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American Institute of Certified Public Accountants. Technical Information Division

Michael A. Tursi

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November 1992 Edition

**Checklists and Illustrative
Financial Statements for
Finance Companies**

**A FINANCIAL ACCOUNTING AND
REPORTING PRACTICE AID**

AICPA

American Institute of Certified Public Accountants

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements

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- Checklists and Illustrative Financial Statements for Prospective Financial Statement Engagements*
- Checklists and Illustrative Financial Statements for Savings Institutions*
- Checklists and Illustrative Financial Statements for State and Local Governmental Units*

November 1992 Edition

**Checklists and Illustrative
Financial Statements for
Finance Companies**
**A FINANCIAL ACCOUNTING AND
REPORTING PRACTICE AID**

Edited by

Michael A. Tursi, CPA
Technical Manager
Technical Information Division

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

American Institute of Certified Public Accountants

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR FINANCE COMPANIES

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

- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 71, SSARS 6, FASB Statement of Financial Accounting Standards No. 109, FASB Interpretation No. 39, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 92-3 and EITF consensuses adopted up to and including the July 23, 1992 Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standard should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being examined.

Users of these 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 (see back cover).

Susan Menelaides
Director
Technical Information

**CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS
FOR FINANCE COMPANIES**

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INTRODUCTION

Finance companies provide lending and financing services to consumers and business enterprises. The provisions of the AICPA Audit and Accounting Guide apply to independent and captive financing activities. It does not apply to banks, savings and loan associations, credit unions, or insurance companies because those entities are covered by other audit and accounting guides. However, the Finance Companies Guide does apply to finance company subsidiaries of such entities.

Numerous state and federal statutes affect finance companies' operations. Some statutes apply only to specific types of activities. Regulations affecting finance companies generally are limited to matters such as loan amounts, repayment terms, interest rates, and collateral; they generally do not deal with financial accounting and reporting.

Common accounting and reporting by finance companies include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP. Some finance companies may report certain immaterial revenue and expense items on a cash or modified cash basis.
- Finance companies usually prepare a nonclassified balance sheet.
- The income statement may be reported on a "net interest income" basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)
- Alternately, the income statement may emphasize interest revenues with interest expense included with other operating expenses.
- The provision for loan losses usually is reported as a deduction from net interest income, when the net interest income format is used.
- The recognition of interest income on finance receivables should be based on the interest method. The use of the Rule of 78's, the combination method, and the cash method is not considered acceptable.
- Inclusion of interest as a holding cost in determining the carrying amount of repossessed collateral expected to be held for more than a brief period is acceptable.
- GAAP applicable to business entities in general apply to finance companies.

Checklists--General

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

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

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

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

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.

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

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

Financial Statements and Notes Checklist

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

Explanation of references:

- ARB = Accounting Research Bulletin
- APB = Accounting Principles Board Opinion
- SFAS = Statement of Financial Accounting Standards
- SAS = Statement on Auditing Standards
- FASBI = Financial Accounting Standards Board Interpretation
- TB = Technical Bulletin issued by the staff of the FASB¹
- AC = Reference to section number in FASB Accounting Standards Current Text
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- AAG = Audit and Accounting Guide, Audits of Finance Companies
- SOP = AICPA Statement of Position
- EITF = Emerging Issues Task Force Consensus

