bank holding companies) Tier 3 capital for market risk?	____	____	____
(2) Factors that may significantly affect capital adequacy such as potentially volatile components of capital, qualitative factors, and regulatory mandates?	____	____	____

[3] These amounts may be presented in either narrative or tabular form.

	Yes	No	N/A
d. As of the most recent balance sheet date presented, the prompt corrective action category in which the institution was classified as of its most recent notification?	____	____	____
e. As of the most recent balance sheet date, whether management believes any conditions or events since notification have changed the institution's category? [AAG-DEP, par. 17.14]	____	____	____
2. Are disclosures presented for any state-imposed capital requirements that are more stringent than or significantly differ from federal requirements? [AAG-DEP, par. 17.14]	____	____	____
3. If, as of the most recent balance sheet presented, the institution is either not in compliance with capital adequacy requirements, or considered less than adequately capitalized under prompt corrective action provisions or both, are the possible material effects of such conditions and events on amounts and disclosures in the financial statements disclosed? [AAG-DEP, par. 17.15]	____	____	____
4. Has the institution disclosed the following information in situations where there is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time:			
a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time?	____	____	____
b. Possible effect of such conditions and events?	____	____	____
c. Management's evaluation of the significance of those conditions and events and any mitigating factors?	____	____	____
d. Possible discontinuance of operations?	____	____	____
e. Management's plans (including relevant prospective financial information)?	____	____	____
f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities? [AAG-DEP, par. 17.15]	____	____	____
5. If other regulatory limitations exist that could materially affect the economic resources of the institution and claims to those resources, are they disclosed in the footnotes to the financial statements? [AAG-DEP, par. 17.16]	____	____	____

Regulatory Capital Disclosures for Credit Unions

Note: Credit unions within the scope of paragraph 3*c* or 3*g* of SOP 01-6 and corporate credit unions (within the scope of paragraph 5 of SOP 01-6) should include the following presentation and disclosure principles.

	Yes	No	N/A
6. At a minimum, does the institution disclose the following in the notes to the financial statements:			
a. A description of the regulatory requirements for capital adequacy purposes and mandated by prompt corrective action?	____	____	____

Yes | No | N/A

b. The actual or possible material effects of noncompliance with those requirements? _____ _____ _____

c. Whether the institution is in compliance with the regulatory capital requirements, including, as of each balance-sheet date presented, the following with respect to quantitative measures:

(1) Whether the institution meets the definition of a complex credit union as defined by the National Credit Union Administration? _____ _____ _____

(2) The institution's required and actual capital ratios and required and actual capital amounts? _____ _____ _____

(3) Factors that may significantly affect capital adequacy, such as potentially volatile components of capital, qualitative factors, and regulatory mandates? _____ _____ _____

d. As of each balance-sheet date presented, the prompt corrective action category in which the institution was classified? _____ _____ _____

e. If, as of the most recent balance-sheet date or issuance of the financial statements, the institution is not in compliance with capital adequacy requirements, the possible material effects of such conditions on amounts and disclosures in the financial statements? _____ _____ _____

f. Whether subsequent to the balance-sheet date and prior to issuance of the financial statements, if management believes any events or changes have occurred to change the institution's prompt corrective action category? _____ _____ _____
[AAG-DEP, pars. 17.33 and 17.49; SOP 01-6, par. 16*a*]

7. Are disclosures presented for any state-imposed capital requirements that are more stringent than or significantly differ from federal requirements? _____ _____ _____
[AAG-DEP, pars. 17.33 and 17.49]

8. For natural person credit unions, if, as of the most recent balance sheet date presented, the institution is either (*a*) not in compliance with capital adequacy requirements or (*b*) considered less than well capitalized under the prompt corrective action provisions or (*c*) both, are the possible material effects of such conditions and events on amounts and disclosures in the financial statements disclosed? _____ _____ _____
[AAG-DEP, par. 17.34]

9. For corporate credit unions, if, as of the most recent balance sheet date presented, the institution is not in compliance with capital adequacy requirements, are the possible material effects of such conditions and events on amounts and disclosures in the financial statements disclosed? _____ _____ _____
[AAG-DEP, par. 17.50]

10. Has the institution disclosed the following information in situations in which there is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time:

a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time? _____ _____ _____

b. Possible effects of such conditions and events? _____ _____ _____

Yes No N/A

c. Management's evaluation of the significance of those conditions and events and any mitigating factors? _____ _____ _____

d. Possible discontinuance of operations? _____ _____ _____

e. Management's plans (including any relevant financial information)? _____ _____ _____

f. Information about the recoverability or classification of recorded asset amounts or the amounts or classifications of liabilities? _____ _____ _____
[AAG-DEP, pars. 17.34 and 17.50; SOP 01-6, par. 16*b*]

11. Are the possible material effects of such conditions and events on amounts and disclosures in the financial statements disclosed if the institution's actual ratio is nearing noncompliance? _____ _____ _____
[AAG-DEP, pars. 17.34 and 17.50]

Regulatory Capital Disclosures for Mortgage Companies and Mortgage Banking Activities

Note: The following are capital disclosure requirements for mortgage companies and other activities within the scope of paragraph 4 of SOP 01-6.

12. If noncompliance with minimum net worth (capital) requirements is imposed by secondary market investors or state-imposed regulatory mandates, does the institution disclose the following in the notes to the financial statements:

a. A description of the minimum net worth requirements related to secondary market investors and state-imposed regulatory mandates? _____ _____ _____

b. The actual or possible material effects of noncompliance with those requirements? _____ _____ _____

c. Whether the institution is in compliance with the regulatory capital requirements, including, as of each balance-sheet date presented, the following with respect to quantitative measures:

(1) The institution's required and actual net worth amounts? _____ _____ _____

(2) Factors that may significantly affect adequacy of net worth such as potentially volatile components of capital, qualitative factors, or regulatory mandates? _____ _____ _____

d. If, as of the most recent balance-sheet date, the institution is not in compliance with capital adequacy requirements, are the possible material effects of such conditions on amounts and disclosures in the notes to the financial statements? _____ _____ _____
[AAG-DEP, par. 17.53; SOP 01-6, par. 17*a*]

13. Additional information might be disclosed in situations where there is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time. If appropriate, do such disclosures include the following:

a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time? _____ _____ _____

b. Possible effects of such conditions and events? _____ _____ _____

c. Management's evaluation of the significance of those conditions and events and any mitigating factors? _____ _____ _____

	Yes	No	N/A
d. Possible discontinuance of operations?	_____	_____	_____
e. Management's plans (including any relevant financial information)?	_____	_____	_____
f. Information about the recoverability or classification of recorded asset amounts or the amounts or classifications of liabilities? [AAG-DEP, par. 17.54; SOP 01-6, par. 17*b*]	_____	_____	_____
14. Do servicers with net worth requirements from multiple sources disclose, in the notes to the financial statements, the net worth requirement of the following:			
a. Significant servicing covenants with secondary market investors with commonly defined servicing requirements?	_____	_____	_____
b. Any other secondary market investor where violation of the requirement would have a significant adverse effect on the business?	_____	_____	_____
c. The most restrictive third-party agreement if not included above? [AAG-DEP, par. 17.55; SOP 01-6, par. 17*c*]	_____	_____	_____

Note: Financial institutions within the scope of paragraphs 3 and 5 of SOP 01-6 should include the following presentation and disclosure principles.

Regulatory Capital Disclosures for Branches of Foreign Institutions

	Yes	No	N/A
15. Do branches disclose requirements to maintain capital equivalent deposits and, depending on facts and circumstances, supervisory-mandated reserves?	_____	_____	_____
16. Are quantitative disclosures made highlighting mandated deposit or reserve requirements and actual balances in those reserves or deposit accounts at the balance-sheet date(s) reported?	_____	_____	_____
17. If an uncertainty exists related to a parent that creates a higher-than-normal risk as to the viability of a branch or subsidiary, is that matter adequately disclosed in the notes to the financial statements of the branch or subsidiary? [AAG-DEP, par. 17.58; SOP 01-6, par. 15*a*]	_____	_____	_____

Regulatory Capital Disclosures for Trust Operations

	Yes	No	N/A
18. If an institution is subject to capital requirements based on trust assets under management, are the following disclosed in the notes to the financial statements: a discussion of the existence of these requirements, ramifications of failure to meet them, and a measurement of the institution's position relative to imposed requirements? [AAG-DEP, par. 17.60; SOP 01-6, par. 15*b*]	_____	_____	_____

Regulatory Capital Disclosures for Business Combinations

	Yes	No	N/A
19. Following a business combination accounted for as a purchase, at a minimum, do the notes to the financial statements include these disclosures:			
a. The capital position of the purchaser at the prior period end?	_____	_____	_____
b. Information to highlight comparability issues, such as significant capital requirements imposed or agreed to during the regulatory approval process?	_____	_____	_____
c. The effects of purchase accounting, if any, on regulatory capital determination? [AAG-DEP, par. 17.61; SOP 01-6, par. 15*d*]	_____	_____	_____

	Yes	No	N/A

D. Risks and Uncertainties

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

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

3. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11; AAG-DEP, par. 5.112] _____ _____ _____

4. Is the disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the following criteria have been met:

   a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events? _____ _____ _____

   b. The effect of the change will be material? _____ _____ _____
   [SOP 94-6, par. 13; AAG-DEP, par. 5.114]

5. Does the disclosure in Question 4 above indicate the nature of the uncertainty and include an indication that it is reasonably possible that a change in estimate will occur in the near term?[4] [SOP 94-6, par. 14; AAG-DEP, par. 5.115] _____ _____ _____

6. If the estimate in Question 4 above involves a loss contingency covered by SFAS 5, *Accounting for Contingencies*, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? [SOP 94-6, pars. 13 and 14; AAG-DEP, par. 5.115] _____ _____ _____

7. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 of SOP 94-6 are met? [SOP 94-6, pars. 21 and 22; AAG-DEP, par. 5.123] _____ _____ _____

8. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, par. 10] _____ _____ _____

E. Contingencies and Commitments

1. Is the nature and amount of accrued loss contingencies, including those related to environmental matters, litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)] _____ _____ _____

[4] If risk reduction techniques are used to mitigate losses to the entity that may result from certain events, these disclosures are encouraged but not required.

	Yes	*No*	*N/A*
2. For loss contingencies not accrued, including environmental matters, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]	_____	_____	_____
3. Is the nature and amount of guarantees disclosed (e.g., guarantees of indebtedness of others, obligations under standby letters of credit, guarantees to repurchase loans that have been sold and commitments to originate loans) even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 45, par. 13 (AC G80.112)]	_____	_____	_____
4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is disclosure of the following items made:			
a. Unused letters of credit?	_____	_____	_____
b. Commitments to reduce debts, maintain working capital, or restrict dividends? [SFAS 5, pars. 18 and 19 (AC C59.120)]	_____	_____	_____
6. Is disclosure made if a subsidiary entity has guaranteed parent company debt? [SFAS 57, par. 1 (AC R36.101)]	_____	_____	_____
7. If the institution as guarantor "lends" its creditworthiness to another party (borrower) for a fee, is the guarantee disclosed in a note, if material? [EITF 85-20]	_____	_____	_____
8. 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)]	_____	_____	_____
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)]	_____	_____	_____
10. Does the financial institution make financial statement disclosures describing the nature of the trust activities while applying the provisions of SFAS 5, *Accounting for Contingencies,* to any contingencies that may exist related to trust activities? [AAG-DEP, par. 20.16]	_____	_____	_____
11. For long-term unconditional purchase obligations that are not recorded in the purchaser's balance sheet, are the following disclosed:			
a. Nature and term of the obligations?	_____	_____	_____
b. Amount of the fixed and determinable portion of the obligations as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the next five years?	_____	_____	_____
c. Nature of any variable components of the obligation?	_____	_____	_____

Yes No N/A

d. Amounts of purchases under the obligations for each year for which an income statement is presented? ____ ____ ____
[SFAS 47, par. 7 (AC C32.102)]

F. Environmental Remediation Liabilities

1. Is there disclosure of the following accounting policies:

   a. Whether accruals for environmental remediation liabilities are measured on a discounted basis? ____ ____ ____

   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? ____ ____ ____

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

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

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

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

Yes No N/A

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

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

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

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

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

(1) The total amount accrued for the site? _____ _____ _____

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

(3) Whether other potentially responsible parties are involved and the entity's estimated share of the obligation? _____ _____ _____

(4) The status of regulatory proceedings? _____ _____ _____

(5) The estimated time frame for resolution of the contingency? _____ _____ _____
[SOP 96-1 (Ch. 7, pars. 21 and 22)]

Probable But Not Reasonably Estimable Losses

5. If the reporting entity's probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed? _____ _____ _____
[SOP 96-1 (Ch. 7, par. 25)]

6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? ***(Encouraged, but not required.)*** _____ _____ _____
[SOP 96-1 (Ch. 7, par. 25)]

Environmental Remediation Costs Recognized Currently

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

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

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

	Yes	No	N/A
c. The income statement caption in which environmental remediation costs and credits are included? [SOP 96-1 (Ch. 7, par. 29)]	____	____	____

Other Matters

8. Do the financial statements include a *contingency conclusion* that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? ***(Optional.)*** [SOP 96-1 (Ch. 7, par. 30)]	____	____	____
9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? ***(Optional.)*** [SOP 96-1 (Ch. 7, par. 31)]	____	____	____

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 income statements are presented, and such other information deemed necessary to understand the effects of the transactions on the financial statements?	____	____	____
c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	____	____	____
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	____	____	____
2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting entity 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 entity being significantly different from those that would have been obtained if the entity were autonomous? [SFAS 57, par. 4 (AC R36.104)]	____	____	____

H. Lessor Leases ☐

When leasing, exclusive of leveraged leasing, is a significant part of the institution's (lessor's) business activities in terms of revenue, net income, or assets, is the following information with respect to leases disclosed in the financial statements or notes thereto:

1. For sales-type and direct financing leases:
   a. The components of the net investment as of the date of each balance sheet presented:
      (1) Future minimum lease payments to be received, with separate deductions for:

Yes No N/A

(i) Amounts representing executory costs, including any profit thereon, included in the minimum lease payments? _____ _____ _____

(ii) The accumulated allowance for uncollectible minimum lease payments receivable? _____ _____ _____

(2) Unguaranteed residual values accruing to the benefit of the lessor? _____ _____ _____

(3) For direct financing leases only, initial direct costs? _____ _____ _____

(4) Unearned income? _____ _____ _____

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

2. Are leasing arrangements described? _____ _____ _____
[SFAS 13, par. 23c (AC L10.119c)]

3. Are the following disclosures made for leveraged leases:

a. The deferred taxes related to the investment in a leveraged lease shall be presented separately from the remainder of the net investment? _____ _____ _____

b. Pretax income from leveraged leases? _____ _____ _____

c. Tax effect of pretax income? _____ _____ _____

d. Amount of investment tax credit recognized as income during the period, if any? _____ _____ _____
[SFAS 13, par. 47 (AC L10.149)]

4. If leveraged leases are a significant part of the institution's (lessor's) business activities in terms of revenue, net income, or assets, are the following additional disclosures made as to the investment in leveraged leases:

a. Rental receivable? _____ _____ _____

b. A receivable for the amount of investment tax credit to be realized on the transaction? _____ _____ _____

c. Estimated residual value of the leased asset? _____ _____ _____

d. Unearned and deferred income? _____ _____ _____
[SFAS 13, pars. 43 and 47 (AC L10.149)]

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

6. For operating leases, do disclosures include:

a. The cost and carrying amount (if different) of property on lease or held for leasing by major classes of property according to nature and function, and the amount of accumulated depreciation in total as of the latest balance-sheet date? _____ _____ _____

b. Minimum future rentals on noncancelable leases as of the latest balance-sheet date presented, in the aggregate and for each of the five succeeding fiscal years? _____ _____ _____

c. Total contingent rentals included in income for each period for which an income statement is presented? _____ _____ _____
[SFAS 13, par. 23b (AC L10.119b)]

	Yes	No	N/A

7. For contingent rental income:

   a. Has disclosure been made of the lessor's accounting policy for contingent rental income? _____ _____ _____

   b. If the lessor accrues contingent rental income prior to the lessee's achievement of the specified target (provided achievement of that target is considered probable), has disclosure been made of the impact on the rental income as if the lessor's accounting policy was to defer contingent rental income until the specified target is met? _____ _____ _____
   [EITF 98-9]

8. Is the effect on the balance sheet and the income statement resulting from a change in lease classification under item (b) of paragraph 6 of EITF 00-11, disclosed for leases that at inception would have been classified differently had the guidance in EITF 00-11 been in effect at the inception of the original lease? _____ _____ _____
   [EITF 00-11]

I. Lessee Leases ☐

1. For capital leases, do disclosures include:

   a. Gross amounts of assets recorded by major classes according to nature or function as of the date of each balance sheet presented? _____ _____ _____
   [SFAS 13, par. 16.a.i. (AC L10.112a(1))]

   b. Future minimum lease payments, as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years with separate deductions for executory costs and imputed interest to reduce net minimum lease payments to present value? _____ _____ _____
   [SFAS 13, pars. 10 and 16.a.ii. (AC L10.106 and .112a(2))]

   c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? _____ _____ _____
   [SFAS 13, par. 16.a.iii. (AC L10.112a(3))]

   d. Total contingent rentals actually incurred for each period for which an income statement is presented? _____ _____ _____
   [SFAS 13, par. 16.a.iv. (AC L10.112a(4))]

   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 L10.112a(5))]

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:

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

   b. The total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? _____ _____ _____
   [SFAS 13, par. 16b (AC L10.112b)]

	Yes	No	N/A
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	____	____	____
4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:			
a. Basis for determination of contingent rentals?	____	____	____
b. Terms of any renewal or purchase and options or escalation clauses?	____	____	____
c. Restrictive covenants? [SFAS 13, par. 16d (AC L10.112d)]	____	____	____
5. If there is a modification of lease terms and the increase in lease payments is a termination penalty, is the accounting policy disclosed in accordance with APB 22? [EITF 95-17; APB 22, pars. 12–14 (AC L10.108–109)]	____	____	____
J. Employee Stock Ownership Plans			☐
1. If an employer sponsors an 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?[5]	____	____	____
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?[6] [SOP 93-6, par. 53]	____	____	____

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

[6] Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments.

	Yes	No	N/A
2. Are all the items listed in Question 1 above disclosed even if the entity 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 a terminated defined benefit 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]	_____	_____	_____
4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and is the receivable from the ESOP not reported as an asset on the employer's balance sheet? [SOP 93-6, par. 26]	_____	_____	_____
5. If the employer sponsors an ESOP with an employer loan, is the ESOPs note payable and the employer's note receivable from the ESOP not reported in the employer's balance sheet? [SOP 93-6, par. 27]	_____	_____	_____
6. If SOP 76-3 is still being followed for ESOP shares purchased before December 31, 1992, and if the reporting entity has guaranteed the debt of an ESOP or made a commitment to make future contributions to the ESOP sufficient to meet debt service requirements, are the compensation element and the interest element of annual contributions reported separately and are the interest rate and debt terms disclosed in the notes to the financial statements? [SOP 76-3, par. 10]	_____	_____	_____

K. Employers' Disclosures About Pensions and Other Postretirement Benefits*

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

* EITF 03-4, *Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan*, states that cash balance plans should be considered a defined benefit plan.

Yes No N/A

Pensions and Other Postretirement Benefits

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

   a. A reconciliation of beginning and ending balances of the benefit obligation[1] 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[2] 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,[3] 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)]

   d. Information about plan assets:

   (1) For each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented? ***(Added by revised SFAS 132.)*** ____ ____ ____

[1] 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.

[2] 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 Translations.*

[3] Refer to footnote 2.

	Yes	No	N/A
(2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations? ***(Added by revised SFAS 132.)***	____	____	____
(3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined? ***(Added by revised SFAS 132.)***	____	____	____
(4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 5d]	____	____	____
e. For defined benefit pension plans, the accumulated benefit obligation? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 5e]	____	____	____
f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 5f]	____	____	____
g. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 5g]	____	____	____
h. 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. 5h]	____	____	____

	Yes	No	N/A
i. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 5i]	____	____	____
j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost? ***(Partly added by revised SFAS 132.)*** [SFAS 132, par. 5j]	____	____	____
k. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 5k]	____	____	____
l. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 5l]	____	____	____
m. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits? (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.) [SFAS 132, par. 5m]	____	____	____
n. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 5n]	____	____	____
o. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106? [SFAS 132, par. 5o]	____	____	____
p. If applicable, any substantive commitment such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation? [SFAS 132, par. 5p]	____	____	____
q. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event? [SFAS 132, par. 5q]	____	____	____

	Yes	No	N/A
r. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132? [SFAS 132. par. 5r]	_____	_____	_____
2. Are amounts related to the employer's results of operations disclosed for each period for which an income statement is presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]	_____	_____	_____
3. Are amounts related to the employer's statement of financial position disclosed for each balance sheet presented? [SFAS 132, par. 5 (AC P16.150, P40.169)]	_____	_____	_____
Employers With Two or More Plans			
4. Are the disclosures required by SFAS 132 aggregated for all of an employer's defined benefit pension plans and for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by paragraph 6 of SFAS 132 and paragraph 7 of SFAS 132? [SFAS 132, par. 6]	_____	_____	_____
5. Unless otherwise stated, are disclosures as of the measurement date for each statement of financial position presented? [SFAS 132, par. 6]	_____	_____	_____
6. Does the disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately? [SFAS 132, par. 6]	_____	_____	_____

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

	Yes	No	N/A
7. If aggregate disclosures are presented, does the employer disclose:			
a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented?	_____	_____	_____
b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets? [SFAS 132, par. 6]	_____	_____	_____
8. If a U.S. reporting entity combines disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans, are the benefit obligations of the plans outside the United States not significant relative to the total benefit obligation and do those plans not use significantly different assumptions? [SFAS 132, par. 7]	_____	_____	_____

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

	Yes	No	N/A

Reduced Disclosure Requirements for Nonpublic Entities

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

9. For a nonpublic entity[4] that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans, has the following information been disclosed, separately for pension plans and other postretirement benefit plans:

   a. The benefit obligation, fair value of plan assets, and funded status of the plan? [SFAS 132, par. 8a (AC P16.150A, P40.169A)] ____ ____ ____

   b. Employer contributions, participant contributions, and benefits paid? [SFAS 132, par. 8b (AC P16.150A, P40.169A)] ____ ____ ____

   c. Information about plan assets:

      (1) For each major category of plan assets which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented? ***(Added by revised SFAS 132.)*** ____ ____ ____

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

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

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

[4] 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*).