Checklist Questionnaire

YES NO N/A

General

A. Titles and References

1. Are the financial statements suitably titled? _____
- [SAS 62, par. 7 (AU 623.07)]

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.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statements? [Generally Accepted]	---	---	---
B. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	---	---	---
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, allocation of asset costs to current and future periods, and loss reserve policies? [APB 22, par. 12 (AC A10.105); TB 82-1, par. 7 (AC I25.506)]	---	---	---
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	---	---	---
4. Does the disclosure of significant accounting policies include an explanation of the accounting policy for debt securities held, including the basis for classification into balance sheet captions, such as investment or trading? [SOP 90-11, par. 8]	---	---	---
C. Accounting Changes			
1. For all changes in accounting principles, are the following disclosures made in the year of change?			
a. Nature of the change.	---	---	---
b. Justification for the change.	---	---	---
c. Effect on income before extraordinary items and on net income.	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Effect on related per-share amounts. [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	—	—	—
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19-21, 25 (AC A06.115-.118 and .121)]	—	—	—
3. For changes in the method of accounting for postretirement life insurance and health care benefits, are appropriate disclosures made? [TB 87-1, par. 4 (AC P50.503)]	—	—	—
4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	—	—	—
5. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle? [SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5-6 (AC A06.112)]	—	—	—
6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change?			
a. Effect on income before extraordinary items and on net income.	—	—	—
b. Effect on related per share amounts. [APB 20, par. 33 (AC A06.132)]	—	—	—
7. Is the correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction?			
a. Nature of the error in previously issued financial statements.	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Effect of its correction on income before extraordinary items, net income and related per-share amounts. [APB 20, pars. 36-37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]	—	—	—
D. Comparative Financial Statements			
1. Have comparative statements been considered? [ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)]	—	—	—
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	—	—	—
3. If changes 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)]	—	—	—
E. Business Combinations			
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests: [APB 16, pars. 45-48 (AC B50.104-.107)]			
a. Has the pooling-of-interest method of accounting been applied? [APB 16, pars. 50-62 (AC B50.109-.121)]	—	—	—
b. Do the statements and notes include the required disclosures? [APB 16, pars. 63-65 (AC B50.122-.124)]	—	—	—
2. If a business combination does not meet the specified conditions for a pooling of interests:			
a. Has the combination been accounted for by the purchase method? [APB 16, pars. 66-94; SFAS 96 pars. 23 and 205c (AC B50.125-.147A and .159-.163); SFAS 38 (AC B50.148-.150 and .166); FASBI 9, pars. 4-7 (AC B50.155-.157)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Do the statements and notes include the required disclosures? [APB 16, pars. 95-96 (AC B50.164-.165)]	---	---	---
c. In connection with the acquisition of a banking or thrift institution, are the nature and amounts of any regulatory financial assistance disclosed? [SFAS 72, par. 11 (AC B50.158F)]	---	---	---
3. Has any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other non-current intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36 of SFAS 109, AC Section 127.129 and .135) been disclosed? [SFAS 109, par. 48 (ACI27.147)]	---	---	---
4. Where the entity has purchased an enterprise, and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, where the subsidiary has not yet been disposed, has the disclosure guidance in EITF 90-6, if applicable, been followed? [EITF 90-6]	---	---	---
F. Consolidations			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	---	---	---
b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]	---	---	---
c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18-20 (AC I89.112-.114); FASBI 13 (AC I89.120-.122)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Are the accounts of majority-owned subsidiaries consolidated? [SFAS 94, par. 13 (AC C51.103)]	—	—	—
3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed? [SFAS 12, par. 20 (AC I89.114)]	—	—	—
4. If summarized information about the assets, liabilities, and results of operations (or separate statements) of unconsolidated majority-owned subsidiaries was disclosed in the financial statements for fiscal years 1986 and 1987, is that information disclosed in the current year's consolidated financial statements or notes? [SFAS 94, par. 14 (AC C51.120A), AAG, page 73]	—	—	—
5. If the conditions of EITF 90-15 were met, did the lessee consolidate special-purpose entities established for both the construction and subsequent lease of an asset?	—	—	—
a. Did consolidation occur at the inception of the lease rather than at the beginning of the lease term? [EITF 90-15]	—	—	—
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 other information deemed necessary to understand the effects of the transactions on the financial statements?	—	—	—

YES NO N/A

- 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)] _____
- e. If the entity is part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented disclosed? _____
- f. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented?
[SFAS 96, par. 30 (AC I25.129)] _____
2. Is information about economic dependency disclosed when necessary for a fair presentation?
[SFAS 21, par. 9 (AC S20.103)] _____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise 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 enterprise being significantly different from those that would have resulted if the enterprise were autonomous?
[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)] _____

H. Financial Instruments

1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by class of financial instrument?²

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

___ ___ ___

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

(1) The credit and market risk of those instruments.