	Yes	No	N/A
d. For defined benefit pension plans, the accumulated benefit obligation? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 8d]	_____	_____	_____
e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter? (The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.) ***(Added by revised SFAS 132.)*** [SFAS 132, par. 8e]	_____	_____	_____
f. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.) ***(Added by revised SFAS 132.)*** [SFAS 132, par. 8f]	_____	_____	_____
g. The amounts recognized in the statements of financial position, including net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8g]	_____	_____	_____
h. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended? [SFAS 132, par. 8h]	_____	_____	_____
i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost? ***(Partly added by revised SFAS 132.)*** [SFAS 132, par. 8i]	_____	_____	_____
j. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations? ***(Added by revised SFAS 132.)*** [SFAS 132, par. 8j]	_____	_____	_____
k. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved? [SFAS 132, par. 8k]	_____	_____	_____
l. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount			

	Yes	No	N/A
of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period? [SFAS 132, par. 8l]	____	____	____
m. The nature and effect of significant non-routine events, such as amendments, combinations, divestitures, curtailments, and settlements? [SFAS 132, par. 8m]	____	____	____
10. Are amounts related to the employer's results of operations disclosed for each period for which a statement of income is presented? [SFAS 132, par. 8]	____	____	____
11. Are amounts related to the employer's statement of financial position disclosed as of the measurement date used for each statement of financial position presented? [SFAS 132, par. 8]	____	____	____

Disclosures in Interim Financial Reports

	Yes	No	N/A
12. If the entity is publicly traded, does it disclose the following information in its interim financial statements that include a statement of income:			
a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment? ***(Added by revised SFAS 132.)***	____	____	____
b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.) ***(Added by revised SFAS 132.)*** [SFAS 132, par. 9]	____	____	____
13. If the entity is nonpublic, does it disclose in interim periods, for which a complete set of financial statements is presented, the total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 8(f) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (*a*) contributions required by funding regulations or laws, (*b*) discretionary contributions, and (*c*) noncash contributions.) ***(Added by revised SFAS 132.)*** [SFAS 132, par. 10]	____	____	____

Defined Contribution Plans

	Yes	No	N/A
14. Does the employer disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans? [SFAS 132, par. 11]	____	____	____

Yes No N/A

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

Multiemployer Plans

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

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

18. In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, have the provisions of SFAS 5, *Accounting for Contingencies*, been applied (SFAS 87, paragraph 70)? ____ ____ ____
[SFAS 132, par. 13]

19. If it is either probable or reasonably possible that (*a*) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (*b*) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), has the employer applied the provisions of SFAS 5 (SFAS 106, paragraph 83)? ____ ____ ____
[SFAS 132, par. 13]

Other Matters

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

21. For employers that sponsor postretirement health care plans that provide prescription drug benefits under the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act), are the following disclosed:

    a. Until an employer is able to determine whether benefits are provided by its plan are actuarially equivalent, in financial statements for interim or annual periods:

        (1) The existence of the Act? ____ ____ ____

        (2) The fact that measures of the accumulated postretirement benefit obligation (APBO) or net periodic postretirement benefit

	Yes	No	N/A
cost do not reflect any amount associated with the subsidy because the employer is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare part D under the Act?	____	____	____
b. In interim and annual financial statements for the first period in which an employer includes the effects of the subsidy in measuring APBO and the first period in which an employer includes the effects of the subsidiary in measuring net periodic postretirement benefit cost:			
(1) The reduction in the APBO for the subsidy related to benefits attributed to past service?	____	____	____
(2) The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period, including: (i) any amortization of the actuarial experience gain in (1) as a component of the net amortization called for by paragraph 59 of SFAS 106, (ii) the reduction in current period service cost due to the subsidy, and (iii) the resulting reduction in interest cost on the APBO as a result of the subsidy?	____	____	____
(3) Any other disclosures required by paragraph 5(r) of SFAS 132 (revised 2003)?	____	____	____
c. In accordance with paragraphs 5(a) and 5(f) of SFAS 132 (revised 2003), the gross benefit payments (paid and expected, respectively), including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively)? [FSP 106-2, pars. 20–22]	____	____	____

L. Financial Instruments ☐

Derivative Instruments and Hedging Activities

	Yes	No	N/A
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)]	____	____	____

	Yes	No	N/A
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 by the end of the originally specified time period or within the additional period of time discussed in paragraph 33 of SFAS 133?	____	____	____
[SFAS 133, par. 45b, as amended by SFAS 138 (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			

Yes No N/A

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[11], 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); AAG-DEP, par. 7.101]

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)]

10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASBI 39, *Offsetting of Amounts Related to Certain Contracts*, or the exceptions for master netting arrangements in paragraph 10 of FASBI 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*? _____ _____ _____
[SFAS 107, par. 14 (AC F25)]

11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:
    a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity? _____ _____ _____
    b. The reasons why it is not practicable to estimate fair value? _____ _____ _____
    [SFAS 107, par. 14 (AC F25); AAG-DEP, par. 8.120]

[11] 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.

	Yes	No	N/A

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 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, and

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

Disclosure About Concentrations of Credit Risk of All Financial Instruments

12. Except as indicated in paragraph 15B[12] 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. For financial instruments with off-balance sheet risk, except for those instruments within the scope of SFAS 133, is the following information disclosed by the entity:

    a. The face or contract amount? _____ _____ _____

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

    (1) Credit and market risk of those instruments? _____ _____ _____

    (2) Cash requirements of those instruments? _____ _____ _____

    (3) Related accounting policy pursuant to APB 22, *Disclosure of Accounting Policies*? _____ _____ _____

    c. The entity's policy for 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? [AAG-DEP, par. 8.115; SOP 01-6, par. 14*m*] _____ _____ _____

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

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

[12] 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), 8(e), 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 140, except for reinsurance receivables and prepaid reinsurance premiums.

	Yes	No	N/A
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	____	____	____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	____	____	____
d. The entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements for which the entity is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the entity's maximum amount of loss due to credit risk? [SFAS 107, par. 15A (AC F25); AAG-DEP, par. 8.119]	____	____	____
15. Has the entity disclosed quantitative information[13] about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? ***(Encouraged, but not required.)*** [SFAS 107, par. 15C (AC F25)]	____	____	____
16. Are the classification and presentation consensuses reached in EITF 00-19, regarding derivative financial instruments indexed to, and potentially settled in, a company's own stock complied with?	____	____	____
17. Are gains and losses (realized and unrealized) on all derivative instruments within the scope of SFAS 133 shown net when recognized in the income statement, whether or not settled physically, if the derivative instruments are held for trading purposes? [EITF 02-3]	____	____	____
18. If derivative instruments are *not* held for trading purposes, have the relevant facts and circumstances been considered when determining if gains and losses on all derivative instruments within the scope of SFAS 133 should be shown on a gross or net basis when recognized in the income statement? [EITF 03-11]	____	____	____
19. If derivative transactions are entered into in connection with the issuance of contingently convertible securities, do disclosures of the potential impact of the contingently convertible securities include the terms of those derivative transactions (including the terms of settlement), how those transactions relate to the contingently convertible securities and the number of shares underlying the derivatives? [FSP 129-1, par. 5]	____	____	____

[13] 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.

	Yes	No	N/A

Disclosures About Certain Financial Instruments With Characteristics of Both Liabilities and Equity

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

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

During the deferral period, all public entities as well as nonpublic entities that are SEC registrants are required to follow the disclosure requirements in paragraphs 26 and 27 of SFAS 150 (Questions 23 and 24 below) as well as disclosures required by other applicable guidance.

20. For items within the scope of SFAS 150, are they presented as liabilities (or assets in some circumstances), and are those items not presented between the liabilities section and the equity section of the statement of financial position? ____ ____ ____
    [SFAS 150, par. 18; AAG-DEP, par. 15.37]

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

22. Do the entities referred to in Question 21 above disclose the components of the liability that would otherwise be related to shareholders' interest and other comprehensive income, if any, subject to the redemption feature (for example, par value and other paid-in amounts of mandatorily redeemable instruments should be disclosed separately from the amount of retained earnings or accumulated deficit)? ____ ____ ____
    [SFAS 150, par. 28]

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

24. For all outstanding financial instruments within the scope of SFAS 150 and for each settlement alternative, do issuers disclose:
    a. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions

	Yes	No	N/A
specified in the contract if the settlement were to occur at the reporting date?	_____	_____	_____
b. How changes in the fair value of the issuer's equity shares would affect those settlement amounts (for example, "the issuer is obligated to issue an additional *x* shares or pay an additional *y* dollars in cash for each $1 decrease in the fair value of one share")?	_____	_____	_____
c. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable?	_____	_____	_____
d. The maximum number of shares that could be required to be issued, if applicable?	_____	_____	_____
e. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable?	_____	_____	_____
f. For a forward contract or and option indexed to the issuer's equity shares, the forward price or option strike price, the number of issuer's shares to which the contract is indexed, and the settlement date or dates of the contract, as applicable? [SFAS 150, par. 27]	_____	_____	_____
25. Are mandatorily redeemable financial instruments classified as liabilities unless the redemption is required to occur only upon the liquidation or termination of the reporting entity? [SFAS 150, par. 9; AAG-DEP, par. 15.37]	_____	_____	_____
26. Are financial instruments, other than an outstanding share, that, at inception, (*a*) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation, and (*b*) requires or may require the issuer to settle the obligation by transferring assets, classified as liabilities (or assets in some circumstances)? [SFAS 150, par. 11]	_____	_____	_____
27. Are financial instruments that embody an unconditional obligation, or financial instruments other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, classified as liabilities (or assets in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the items indicated in paragraph 12 of SFAS 150? [SFAS 150, par. 12]	_____	_____	_____

M. Guarantees

	Yes	No	N/A
1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:			
a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?	_____	_____	_____
b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?	_____	_____	_____

	Yes	No	N/A
c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?	_____	_____	_____
d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?	_____	_____	_____
e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?	_____	_____	_____
f. The nature of—			
(1) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee?	_____	_____	_____
and			
(2) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?	_____	_____	_____
g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FASBI 45, par. 13 (AC G80.112)]	_____	_____	_____
2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASBI 45 pursuant to paragraph 7(b) of FASBI 45 (collectively referred to as product warranties), is the following information disclosed:			
a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?	_____	_____	_____
b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	_____	_____	_____
c. Does the tabular reconciliation present—			
(1) The beginning balance of the aggregate product warranty liability?	_____	_____	_____
(2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?	_____	_____	_____
(3) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?	_____	_____	_____
(4) The ending balance of the aggregate product warranty liability? [FASBI 45, par. 14 (AC G80.113)]	_____	_____	_____

	Yes	No	N/A
N. Foreign Currency Translation			☐
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? (***Note:*** For this disclosure, gains and losses on derivative instruments shall comply with paragraph 45 of SFAS 133.) [SFAS 52, par. 30, as amended by SFAS 133 (AC F60.140)]	_____	_____	_____
2. Is an analysis of changes during the period in the accumulated amount of translation adjustments 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? (***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 L.)	_____	_____	_____
c. The amount of income taxes for the period allocated to translation adjustments?	_____	_____	_____
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
3. If significant rate changes have occurred after the date of the financial statements, are the effects on unsettled balances related to foreign currency translations disclosed? [SFAS 52, par. 32 (AC F60.142)]	_____	_____	_____
4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	_____	_____	_____
5. If the reporting entity entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the legal right of setoff)? [EITF 86-25; FASBI 39]	_____	_____	_____
6. Is the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities reported in shareholders' equity? [EITF 96-15]	_____	_____	_____
7. Are foreign currency transaction gains and losses on a forward exchange contract or a foreign-currency-denominated liability that is designated as, and is effective as, a hedge of the foreign-currency-denominated available-for-sale debt security also reported in the SFAS 115 component of shareholders' equity (to offset the portion of the market value change of a foreign-currency-denominated available-for-sale debt security attributable to foreign exchange rates)? [EITF 96-15]	_____	_____	_____

	Yes	No	N/A
O. Long-Lived Assets and Disposal Groups to Be Disposed of			☐

Note: These questions only apply if the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, are effective.

Reporting Discontinued Operations

1. Are the results of operations of a *component of an entity* (as that phrase is defined in SFAS 144) that either has been disposed of or is classified as held for sale reported in discontinued operations in accordance with paragraph 43 of SFAS 144 (Questions 2, 3, 4, and 5 below) if both of the following conditions are met:
   a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction, and— ____ ____ ____
   b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction? ____ ____ ____
   [SFAS 144, par. 42 (AC I14.102)]

2. In a period in which a component of an entity either has been disposed of or is classified as held for sale, does the income statement for current and prior periods report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of SFAS 144, in discontinued operations? ____ ____ ____
   [SFAS 144, par. 43 (AC I14.103)]

3. Are the results of operations of a component classified as held for sale reported in discontinued operations in the period(s) in which they occur? ____ ____ ____
   [SFAS 144, par. 43 (AC I14.103)]

4. Are the results of discontinued operations, less applicable income taxes (benefit), reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (if applicable)? ____ ____ ____
   [SFAS 144, par. 43 (AC I14.103)]

5. Is the gain or loss recognized on the disposal disclosed either on the face of the income statement or in the notes to the financial statements? ____ ____ ____
   [SFAS 144, par. 43 (AC I14.03)]

6. Are adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period classified separately in the current period in discontinued operations? ____ ____ ____
   [SFAS 144, par. 44 (AC I14.104)]

7. Are the nature and amount of such adjustments (as discussed in Question 6 above) disclosed? ____ ____ ____
   [SFAS 144, par. 44 (AC I14.104)]

Reporting Disposal Gains or Losses in Continuing Operations

8. Is a gain or loss, that is recognized on the sale of a long-lived asset (disposal group) that is not a component of an entity, included in income from continuing operations before income taxes in the income statement? ____ ____ ____
   [SFAS 144, par. 45 (AC D60.118); AAG-DEP, par. 11.14]

	Yes	No	N/A
9. If a subtotal such as "income from operations" is presented, does it include the amounts of those gains or losses considered in Question 8 above? [SFAS 144, par. 45 (AC D60.118); AAG-DEP, par. 11.14]	_____	_____	_____

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

	Yes	No	N/A
10. If the criteria of pargraph 30 of SFAS 144 are met (and thus a long-lived asset is classified as held for sale) after the balance sheet date but before issuance of the financial statements, does the long-lived asset continue to be classified as held and used in those financial statements when issued and is the information required by paragraph 47(a) of SFAS 144 (Question 15(a) below) disclosed in the notes to the financial statements? [SFAS 144, par. 33 (AC D60.110)]	_____	_____	_____
11. Is a long-lived asset that is classified as held for sale presented separately in the statement of financial position? [SFAS 144, par. 46 (AC D60.119); AAG-DEP, par. 11.15]	_____	_____	_____
12. Are the assets and liabilities of a disposal group that is classified as held for sale presented separately in the asset and liability sections, respectively, of the statement of financial position? [SFAS 144, par. 46 (AC D60.119); AAG-DEP, par. 11.15]	_____	_____	_____
13. Are those assets and liabilities considered in Question 10 above, <u>not</u> offset and presented as a single amount? [SFAS 144, par. 46 (AC D60.119); AAG-DEP, par. 11.15]	_____	_____	_____
14. Are the major classes of assets and liabilities that are classified as held for sale separately disclosed either on the face of the statement of financial position or in the notes to financial statements? [SFAS 144, par. 46 (AC D60.119); AAG-DEP, par. 11.15]	_____	_____	_____
15. Is the following information disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:			
a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group?	_____	_____	_____
b. The gain or loss recognized in accordance with SFAS 144, par. 37 and if not separately presented on the face of the income statement, the caption in the income statement that include that gain or loss?	_____	_____	_____
c. If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations?	_____	_____	_____
d. If applicable, the segment in which the long-lived asset (disposal group) is reported under SFAS 131? [SFAS 144, par. 47 (AC D60.120 and I14.105]	_____	_____	_____
16. If either paragraph 38 or 40 of SFAS 144 applies, is a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and its effect on the results of operations for the period and any prior periods presented disclosed in the notes to the financial statements that include the period of that decision? [SFAS 144, par. 48 (AC D60.121 and I14.106]	_____	_____	_____

	Yes	No	N/A
17. If a long-lived asset is to be disposed of other than by sale, does it continue to be classified as held and used until it is disposed of? [SFAS 144, par. 27 (AC D60.104)]	____	____	____

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

	Yes	No	N/A
1. Is an impairment loss recognized for a long-lived asset (asset group) to be held and used included in income from continuing operations before income taxes in the income statement of a business enterprise? [SFAS 144, par. 25 (AC I08.160); AAG-DEP, par. 11.21]	____	____	____
2. Is the following information disclosed in the notes to the financial statements that include the period in which an impairment loss is recognized:			
a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment?	____	____	____
b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement that includes the loss?	____	____	____
c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)?	____	____	____
d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under SFAS 131, *Disclosures About Segments of an Enterprise and Related Information?* [SFAS 144, par. 26 (AC I08.161); AAG-DEP, par. 11.22]	____	____	____

Q. Asset Retirement Obligations ☐

Note: The following questions are based on SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged.

	Yes	No	N/A
1. Does the company disclose the following information about its asset retirement obligations:			
a. A general description of the asset retirement obligations and the associated long-lived assets?	____	____	____
b. The fair value of assets that are legally restricted for purposes of settling asset retirement obligations?	____	____	____
c. A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations showing separately the changes attributable to (1) liabilities incurred in the current period, (2) liabilities settled in the current period, (3) accretion expense, and (4) revisions in estimated cash flows, whenever there is a significant change in one or more of those four components during the reporting period? [SFAS 143, par. 22 (AC A50.122)]	____	____	____
2. If the fair value of an asset retirement obligation cannot be reasonably estimated is that fact and the reasons therefore disclosed? [SFAS 143, par. 22 (AC A50.122)]	____	____	____

	Yes	No	N/A
3. In addition to the disclosures required by paragraphs 19 (c), 19 (d), and 21 of APB 20, is the liability for the asset retirement obligation computed on a pro forma basis disclosed in the footnotes for the beginning of the earliest year presented and at the end of all years presented as if SFAS 143 had been applied during all periods affected? [SFAS 143, par. 27]	_____	_____	_____

R. Transfers and Servicing of Financial Assets and Securitizations ☐

	Yes	No	N/A
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 140, par. 17d (AC F39.110b); AAG-DEP, par. 7.102*c*]	_____	_____	_____
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 63 of SFAS 140, if SFAS 140 has been adopted?	_____	_____	_____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140, par. 17e (AC F35.102A); AAG-DEP, par. 7.102*d*]	_____	_____	_____
3. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type (for example, mortgage loans, credit card receivables, and automobile loans):			
a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?	_____	_____	_____
c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	_____	_____	_____

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

	Yes	No	N/A
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)? [SFAS 140, par. 17f (AC F39.110c); AAG-DEP, par. 7.102*e*]	_____	_____	_____
4. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type (for example, mortgage loans, credit card receivables, and automobile loans):			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	_____	_____	_____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	_____	_____	_____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under *b* above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	_____	_____	_____
d. For the securitized assets and any other financial assets that it manages together with them:†			
(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	_____	_____	_____
(2) Delinquencies at the end of the period?	_____	_____	_____
(3) Credit losses, net of recoveries, during the period?	_____	_____	_____
Disclosure of average balances during the period is encouraged, but not required. [SFAS 140, par. 17g (AC F39.110d); AAG-DEP, par. 7.102*f*]			
Collateral			
5. Consider the following disclosures related to collateral:			
a. If the institution has entered into repurchase agreements or securities lending transactions, is its policy for requiring collateral or other security disclosed? [SFAS 140, par. 17a (AC F39.110a); AAG-DEP, par. 7.102*a*]	_____	_____	_____
b. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15(a) of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140, par. 17a(2) (AC F39.110a); AAG-DEP, par. 7.102*a*]	_____	_____	_____

† Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

	Yes	No	N/A
c. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140, par. 17a(3) (AC F39.110a); AAG-DEP, par. 7.102*a*]	____	____	____
d. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140, par. 17a(3) (AC F39.110a); AAG-DEP, par. 7.102*a*]	____	____	____
6. Except for transactions within the scope of paragraph 15(a) of SFAS 140, is the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings disclosed? [SOP 01-6, par. 13*i*]	____	____	____
7. Are the carrying amount of investment assets that serve as collateral to secure public funds, securities sold under repurchase agreements, and other borrowings, that are not otherwise disclosed under SFAS 140, disclosed in the notes to the financial statements? [SOP 01-6, par. 14*d*; AAG-DEP, par. 7.103]	____	____	____
S. Extinguishments of Debt			
1. If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:			
a. A general description of the transaction?	____	____	____
b. The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding? [SFAS 140, par. 17b (AC L35.109a)]	____	____	____
2. If assets were set aside after the effective date of SFAS 125 (December 31, 1996) solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restriction placed on assets? [SFAS 140, par. 17c (AC L35.109b); AAG-DEP, par. 7.102*b*]	____	____	____
3. If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under SFAS 133 when the debt is extinguished, is the reclassified amount not classified as extraordinary? [EITF 00-9]	____	____	____
T. Nonmonetary Transactions			☐
1. Are the following disclosures for nonmonetary transactions made:			
a. Nature of transactions?	____	____	____
b. Basis of accounting?	____	____	____
c. Gain or loss recognized on the transfer? [APB 29, par. 28 (AC N35.120)]	____	____	____
2. Is the amount of gross operating revenue recognized as a result of nonmonetary transactions addressed by EITF 00-8, *Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction With Providing Goods or Services*, disclosed in each period's financial statements? [EITF 00-8]	____	____	____

	Yes	No	N/A
U. Subsequent Events			☐
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.115); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, .07, and 561.01–.10)]	____	____	____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05–.07 and .09 (AU 560.05–.07 and .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).

	Yes	No	N/A
V. Costs Associated With Exit or Disposal Activities			☐

Notes: SFAS 146, *Accounting for Costs Associated With Exit or Disposal Activities,* is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 nullifies EITF 94-3. For the purposes of SFAS 146, an exit or disposal activity is initiated when management, having the authority to approve the action, commits to an exit or disposal plan or otherwise disposes of a long-lived asset (disposal group) and, if the activity involves the termination of employees, the criteria for a plan of termination in paragraph 8 of SFAS 146 are met. The provisions of EITF 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF 94-3 prior to SFAS 146's initial application.

If SFAS 146 is not effective, consider Questions 1–3 below. If SFAS 146 is effective, consider Questions 4–8 below instead.

	Yes	No	N/A
1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*, are the following disclosures made in all periods until the plan of termination is completed:			
a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?	____	____	____
b. The number of employees to be terminated?	____	____	____
c. A description of the employee group(s) to be terminated?	____	____	____
d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?	____	____	____
e. The amount of any adjustment(s) to the liability? [EITF 94-3, Section A]	____	____	____
2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:			

	Yes	No	N/A
a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?	____	____	____
b. No disclosure made on the face of the income statement for earnings per share effect?	____	____	____
c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income? [EITF 94-3, Section B]	____	____	____
3. If the activities that will not be continued are significant to the enterprise's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:			
a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?	____	____	____
b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?	____	____	____
c. A description of the type and amount of exit costs paid and charged against the liability?	____	____	____
d. The amount of any adjustment(s) to the liability?	____	____	____
e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations? [EITF 94-3, Section B]	____	____	____
4. Is the following information disclosed in notes to the financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:			
a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date?	____	____	____
b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):			
(1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date?	____	____	____
(2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor?	____	____	____
c. The line item(s) in the income statement in which the costs in *b.* above are aggregated?	____	____	____
d. For each reportable segment:			
(1) The total amount of costs expected to be incurred in connection with the activity?	____	____	____
(2) The amount incurred in the period?	____	____	____

	Yes	No	N/A
(3) The cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor?	_____	_____	_____
e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor? [SFAS 146, par. 20 (AC L32.120)]	_____	_____	_____
5. Are costs associated with an exit or disposal activity that does not involve a discontinued operation included in income from continuing operations before income taxes, for example, in a subtotal such as "income from operations"? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
6. Are costs associated with an exit or disposal activity that involves a discontinued operation included in the results of discontinued operations? [SFAS 146, par. 18 (AC L32.118)]	_____	_____	_____
7. If an event or circumstance occurs that discharges or removes an entity's responsibility to settle a liability for a cost associated with an exit or disposal activity recognized in a prior period, is the liability reversed? [SFAS 146, par. 19 (AC L32.119)]	_____	_____	_____
8. Are the related costs reversed through the same line item(s) in the income statement used when those costs were recognized initially? [SFAS 146, par. 19 (AC L32.119)]	_____	_____	_____

W. Business Combinations ☐

Practice Tip

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

	Yes	No	N/A
1. Do the notes to the financial statements of a combined entity disclose the following information in the period in which a material business combination is completed:			
a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?	_____	_____	_____
b. The primary reasons for the acquisition, including a description of the factors that contributed to a purchase price that results in recognition of goodwill?	_____	_____	_____
c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?	_____	_____	_____
d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?	_____	_____	_____
e. A condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the acquired entity at the acquisition date?	_____	_____	_____

	Yes	*No*	*N/A*
f. Contingent payments, options, or commitments specified in the acquisition agreement and the accounting treatment that will be followed should any such contingency occur?	_____	_____	_____
g. The amount of purchased research and development assets acquired and written off in the period (refer to paragraph 42 of SFAS 141) and the line item in the income statement in which the amounts written off are aggregated?	_____	_____	_____
h. For any purchase price allocation that has not been finalized, that fact and the reasons therefor?	_____	_____	_____
i. In subsequent periods, the nature and amount of any material adjustment made to the initial allocation of the purchase price? [SFAS 141, par. 51 (AC B51.164)]	_____	_____	_____
2. Is the following information disclosed in the notes to the financial statements in the period in which a material business combination is completed if the amounts assigned to goodwill or to other intangible assets acquired are significant in relation to the total cost of the acquired entity:			
a. For intangible assets subject to amortization:			
(1) The total amount assigned and the amount assigned to a major intangible asset class?	_____	_____	_____
(2) The amount of any significant residual value, in total and by major intangible asset class?	_____	_____	_____
(3) The weighted-average amortization period, in total and by major intangible asset class?	_____	_____	_____
b. For intangible assets *not* subject to amortization the total amount assigned and the amount assigned to any major intangible asset class?	_____	_____	_____
c. For goodwill:			
(1) The total amount of goodwill and the amount that is expected to be deductible for tax purposes?	_____	_____	_____
(2) The amount of goodwill by reportable segment (if the combined entity is required to disclose segment information in accordance with SFAS 131), unless not practicable? [SFAS 141, par. 52 (AC B51.165)]	_____	_____	_____
3. If a series of individually immaterial business combinations completed during the period are material in the aggregate, is the following disclosed:			
a. The number of entities acquired and a brief description of those entities?	_____	_____	_____
b. The aggregate cost of the acquired entities, the number of equity interests, (such as common shares, preferred shares, or partnership interests) issued or issuable, and the value assigned to those interests?	_____	_____	_____
c. The aggregate amount of any contingent payments, options, or commitments and the accounting treatment that will be followed should any contingency occur (if potentially significant in relation to the aggregate cost of the acquired entities)?	_____	_____	_____

	Yes	No	N/A
d. The information described in Question 2 above, if the aggregate amount assigned to goodwill or to other intangible assets acquired is significant in relation to the aggregate cost of the acquired entities? [SFAS 141, par. 53 (AC B51.166)]	____	____	____
4. If the combined entity is a public business enterprises, is the following supplemental information on a pro forma basis for the period in which a material business combinations occurs (or for the period in which a series of individually immaterial business combinations occur that are material in the aggregate) disclosed:			
a. Results of operations for the current period as though the business combination or combinations had been completed at the beginning of the period unless the acquisition was at or near the beginning of the period?	____	____	____
b. Results of operations for the comparable period as though the business combination or combinations had been completed at the beginning of that period if comparative financial statements are presented? [SFAS 141, par. 54 (AC B51.167)]	____	____	____
5. Does the supplemental pro forma information display revenue, income before extraordinary items and the cumulative effect of accounting changes, net income, and earnings per share at a minimum? [SFAS 141, par. 55 (AC B51.168)]	____	____	____

Note: In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period.
[SFAS 141, par. 55 (AC B51.168)]

	Yes	No	N/A
6. Does the supplemental pro forma information disclose the nature and amount of material, nonrecurring items included in the reported pro forma results of operations, if any? [SFAS 141, par. 55 (AC B51.168)]	____	____	____
7. In the period in which an extraordinary gain is recognized related to a business combination, do the notes to the financial statements disclose the information required by paragraph 11 of APB 30? [SFAS 141, par. 56 (AC B51.169)]	____	____	____
8. If a material business combination is completed after the balance sheet date but before the financial statements are issued, is the information required by Questions 1 and 2 above disclosed if practicable? [SFAS 141, par. 57 (AC B51.170)]	____	____	____

Interim Financial Information

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

	Yes	No	N/A
a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?	_____	_____	_____
b. The primary reasons for the acquisition, including a brief description of the factors that contributed to a purchase price that results in recognition of goodwill?	_____	_____	_____
c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?	_____	_____	_____
d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?	_____	_____	_____
e. Supplemental pro forma information that discloses the results of operations for the current interim period and the current year up to the date of the most recent interim statement of financial position presented (and for the corresponding periods in the preceding year) as though the business combination had been completed as of the beginning of the period reported on?	_____	_____	_____
f. The nature and amount of any material, nonrecurring items included in the reported pro forma results of operations?	_____	_____	_____
g. Do the pro forma information disclosures in step e above display at a minimum, revenue, income before extraordinary items and the cumulative effect of accounting changes (including those on an interim basis), net income and earnings per share?	_____	_____	_____
[SFAS 141, par. 58 (AC B51.171)]			
10. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (*a*) exit an activity, (*b*) involuntarily terminate employees of an acquired company, or (*c*) relocate employees of an acquired company:			
a. Are the following disclosures made for the period in which a purchase business combination occurs:			
(1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?	_____	_____	_____
(2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntary terminate (relocate) employees?	_____	_____	_____
(3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?	_____	_____	_____
(4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?	_____	_____	_____
b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:			

Yes No N/A

(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]

X. Acquisitions of Certain Financial Institutions

Note: SFAS 147, *Acquisitions of Certain Financial Institutions,* is effective for transition provisions for previously recognized unidentifiable intangible assets on October 1, 2002, with earlier application permitted.

1. In the period that the transition provisions are first applied, does the entity disclose the following in the notes to the financial statements:

   a. The carrying amount of previously recognized unidentifiable intangible assets reclassified as goodwill? ____ ____ ____

   b. The effect of any restatement on net income for each period for which restated financial statements are presented pursuant to paragraph 10(a) which states, if SFAS 142 date preceded October 1, 2002, any previously issued interim or annual financial statements that reflect amortization of the unidentifiable intangible asset subsequent to SFAS 142 application date should be restated to remove that amortization expense and when financial information is presented that includes those periods, that financial information should be presented on the restated basis? ____ ____ ____

   c. The amount of any adjustment to the previously recognized goodwill impairment loss recognized pursuant to 14(b) which states, if the first step of the transitional goodwill impairment test indicated a potential impairment of goodwill at the SFAS 142 application date, the amount of the goodwill impairment loss (if any) should be remeasured based on the revised carrying amount of goodwill? Also, is any adjustment to the impairment loss recognized as the effect of a change in accounting principles in accordance with SFAS 142? ____ ____ ____
   [SFAS 147, par. 16]

2. For each period presented that precedes the SFAS 142 application date, is the amount of the amortization expense related to reclassification goodwill disclosed, either separately or as part of the transitional disclosure requirements of SFAS 142? ____ ____ ____
   [SFAS 147, par. 17]

Y. Segment Information ☐

Note: Public business enterprises are required to provide the disclosures described in SFAS 131 and nonpublic business enterprises are encouraged to do so.

1. Are the factors used to identify the reporting entity's reportable segments, including the basis of organization (for example, whether

	Yes	No	N/A
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?	____	____	____

	Yes	No	N/A
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?	_____	_____	_____

	Yes	No	N/A
(4) Long-lived assets other than financial instruments and deferred tax assets (*a*) located in the reporting entity's country of domicile and (*b*) located in all foreign countries in total in which the reporting entity holds assets?	_____	_____	_____
(5) Long-lived assets as described above in an individual foreign country, if material? [SFAS 131, par. 38 (AC F30.137)]	_____	_____	_____
c. Information about the extent of the reporting entity's reliance on its major customers, including the following:			
(1) If revenues from transactions with any single customer amount to 10 percent or more of the reporting entity's revenues, that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenue? [SFAS 131, par. 39 (AC F30.138)]	_____	_____	_____
11. If the information described in Question 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)]	_____	_____	_____

Z. Postemployment Benefits ☐

	Yes	No	N/A
1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____

AA. Stock Compensation Plans ☐

	Yes	No	N/A
1. Has the entity disclosed the following information in the "Summary of Significant Accounting Policies" or its equivalent:			
a. The method used—either the intrinsic value method or the fair value based method—to account for stock-based employee compensation in each period presented?	_____	_____	_____
b. For an entity that adopts the fair value recognition provisions of SFAS 123, for all financial statements in which the period of adoption is presented, is there a description of the method of reporting the change in accounting principle?	_____	_____	_____
c. If awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of APB 25 for any period for which an income statement is presented, is there a tabular presentation of the following information for all periods presented:			
(1) Net income and basic and diluted earnings per share as reported?	_____	_____	_____
(2) The stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported?	_____	_____	_____

	Yes	No	N/A
(3) The stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards?	____	____	____
(4) Pro forma net income as if the fair value based method had been applied to all awards?	____	____	____
(5) Pro forma basic and diluted earnings per share as if the fair value based method had been applied to all awards? [SFAS 123, par. 45, as amended by SFAS 148]	____	____	____
2. Does the required pro forma amounts reflect the difference in stock-based employee compensation cost, if any, included in net income and the total cost measured by the fair value based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair value based method had been applied to all awards? [SFAS 123, par. 45, as amended by SFAS 148]	____	____	____
3. Does the required pro forma per share amounts reflect the change in the denominator of the diluted earnings per share calculation as if the assumed proceeds under the treasury stock method, including measured but unrecognized compensation cost and the excess tax benefits credited to additional paid-in capital, were determined under the fair value based method? [SFAS 123, par. 45, as amended by SFAS 148]	____	____	____
4. Is a description of the plan(s), including the general terms of awards under the plan(s) disclosed? [SFAS 123, par. 46 (AC C36.145)]	____	____	____
5. Are the following disclosed for each year for which an income statement is presented:			
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?	____	____	____

	Yes	No	N/A
d. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information: (1) risk-free interest rate, (2) expected life, (3) expected volatility, and (4) expected dividends?	____	____	____
e. Total compensation cost recognized in income for stock-based employee compensation awards?	____	____	____
f. The terms of significant modifications of outstanding awards? [SFAS 123, par. 47a–f (AC C36.146)]	____	____	____
6. If the reporting entity grants options under multiple stock-based employee compensation plans, are the items in Question 5 above disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the reporting entity's use of stock-based compensation? [SFAS 123, par. 47 (AC C36.146)]	____	____	____
7. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:			
a. The range of exercise prices?	____	____	____
b. The weighted-average exercise price?	____	____	____
c. The weighted-average remaining contractual life? [SFAS 123, par. 48 (AC C36.147)]	____	____	____
8. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:			
a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?	____	____	____
b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48 (AC C36.147)]	____	____	____
9. For bonus arrangements issued in connection with the grant of stock compensation awards, is any amount recognized as a bonus liability during the service period that exceeds the ultimate bonus paid to the employee reclassified to equity? [EITF 00-23]	____	____	____
10. Is the accounting policy for recognizing compensation cost related to fixed stock awards with pro rata vesting disclosed? [EITF 00-23]	____	____	____
11. Are changes in fair value of an option award granted to employees, in unrestricted, publicly traded shares of an unrelated entity prior to vesting characterized as compensation expense in the employer's income statement? [EITF 02-8]	____	____	____

	Yes	No	N/A

BB. Insurance Activities

1. Insurance subsidiaries may be required to deposit securities with state regulatory authorities, if so, is the carrying amount of securities deposited disclosed? ____ ____ ____
[AAG-DEP, par. 21.19; SOP 01-6, par. 13*h*]

2. For credit life and accident and health policies, does the balance sheet present only the net finance receivables as an alternative if the notes to the financial statements contain sufficient disclosure of:
   a. Unearned premiums? ____ ____ ____
   and
   b. Unpaid claims? ____ ____ ____
   and
   c. The allowance for the losses? ____ ____ ____
   [AAG-DEP, par. 21.25; SOP 01-6, par. 14*j*]

3. If unearned premiums and unpaid claims for credit life and accident and health coverage are not applied in consolidation against related finance receivables for which the related receivables are assets of unrelated entities, are such amounts presented as liabilities? ____ ____ ____
[AAG-DEP, par. 21.25; SOP 01-6, par. 14*j*]

4. In consolidated financial statements, are unpaid claims for property insurance and level term life insurance not offset against related finance receivables because finance companies generally do not receive substantially all proceeds of such claims? ____ ____ ____
[AAG-DEP, par. 21.26; SOP 01-6, par. 14*k*]

5. Are credit life and accident and health coverage written on policies for which the related receivables are assets of unrelated entities presented as liabilities? ____ ____ ____
[AAG-DEP, par. 21.26; SOP 01-6, par. 14*k*]

FSP Section 2300

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 of Auditing Standards
AU =	Reference to section number in AICPA, *Professional Standards* (vol. 1)
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA, *Professional Standards* (vol. 2)

.03 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Is every financial statement 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 appropriate:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08*a*)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08*b*)]	_____	_____	_____
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 508.08*c*)]	_____	_____	_____
d. **(Audits of Non-Public Companies Only)** A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those standards (for example, auditing standards generally accepted in			

	Yes	No	N/A
the United States of America or U.S. generally accepted auditing standards)? [SAS 58, par. 8d, as amended by SAS No. 93 (AU 508.08*d*)]	_____	_____	_____
e. **(Audits of Public Companies Only)** A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)? [PCAOB Auditing Standard No.1, App., par. 3]	_____	_____	_____
f. A statement that those 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 508.08*e*)]	_____	_____	_____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08*f*)]	_____	_____	_____
h. A statement that the auditor believes that his audit provides a reasonable basis for his opinion? [SAS 58, par. 8g (AU 508.08*g*)]	_____	_____	_____
i. 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? [The opinion should include an identification of the country of origin of those accounting principles (for example, accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles).] [SAS 58, par. 8h, as amended by SAS No. 93 (AU 508.08*h*)]	_____	_____	_____
j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08*i*)]	_____	_____	_____
k. The date of the audit report? [SAS 58, par. 8j (AU 508.08*j*)]	_____	_____	_____

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.

	Yes	No	N/A
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?	_____	_____	_____

	Yes	No	N/A
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11*a*, .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 508.11*b* 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?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11*c*); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

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.

	Yes	No	N/A
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?	_____	_____	_____
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 508.11*d* and .16)]	_____	_____	_____

Note: A change in the reporting entity resulting from a transaction or event, such as a pooling of interests, or the creation, cessation, or complete or partial purchase or disposition of a subsidiary or other business unit, does not require that an explanatory paragraph about consistency be included in the auditor's report. [SAS 88 (AU 420.08)]

	Yes	No	N/A
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?	_____	_____	_____

	Yes	No	N/A
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11*e* and .69)]	_____	_____	_____
13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11*e* and .74)]	_____	_____	_____
14. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if the prior period's financial statements are audited by a predecessor auditor who has ceased operations? [Interpretation 15 of SAS 58 (AU 9508.60–.75)]	_____	_____	_____
15. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11*f*); SAS 71, par. 41 (AU 722.43)]	_____	_____	_____
16. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11*g*); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
17. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11*h*); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____

	Yes	No	N/A
18. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor's report describing clearly the character of the auditor's work and the degree of responsibility the auditor is taking? [SAS 8, par. 7, as amended by SAS 98 (AU 550.07); SAS 52, par. 9, as amended by SAS 98 (AU 558.09)]	_____	_____	_____
19. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
20. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]	_____	_____	_____
21. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*?	_____	_____	_____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]	_____	_____	_____

Practice Tip

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

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.

	Yes	No	N/A
22. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____

	Yes	No	N/A
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)]	_____	_____	_____
23. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
24. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
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?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
25. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
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?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____

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.

	Yes	No	N/A
26. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
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?	_____	_____	_____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	_____	_____	_____

Practice Tip

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

FSP Section 2400

Supplemental Information for Depository and Lending Institutions That Are Securities and Exchange Commission Registrants

.01 Footnote 3 to SAS 69 states, in part, that, for Securities and Exchange Commission (SEC) registrants, rules and releases of the SEC have an authority similar to other officially established accounting principles. Regulation S-X is the primary source of requirements for financial statements and related footnotes required to be included in documents filed with the SEC. In addition to Regulation S-X, preparers and auditors of financial statements should be familiar with the SEC's Financial Reporting Releases (FRR) and Staff Accounting Bulletins (SAB). FRRs communicate the SEC's position on accounting and auditing principles and practices. SABs represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant of the SEC.