___ ___ ___

(2) The cash requirements of those instruments.

___ ___ ___

(3) The related accounting policy pursuant to the requirements of APB 22 [AC A10].

___ ___ ___

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

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

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

___ ___ ___

² Practices for grouping and separately identifying--classifying--similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 [AC F25], class of financial instrument refers to those classifications.

YES NO N/A

b. 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.

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

___ ___ ___

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

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

___ ___ ___

b. The amount of the accounting loss due to credit risk 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?

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

___ ___ ___

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

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

___ ___ ___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Have the method(s) and significant assumptions used to estimate the fair value of financial instruments been disclosed? [SFAS 107, par 10 (AC F25.115c)]	—	—	—
6. If it is not practicable to estimate the fair market value of a financial instrument, has the following been disclosed?			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity.	—	—	—
b. The reasons why it is not practicable to estimate fair value. [SFAS 107, par 14 (AC F25.115G)]	—	—	—
 I. Foreign Currency			
1. Is the aggregate transaction gain or loss included in net income for the period disclosed? [SFAS 52, par. 30 (AC F60.140)]	—	—	—
2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments disclose:			
a. Beginning and ending amount of cumulative translation adjustments?	—	—	—
b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances?	—	—	—
c. The amount of income taxes for the period allocated to translation adjustments?	—	—	—
d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? [SFAS 52, par. 31 (AC F60.141)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? [SFAS 52, par. 32 (AC F60.142)]	---	---	---
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]	---	---	---
5. Has disclosure of principal amounts of spot and forward exchange contracts been considered? [SFAS 80 (AC F80)]	---	---	---
J. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	---	---	---
2. For loss contingencies not accrued, do disclosures indicate:			
a. Nature of the contingency?	---	---	---
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]	---	---	---
3. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]	---	---	---
4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided? [SFAS 5, par. 17 (AC C59.118)]	---	---	---
5. Is there adequate disclosure of commitments such as those for capital expenditures, for purchase or sale of securities under finan-			

YES NO N/A

cial futures contracts, and for funding of loans?
[SFAS 5, pars. 18-19 (AC C59.120); FASB 80 (AC F80)]

K. Subsequent Events

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

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

L. Pension Plans [For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe35)]

1. If there is a defined benefit plan, do disclosures include:

a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?
[SFAS 87, par. 54a (AC P16.150a)]

b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
assets for the period, and the net total of other components? ³ [SFAS 87, par. 54b (AC P16.150b)]	—	—	—
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	—	—	—
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	—	—	—
(3) The amount of unrecognized prior service cost?	—	—	—
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	—	—	—
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?	—	—	—
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	—	—	—

³ The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87. That net total includes:

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

YES NO N/A

- (7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35-36 (AC P16.129-.130) (which is the net result of combining the preceding six items)?
[SFAS 87, par. 54c (AC P16.150c)]
- d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?
[SFAS 87, par. 54d (AC P16.150d)]
- e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?
[SFAS 87, par. 54e (AC P16.150e)]
- f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87 paragraph 41 [AC P16.135]?
[SFAS 87, par. 54 (AC P16.150)]
- g. If more than one defined benefit plan exists:
- (1) Have the required disclosures above been aggregated for all of the employer's single employer defined benefit plans or disaggregated in groups so as to provide the most useful information?
- (2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	---	---	---
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	---	---	---
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	---	---	---
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	---	---	---
(2) If answer is yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)]	---	---	---
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan, including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 69a (AC P16.166a)]	---	---	---
b. The amount of cost recognized during the period? [SFAS 87, par. 69b (AC P16.166b)]	---	---	---
c. If the situation arises where the withdrawal from a multiemployer plan may			

YES NO N/A

result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations which is either probable or reasonably possible, have the provisions of SFAS 5 (AC C59) been applied?