.02 Bank holding companies disclose supplemental statistical disclosures in filings following the guidance of Industry Guide 3, *Statistical Disclosures by Bank Holding Companies*. SAB 69, *Application of Article 9*, includes the SEC staff view that Article 9 of Regulation S-X and Industry Guide 3, "while applying literally only to bank holding companies, provide useful guidance to certain other SEC registrants, including savings and loan holding companies, on certain disclosures relevant to an understanding of the registrant's operations."

.03 When determining compliance with SEC requirements, preparers and auditors should refer to the appropriate SEC pronouncements to ensure compliance with SEC disclosure rules. In particluar, 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 9, *Bank Holding 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 2500
Illustrative Financial Statements

Introduction

.01 These financial statements are for illustrative purposes only. They are not intended to be comprehensive and are not intended to establish preference among alternative principles acceptable under generally accepted accounting principles (GAAP). The illustrative financial statements reflect many of the minimum disclosure requirements for the respective entity, and may include certain transactions that are not unique to the entity presented, such as disclosures about segments, employee benefit plans and earnings per share. The illustrative financial statements are not intended to reflect all transactions that the respective entity may encounter. Preparers and auditors should consult authoritative pronouncements for guidance on presenting such other information. In addition, the illustrative notes indicate the subject matter generally required to be disclosed, but they should be expanded, reduced, or otherwise modified to suit individual circumstances based on a careful reading of the specified authoritative literature.

.02 Preparers of financial statements of entities regulated by the federal banking agencies and the National Credit Union Administration should be familiar with rules and regulations that relate to the form and content of general-purpose financial statements, rather than regulatory financial reports, filed with regulators. Such requirements may involve additional information that is prepared in conformity with GAAP (rather than regulatory accounting practices) but that is not necessary for financial statements to be in conformity with GAAP.

.03 The entities illustrated herein present unclassified balance sheets.

.04 The illustrative financial statements for banks and savings institutions assume that the entity is a registrant of the Securities and Exchange Commission (SEC). Accordingly, the illustrative financial statements reflect the application of Articles 3, 3A, 4 and 9 (to the extent that such articles are applicable to these illustrative financial statements) of Regulation S-X of the SEC. For SEC registrants, such articles have an authority similar to other officially established accounting principles. Preparers and auditors should consult all pertinent SEC rules and releases for guidance on presenting all information that may be required in individual situations. Presentations required by the aforementioned Articles (including the general requirement that statements of income, cash flows and changes in stockholders' equity and related disclosures be presented for three years for SEC registrants that do not qualify as Small Business filers) have been shaded for ease of identification. Certain items that are shaded on the face of the financial statements may also be required by GAAP; however, GAAP may permit such information to be presented in the footnotes. Therefore, readers should not assume that all shaded presentations satisfy only SEC requirements.

.05 In addition, financial statements of non-public entities (as defined by GAAP and including mutual institutions and credit unions) may substantially differ from those presented herein for banks and savings institutions. Principal differences relate to the inclusion herein of—

- A stockholders' equity section in the statement of financial condition of a stock institution
- A statement of changes in stockholders' equity which replaces the statement of changes in retained earnings as presented by a mutual institution
- Earnings-per-share data
- Segment information

- Expanded disclosures about pensions, income taxes and stock-based-compensation
- Parent-company-only financial statements
- Supplemental quarterly operations data

.06 The illustrative financial statements are in conformity with accounting standards issued up to and including SFAS 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity*, SFAS 132 (Revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*, FASBI 46 (Revised), *Consolidation of Variable Interest Entities*, and EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*.

.07 Preparers and auditors of financial statements should refer to subsequent FASB Statements and other GAAP for additional requirements. Generally accepted auditing standards (Interpretation 3 of SAS 1, sec. 410, *Adherence to Generally Accepted Accounting Principles* [AU 9410]) specifically address the need for the auditor to consider the adequacy of the disclosure of impending changes in accounting principles if (*a*) the financial statements have been prepared based on accounting principles that will not be acceptable in the future and (*b*) the financial statements will be restated in the future as a result of the change. In SEC Staff Accounting Bulletin No. 74, the SEC staff indicated that recently issued accounting standards may constitute material matters and, therefore, disclosure in the financial statements should also be considered in situations where the change to the new accounting standard will be accounted for in financial statements of future periods, either prospectively or with a cumulative catch-up adjustment. Preparers and auditors of financial statements should assess the appropriateness of such disclosures pertaining to accounting standards that have been issued but do not require adoption until some future date.

.08 This section contains illustrative financial statements for the following types of depository institutions:

- Banks and savings institutions
- Credit unions
- Mortgage companies

ILLUSTRATIVE FINANCIAL STATEMENTS FOR BANKS AND SAVINGS INSTITUTIONS

.09

SAMPLE BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	December 31, 2003	2002
	(in thousands)	
Assets		
Cash and due from banks	$ 6,732	$ 7,233
Federal funds sold and resell agreements	6,154	1,232
Cash and cash equivalents	12,886	8,465
Interest-bearing deposits in banks	7,000	6,584
Trading assets	8,059	3,000
Securities available for sale	39,391	52,653
Securities held-to-maturity (fair value approximates $12,021)	11,853	—
Federal Home Loan Bank stock, at cost	5,186	5,186
Loans held for sale	4,000	1,000
Loans, net of allowance for loan losses of $4,761 and $4,391	407,855	409,085
Customers' liability on acceptances	1,000	—
Foreclosed assets, net of allowance for losses of $1,200 and $75	2,609	1,256
Premises and equipment, net	5,093	3,717
Other assets	6,030	8,371
	$510,962	$499,317
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 35,623	$ 35,222
Interest-bearing	340,914	322,899
Total deposits	376,537	358,121
Federal funds purchased and repurchase agreements	20,385	37,900
Acceptances outstanding	1,000	—
Long-term debt	35,501	27,705
Accrued expenses and other liabilities	2,901	2,638
Total liabilities	436,324	426,364
Commitments and contingencies (Notes 8, 13 and 15)		
Stockholders' equity:		
Preferred stock, $.10 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, $.10 par value, 15,000,000 shares authorized; 3,742,076 shares issued	374	374
Additional paid-in capital	52,613	52,638
Retained earnings	40,835	39,588
Accumulated other comprehensive income (loss)	1,361	(1,647)
Common stock in treasury, at cost (2002—1,335,635 shares; 2001—1,095,635 shares)	(20,545)	(18,000)
Total stockholders' equity	74,638	72,953
	$510,962	$499,317

The accompanying notes are an integral part of these consolidated financial statements.

.10

SAMPLE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

	Years Ended December 31,		
	2003	*2002*	*2001*
	(in thousands, except per share data)		
Interest and dividend income:			
Loans, including fees	$41,718	$38,111	$30,069
Debt securities:			
Taxable	3,600	4,500	5,310
Tax-exempt	22	76	14
Dividends	605	698	711
Trading account securities	440	325	108
Other	863	1,695	1,794
Total interest and dividend income	47,248	45,405	38,006
Interest expense:			
Deposits	25,645	25,399	22,337
Federal funds purchased and securities sold under agreements to repurchase	2,672	3,512	896
Long-term debt	2,961	1,546	246
Total interest expense	31,278	30,457	23,479
Net interest income	15,970	14,948	14,527
Provision for loan losses	334	745	270
Net interest income, after provision for loan losses	15,636	14,203	14,257
Noninterest income:			
Customer service fees	863	834	805
Loan servicing fees	100	117	109
Net gain on sales of loans	230	120	350
Net gain (loss) on available-for-sale securities	(1,010)	(614)	892
Net gain (loss) on trading activities	(101)	286	700
Other	21	36	20
Total noninterest income (charges)	(497)	779	2,876
Noninterest expenses:			
Salaries and employee benefits	5,177	4,983	4,233
Occupancy and equipment	1,282	1,087	1,026
Data processing	680	686	533
Foreclosed assets, net	1,436	125	15
Other	2,019	1,666	1,736
Total noninterest expenses	10,594	8,547	7,543
Income before income taxes	4,545	6,435	9,590
Income tax expenses	1,818	2,538	4,094
Net income	$ 2,727	$ 3,897	$ 5,496
Earnings per share:			
Basic	$ 1.10	$ 1.38	$ 1.74
Diluted	$ 1.05	$ 1.30	$ 1.72

The accompanying notes are an integral part of these consolidated financial statements.

.11

SAMPLE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2003, 2002 and 2001

	Shares of Common Stock	*Common Stock*	*Additional Paid-in Capital*	*Retained Earnings*	*Accumulated Other Comprehensive Income (Loss)*	*Treasury Stock*	*Total*
				(in thousands, except share data)			
Balance at December 31, 2000	3,742,076	$374	$52,627	$32,972	$(3,479)	$ (5,957)	$76,537
Comprehensive income:							
Net income	—	—	—	5,496	—	—	5,496
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	—	1,479	—	1,479
Total comprehensive income							6,975
Purchase of treasury stock (695,000 shares)	—	—	—	—	—	(8,340)	(8,340)
Cash dividends declared ($.42 per share)	—	—	—	(1,313)	—	—	(1,313)
Balance at December 31, 2001	3,742,076	374	52,627	37,155	(2,000)	(14,297)	73,859
Comprehensive income:							
Net income	—	—	—	3,897	—	—	3,897
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	—	437	—	437
Transition adjustment upon adoption of SFAS 133, net of tax effect	—	—	—	—	52	—	52
Change in fair value of derivatives used for cash flow hedges, net of tax effect	—	—	—	—	(136)	—	(136)
Total comprehensive income							4,250
Purchase of treasury stock (405,000 shares)	—	—	—	—	—	(3,968)	(3,968)
Reissuance of treasury stock under stock option plan (26,500 shares)	—	—	11	—	—	265	276
Cash dividends declared ($.52 per share)	—	—	—	(1,464)	—	—	(1,464)
Balance at December 31, 2002	3,742,076	374	52,638	39,588	(1,647)	(18,000)	72,953
Comprehensive income:							
Net income	—	—	—	2,727	—	—	2,727
Change in net unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect	—	—	—	—	3,220	—	3,220
Change in fair value of derivatives used for cash flow hedges, net of tax effect	—	—	—	—	(212)	—	(212)
Total comprehensive income							5,735
Purchase of treasury stock (250,000 shares)	—	—	—	—	—	(2,674)	(2,674)
Reissuance of treasury stock under stock option plan (10,000 shares)	—	—	(25)	—	—	129	104
Cash dividends declared ($.60 per share)	—	—	—	(1,480)	—	—	(1,480)
Balance at December 31, 2003	3,742,076	$374	$52,613	$40,835	$ 1,361	$(20,545)	$74,638

The accompanying notes are an integral part of these consolidated financial statements.

.12

SAMPLE BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2003	2002	2001
	(in thousands)		
Cash flows from operating activities:			
Net income	$ 2,727	$ 3,897	$ 5,496
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Provision for loan losses	334	745	270
Provision for foreclosed asset losses	1,246	75	—
Net amortization of securities	866	110	80
Amortization of deferred loan (fees) costs	(97)	(86)	86
Depreciation	360	339	294
Realized loss (gain) on sales of available-for-sale securities, net	1,010	614	(892)
Deferred income tax benefit	(288)	(294)	(279)
Net change in:			
Trading assets	(5,059)	(3,000)	—
Loans held for sale	(3,000)	893	1,725
Other assets and liabilities, net	(2,294)	(709)	(481)
Net cash provided (used) by operating activities	(4,195)	2,584	6,299
Cash flows from investing activities:			
Net change in interest-bearing deposits in banks	(416)	7,408	12,990
Activity in available-for-sale securities:			
Sales	5,162	14,726	31,384
Maturities, prepayments and calls	25,127	35,550	33,475
Purchases	(13,452)	(39,304)	(34,316)
Purchases of securities held to maturity	(11,859)	—	—
Loan purchases	(2,711)	(1,506)	—
Loan originations and principal collections, net	3,704	(45,734)	(85,852)
Proceeds from sales of foreclosed assets	150	—	—
Additions to premises and equipment	(1,736)	(135)	(364)
Net cash provided (used) by investing activities	3,969	(28,995)	(42,683)
Cash flows from financing activities:			
Net increase in deposits	18,416	11,027	7,584
Net change in federal funds purchased and securities sold under agreements to repurchase	(17,515)	(2,700)	33,600
Proceeds from issuance of long-term debt	11,500	20,900	5,200
Prepayment of long-term debt	(3,704)	—	(400)
Proceeds from issuance of treasury stock under stock option plan	104	276	—
Payments to acquire treasury stock	(2,674)	(3,968)	(8,340)
Cash dividends paid on common stock	(1,480)	(1,464)	(1,313)
Net cash provided by financing activities	4,647	24,071	36,331
Net change in cash and cash equivalents	4,421	(2,340)	(53)
Cash and cash equivalents at beginning of year	8,465	10,805	10,858
Cash and cash equivalents at end of year	$ 12,886	$ 8,465	$ 10,805
Supplementary cash flow information:			
Interest paid on deposits and borrowed funds	$ 30,155	$ 31,200	$ 22,337
Income taxes paid	2,523	2,919	3,480

The accompanying notes are an integral part of these consolidated financial statements.

.13

SAMPLE BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Sample Bancorp, Inc. (the Corporation) and its wholly-owned subsidiary, ABC Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Corporation provides a variety of financial services to individuals and small businesses through its offices in New England. Its primary deposit products are savings and term certificate accounts and its primary lending products are consumer and commercial mortgage loans.

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Corporation's activities are with customers located within the New England region of the country. Notes 3 and 4 discuss the types of securities that the Corporation invests in. Note 5 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and securities purchased under agreements to resell, all of which mature within ninety days.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Trading Activities

The Corporation engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with changes in fair value recorded in earnings. Interest and dividends are included in net interest income. Quoted market prices are used to determine the fair value of trading instruments.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Corporation. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout New England. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Derivative Financial Instruments and Change in Accounting Principle

On January 1, 2001, the Corporation adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value.

Interest Rate Swap Agreements

For asset/liability management purposes, the Corporation uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Such derivatives are used as part of the asset/liability management process and are linked to specific assets or liabilities, and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period.

The Corporation utilizes interest rate swap agreements to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge), and to convert a portion of its fixed-rate loans to a variable rate (fair value hedge). Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

Under SFAS No. 133, the gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Corporation to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

Beginning January 1, 2001, in accordance with SFAS No. 133, hedges of variable-rate debt are accounted for as cash flow hedges, with changes in fair value recorded in derivative assets or liabilities and other comprehensive income. The net settlement (upon close out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt. Hedges of fixed-rate loans are accounted for as fair value hedges, with changes in fair value recorded in derivative assets or liabilities and loan interest income. The net settlement (upon close out or termination) that offsets changes in the value of the loans adjusts the basis of the loans and is deferred and amortized to loan interest income over the life of the loans. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately in non-interest income.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

The cumulative effect of adopting SFAS No. 133 for interest rate swap agreements as of January 1, 2001 was to increase other comprehensive income by $52,000, net of tax affects of $35,000.

Rate Lock Commitments

On March 13, 2002, the Financial Accounting Standards Board determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments, effective for fiscal quarters beginning after April 10, 2002. Accordingly, the Corporation adopted such accounting on July 1, 2002.

The Corporation enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. Prior to July 1, 2002, such commitments were recorded to the extent of fees received. Fees received were subsequently included in the net gain or loss on sale of mortgage loans.

The cumulative effect of adopting SFAS No. 133 for rate lock commitments as of July 1, 2002 was not material.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Retirement Plan

The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes.

Stock Compensation Plans

Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. The Corporation has elected to continue with the accounting methodology in Opinion No. 25. Stock options issued under the Corporation's stock option plan have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them.

Had compensation cost for the Corporation's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by SFAS No. 123, the Corporation's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	Years Ended December 31,		
	2003	*2002*	*2001*
	(in thousands, except per share data)		
Net income, as reported	$2,727	$3,897	$5,496
Additional expense had the Corporation adopted SFAS No. 123	(80)	(80)	—
Related tax benefit	32	32	—
Pro forma net income	$2,679	$3,849	$5,496
Basic earnings per share—As reported	1.10	1.38	1.74
—Pro forma	1.08	1.37	1.74
Diluted earnings per share—As reported	1.05	1.30	1.72
—Pro forma	1.03	1.28	1.72

The pro forma disclosures include the effects of all awards granted on or after January 1, 1995.

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	2003	2002	2001
	(in thousands)		
Net income	$2,727	$3,897	$5,496
Less: Preferred stock dividends	—	—	—
Net income applicable to common stock	$2,727	$3,897	$5,496
Average number of common shares outstanding	2,485	2,817	3,164
Effect of dilutive options	121	183	31
Average number of common shares outstanding used to calculate diluted earnings per common share	2,606	3,000	3,195

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31,		
	2003	2002	2001
	(in thousands)		
Unrealized holding gains on available-for-sale securities	$ 4,435	$ 114	$3,357
Reclassification adjustment for losses (gains) realized in income	1,010	614	(892)
Net unrealized gains	5,445	728	2,465
Tax effect	(2,225)	(291)	(986)
Net-of-tax amount	$ 3,220	$ 437	$1,479
Transition adjustment upon adoption of SFAS No. 133	—	87	—
Tax effect	—	(35)	—
Net-of-tax amount	—	52	—
Change in fair value of derivatives used for cash flow hedges	(353)	(227)	—
Tax effect	141	91	—
Net-of-tax amount	(212)	(136)	—
	$ 3,008	$ 353	$1,479

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	December 31,	
	2003	2002
	(in thousands)	
Net unrealized gain (loss) on securities available for sale	$ 2,716	$(2,729)
Tax effect	(1,059)	1,166
Net-of-tax amount	1,657	(1,563)
Net unrealized gain (loss) on derivatives used for cash flow hedges	(493)	(140)
Tax effect	197	56
Net-of-tax amount	(296)	(84)
Accumulated other comprehensive income (loss)	$ 1,361	$(1,647)

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), which covers guarantees such as standby letters of credit, performance guarantees, and direct or indirect guarantees of the indebtedness of others, but not guarantees of funding. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee, and requires disclosure about the maximum potential payments that might be required, as well as the collateral or other recourse obtainable. The recognition and measurement provisions of FIN 45 were effective on a prospective basis after December 31, 2002, and its adoption by the Corporation on January 1, 2003 has not had a significant effect on the Corporation's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), which establishes guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. Transferors to qualified special-purpose entities ("QSPEs") and certain other interests in a QSPE are not subject to the requirements of FIN 46. On December 17, 2003, the FASB revised FIN 46 (FIN 46R) and deferred the effective date of FIN 46 to no later than the end of the first reporting period that ends after March 15, 2004, however, for special-purpose entities the Corporation would be required to apply FIN 46 as of December 31, 2003. The Interpretation had no effect on the Corporation's consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and for hedging relationships designated after June 30, 2003. This Statement did not have a material effect on the Corporation's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement provides new rules on the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. Such financial instruments include mandatorily redeemable shares, instruments that require the issuer to buy back some of its shares in exchange for cash or other assets, or obligations that can be settled with shares, the monetary value of which is fixed. Most of the guidance in SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 30, 2003. This Statement had no effect on the Corporation's consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Postretirement Benefits*. This Statement requires additional disclosures about the assets, obligations and cash flows of defined benefit pension and postretirement plans, as well as the expense recorded for such plans. As of December 31, 2003, the Corporation has disclosed the required elements related to its defined benefit pension plan in Note 18 to these consolidated financial statements.

Note 2: Restrictions on Cash and Amounts Due From Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2003 and 2002, these reserve balances amounted to $7,525,000 and $7,250,000, respectively.

Note 3: Securities Purchased Under Agreements to Resell

The Bank enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as secured loans. Securities purchased under agreements to resell at December 31, 2003 and 2002 consist of U.S. Treasury securities.

The amounts advanced under these agreements are reflected as assets in the consolidated balance sheet. It is the Bank's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Bank's rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Bank's account maintained at the Federal Reserve Bank or into a third-party custodian's account designated by the Bank under a written custodial agreement that explicitly recognizes the Bank's interest in the securities. At December 31, 2003, these agreements are scheduled to mature within 90 days and no material amount of agreements to resell securities purchased was outstanding with any individual dealer.