[SFAS 87, par. 70 (AC P16.167)]

___ ___ ___

4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:

a. A description of the nature of the event(s)?

___ ___ ___

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

___ ___ ___

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

For a defined contribution plan:

a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds?

___ ___ ___

b. Was the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset?

___ ___ ___

(i) Is the income attributed to such securities including dividends, interest and realized gains and losses reported in a manner consistent with the employers reporting of similar items?

___ ___ ___

YES NO N/A

c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements?

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

[EITF 86-27]

M. Postretirement Health Care and Life Insurance Benefits (See Exhibit A)

1. If there are one or more defined benefit postretirement plans, do disclosures include:

a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture?

b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
asset, and the net total of other components? ⁴	---	---	---
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
1) The fair value of plan assets?	---	---	---
2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	---	---	---
3) The amount of unrecognized prior service cost?	---	---	---
4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	---	---	---
5) The amount of any remaining unrecognized transition obligation or transition asset?	---	---	---
6) The amount of net postretirement benefit asset or liability recognized in the statement of financial position, which is the net result of combining the preceding five items?	---	---	---
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the			

⁴ The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 [AC P40]. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
- b. Amortization of unrecognized prior service cost.
- c. Amortization of the net gain or loss from earlier periods.
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 [AC P40.156]).

YES NO N/A

assumed trend rates thereafter, together with the ultimate trend rate(s) and when the rate is expected to be achieved?

— — —

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

— — —

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

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

— — —

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

— — —

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

— — —

i. The amount of gain or loss recognized during the period for a settlement or

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
curtailment and a description of the nature of the event(s)?	---	---	---
j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a-j (AC P40.169a-j)]	---	---	---
2. If more than one defined benefit post-retirement plan exists:			
a. Have the disclosures required by Step M.1. above been aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step M.1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed?) [SFAS 106, par. 77 (AC P40.172)]	---	---	---
b. Are plans that provide primarily post-retirement healthcare benefits and plans that provide primarily other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated post-retirement benefit obligation for all the plans?	---	---	---
c. Are plans inside the United States and plans outside the United States separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans? [SFAS 106, par 74a-b (AC P40.173)]	---	---	---
3. If there is a multiemployer plan, do disclosures include:			

YES NO N/A

- a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? _____
- b. The amount of postretirement benefit cost recognized during the period, if available, otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provide health and welfare benefits to both active employees and retirees?
[SFAS 106, par. 82a-b (AC P40.178)] _____
- c. Have the provisions of SFAS 5 [AC C59] been applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation and it is probable or reasonably possible that:
- 1) An employer would withdraw from the plan under circumstances that would give rise to an obligation? _____
- or
- 2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage?
[SFAS 106, par. 83 (AC P40.179)] _____
4. If there are one or more defined contribution postretirement plans, have the following items been disclosed separately from defined benefit postretirement plan disclosures:
- a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant mat-

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
ters affecting comparability of information for all periods presented?	---	---	---
b. The amount of cost recognized during the period? [SFAS 106, par. 106 (AC P40.198)]	---	---	---
N. Futures Contracts			
1. If a futures contract is designated a hedge:			
a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?	---	---	---
b. Does the futures contract reduce the exposure to risk and is it designated as a hedge? [SFAS 80, par. 4 (AC F80.104 and .404)]	---	---	---
2. If the futures contract hedges an anticipated transaction:			
a. Are the significant characteristics and expected terms of the anticipated transaction identified?	---	---	---
b. Is it probable that the anticipated transaction will occur? [SFAS 80, par. 9 (AC F80.109)]	---	---	---
3. If a futures contract is accounted for as a hedge, does the disclosure include:			
a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?	---	---	---
b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts? [SFAS 80, par. 12 (AC F80.112)]	---	---	---