Note 4: Trading Activities

Trading assets, at fair value, consist of the following:

	December 31,	
	2003	*2002*
	(in thousands)	
Debt securities:		
U. S. government and agency securities	$1,300	$ —
Mortgage-backed securities	1,050	2,000
Marketable equity securities	5,709	1,000
	$8,059	$3,000

The net gain (loss) on trading activities included in earnings was $(701,000), $286,000 and $700,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 5: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2003			
	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
	(in thousands)			
Securities Available-for-Sale				
Debt securities:				
U.S. Government and federal agency	$10,674	$2,060	$ (30)	$12,704
Corporate	13,130	1,097	(154)	14,073
Mortgage-backed	9,948	500	(40)	10,408
Other	1,525	—	(25)	1,500
Total debt securities	35,277	3,657	(249)	38,685
Marketable equity securities	1,398	—	(692)	706
Total securities available-for-sale	$36,675	$3,657	$(941)	$39,391
Securities Held-to-Maturity				
U.S. Government and federal agency	$ 3,070	$ 123	$ (4)	$ 3,189
State and municipal	3,047	50	—	3,097
Foreign governments	50	—	—	50
Corporate	1,560	—	(40)	1,520
Mortgage-backed	2,326	14	—	2,340
Other	1,800	25	—	1,825
Total securities held-to-maturity	$11,853	$ 212	$ (44)	$12,021

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale				
Debt securities:				
U.S. Government and federal agency	$19,505	$ 5	$ (11)	$19,499
Corporate	15,990	10	(4)	15,996
Other	12,038	4	(233)	11,809
Total debt securities	47,533	19	(248)	47,304
Marketable equity securities	7,849	60	(2,560)	5,349
Total securities available-for-sale	$55,382	$ 79	$(2,808)	$52,653

At December 31, 2003 and 2002, U.S. Government obligations with a carrying value of $2,000,000 and $1,800,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At December 31, 2003 and 2002, the carrying amount of securities pledged to secure repurchase agreements was $17,500,000 and $25,300,000, respectively.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2003 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Within 1 year	$10,286	$11,499	$ 2,858	$ 2,906
Over 1 year through 5 years	10,421	11,827	3,622	3,815
After 5 years through 10 years	3,245	3,465	3,047	2,960
Over 10 years	1,377	1,486	—	—
	25,329	28,277	9,527	9,681
Mortgage-backed securities	9,948	10,408	2,326	2,340
	$35,277	$38,685	$11,853	$12,021

For the years ended December 31, 2003, 2002 and 2001, proceeds from sales of securities available for sale amounted to $5,162,000, $14,726,000 and $31,384,000, respectively. Gross realized gains amounted to $1,250,000, $750,000 and $1,040,000, respectively. Gross realized losses amounted to $2,260,000, $1,364,000 and $148,000, respectively. The tax benefit (provision) applicable to these net realized gains and losses amounted to $404,000, $245,000 and $(357,000), respectively.

For the year ended December 31, 2003, gross gains of $82,000 and gross losses of $426,000 were included in the net loss on trading activities as a result of transfers of securities from the available-for-sale category to the trading category.

Information pertaining to securities with gross unrealized losses at December 31, 2003, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		*Over Twelve Months*	
	Gross Unrealized Losses	*Fair Value*	*Gross Unrealized Losses*	*Fair Value*
		(in thousands)		
Securities Available-for-Sale				
Debt securities:				
U.S. Government and federal agency	$ 30	$ 600	$ —	$ —
Corporate	154	1,430	—	—
Mortgaged-backed	20	140	20	127
Other	15	800	10	700
Total debt securities	219	2,970	30	827
Marketable equity securities	692	706	—	—
Total securities available-for-sale	$911	$3,676	$ 30	$ 827
Securities Held-to-Maturity				
U.S. Government and federal agency	$ —	$ —	$ 4	$2,475
Corporate	—	—	40	1,520
Total securities held-to-maturity	$ —	$ —	$ 44	$3,995

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2003, five debt securities have unrealized losses with aggregate depreciation of 5% from the Corporation's amortized cost basis. These unrealized losses relate principally to the telecommunications industry, and such losses have been diminishing within the second half of 2003 as the industry continues to show improved earnings. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At December 31, 2003, ten marketable equity securities have unrealized losses with aggregate depreciation of 49% from the Corporation's cost basis. These unrealized losses have existed for less than three months and relate principally to the home goods industry. Although the issuers have shown declines in earnings as a result of the weakened economy, no credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. Unrealized losses on marketable equity securities that are in excess of __% of cost, and that have been sustained for more than ___ months, are generally recognized by management as being other than temporary and charged to earnings, unless evidence exists to support a realizable value equal to or greater than the Corporation's carrying value of the investment.

Note 6: Loans

A summary of the balances of loans follows:

	December 31, 2003	December 31, 2002
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$237,255	$239,698
Commercial	121,942	109,717
Construction	7,453	14,791
Second mortgages	7,657	9,388
Equity lines of credit	5,129	1,667
Total mortgage loans on real estate	379,436	375,261
Commercial loans	24,449	25,419
Consumer installment loans:		
Personal	6,671	10,020
Credit cards	2,508	3,170
Total consumer installment loans	9,179	13,190
Total loans	413,064	413,870
Less: Allowance for loan losses	(4,761)	(4,391)
Net deferred loan fees	(448)	(394)
Loans, net	$407,855	$409,085

An analysis of the allowance for loan losses follows:

	Years Ended December 31, 2003	2002	2001
	(in thousands)		
Balance at beginning of year	$4,391	$3,751	$3,486
Provision for loan losses	334	745	270
Loans charged-off	(589)	(110)	(5)
Recoveries of loans previously charged-off	625	5	—
Balance at end of year	$4,761	$4,391	$3,751

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31, 2003	December 31, 2002
	(in thousands)	
Impaired loans without a valuation allowance	$ 500	$ 300
Impaired loans with a valuation allowance	1,500	1,735
Total impaired loans	$2,000	$2,035
Valuation allowance related to impaired loans	$ 350	$ 400
Total non-accrual loans	$2,050	$2,070
Total loans past-due ninety days or more and still accruing	$ 125	$ 107

	Years Ended December 31, 2003	2002	2001
	(in thousands)		
Average investment in impaired loans	$1,500	$649	$600
Interest income recognized on impaired loans	$ 126	$ 24	$ 52
Interest income recognized on a cash basis on impaired loans	$ 126	$ 24	$ 52

No additional funds are committed to be advanced in connection with impaired loans.

Note 7: Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $42,000,000 and $40,000,000 at December 31, 2003 and 2002, respectively.

The fair values of these rights were $540,000 and $320,000, respectively, at December 31, 2003 and 2002. The fair value of servicing rights was determined using discount rates ranging from X% to X%, prepayment speeds ranging from X % to X%, depending upon the stratification of the specific right, and a weighted average default rate of X%.

The following summarizes the activity pertaining to mortgage servicing rights, along with the aggregate activity in related valuation allowances:

	Years Ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Mortgage servicing rights:			
Balance at beginning of year	$315	$100	$ 45
Mortgage servicing rights capitalized	350	250	110
Mortgage servicing rights amortized	(80)	(35)	(10)
Provision for loss in fair value	(80)	—	(45)
Balance at end of year	$505	$315	$100
Valuation allowances:			
Balance at beginning of year	$ —	$ —	$ —
Additions	80	—	45
Reductions	—	—	(45)
Write-downs	—	—	—
Balances at end of year	$ 80	$ —	$ —

Note 8: Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets is as follows:

	Years Ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Balance at beginning of year	$ 75	$ —	$ —
Provision for losses	1,246	75	—
Charge-offs	(171)	—	—
Recoveries	50	—	—
Balance at end of year	$1,200	$ 75	$ —

Expenses applicable to foreclosed assets include the following:

	Years Ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Net loss (gain) on sales of real estate	$ —	$ —	$ —
Provision for losses	1,246	75	—
Operating expenses, net of rental income	190	50	15
	$1,436	$125	$ 15

Note 9: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31,	
	2003	*2002*
	(in thousands)	
Premises:		
Land	$ 295	$ 295
Buildings	4,439	3,465
Equipment	2,828	2,066
	7,562	5,826
Accumulated depreciation	(2,469)	(2,109)
	$ 5,093	$ 3,717

Depreciation expense for the years ended December 31, 2003, 2002 and 2001 amounted to $360,000, $339,000 and $294,000, respectively.

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2003, pertaining to banking premises and equipment, future minimum rent commitments (in thousands) under various operating leases are as follows:

2004	$550
2005	545
2006	520
2007	480
2008	425
Thereafter	500
	$3,020

The leases contain options to extend for periods from three to ten years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2003, 2002 and 2001 amounted to $274,000, $285,000 and $258,000, respectively.

Note 10: Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2003 and 2002 was $25,345,000 and $22,560,000, respectively.

At December 31, 2003, the scheduled maturities of time deposits (in thousands) are as follows:

2004	$104,433
2005	42,531
2006	23,330
2007	8,000
2008	2,000
Thereafter	200
	$180,494

Note 11: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Corporation may be required to provide additional collateral based on the fair value of the underlying securities.

Note 12: Long-Term Debt

The Bank's fixed-rate, long-term debt of $14,201,000 at December 31, 2003 matures through 2008. At December 31, 2003 and 2002, the interest rates on fixed-rate, long-term debt ranged from 4.55 percent to 8.50 percent and from 4.55 percent to 12.25 percent, respectively. At December 31, 2003 and 2002, the weighted average interest rate on fixed-rate, long-term debt was 6.69 percent and 8.00 percent, respectively.

The Bank's floating-rate, long-term debt of $21,300,000 at December 31, 2003 matures through 2009. The majority of the floating rates are based on three- and six-month London Interbank Offer Rate (LIBOR). At December 31, 2003 and 2002, the interest rates on floating-rate, long-term debt ranged from 5.37 percent to 7.80 percent and from 4.79 percent to 7.17 percent, respectively. At December 31, 2003 and 2002, the weighted average interest rate on floating-rate, long-term debt was 2.50 percent and 6.98 percent, respectively.

At December 31, 2003 and 2002, $4,304,000 and $3,801,000, respectively, of long-term debt was redeemable at par at the option of the Corporation on dates ranging from March 15, 2004 through June 21, 2005.

At December 31, 2003, the Corporation also had $20,000,000 available under a long-term line of credit that expires in 2005.

The contractual maturities of long-term debt are as follows:

	December 31,			
	2003			*2002*
	Fixed Rate	*Floating Rate*	*Total*	*Total*
	(in thousands)			
Due in 2003	$ 1,005	$ 1,700	$ 2,705	$ 1,769
Due in 2004	2,801	13,211	16,012	15,020
Due in 2005	3,019	2,945	5,964	5,100
Due in 2006	4,320	1,260	5,580	4,112
Due in 2007	2,576	1,490	4,066	1,704
Thereafter	480	694	1,174	—
Total long-term debt	$14,201	$21,300	$35,501	$27,705

Note 13: Income Taxes

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,		
	2003	*2002*	*2001*
	(in thousands)		
Current tax provision:			
Federal	$1,349	$1,856	$3,268
State	757	976	1,105
	2,106	2,832	4,373
Deferred tax benefit:			
Federal	(208)	(294)	(279)
State	(80)	—	—
	(288)	(294)	(279)
	$1,818	$2,538	$4,094

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,		
	2003	*2002*	*2001*
Statutory federal tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	11.5	11.7	11.2
Dividends received deduction	(3.8)	(3.5)	(1.8)
Other, net	(1.7)	(2.8)	(0.7)
Effective tax rates	40.0%	39.4%	42.7%

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2003	*2002*
	(in thousands)	
Deferred tax assets:		
Net unrealized loss on securities available-for-sale	$ —	$1,166
Deferred loan fees	144	182
Allowance for loan losses	1,203	921
Employee benefit plans	357	380
Net unrealized loss on derivatives used for cash flow hedges	197	56
Other	447	451
	2,348	3,156
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	(1,059)	—
Depreciation	(271)	(342)
	(1,330)	(342)
Net deferred tax asset	$1,018	$2,814

Note 14: Off-Balance Sheet Activities

Credit-Related Financial Instruments. The Corporation is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2003 and 2002, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2003	*2002*
	(in thousands)	
Commitments to grant loans	$3,281	$5,265
Unfunded commitments under lines of credit	3,907	7,205
Standby letters of credit	3,000	2,500

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

Standby letters-of-credit are conditional lending commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments, and at December 31, 2003 and 2002 such collateral amounted to $2,500,000 and $1,800,000, respectively. As of January 1, 2003, newly issued or modified guarantees that are not derivative contracts have been recorded on the Corporation's consolidated balance sheet at their fair value at inception. The amount of the liability related to guarantees recorded at December 31, 2003, was approximately $35,000.

Note 15: On-Balance Sheet Derivative Instruments and Hedging Activities

Derivative Financial Instruments

The Corporation has stand alone derivative financial instruments in the form of interest rate swap agreements, which derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Corporation's balance sheet as derivative assets and derivative liabilities.

The Corporation is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Corporation controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Corporation deals only with primary dealers.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Risk Management Policies—Hedging Instruments

The primary focus of the Corporation's asset/liability management program is to monitor the sensitivity of the Corporation's net portfolio value and net income under varying interest rate scenarios to take steps to control its risks. On a quarterly basis, the Corporation simulates the net portfolio value and net income expected to be earned over a twelve-month period following the date of simulation. The simulation is based on a projection of market interest rates at varying levels and estimates the impact of such market rates on the levels of interest-earning assets and interest-bearing liabilities during the measurement period. Based upon the outcome of the simulation analysis, the Corporation considers the use of derivatives as a means of reducing the volatility of net portfolio value and projected net income within certain ranges of projected changes in interest rates. The Corporation evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net portfolio value and net income volatility within an assumed range of interest rates.

Interest Rate Risk Management—Cash Flow Hedging Instruments

The Corporation uses long-term variable rate debt as a source of funds for use in the Corporation's lending and investment activities and other general business purposes. These debt obligations expose the Corporation to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments. To meet this objective, management enters into interest rate swap agreements whereby the Corporation receives variable interest rate payments and makes fixed interest rate payments during the contract period.

At December 31, 2003 and 2002, the information pertaining to outstanding interest rate swap agreements used to hedge variable rate debt is as follows:

	December 31,	
	2003	*2002*
	(dollars in thousands)	
Notional amount	$10,000	$6,000
Weighted average pay rate	5.98%	6.76%
Weighted average receive rate	2.16%	6.73%
Weighted average maturity in years	2.8	4.1
Unrealized loss relating to interest rate swaps	$ 493	$ 140

These agreements provided for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR) in exchange for making payments at a fixed rate.

No interest rate swap agreements were terminated prior to maturity in 2002 or 2001. At December 31, 2003 and 2002, the unrealized loss relating to interest rate swaps was recorded in derivative liabilities in accordance with SFAS No. 133. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with long-term debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the long-term debt affects earnings. The net amount of other comprehensive income reclassified into interest expense during the years ended December 31, 2003 and 2002 was $150,000 and $32,000, respectively.

Risk management results for the years ended December 31, 2003 and 2002 related to the balance sheet hedging of long-term debt indicate that the hedges were 100% effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

As of December 31, 2003, approximately $235,000 of losses reported in other comprehensive income related to the interest rate swaps were expected to be reclassified into interest expense as a yield adjustment of the hedged borrowings during the twelve-month period ending December 31, 2004.

Interest Rate Risk Management—Fair Value Hedging Instruments

The Corporation originates fixed- and variable-rate loans for portfolio. Fixed-rate loans expose the Corporation to variability in their fair value due to changes in the level of interest rates. Management believes that it is prudent to limit the variability in the fair value of a portion of its fixed-rate loan portfolio. It is the Corporation's objective to hedge the change in fair value of fixed-rate loans at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this asset to other assets of the Corporation. To meet this objective, the Corporation utilizes interest rate swaps as an asset/liability management strategy to hedge the change in value of the loans due to changes in expected interest rate assumptions. These interest rate swap agreements are contracts to make a series of floating rate payments in exchange for receiving a series of fixed rate payments. Although the Corporation hedges the change in value of its fixed-rate loans, its hedge coverage ratio does not equate to 100%. The Corporation believes it is economically prudent to keep hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement.

At December 31, 2003 and 2002, the information pertaining to outstanding interest rate swap agreements used to hedge fixed-rate loans is as follows:

	December 31,	
	2003	*2002*
	(dollars in thousands)	
Notional amount	$25,000	$16,000
Weighted average pay rate	1.88%	6.40%
Weighted average receive rate	5.68%	6.21%
Weighted average maturity in years	9.5	5.1
Unrealized gain (loss) relating to interest rate swaps	$ 77	$ (61)

These agreements provide for the Corporation to make payments at a variable-rate determined by a specified index (three-month LIBOR) in exchange for receiving payments at a fixed-rate (dollars in thousands).

No interest rate swap agreements were terminated prior to maturity in 2002 and 2001. At December 31, 2003 and 2002, the unrealized gain (loss) relating to use of interest rate swaps was recorded in derivative assets (liabilities) in accordance with SFAS No. 133.

Interest Rate Risk Management—Derivative Instruments Not Designated As Hedging Instruments

The Company enters into rate lock commitments to extend credit to borrowers for generally a 30-day or 60-day period for the origination and/or purchase of loans. Unfunded loans for which commitments have been entered into are called "pipeline loans." Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

On March 13, 2002, the Financial Accounting Standards Board determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. Accordingly, the Corporation adopted such accounting on July 1, 2002, and such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates.

The notional amount of undesignated interest rate lock commitments was $6,500,000 and $5,000,000 at December 31, 2003 and 2002, respectively.

Collateral Requirements

To reduce credit risk related to the use of both derivatives and credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or re-pledge the collateral on short notice, the Corporation records the collateral in its balance sheet at fair value with a corresponding obligation to return it.

Note 16: Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

Note 17: Minimum Regulatory Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2003 and 2002, that the Corporation and the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2003, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2003 and 2002 are also presented in the table.

	Actual		*Minimum Capital Requirement*		*Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(dollars in thousands)			
December 31, 2003:						
Total Capital to Risk Weighted Assets:						
Consolidated	$74,327	20.2%	$29,436	8.0%	$ N/A	N/A
ABC Bank	68,139	19.2	28,391	8.0	35,489	10.0
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	72,566	19.7	14,718	4.0	N/A	N/A
ABC Bank	65,674	18.5	14,200	4.0	21,300	6.0
Tier 1 Capital to Average Assets:						
Consolidated	72,566	13.2	21,990	4.0	N/A	N/A
ABC Bank	65,674	12.2	21,532	4.0	26,916	5.0
December 31, 2002:						
Total Capital to Risk Weighted Assets:						
Consolidated	74,482	19.5	30,557	8.0	N/A	N/A
ABC Bank	69,845	18.3	30,533	8.0	38,167	10.0
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	73,091	19.1	15,307	4.0	N/A	N/A
ABC Bank	67,683	17.8	15,210	4.0	22,814	6.0
Tier 1 Capital to Average Assets:						
Consolidated	73,091	14.2	20,589	4.0	N/A	N/A
ABC Bank	67,683	13.4	20,204	4.0	25,255	5.0

Note 18: Employee Benefit Plans

Pension Plan

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all employees participate in the retirement plan on a non-contributing basis, and are fully vested after three years of service. Information pertaining to the activity in the plan, using a measurement date of December 31, is as follows:

	Years Ended December 31,		
	2003	*2002*	*2001*
		(in thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$2,143	$1,940	$1,796
Service cost	202	114	96
Interest cost	170	165	138
Actuarial loss	25	—	—
Benefits paid	(125)	(76)	(90)
Benefit obligation at end of year	2,415	2,143	1,940
Change in plan assets:			
Fair value of plan assets at beginning of year	2,200	2,006	1,861
Actual return on plan assets	41	150	150
Employer contribution	75	120	85
Benefits paid	(125)	(76)	(90)
Fair value of plan assets at end of year	2,191	2,200	2,006
Funded status	(224)	57	66
Unrecognized net actuarial loss	187	80	90
Unrecognized prior service cost	98	117	136
Prepaid pension cost recognized	$ 61	$ 254	$ 292
Accumulated benefit obligation	$1,935	$1,956	$1,385

At December 31, 2003 and 2002, the assumptions used to determine the benefit obligation are as follows:

	December 31,	
	2003	*2002*
Discount rate	6.25%	6.50%
Rate of compensation increase	6.00%	6.00%

The components of net periodic pension cost are as follows:

	Years Ended December 31,		
	2003	*2002*	*2001*
		(in thousands)	
Service cost	$ 202	$ 114	$ 96
Interest cost	170	165	138
Expected return on plan assets	(154)	(155)	(144)
Amortization of prior service cost	19	19	19
Recognized net actuarial loss	31	15	26
	$ 268	$ 158	$ 135

For the years ended December 31, 2003, 2002 and 2001, the assumptions used to determine net periodic pension cost are as follows:

	Years Ended December 31,		
	2003	*2002*	*2001*
Discount rate	6.50%	7.00%	7.75%
Expected long-term rate of return on plan assets	6.50%	7.00%	7.75%
Annual salary increase	6.00%	6.00%	6.00%

[Include a description of the basis used to determine the overall expected long-term rate of return on assets assumption.]

The Corporation's pension plan weighted average asset allocations at December 31, 2003 and 2002.

	Percentage of Plan Assets at December 31,	
Asset Category	*2003*	*2002*
Equity securities	40%	48%
Debt securities	60	52
Total	100%	100%

Equity securities include the Corporation's common stock in the amounts of $88 million (4% of total plan assets) and $132 million (6% of total plan assets) at December 31, 2003 and 2002, respectively

[Include a description of investment strategies and policies employed including target allocation percentages(s) if they are used, and other pertinent factors such as investment goals, risk management practices, allowable and prohibited investment types, including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations.]

The Corporation expects to contribute $120,000 to its pension plan in 2004.

[The following disclosure is required for years ending after, or quarters beginning after, June 15, 2004.]

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

2004	$200
2005	208
2006	215
2007	225
2008	235
Years 2009–2013	5,312

401(k) Plan

The Corporation has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute up to 15 percent of their compensation subject to certain limits based on federal tax laws. The Corporation makes matching contributions equal to 25 percent of the first 6 percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee equally over a five-year period. For the years ended December 31, 2003, 2002 and 2001, expense attributable to the Plan amounted to $50,000, $45,000 and $20,000, respectively.

Note 19: Stock Compensation Plans

Under the Corporation's Employee Stock Option Plan, the Corporation may grant options to its directors, officers and employees for up to 368,000 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price of each option equals the market price of the Corporation's stock on the date of grant and an option's maximum term is ten years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2003	*2002*	*2001*
Dividend yield	1.5%	1.5%	1.5%
Expected life	6 years	5 years	5 years
Expected volatility	24%	29%	28%
Risk-free interest rate	6.5%	6.5%	7.5%

A summary of the status (shares in thousands) of the Corporation's stock option plan is presented below:

	2003		*2002*		*2001*	
	Shares	*Weighted Average Exercise Price*	*Shares*	*Weighted Average Exercise Price*	*Shares*	*Weighted Average Exercise Price*
Outstanding at beginning of year	286	$11.17	244	$10.50	244	$10.50
Granted	—	—	76	13.00	—	—
Exercised	(10)	10.50	(27)	10.50	—	—
Forfeited	(19)	14.00	(7)	10.50	—	—
Outstanding at end of year	257	$11.30	286	$11.17	244	$10.50
Options exercisable at year-end	181	$10.50	242	$10.50	206	$10.50
Weighted-average fair value of options granted during the year	$ —		$4.19		$ —	

Information pertaining to options (in thousands) outstanding at December 31, 2003 is as follows:

	Options Outstanding			*Options Exercisable*	
Range of Exercise Prices	*Number Outstanding*	*Weighted Average Remaining Contractual Life*	*Weighted Average Exercise Price*	*Number Exercisable*	*Weighted Average Exercise Price*
$10.00 – $12.00	221	3.6 years	$10.50	181	$10.50
$12.25 – $14.25	36	5.0 years	14.00	—	—
Outstanding at end of year	257	3.8 years	$11.30	181	$10.50

Note 20: Related Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $3,559,000 at December 31, 2003 and $3,462,000 at December 31, 2002. During the year ended December 31, 2003, total principal additions were $184,000 and total principal payments were $87,000.

Deposits from related parties held by the Bank at December 31, 2003 and 2002 amounted to $14,000,000 and $12,000,000, respectively.

Note 21: Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10 percent of the Bank's capital stock and surplus on a secured basis.

At December 31, 2003, the Bank's retained earnings available for the payment of dividends was $10,837,000. Accordingly, $59,449,000 of the Corporation's equity in the net assets of the Bank was restricted at December 31, 2003. Funds available for loans or advances by the Bank to the Corporation amounted to $5,296,000.

In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 22: Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

Cash and cash equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Interest-bearing deposits in banks

The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Trading assets

Fair values for trading account securities, which also are the amounts recognized in the consolidated balance sheet, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Securities

Fair values for securities, excluding Federal Home Loan Bank stock, are based on quoted market prices. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Mortgage loans held for sale

Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans receivable

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit liabilities

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Long-term borrowings

The fair values of the Corporation's long-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest

The carrying amounts of accrued interest approximate fair value.

Derivative financial instruments

Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. Fair values for on-balance-sheet commitments to originate loans held for sale are based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also consider the difference between current levels of interest rates and the committed rates.

Off-balance sheet credit-related instruments

Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values, and related carrying or notional amounts, of the Corporation's financial instruments are as follows:

	December 31,			
	2003		2002	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 12,886	$ 12,886	$ 8,465	$ 8,465
Interest-bearing deposits in banks	7,000	7,000	6,584	6,584
Trading assets	8,059	8,059	3,000	3,000
Securities available-for-sale	39,391	39,391	52,653	52,653
Securities held-to-maturity	11,853	12,021	—	—
Federal Home Loan Bank stock	5,186	5,186	5,186	5,186
Loans and loans held for sale, net	411,855	412,300	410,085	411,056
Customers' liability on acceptances	1,000	1,000	—	—
Accrued interest receivable	3,823	3,823	4,081	4,081
Financial liabilities:				
Deposits	376,537	378,200	358,121	359,270
Federal funds purchased and repurchase agreements	20,385	21,000	37,900	38,000
Long-term debt	35,501	34,000	27,705	26,000
Accrued interest payable	565	565	489	489
On-balance sheet derivative financial instruments:				
Rate lock commitments– liabilities	15	15	—	12
Interest rate swap agreements: Assets	—	—	61	61
Liabilities	570	570	140	140
Off-balance sheet credit related instruments:				
Commitments to extend credit	—	30	—	42

Note 23: Condensed Financial Statements of Parent Company

Financial information pertaining only to Sample Bancorp, Inc. is as follows:

Balance Sheets	December 31, 2003	December 31, 2002
	(in thousands)	
Assets		
Cash and due from banks	$ 23	$ 41
Short-term investments with ABC Savings Bank	4,525	4,292
Total cash and cash equivalents	4,548	4,333
Investment in common stock of ABC Savings Bank	70,286	69,262
Other assets	324	371
Total assets	$75,158	$73,966
Liabilities and Stockholders' Equity		
Accrued expenses	$ 158	$ 158
Other liabilities	362	855
Total liabilities	520	1,013
Stockholders' equity	74,638	72,953
Total liabilities and stockholders' equity	$75,158	$73,966

Statements of Income	*Years Ended December 31,* 2003	2002	2001
		(in thousands)	
Income:			
Dividends from ABC Savings Bank	$ 5,000	$5,000	$ —
Interest on investments	183	156	567
Miscellaneous income	18	4	—
Total income	5,201	5,160	567
Operating expenses	276	396	298
Income before income taxes and equity in undistributed net income of ABC Savings Bank	4,925	4,764	269
Applicable income tax provision (benefit)	2	(74)	108
	4,923	4,838	161
Equity in undistributed net income (loss) of ABC Savings Bank	(2,196)	(941)	5,335
Net income	$ 2,727	$3,897	$5,496
Statements of Cash Flows			
Cash flows from operating activities:			
Net income	$2,727	$3,897	$5,496
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net loss (income) of ABC Savings Bank	1,984	857	(5,335)
Decrease (increase) in other assets	47	(144)	91
Increase (decrease) in accrued expenses	—	(78)	108
Increase (decrease) in other liabilities	(493)	467	(201)
Net cash provided by operating activities	4,265	4,999	159
Cash flows from investing activities:			
Sales and maturities of debt securities	—	—	3,000
Net cash used for investing activities	—	—	3,000
Cash flows from financing activities:			
Proceeds from issuance of treasury stock under stock option plan	104	276	—
Payments to acquire treasury stock	(2,674)	(3,968)	(8,340)
Cash dividends paid on common stock	(1,480)	(1,464)	(1,313)
Net cash used for financing activities	(4,050)	(5,156)	(9,653)
Net increase (decrease) in cash and cash equivalents	215	(157)	(6,494)
Cash and cash equivalents at beginning of year	4,333	4,490	10,984
Cash and cash equivalents at end of year	$4,548	$4,333	$4,490

Note 24: Segment Reporting

The Corporation has two reportable segments, the consumer bank and the commercial bank. The consumer bank segment provides customers such products as credit cards, mortgages and automobile financing. The commercial bank segment provides its commercial customers such products as working capital loans, equipment loans and leases, and other business financing arrangements.

Information about reportable segments, and reconciliation of such information to the consolidated financial statements as of and for the years ended December 31, follows:

2003	Consumer	Commercial	Intersegment Elimination	Other	Consolidated Totals
			(in thousands)		
Net interest income	$ 9,526	$ 6,261	$—	$ 183	$ 15,970
Other revenue—external customers	851	363	—	—	1,214
Other revenue—from other segments	—	60	(60)	—	—
Depreciation and amortization	257	103	—	—	360
Provision for loan losses	59	275	—	—	334
Provision for foreclosed asset losses	441	805	—	—	1,246
Profit (loss)	3,927	2,589	—	(3,789)	2,727
Assets	310,080	200,585	(50)	347	510,962
Expenditures for additions to premises and equipment	1,156	580	—	—	1,736
2002					
Net interest income	$ 8,221	$ 6,571	$—	$ 156	$ 14,948
Other revenue—external customers	635	472	—	—	1,107
Other revenue—from other segments	—	75	(75)	—	—
Depreciation and amortization	203	136	—	—	339
Provision for loan losses	245	500	—	—	745
Provision for foreclosed asset losses	—	75	—	—	75
Profit (loss)	4,390	2,691	—	(3,184)	3,897
Assets	349,234	149,671	—	412	499,317
Expenditures for additions to premises and equipment	55	80	—	—	135
2001					
Net interest income	$ 9,074	$ 4,886	$—	$ 567	$ 14,527
Other revenue—external customers	815	449	—	—	1,264
Other revenue—from other segments	—	78	(78)	—	—
Depreciation and amortization	169	125	—	—	294
Provision for loan losses	90	180	—	—	270
Profit (loss)	6,303	2,101	—	(2,908)	5,496
Assets	285,270	190,180	—	370	475,820
Expenditures for additions to premises and equipment	—	364	—	—	364

Amounts included in the "Other" column are as follows:

	2003	2002	2001
		(in thousands)	
Net interest income:	$ 183	$ 156	$ 567
Parent company			
Profit (loss)			
Parent company operating expenses, net of miscellaneous income	$ (260)	$ (318)	$ (406)
Income taxes not allocated to segments	(1,818)	(2,538)	(4,094)
Net gain (loss) on sales of available-for-sale securities and trading activities not allocated to segments	(1,711)	(328)	1,592
	$(3,789)	$(3,184)	$(2,908)
Segment assets:			
Parent company assets, after intercompany elimination	$ 347	$ 412	$ 370

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains or losses.

The Corporation's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Corporation derives a majority of its revenues from interest income and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segments and make decisions about resources to be allocated to the segment. Therefore, the segments are reported below using net interest income for the years ended December 31. The Corporation does not allocate income taxes to the segments. Other revenue represents non-interest income, exclusive of the net gain (loss) on sales of available-for-sale securities and the net gain (loss) on trading activities which are also not allocated to the segments.

The Corporation does not have operating segments other than those reported. Parent company financial information is included in the Other category, and is deemed to represent an overhead function rather than an operating segment.

The Corporation does not have a single external customer from which it derives 10 percent or more of its revenues and operates in one geographical area.

SAMPLE BANCORP, INC. AND SUBSIDIARY

Note 25: Quarterly Data (Unaudited)

	Years Ended December 31,							
	2003				2002			
	Fourth Quarter	*Third Quarter*	*Second Quarter*	*First Quarter*	*Fourth Quarter*	*Third Quarter*	*Second Quarter*	*First Quarter*
	(in thousands, except per share data)							
Interest and dividend income	$11,841	$11,835	$11,765	$11,807	$11,649	$11,643	$11,198	$10,915
Interest expense	(7,846)	(7,804)	(7,838)	(7,790)	(7,759)	(7,816)	(7,724)	(7,158)
Net interest income	3,995	4,031	3,927	4,017	3,890	3,827	3,474	3,757
Provision for loan losses	(105)	(61)	(117)	(51)	(271)	(294)	(114)	(66)
Net interest income, after provision for loan losses	3,890	3,970	3,810	3,966	3,619	3,533	3,360	3,691
Noninterest income (charges)	(881)	(367)	339	412	(159)	372	287	279
Noninterest expenses	(2,965)	(2,642)	(2,543)	(2,444)	(2,111)	(2,334)	(2,154)	(1,948)
Income before income taxes	44	961	1,606	1,934	1,349	1,571	1,493	2,022
Provision for income taxes	(25)	(391)	(650)	(752)	(517)	(683)	(578)	(760)
Net income	$ 19	$ 570	$ 956	$ 1,182	$ 832	$ 888	$ 915	$ 1,262
Earnings per common share:								
Basic	$ 0.01	$ 0.23	$ 0.38	$ 0.48	$ 0.30	$ 0.32	$ 0.32	$ 0.45
Diluted	$ 0.01	$ 0.22	$ 0.37	$ 0.45	$ 0.28	$ 0.30	$ 0.31	$ 0.42

[Note: Footnote explanations of significant fluctuations.]

ILLUSTRATIVE FINANCIAL STATEMENTS FOR CREDIT UNIONS

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SAMPLE FEDERAL CREDIT UNION AND SUBSIDIARY

Consolidated Statements of Financial Condition

Years Ended December 31, 20X3 and 20X2

	20X3	*20X2*
	(in thousands)	
Assets		
Cash and cash equivalents	$ 749	$ 689
Trading assets	93	81
Securities available-for-sale	33,589	21,331
Securities held-to-maturity	10,755	6,680
Loans held for sale	10,918	11,322
Loans, net	53,699	58,951
Accrued interest receivable	848	518
Foreclosed and repossessed assets	79	51
Premises and equipment	2,206	2,146
NCUSIF deposit	849	829
Other assets	337	203
Total assets	$114,122	$102,801
Liabilities and Members' Equity		
Members' shares and savings accounts	$ 92,901	$ 85,135
Borrowed funds	9,622	7,533
Accrued interest payable	160	166
Accrued expenses and other liabilities	49	39
Total liabilities	102,732	92,873
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	2,253	2,253
Undivided earnings	7,949	6,886
Accumulated other comprehensive income	1,188	789
Total members' equity	11,390	9,928
Total liabilities and members' equity	$114,122	$102,801

See accompanying notes to consolidated financial statements.

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SAMPLE FEDERAL CREDIT UNION AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 20X3 and 20X2

	20X3	*20X2*
	(in thousands)	
Interest income:		
Loans	$ 7,261	$7,809
Trading assets	11	8
Securities available-for-sale	2,466	1,280
Securities held-to-maturity	538	322
Other	21	13
Total interest income	10,297	9,432
Interest expense:		
Members' share and savings accounts	5,807	5,370
Borrowed funds	825	700
Total interest expense	6,632	6,070
Net interest income	3,665	3,362
Provision for loan losses	900	966
Net interest income after provision for loan losses	2,765	2,396
Non-interest income:		
Net gains on sales of securities available-for-sale	36	44
Net gains of trading assets	3	4
Net losses on sales of loans	(15)	(10)
Commitment fees	93	43
Loan servicing fees	715	411
Insurance commissions	22	35
Other	46	23
Total non-interest income	900	550
Non-interest expense:		
Compensation and benefits	1,162	1,040
Occupancy	748	648
Other	692	517
Total non-interest expense	2,602	2,205
Net income	$ 1,063	$ 741

See accompanying notes to consolidated financial statements.

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SAMPLE FEDERAL CREDIT UNION AND SUBSIDIARY

Consolidated Statements of Members' Equity

Years Ended December 31, 20X3 and 20X2

	Regular Reserve	*Undivided Earnings*	*Net Unrealized Accumulated Other Comprehensive Income (Loss)*	*Total*
		(in thousands)		
Balance, at January 1, 20X1	$2,253	$6,145	$ 587	$ 8,985
Comprehensive income:				
Net income	—	741	—	741
Change in unrealized gain on securities available-for-sale	—	—	202	202
Total comprehensive income				941
Balance, at December 31, 20X2	2,253	6,886	789	9,928
Comprehensive income:				
Net income	—	1,063	—	1,063
Change in unrealized gain on securities available-for-sale	—	—	399	399
Total comprehensive income				1,462
Balance, at December 31, 20X3	$2,253	$7,949	$1,188	$11,390

See accompanying notes to consolidated financial statements.

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SAMPLE FEDERAL CREDIT UNION AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 20X3 and 20X2

	20X3	*20X2*
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 1,063	$ 741
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	208	173
Amortization of mortgage servicing rights	12	10
Capitalization of mortgage servicing rights	(20)	(37)
Amortization of deferred loan (fees) costs, net	(2)	6
Amortization (accretion) of securities, net	69	(57)
Provision for loan losses	900	966
Provision for foreclosed asset losses	10	12
Realized gain on sale of securities available-for-sale, net	(36)	(44)
Net change in:		
Trading securities	(12)	(21)
Loans held-for-sale	404	320
Accrued interest receivable	(330)	144
Other assets	(126)	(32)
Accrued interest payable	(6)	23
Accrued expenses and other liabilities	10	3
Net cash provided by operating activities	2,144	2,207
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	6,894	1,904
Purchases of securities available-for-sale	(18,756)	(5,585)
Proceeds from maturities of securities held-to-maturity	2,184	3,901
Purchases of securities held-to-maturity	(6,289)	(3,952)
Purchases of loans	(1,278)	(2,838)
Net change in loans	5,617	(9,491)
Increase in NCUSIF deposit	(20)	(28)
Proceeds from sales of other real estate	12	26
Net expenditures on other real estate	(35)	(30)
Proceeds from sale of property and equipment	65	162
Purchases of property and equipment	(333)	(438)
Net cash used in investing activities	(11,939)	(16,369)
Cash flows from financing activities:		
Net increase in members' shares and savings accounts	7,766	13,078
Proceeds from borrowings	2,500	1,200
Repayment of borrowed funds	(411)	(305)
Net cash provided by financing activities	9,855	13,973
Net increase (decrease) in cash and cash equivalents	60	(189)
Cash and cash equivalents at beginning of year	689	878
Cash and cash equivalents at end of year	$ 749	$ 689
Additional cash flow information:		
Interest paid	6,638	6,047
Transfers from loans to other real estate	15	30
Loans transferred to held-for-sale	—	—

See accompanying notes to consolidated financial statements.

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SAMPLE FEDERAL CREDIT UNION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 20X3 and 20X2

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Sample Federal Credit Union (the Credit Union) and its wholly owned subsidiary, Sample CUSO (the CUSO), a credit union service organization that provides insurance brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Nature of Operations

The Credit Union operates seven branches in the Midwest. The Credit Union's primary source of revenue is providing loans to members who are present and former employees of ABC Corporation and their families.

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 that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

Most of the Credit Union's business activity is with its members who are employees or former employees of ABC Corporation.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and securities purchased under agreements to resell, all of which mature within ninety days.

Trading Activities

Trading securities consisting of U.S. government bonds and mortgage-backed securities are carried at their fair values. Realized and unrealized gains and losses on trading securities are recognized in the statement of income as they occur. Quoted market prices are used to determine the fair value of trading instruments.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-then-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Credit Union. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

The Credit Union grants mortgage, commercial and consumer loans to members. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Midwest. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the profitability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments, except as described below, are recorded when they are funded.

Derivative Financial Instruments and Change in Accounting Principle

On January 1, 2001, the Credit Union adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value.

On March 13, 2002, the Financial Accounting Standards Board ("FASB") determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments, effective for fiscal quarters beginning after April 10, 2002. Accordingly, the Credit Union adopted such accounting on July 1, 2002.

The Credit Union enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. Prior to July 1, 2002, such commitments were recorded to the extent of fees received. Fees received were subsequently included in the net gain or loss on sale of mortgage loans. The cumulative effect of adopting SFAS No. 133 for rate lock commitments as of July 1, 2002 was not material.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Building, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 20X3 and 20X2 insurance premium.

Members' Shares and Savings Accounts

Members' shares are subordinated to all other liabilities of the credit union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the credit union. Interest rates on members' share accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest.

Income Taxes

The Credit Union is exempt, by statute, from federal and state income taxes. The CUSO, however, is subject to federal and state income taxes. Operations of the CUSO resulted in no income taxes for the years ended 20X3 and 20X2.

Pension Plan

The Credit Union has a qualified, noncontributory defined-benefit pension plan covering substantially all of its employees. The Credit Union's policy is to fund the minimum amount required under ERISA.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. The components of the change in accumulated other comprehensive income are as follows:

	Years Ended December 31,	
	2003	*2002*
	(in thousands)	
Net unrealized holding gains on securities available-for-sale	$435	$246
Reclassification adjustment for gains realized in income	(36)	(44)
	$399	$202

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), which covers guarantees such as standby letters of credit, performance guarantees, and direct or indirect guarantees of the indebtedness of others, but not guarantees of funding. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee, and requires disclosure about the maximum potential payments that might be required, as well as the collateral or other recourse obtainable. The recognition and measurement provisions of FIN 45 were effective on a prospective basis after December 31, 2002, and its adoption by the Credit Union on January 1, 2003 had no effect on the Credit Union's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46) which establishes guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. Transferors to qualified special-purpose entities ("QSPEs") and certain other interests in a QSPE are not subject to the requirements of FIN 46. On December 17, 2003, the FASB revised FIN 46 (FIN 46R) and generally deferred the effective date of FIN 46 for the Credit Union until December 31, 2004. The Interpretation had no effect on the Credit Union's consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and for hedging relationships designated after June 30, 2003. This Statement had no effect on the Credit Union's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement provides new rules on the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. Such financial instruments include mandatorily redeemable shares, instruments that require the issuer to buy back some of its shares in exchange for cash or other assets, or obligations that can be settled with shares, the monetary value of which is fixed. Most of the guidance in SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 30, 2003. This Statement had no effect on the Credit Union's consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Postretirement Benefits." This Statement requires additional disclosures about the assets, obligations and cash flows of defined benefit pension and postretirement plans, as well as the expense recorded for such plans. As of December 31, 2003, the Credit Union has disclosed the required elements related to its defined benefit pension plan in Note 15 to these consolidated financial statements.