YES NO N/A

O. Other Matters

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

Balance Sheet

A. Investment Securities

1. If significant, is the amount of the insurance subsidiary's marketable securities deposited with state regulatory authorities disclosed? ___
[AAG, par. 5.19] ___
2. Are appropriate disclosures made for marketable equity securities? ___
[SFAS 12, par. 12 (AC I89.106)] ___
3. For each balance sheet presented, are the amortized cost, estimated market values, gross unrealized gains, and gross unrealized losses disclosed for each pertinent category of investments in debt securities? ___
[SOP 90-11, par. 9] ___
4. For the most recent balance sheet, is disclosure made of the amortized cost and estimated market values of debt securities due:
- a. In one year or less? ___
- b. After one year through five years? ___
- c. After five years through ten years? ___
- d. After ten years? ___
[SOP 90-11, par. 9] ___
5. For each period for which results of operations are presented, are the proceeds from sales of debt securities and gross realized gains and gross realized losses on such sales disclosed? ___
[SOP 90-11, par. 9] ___

YES NO N/A

B. Mortgage Loans and Mortgage-Backed Securities Held for Sale

- | | | | |
|---|-----|-----|-----|
| 1. Are mortgage loans and mortgage-backed securities held for sale distinguished from mortgage loans and mortgage-backed securities held for long-term investment?
[SFAS 65, par. 28 (AC Mo4.129)] | ___ | ___ | ___ |
| 2. Are mortgage loans and mortgage-backed securities held for sale reported at lower of cost or market value?
[SFAS 65, par. 4 (AC Mo4.105)] | ___ | ___ | ___ |
| 3. Is the method used in determining lower of cost or market value disclosed (i.e., individual vs. aggregate method)?
[SFAS 65, par. 29 (AC Mo4.130)] | ___ | ___ | ___ |
| 4. If right to service mortgage loans was acquired, is the following information disclosed: | | | |
| a. Amount capitalized during period in acquiring right to service? | ___ | ___ | ___ |
| b. Method of amortizing capitalized amount? | ___ | ___ | ___ |
| c. Amount of amortization for the period?
[SFAS 65, par. 30 (AC Mo4.131)] | ___ | ___ | ___ |