Note 2: Restrictions on Cash

The Credit Union is required to maintain balances with a corporate credit union as membership shares that are uninsured and require a three-year notice before withdrawal. The balance of the membership shares account is based upon one percent of the Credit Union's year-end members' share balance and is adjusted annually on January 1 of each year to a maximum of $1,000,000. The Credit Union was also required to maintain other compensating balances with the corporate credit union in the amount of $267,000 and $359,000 at December 31, 2003 and 2002 respectively.

Note 3: Trading Activities

Trading assets, which are carried at fair value, consist of the following:

	December 31,	
	20X3	*20X2*
	(in thousands)	
U.S. Government and agency securities	$ 24	$ —
Mortgage-backed securities	69	81
	$ 93	$ 81

Unrealized holding gains on trading assets of $3,000 and $4,000 were included in earnings during 20X3 and 20X2, respectively.

Note 4: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Securities Available-for-Sale				
December 31, 20X3:				
U.S. Government and federal agency obligations	$31,278	$1,232	$(243)	$32,267
Mortgage-backed securities	1,123	231	(32)	1,322
	$32,401	$1,463	$(275)	$33,589
December 31, 20X2:				
U.S. Government and federal agency obligations	$19,251	$1,135	$(239)	$20,147
Mortgage-backed securities	1,291	—	(107)	1,184
	$20,542	$1,135	$(346)	$21,331
Securities Held-to-Maturity				
December 31, 20X3:				
U.S. Government and federal agency obligations	$10,755	$ 389	$ (77)	$11,067
December 31, 20X2:				
U.S. Government and federal agency obligations	$ 6,680	$ 58	$ (79)	$ 6,659

Gross gains of $50,000 and $46,000 and gross losses of $14,000 and $2,000 from sales of securities available-for-sale were realized in 20X3 and 20X2, respectively.

At December 31, 20X3 and 20X2, securities carried at approximately $9,843,000 and $7,991,000 respectively, were pledged as collateral to secure borrowed funds.

The scheduled maturities of securities held-to-maturity and available-for-sale at December 31, 20X3 were as follows :

	Available-For-Sale		Held-To-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in thousands)		
Due in one year or less	$24,668	$24,286	$ 8,560	$ 9,472
Due from one to five years	5,444	6,394	2,074	1,484
Due from five to ten years	397	713	85	73
Due after ten years	769	874	36	38
	31,298	32,267	10,755	11,067
Mortgage-backed securities	1,123	1,322	—	—
	$32,401	$33,589	$10,755	$11,067

Information pertaining to securities with gross unrealized losses at December 31, 20X3, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available-for-Sale				
U.S. Government and federal agency	$203	$6,767	$ 40	$1,333
Mortgaged-backed	32	1,005	—	—
Total securities available-for-sale	$235	$7,772	$ 40	$1,333
Securities Held-to-Maturity				
U.S. Government and federal agency	$ 77	$3,850	$ —	$ —

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 20X3, the six debt securities with unrealized losses have depreciated 3% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

Note 5: Loans

The composition of loans to members is as follows:

	December 31,	
	20X3	20X2
	(in thousands)	
Automobile	$29,906	$32,464
Mortgage	12,409	12,658
Unsecured	9,401	11,856
Business	919	816
Lines of credit	612	533
Share-secured loans	893	1,215
Education	215	191
Credit card loans	544	—
Other	238	242
Net deferred loan origination fees	(281)	(264)
	54,856	59,711
Allowance for loan losses	(1,157)	(760)
	$53,699	$58,951

A summary of the activity in the allowance for loan losses is as follows:

	Years Ended December 31,	
	20X3	*20X2*
	(in thousands)	
Balance at beginning of year	$ 760	$ 500
Provision for loan losses	900	966
Loans charged-off	(594)	(791)
Recoveries of loans previously charged-off	91	85
Balance at end of year	$1,157	$ 760

A summary of impaired and non-accrual loans is as follows :

	December 31,	
	20X3	*20X2*
	(in thousands)	
Impaired loans without an allowance	$219	$260
Impaired loans with an allowance	400	500
Total impaired loans	$619	$760
Allowance for impaired loans	$150	$186
Non-accrual loans	$529	$601
Loans 90 days past-due and still accruing	102	109

	Years Ended December 31,	
	20X3	*20X2*
	(in thousands)	
Average balance of impaired loans	$578	$742
Interest income recognized on impaired loans	56	59
Cash-basis interest included in interest income	56	59

Note 6: Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $10,036,000 and $10,337,000 at December 31, 20X3 and 20X2, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $612,000 and $591,000 at December 31, 20X3 and 20X2, respectively.

The balance of capitalized servicing rights, net of valuation allowances, is included in other assets. The fair values of these rights were $43,000 and $51,000 at December 31, 20X3 and 20X2, respectively. The fair value of servicing rights was determined using discount rates ranging from x% to x% and prepayment speeds ranging from x% to x%, depending upon the stratification of the specific right, and a weighted average default rate of x%.

The following summarizes the activity pertaining to mortgage servicing rights, along with the aggregate activity in related valuation allowances:

	Years Ended December 31,	
	20X3	20X2
	(in thousands)	
Mortgage servicing rights:		
Balance at beginning of year	$ 52	$ 25
Mortgage servicing rights capitalized	20	37
Mortgage servicing rights amortized	(21)	(10)
Provision for loss in fair value	(8)	—
Balance at end of year	$ 43	$ 52
Valuation allowances:		
Balance at beginning of year	$ —	$ —
Additions	8	5
Reductions	—	(5)
Write-downs	—	—
Balance at end of year	$ 8	$ —

Note 7: Premises and Equipment

Premises and equipment at is summarized as follows:

	December 31,	
	20X3	20X2
	(in thousands)	
Land	$53	$53
Building	1,553	1,530
Furniture and fixtures	982	874
Office equipment	144	37
Leasehold improvements	110	110
	2,842	2,604
Accumulated depreciation and amortization	(636)	(458)
	$2,206	$2,146

At December 31, 20X3, the Credit Union was obligated under noncancelable operating leases for office space. Certain leases contain escalation clauses providing for increased rentals based primarily on increases in real estate taxes or in the average consumer price index. Net rent expense under operating leases, included in occupancy expenses, was $213,000 and $199,000 for the years ended December 31, 20X3 and 20X2, respectively.

The required minimum rental payments under the terms of the leases at December 31, 20X3, net of sublease rentals, are as follows *(in thousands)*:

Years Ending December 31	
20X4	$206
20X5	192
20X6	180
20X7	99
20X8	99
Thereafter	115
	$891

Note 8: Members' Shares and Savings Accounts

The aggregate amounts of members' share and savings accounts in denominations of $100,000 or more at December 31, 20X3 and 20X2 were $6,291,000 and $5,834,000, respectively.

At December 31, 20X3, scheduled maturities of share certificates are as follows *(in thousands)*:

Years Ending December 31	
20X4	$11,847
20X5	3,417
20X6	1,682
20X7	812
20X8	674
Thereafter	230
	$18,662

Note 9: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Credit Union may be required to provide additional collateral based on the fair value of the underlying securities. There were no amounts outstanding at December 31, 20X3 or 20X2.

Note 10: Borrowed Funds

Borrowed funds consist of the following:

	December 31,	
	20X3	*20X2*
	(in thousands)	
Note payable to Corporate Credit Union, variable rate (6.5% at December 31, 20X3), due 20X4, secured	$5,840	$6,115
Note payable to bank, interest at bank prime rate (6.5% at December 31, 20X3) payable in quarterly interest and annual principal installments through December 31, 20X9, unsecured	3,782	1,418
	$9,622	$7,533

Scheduled maturities of borrowed funds at December 31, 20X3, are as follows *(in thousands)*:

Years Ending December 31	
20X4	$6,392
20X5	1,599
20X6	816
20X7	503
20X8	210
Thereafter	102
	$9,622

The Credit Union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting their short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 20X3, the Credit Union had not borrowed from this Facility.

Note 11: Off-Balance-Sheet Activities

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amount recognized in the financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the financial statements.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	20X3	*20X2*
	(in thousands)	
Commitments to grant loans	$6,325	$6,454
Unfunded commitments under lines of credit	8,669	9,543

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate and member share balances.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

Note 12: On-Balance Sheet Derivative Instruments

The Credit Union enters into rate lock commitments to extend credit to borrowers for generally a 30-day or 60-day period for the origination and/or purchase of loans. Unfunded loans for which commitments have been entered into are called "pipeline loans." Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Credit Union to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

On March 13, 2002, FASB determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. Accordingly, the Credit Union adopted such accounting on July 1, 2002, and such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates.

The notional amount of interest rate lock commitments was $2,500,000 and $2,000,000 at December 31, 20X3 and 20X2, respectively, and the related fair value was a liability of $10,000 and $12,000, respectively.

Note 13: Legal Contingencies

The Credit Union is a party to various legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the financial condition or results of operations of the Credit Union.

Note 14: Capital Requirements

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined) to total assets (as defined). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 20X3 and 20X2 was 6.50%. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 20X3 and 20X2, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 20X3, the most recent call reporting period, NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Credit Union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNWR. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios at December 31, 20X3 and 20X2 are also presented in the table*:*

	Actual		*To Be Adequately Capitalized Under Prompt Corrective Action Provisions*		*To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(dollars in thousands)			
December 31, 20X3						
Net Worth	$10,202	9.0%	$6,847	6.0%	$7,989	7.0%
Risk-Based Net Worth Requirement	$7,418	6.5%	N/A	N/A	N/A	N/A
December 31, 20X2						
Net Worth	$9,139	8.9%	$6,168	6.0%	$7,196	7.0%
Risk-Based Net Worth Requirement	$6,682	6.5%	N/A	N/A	N/A	N/A

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the *[select one: average of the quarter-end balances of the four most recent quarters, monthly average over the quarter, daily average over the quarter, or quarter-end balance]* option, as permitted by regulation.

Note 15: Pension Plan

The Credit Union has a qualified, noncontributory, defined-benefit pension plan covering substantially all of its employees. The benefits are based on each employee's years of service up to a maximum of twenty years, and the average of the highest five consecutive annual salaries of the ten years prior to retirement. The benefits are reduced by a specified percentage of the employee's social security benefit. An employee becomes fully vested upon completion of one year of qualifying service.

DISCLOSURES REQUIRED FOR YEARS ENDING ON OR BEFORE JUNE 15, 2004:

The following sets forth information regarding the plan, using a measurement date of December 31:

	December 31,	
	20X3	*20X2*
	(dollars in thousands)	
Benefit obligation	$ 992	$ 981
Fair value of plan assets	1,021	1,007
	$ 29	$ 26
Prepaid pension cost (included in other assets)	$ 55	$ 47
Assumptions used to determine benefit obligation:		
Discount rate	6.25%	6.50%
Rate of compensation increase	5.00%	5.00%

	Years Ended December 31,	
	20X3	*20X2*
	(dollars in thousands)	
Net pension cost	$ 32	$ 30
Employer contribution	$ 10	$ —
Plan participants' contributions	$ —	$ —
Benefits paid	$ 25	$ 23
Assumptions used to determine net pension cost:		
Discount rate	6.50%	6.75%
Expected long-term return on plan assets	6.50%	6.75%
Rate of compensation increase	5.00%	5.00%

DISCLOSURES REQUIRED FOR YEARS ENDING AFTER JUNE 15, 2004:

The following sets forth information regarding the plan:

	December 31,	
	20X3	*20X2*
	(dollars in thousands)	
Benefit obligation	$ 992	$ 81
Fair value of plan assets	1,021	1,007
	$ 29	$ 26
Prepaid pension cost (included in other assets)	$ 55	$ 47
Accumulated benefit obligation	$ 854	$ 806
Assumptions used to determine benefit obligation:		
Discount rate	6.25%	6.50%
Rate of compensation increase	5.00%	5.00%

	Years Ended December 31,	
	20X3	*20X2*
	(dollars in thousands)	
Net pension cost	$ 32	$ 30
Employer contribution	$ 10	$ —
Plan participants' contributions	$ —	$ —
Benefits paid	$ 25	$ 23
Assumptions used to determine net pension cost:		
Discount rate	6.50%	6.75%
Expected long-term return on plan assets	6.50%	6.75%
Rate of compensation increase	5.00%	5.00%

[Include a narrative description for the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectation of future returns, and how those adjustments were determined.]

The Credit Union's pension plan weighted-average asset allocations by asset category are as follows:

	December 31,	
	20X3	*20X2*
Equity securities	40%	48%
Debt securities	60%	52%
	100%	100%

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

The Credit Union expects to contribute $10,000 to the plan in 20X4.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows *(in thousands):*

20X4	$ 28
20X5	31
20X6	33
20X7	37
20X8	42
20X9–20Y3	225

Note 16: Related Party Transactions

In the normal course of business, the Credit Union extends credits to directors, supervisory committee members and executive officers. The aggregate loans at December 31, 20X3 and 20X2 are $483,000 and $527,000. Deposits from related parties at December 31, 20X3 and 20X2 amounted to $114,000 and $112,000 respectively.

Note 17: Fair Values of Financial Instruments[1]

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Credit Union's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Credit Union.

The following methods and assumptions were used by the Credit Union in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents

The carrying amounts of cash and cash equivalents approximate their fair value.

Trading, available-for-sale, and held-to-maturity securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit-card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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[1] FASB Statement No. 126, *Exemption From Certain Required Disclosures About Financial Instruments for Certain Nonpublic Enitities, an Amendment of FASB Statement No. 107*, amends FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*, to make the disclosures about fair value of financial instruments prescribed in FASB Statement No. 107 optional for entities that meet all of the following criteria:

a. The entity is a nonpublic entity.

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

c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, during the reporting period.

Shares

The fair values disclosed for share draft and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term share certificates approximate their fair values at the reporting date. Fair values for fixed-rate shares and share certificates are estimated using a discounted cash flow calculation that applies interest rates currently being offered on shares and certificates to a schedule of aggregated expected monthly maturities on shares and certificates.

Short-term borrowings

The carrying amounts of short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Credit Union's current incremental borrowing rates for similar types of borrowing arrangements.

Long-term debt

The fair values of the Credit Union's long-term debt are estimated using discounted cash flow analyses based on the Credit Union's incremental borrowing rates for similar types of borrowing arrangements.

Derivative financial instruments

Fair values for on-balance-sheet commitments to originate loans held for sale are based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also consider the difference between current levels of interest rates and the committed rates.

Accrued interest

The carrying amounts of accrued interest approximate their fair values.

Off-balance-sheet credit-related instruments

Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the borrowers' credit standings.

The estimated fair values of the Credit Union's financial instruments are as follows:

	December 31,			
	20X3		*20X2*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 749	$ 749	$ 689	$ 689
Trading assets	93	93	81	81
Securities available-for-sale	33,589	33,589	21,331	21,331
Securities held-to-maturity	10,755	11,067	6,680	6,659
Accrued interest receivable	848	848	518	518
Loans held for sale	10,918	10,918	11,322	11,322
Loans	54,856	51,338	59,711	54,700
Less: allowance for loan losses	(1,157)	—	(760)	—
Loans net of allowance for loan losses	53,699	51,338	58,951	54,700
Financial liabilities:				
Members' shares and savings accounts	92,901	90,420	85,135	81,031
Borrowed funds	9,622	9,622	7,533	7,533
On-balance sheet derivative financial instruments:				
Rate lock commitments—liabilities	10	10	—	12
Off-balance sheet credit related instruments:				
Commitments to extend credit	—	20	—	32

ILLUSTRATIVE FINANCIAL STATEMENTS FOR MORTGAGE COMPANIES

.19

SAMPLE MORTGAGE CORPORATION

Balance Sheets

December 31, 2003 and 2002

	20X3	*20X2*
	(in thousands)	
Assets		
Cash	$ 129	$ 1,324
Interest-bearing deposits	460	7,203
Cash and cash equivalents	589	8,527
Mortgage loans held for sale	35,339	12,268
Mortgage servicing rights	5,313	4,373
Premises and equipment, net	1,750	1,785
Foreclosed assets	109	—
Delinquency and escrow advances	1,084	1,617
Refundable income taxes	—	110
Derivative assets	365	171
Other assets	3,290	2,700
Total assets	$47,839	$31,551
Liabilities and Stockholders' Equity		
Short-term debt	$36,106	$21,479
Deferred income taxes	951	907
Derivative liabilities	143	88
Other liabilities	1,036	530
Total liabilities	38,093	22,916
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock:		
Voting: par value $1; 5,000 shares authorized, 4,000 shares issued and outstanding	4	4
Nonvoting: par value $1; 5,000 shares authorized, 1,250 shares issued and outstanding	1	1
Additional paid-in capital	5,942	5,942
Retained earnings	3,799	2,688
Total stockholders' equity	9,746	8,635
Total liabilities and stockholders' equity	$47,839	$31,551

The accompanying notes are an integral part of these statements.

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SAMPLE MORTGAGE CORPORATION

Statements of Income and Changes in Retained Earnings

Years Ended December 31, 2003 and 2002

	Years Ended December 31,	
	2003	*2002*
	(in thousands)	
Operating income:		
Loan servicing fees	$3,645	$3,202
Interest income	2,097	1,516
Net gain on sale of mortgage loans	1,032	635
Other income	230	226
Total income	7,004	5,579
Operating expenses:		
Salaries and employee benefits	2,109	2,030
Interest expense	665	434
Occupancy and equipment	353	373
Data processing	138	136
Other general and administrative	1,838	1,848
Total operating expenses	5,103	4,821
Income before income taxes	1,901	758
Income tax expense	790	311
Net income	1,111	447
Retained earnings, beginning of year	2,688	2,241
Retained earnings, end of year	$3,799	$2,688

The accompanying notes are an integral part of these statements.

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SAMPLE MORTGAGE CORPORATION

Statements of Cash Flow

Years Ended December 31, 2003 and 2002

	Years Ended December 31, 2003	Years Ended December 31, 2002
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 1,111	$ 447
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Deferred income tax provision (benefit)	44	(151)
Depreciation	205	179
Amortization of mortgage servicing rights	886	515
Provision for impairment of mortgage servicing rights	80	—
Additions to mortgage servicing rights	(1,906)	(680)
Net gain on mortgage servicing rights derivatives	(76)	(3)
Net gain on pipeline and warehouse loan derivatives	(63)	(27)
Net change in:		
Mortgage loans held for sale	(23,071)	698
Amount receivable from sales of servicing rights	—	641
Refundable income taxes	110	193
Delinquency and escrow advances	533	(860)
Others net	(153)	657
Net activities cash provided (used) by operating	(22,300)	1,609
Cash flows from investing activities:		
Net decrease in money-market deposit account	—	236
Additions to property and equipment	(171)	(77)
Acquisitions of foreclosed assets	(109)	—
Proceeds from sales of foreclosed assets	—	28
Net payments received on derivatives from counterparties	15	1
Net activities cash provided (used) by investing	(265)	188
Cash flows from financing activities:		
Net increase in borrowed funds	14,627	5,712
Principal payments on term notes payable	—	(310)
Net cash provided by financing activities	14,627	5,402
Net change in cash and cash equivalents	(7,938)	7,199
Cash and cash equivalents, beginning of year	8,527	1,328
Cash and cash equivalents, end of year	$ 589	$8,527
Supplemental cash flow information:		
Interest paid	$ 665	$ 434
Income taxes paid	160	329

The accompanying notes are an integral part of these statements.

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SAMPLE MORTGAGE CORPORATION

Notes to Financial Statements

Years Ended December 31, 2003 and 2002

Note 1: Significant Accounting Policies

Basis of presentation

Sample Mortgage Corp. (the "Company") was incorporated for the primary purpose of engaging in mortgage banking, including the origination, purchase, selling and servicing of mortgages. The Company also extends short-term loans to finance construction of residential real estate. The Company grants credit primarily to customers throughout New England.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to prepayment speeds used in the valuation of mortgage servicing rights.

Cash equivalents

Cash equivalents include interest-bearing deposits.

Mortgage loans held for sale

One to four unit residential loans originated and intended for sale in the secondary market which qualify for fair value hedging under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) are carried at fair market value, less the values associated with servicing. Net unrealized gains and losses are recognized as a component of net gain on sale of mortgage loans.

One to four unit residential loans originated and intended for sale in the secondary market which do not qualify for fair value hedging under SFAS No. 133 are carried at the lower of aggregate cost or fair market value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized in a valuation allowance by charges to income.

Cost basis includes unpaid principal balances, origination premiums and discounts and deferred net fees or costs. Loan origination fees and direct loan origination costs are deferred. Premiums and discounts and deferred net fees or costs are not amortized during the period the loans are held for sale.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Commitment fees paid to investors for the right to deliver permanent residential mortgages to those investors in the future at a specified yield, are marked to market through earnings and included in derivative assets and liabilities.

Servicing

The Company purchases mortgage servicing rights (MSRs) separately and acquires MSRs through the sale of loans it purchases or originates. Generally, purchased MSRs are capitalized at the cost to acquire the rights and are carried at the lower of cost, net of accumulated amortization, or fair value, in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140) and SFAS No. 65, *Accounting for Certain Mortgage Banking Activities* (SFAS No. 65). Originated MSRs are capitalized based on the relative fair value of the servicing right to the fair value of the loan and the servicing right and are carried at the lower of the capitalized amount, net of accumulated amortization, or fair value. In addition, the MSR carrying value is further adjusted for changes in fair value resulting from the application of hedge accounting, in accordance with SFAS No. 133. Changes in fair value are recorded in loan servicing fees.

A portion of the cost of originating a mortgage loan is allocated to the mortgage servicing right based on its relative fair value. To determine the fair value of MSRs the Company uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. See Note 2 for more information on the valuation of MSRs.

MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

The Company evaluates the possible impairment of servicing rights based on the difference between the carrying amount and current fair value of the servicing rights. In determining impairment, the Company aggregates all MSRs and stratifies them into tranches based on the predominant risk characteristics of interest rate, loan type and investor type. If impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value, by risk stratification tranche, by a charge to income. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

The Company employs hedging techniques through the use of interest rate floors to reduce the sensitivity of its earnings and value of its servicing rights to changing interest rates and borrower prepayments as further discussed in Note 4. At the inception of the hedge and throughout the hedge period, high effectiveness of the hedge instruments is anticipated. Therefore, changes in the market value of the hedge instruments due to changes in the benchmark interest rate being hedged will substantially offset changes in the market value of MSRs due to these interest rate changes. Both the changes in the market value of the MSR and the offsetting related hedge instruments are marked to market through current income. If high effectiveness did not exist, the hedge instruments would be considered speculative and would be marked to market with changes in market value reflected in current income, and the MSR carrying value would not be adjusted, except for any LOCOM adjustments required in accordance with SFAS No. 140.

The premium paid by the Company on the interest rate floors is recorded as a derivative asset and marked to market through income. Amounts received under the terms of these contracts are recognized as income when received.

Servicing fee income is recorded for fees earned for servicing mortgage loans under servicing agreements with the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and certain private investors. The fees are based on a contractual percentage of the outstanding principal balance or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Property and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Foreclosed assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Changes in the valuation allowance are included in other expenses.

Transfers of financial assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Derivative financial instruments

The Company uses interest rate derivative financial instruments (interest rate floors) primarily to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes caused by declining interest rates. Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets and liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. The Company manages the interest rate risk on rate lock commitments by entering into forward loan sale contracts, whereby the Company obtains the right to deliver residential loans to investors in the future at a specified yield. Such contracts are accounted for as derivatives and, along with related fees paid to investors, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. These instruments serve to reduce the Company's exposure to movements in interest rates, both at inception and throughout the hedge period. At the inception of the hedge, the Company identifies an identifiable group of essentially similar assets that expose the Company to changes in the benchmark interest rate.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (*i.e.*, over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments.

If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity. For hedges of MSRs, the net settlement (upon close out or termination) that offsets changes in the value of the MSRs adjusts the basis of the MSRs and is deferred and amortized to loan servicing income over the life of the MSRs. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedge asset or liability is recognized immediately in noninterest income.

MSR hedges are accounted for as fair value hedges, with changes in fair value recorded in derivative assets or liabilities and loan servicing fees. Rate lock commitments and hedges of forward loan sales are recorded at fair value, with changes in fair value recorded in derivative assets or liabilities and net gain (loss) on sale of mortgage loans. Fair value of interest rate lock commitments excludes net servicing value. The FASB has undertaken a project to clarify SFAS No. 133 with respect to determining the fair value of loan commitments. Interest rate floor premiums are marked to market through earnings and included in derivative assets and liabilities. The fair market value is recorded based on the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date.

Note 2: Mortgage Servicing Rights

Mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $1,398,450,000 and $1,014,230,000, respectively, at December 31, 2003 and 2002.

The fair values of these rights were $5,313,000 and $4,746,000, respectively. The fair value of servicing rights was determined using discount rates ranging from X% to X%, prepayment speeds (CPR) ranging from X% to X%, depending upon the stratification of the specific right, and a weighted average default rate of X%.

The following summarizes the activity in mortgage servicing rights, along with the aggregate activity in the related valuation allowances, for the years ended December 31, 2003 and 2002:

	December 31,	
	2003	*2002*
	(in thousands)	
MSR beginning balance	$4,373	$4,208
Amount capitalized	1906	680
Amount amortized	(886)	(515)
Provision for loss in fair value	(80)	—
MSR ending balance	$5,313	$4,373
Allowance for impairment beginning balance	$ —	$ —
Additions	80	—
Reductions	—	—
Allowance for impairment ending balance	$ 80	$ —

During 2003, a valuation allowance of $80,000 was necessary to adjust the aggregate cost basis of the mortgage servicing right asset to fair market value. At December 31, 2002, no allowance for impairment in the Company's mortgage servicing rights was necessary. The estimated fair value of interest rate floors designated as hedges against mortgage servicing rights as of December 31, 2003 and December 31, 2002 was $79,000 and $3,000 respectively. See Note 4 for further discussion of the Company's servicing portfolio's risks and program to use derivatives to reduce such risks.

At December 31, 2003 and 2002, servicing related trust funds of approximately $22,297,000 and $7,503,000, respectively, representing both principal and interest due investors and escrows received from borrowers, are on deposit in nonaffiliated trust bank custodial accounts and are not included in the accompanying financial statements. At December 31, 2003 and 2002, the Company had blanket bond coverage of $25,000,000 and errors and omissions coverage of $5,000,000.

Note 3: Premises and Equipment

A summary of the cost and accumulated depreciation of property and equipment follows:

	Years Ended December 31,	
	2003	2002
	(in thousands)	
Premises:		
Land	$ 376	375
Buildings	1,011	1,011
Equipment	1,031	861
	2,418	2,247
Accumulated depreciation	(668)	(462)
	$1,750	$1,785

Depreciation and expense for the years ended December 31, 2003 and 2002 was $205,000 and $179,000, respectively.

Note 4: Derivatives

The Company utilizes various derivative financial instruments to hedge against the change in value of the mortgage servicing portfolio, the value of interest rate loan commitments, and loans held for sale due to interest rate changes.

Stand alone derivative financial instruments used for hedging include interest rate floors and forward loan sale commitments, both of which derive their value from underlying interest rates. These instruments involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company's balance sheet as either derivative assets or derivative liabilities for stand alone derivative financial instruments.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to those agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

INTEREST RATE RISK MANAGEMENT—FAIR VALUE HEDGING INSTRUMENTS
MORTGAGE SERVICING RIGHTS HEDGES

Objectives and Context

The Company either purchases or originates MSRs as a source of fee income. These mortgage-servicing rights expose the Company to variability in their fair value due to changes in the level of prepayments and other variables. Management believes that it is prudent to limit the variability in the fair value of a portion of its MSR asset. It is the Company's objective to hedge the change in fair value of the servicing rights asset associated with fixed rate, non-prepayment penalty loans for which it has recorded MSRs, at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this asset to other assets of the Company.

Strategies

The Company currently uses interest rate floors to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. Interest rate floors are interest rate protection instruments that involve payment from the seller to the buyer of an interest differential. This differential is the difference between a long-term rate (*e.g.*, 10-year Constant Maturity Swaps in 2003 and 2002) and an agreed-upon rate, the strike rate, applied to a notional principal amount. By purchasing a floor, the Company will be paid the differential on a monthly basis by a counterparty, when the current long-term rate falls below the strike level of the agreement. The fair value of interest rate floor agreements is included in derivative assets or liabilities. Interest rate floors are subject to basis risk because of differences in movements of mortgage and LIBOR rates, market volatility and the impact of changes in the yield curve. In addition, a credit risk associated with purchased interest rate floor agreements is the ability of the counterparties to meet the terms of the contract.

Although the Company hedges the change in value of its MSRs, its hedge coverage ratio does not equate to 100%. The Company believes it is economically prudent to keep hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement.

The Company was party to interest rate floor contracts as detailed below (dollars in thousands):

	December 31,	
	2003	*2002*
Weighted average maturity (in years)	4.9	4.9
Notional amount of remaining interest rate floor contracts	$3,054	$2,338
Weighted average strike rate	6.36%	6.25%
Monthly floating rate	5.82%	6.24%
Strike rate exceeded floating rate	0.54%	0.01%
Fair value amount	$ 79	$ 3

Results

Risk management results related to the hedging of MSRs are summarized below and are included in the caption entitled "Loan servicing fees" in the accompanying consolidated statements of income for 2003 and 2002 (in thousands):

	2003	*2002*
Gain on designated derivative contracts	$ 76	$ 3
Decrease in value of designated MSRs	(80)	(6)
Net loss on derivatives used to hedge MSRs	$ (4)	$ (3)

INTEREST RATE RISK MANAGEMENT—FAIR VALUE HEDGING INSTRUMENTS—WAREHOUSE LOANS

Objectives and Context

The Company, as part of its traditional real estate lending activities, originates fixed-rate 1-4 unit residential loans for sale in the secondary market. At the time of origination, management identifies loans that are expected to be sold in the near future. These warehoused loans have been classified as mortgage loans held for sale, in the consolidated balance sheet and are carried at fair market value, less the values associated with servicing (for those loans which qualify for fair value hedging under SFAS No. 133) or at the lower of aggregate amortized cost or fair market value (for those loans which do not qualify for fair value hedging under SFAS No. 133). These loans expose the Company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of the loans decreases. Conversely, if interest rates decrease, the value of the loans increases.

Management believes it is prudent to limit the variability of a major portion of the change in fair value of its mortgage loans held for sale. It is the Company's objective to hedge primarily all of its warehoused loans held for sale to third parties.

Strategies

To meet this objective, management employs forward loan sale hedging techniques to minimize the interest rate and pricing risks associated with the origination and sale of such warehoused loans.

The forward loan sales lock in the price for the sale of either the specific loans classified as held-for-sale or for a generic group of loans similar to the specific loans classified as held-for-sale.

Results

The notional amount of forward loan sale commitments hedging warehouse loans was $10,988,000 and $5,952,000 at December 31, 2003 and 2002, respectively. Risk management results related to the hedging of warehouse loans are summarized below and are included in the caption entitled "Net gain on sale of mortgage loans" in the accompanying consolidated statements of income for 2003 and 2002 (in thousands):

	2003	*2002*
Unrealized gain on designated forward loan sale commitments recognized	$ 274	$ 153
Decrease in value of warehouse loans	(299)	(170)
Net hedge ineffectiveness on warehouse loan hedge	$ (25)	$ (17)

INTEREST RATE RISK MANAGEMENT—DERIVATIVE INSTRUMENTS NOT DESIGNATED AS HEDGING INSTRUMENTS

Purpose—Interest Rate Lock Commitments and Forward Loan Sale Commitments

The Company enters into rate lock commitments to extend credit to borrowers for generally a 30-day or 60-day period for the origination and/or purchase of loans. Unfunded loans for which commitments have been entered into are called "pipeline loans." Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

On March 13, 2002, the Financial Accounting Standards Board determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. Accordingly, the Corporation adopted such accounting on July 1, 2002, and such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, also considers the difference between current levels of interest rates and the committed rates.

To mitigate the effect of this interest rate risk, the Company enters into offsetting derivative contracts, primarily forward loan sale commitments. The contracts allow for cash settlement. The forward loan sale commitments lock in an interest rate and price for the sale of loans similar to the specific rate lock loan commitments classified as derivatives. Both the rate lock commitments and the forward loan sale commitments are undesignated derivatives, and accordingly are marked to market through earnings.

The notional amount of undesignated forward loan sale commitments was $19,900,000 and $12,230,000 at December 31, 2003 and 2002, respectively. The notional amount of undesignated interest rate lock commitments was $20,250,000 and $12,430,000 at December 31, 2003 and 2002, respectively.

Risk management results related to the undesignated hedging of interest rate lock commitments with undesignated forward loan sale commitments are summarized below and are included in the caption entitled "Net gain on sale of mortgage loans" in the consolidated statements of income for 2003 and 2002 (in thousands):

	2003	*2002*
Unrealized gain on undesignated forward loan sale commitments recognized to income	$ 116	$ 83
Loss on undesignated interest rate lock commitments recognized to income [(a)]	(113)	(82)
Net gain on undesignated derivatives	$ 3	$ 1

[(a)] The fair value of interest rate loan commitments excludes the net servicing value.

NOTIONAL AMOUNTS OF DERIVATIVES

Information pertaining to the notional amounts of the Company's derivative financial instruments utilized in MSR, pipeline and warehouse loan hedging is as follows (in thousands). These derivative financial instruments were recorded in the Company's balance sheet in accordance with SFAS No. 133.

	December 31, 2003		*December 31, 2002*	
	Notional Amount	*Credit Risk*[(1)]	*Notional Amount*	*Credit Risk*[(1)]
Interest rate floors	$ 3,054	$ 79	$ 2,338	$ 3
Forward loan sale commitments	30,888	286	18,182	168
Interest rate lock commitments	20,250	—	12,430	—
Total	$54,192	$ 365	$32,950	$ 171

[(1)] Credit risk represents the amount of unrealized gain included in derivative assets which is subject to counterparty credit risk. The credit risk for the interest rate floors and forward loans sale commitments is equivalent to their fair market value. The interest rate lock commitments are classified as derivative liabilities as of December 31, 2003 and 2002. The fair value of these derivative liabilities were $143,000 and $88,000, respectively.

Derivative financial instruments used for other-than-trading purposes at December 31, 2003 are scheduled to mature as follows (in thousands):

	Notional Amounts						
	2004	*2005*	*2006*	*2007*	*2008*	*Thereafter*	*Total*
Interest rate floors	$ —	$ —	$ —	$ —	$3,054	$ —	$ 3,054
Forward loan sale commitments	30,888	—	—	—	—	—	30,888
Interest rate lock commitments	20,250	—	—	—	—	—	20,250
Total	$51,138	$ —	$ —	$ —	$3,054	$ —	$54,192

Note 5: Short-Term Debt

The Company has a warehouse line of credit with a nonaffiliated bank for funding the acquisition or origination of mortgages. The line of credit is generally repaid with the proceeds from mortgage loan sales. The maturity of this facility is December 31, 2004. Generally, the Company funds 97% of the loan balance at the time of loan origination or acquisition. The maximum amount that can be drawn against the line is $50,000,000. Interest charged against outstanding borrowings is based on prime plus 1/2% (an aggregate of 4.75% at December 31, 2003). Borrowings against the line are collateralized by mortgage loans held for sale. The balance under this line was $28,800,000 and $17,200,000 at December 31, 2003 and December 31, 2002, respectively.

The Company also has a $10,000,000 secured operating line of credit with a nonaffiliated bank. The maturity date on this facility is December 31, 2004, and it bears interest at prime plus 1.50% (an aggregate of 5.75% at December 31, 2003). The balance under this line was $7,300,000 and $4,300,000 at December 31, 2003 and December 31, 2002, respectively.

Note 6: Income Taxes

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,	
	2003	*2002*
	(in thousands)	
Current tax provision:		
Federal	$ 619	$ 367
State	127	95
	746	462
Deferred tax provision (benefit):		
Federal	35	(123)
State	9	(28)
	44	(151)
	$ 790	$ 311

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,	
	2003	*2002*
Statutory rate	34.0%	34.0%
Increase resulting from:		
State taxes, net of federal tax benefit	5.0	5.4
Other, net	02.6	01.6
Effective tax rates	41.6%	41.0%

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

	Years Ended December 31,	
	2003	*2002*
	(in thousands)	
Deferred tax liabilities:		
Cash basis of accounting	$ 55	$ 54
Purchased mortgage-servicing rights	1,016	1,047
Depreciation	—	—
Deferred loan fees	14	—
	1,085	1,101
Deferred tax assets:		
Lower of cost or market adjustment—loans	(98)	(39)
Deferred loan fees	—	(120)
Other, net	(36)	(35)
	(134)	(194)
Net deferred tax liability	$ 951	$ 907

Note 7: Commitments and Contingencies

Purchase commitments

On December 30, 2003, the Company entered into an agreement to acquire for $1,260,000 the servicing rights pertaining to loans with an aggregate principal balance of approximately $105,500,000. The expected settlement date of this transaction is February 1, 2004.

Loans sold with recourse

Loans sold with recourse totaling $670,000 and $816,000 at December 31, 2003 and 2002, respectively, represent off-balance-sheet risk in the normal course of business. At December 31, 2003 and 2002, a liability for credit losses amounting to $50,000, applicable to loans sold with recourse, is included in other liabilities.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* which requires a guarantor to recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. As of January 1, 2003, newly issued or modified guarantees that are not derivative contracts have been recorded on the Company's balance sheet at their fair value at inception. The Company considers loans sold with recourse to be guarantees under FIN 45. The amount of the liability related to loans sold with recourse at December 31, 2003 and 2002 was $35,000 and $50,000, respectively.

Legal contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

Note 8: Capital Requirements

The Company is subject to various capital requirements in connection with seller/servicer agreements that the Company has entered into with secondary market investors. Failure to maintain minimum capital requirements could result in the Company's inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on the Company's financial statements.

The Company's actual capital amounts and the minimum amounts required for capital adequacy purposes, by investor, are as follows:

As of December 31, 2003:		
HUD	$9,746	$492
FHLMC and FNMA	$9,746	$250
As of December 31, 2002:		
HUD	$8,635	$390
FHLMC and FNMA	$8,635	$250

Note 9: Securitizations

The Company routinely originates, securitizes and sells mortgage loans into the secondary market. As a result, the Company typically retains the servicing rights. These securitizations are usually structured without recourse to the Company and without restrictions on the retained interests. The retained interests do not contain significant credit risks.

The Company recognized gains of $100,000 from sales of loans in securitizations in 2003, compared with $82,000 in 2002. Additionally, the Company had the following cash flows with securitization trusts:

(in thousands)	Years Ended December 31, 2003 Mortgage Loans	2002 Mortgage Loans
Sales proceeds from securitizations	$15,718	$16,410
Servicing fees	3,645	3,202

In the normal course of creating securities to sell to investors, the Company may sponsor the special-purpose entities which hold, for the benefit of the investors, financial instruments that are the source of payment to the investors. Those special-purpose entities are consolidated unless they meet the criteria for a qualifying special-purpose entity in accordance with FASB Statement No. 140 (FAS 140), *Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, or were not required to be consolidated under then existing accounting guidance.

The key economic assumptions used in determining the fair value of mortgage servicing rights and other retained interests at the date of securitization resulting from securitizations completed in 2003 and 2002 were as follows:

	Mortgage Servicing Rights 2003	2002
Prepayment speed (annual CPR[(1)])	12.7%	13.4%
Weighted-average life (in years)	6.8	7.1
Discount rates[(2)]	8.9%	8.9%
Anticipated credit loss rate	1.02%	1.01%

(1) Constant prepayment rate

(2) Discount rates and prepayment speeds represent weighted averages for all retained interests resulting from securitizations completed in 2002 and 2001.

At December 31, 2003, key economic assumptions and the sensitivity of the current fair value of mortgage servicing rights related to residential mortgage loan securitizations to immediate 10% and 25% adverse changes in those assumptions are presented in the table below.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in the below table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in prepayment speed estimates could result in changes in the discount rates), which might magnify or counteract the sensitivities.

($ in thousands)	Mortgage Servicing Rights
Fair value of retained interests	$5,313
Expected weighted-average life (in years)	2.1
Prepayment speed assumption (annual CPR)	36.8%
Decrease in fair value from 10% adverse change	$ 255
Decrease in fair value from 25% adverse change	577
Discount rate assumption	10.6%
Decrease in fair value from 100 basis point adverse change	$ 78
Decrease in fair value from 200 basis point adverse change	153

The following table presents information about the principal balances of managed and securitized loans.

	December 31,				Year Ended December 31,	
	Total loans[1]		*Delinquent loans*[2]		*Net credit losses*	
(in thousands)	*2003*	*2002*	*2003*	*2002*	*2003*	*2002*
Total mortgage loans managed and securitized	$97,292	$96,547	$340	$335	$23	$26
Less:						
Mortgage loans held for sale	35,339	12,268				
Total loans held	$61,953	$84,279				

(1) Represents loans that have been securitized.
(2) Includes nonaccrual loans and loans 90 days past due and still accruing.

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SAMPLE MORTGAGE CORPORATION

Computation of Adjusted Net Worth for Recertification of HUD Non-Supervised Mortgagees Other Than Loan Correspondents

December 31, 2003 (In thousands)

1.	Servicing portfolio at December 31, 2003		$32,346
2.	Add:		
	Origination of HUD loans during 2003	$ 7,662	
	HUD loans purchased from loan correspondents during 2003	7,099	
	Subtotal	14,761	14,762
3.	Less:		
	HUD loans originated and sold with servicing retained during 2003	1,846	
	HUD loans purchased from correspondents and sold with servicing retained	290	
	Subtotal	2,136	2,136
4.	Total		$49,239
5.	1% of Line 4		$492
6.	Minimum net worth required (greater of $250,000 or Line 5)		$492
	Net worth required (lesser of $1,000,000 or Line 6)		$ 492
	Stockholder's equity (net worth) per balance sheet	$ 9,746	
	Less unacceptable assets	—	
	Adjusted net worth for HUD requirement purposes		9,746
	Adjusted net worth above amount required		$ 9,254

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