C. Finance Receivables

- | | | | |
|--|-----|-----|-----|
| 1. Are both interest-bearing (simple interest) and precomputed (discount) loans classified as finance receivables?
[AAG, par. 2.39] | ___ | ___ | ___ |
| 2. Are discount and interest-bearing loans presented similarly on the balance sheet (i.e., discount loans are presented net of unearned interest)? | ___ | ___ | ___ |
| a. If a company desires to report the gross amount of a discount loan and the related unearned interest or discount, is the amount of unearned interest or discount disclosed in the notes and not in the numbers column of the balance sheet?
[AAG, par. 2.39] | ___ | ___ | ___ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Are the unamortized balance of loan origination, commitment and other fees and costs, and any purchase premiums and discounts classified on the balance sheet as part of the loan balance to which they relate? [AAG, par. 2.40]	---	---	---
4. Is the composition of finance receivables disclosed either in the balance sheet or in the notes to financial statements in a manner that best sets forth the kinds of risks and liquidity involved?	---	---	---
a. Is the amount of accrued interest included in the finance receivables?	---	---	---
b. Is the amount of nonearning assets represented by consumer and commercial loans for which accrual has been suspended separately disclosed?	---	---	---
c. Is there disclosure of information about the terms and maturities of finance receivables?	---	---	---
d. If contractual maturity data is not considered relevant, is data on prior collection experience disclosed? [AAG, pars. 2.42 and 2.44]	---	---	---
5. Are participations classified as finance receivables net of the portions sold or at the net amount bought?	---	---	---
a. Is the amount of such participations combined with other finance receivables on the balance sheet?	---	---	---
b. If material in relation to total receivables, has the amount of participations been disclosed?	---	---	---
c. If participations are, in substance, other than a pro rata sharing of risk, have they been accounted for as a liability on the balance sheet? [AAG, pars. 4.5 and 4.6]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
6. Are unearned premiums and unpaid claims on certain credit life and credit accident and health insurance policies deducted from finance receivables on the face of the consolidated balance sheet?	---	---	---
a. If not, does the balance sheet present only the net finance receivables if the notes to the financial statements contain sufficient disclosure of unearned premiums and unpaid claims? [AAG, par. 5.26]	---	---	---
7. For receivables involved in troubled debt restructurings, are the following disclosed by major category of loans as of the date of each balance sheet presented:			
a. Aggregate recorded investment?	---	---	---
b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?	---	---	---
c. Amount of interest income included in net income?	---	---	---
d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans? [SFAS 15, pars. 40-41 (AC D22.136- .137); TBs 79-6 and 79-7 (AC D22.501- .505)]	---	---	---
8. For loans sold with recourse, are the following disclosures made?			
a. For each period for which an income statement is presented, the amount of proceeds.	---	---	---
b. At date of each balance sheet presented, balance of sold receivables that remains uncollected. [SFAS 77, par. 9 (AC R20.109)]	---	---	---
9. Under advance factoring arrangements, are the advances to clients applied against amounts owed clients for the purchase of clients' receivables and not recorded as finance receivables?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Are factoring overadvances recorded as loans receivable and segregated from customer receivables purchased under factoring arrangements? [AAG, pars. 2.24 and 2.25]	---	---	---
D. Lease Finance Receivables			
1. Do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	---	---	---
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	---	---	---
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23u (AC L10.119a)]	---	---	---
2. Are leasing arrangements described? [SFAS 13, par. 23c (AC L10.119c); for amendments of SFAS 13, see SFASs 22, 23, 27, 28, 29, 76, 77, 91, 94, 96, and 98; for interpretations, see FASBIs 19, 21, 23, 24, 26, and 27; for technical bulletins, see TBS 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2, and 88-1]	---	---	---
3. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41-47 (AC L10.143-.149)]	---	---	---
E. Allowance for Credit Losses			
1. Is the allowance shown on the balance sheet as a deduction from loan and lease finance receivables? [AAG, par. 2.41; APB 12, par. 3 (AC V18-.102)]	---	---	---
2. When the accrual of interest income has been suspended, is accrued interest not reversed and the potential uncollectibility taken into consideration in the computation of the allowance for losses? [AAG, par. 2.15]	---	---	---

YES NO N/A

3. Does the allowance for losses adequately reflect conditions such as the amount of delinquent receivables and the number of days they are past due; local, national, and international economic trends; credit policies and procedures; and the mix of receivables?

[AAG, par. 2.9]

— — —

4. Do the notes to the financial statements report all of the changes in the allowance for credit losses and show the reserve roll for receivables sold with limited recourse?

[AAG, par. 2.41]

— — —

F. Property and Equipment

1. If material, are the balances of major classes of depreciable assets disclosed?

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

— — —

2. Is accumulated depreciation, either by major classes of assets or in total, disclosed?

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

— — —

3. Is the amount of capitalized interest disclosed?

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

— — —

4. Is property not used in operations, such as repossessed collateral, excluded?

[AAG, par. 2.32]

— — —

G. Other Assets

1. Are overnight investments resulting from sales of commercial paper recorded as assets?

[AAG, par. 3.23]

— — —

2. For investments in common stock accounted for by the equity method, are appropriate disclosures made?

[APB 18, par. 20 (AC I82.110)]

— — —

3. Are investments in life insurance reported at amounts that can be realized as of the balance-sheet date?

[TB 85-4, par. 2 (AC I50.508)]

— — —

YES NO N/A

4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired:
- a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired?
[SFAS 72, par. 4 (AC I60.131)]
 - b. Is the interest method used as the amortization method?
[SFAS 72, par. 5 (AC I60.133)]
 - c. Are method and period of amortization disclosed?
[APB 17, par. 30 (AC I60.111)]
5. For repossessed assets acquired in liquidation of receivables, are borrowers' accounts credited for the unpaid loan balance or the fair value of the repossessed properties, whichever is lower?
- a. Are borrowers' accounts credited for proceeds from cancellation of insurance, rebates of unearned finance income, and amounts transferred from dealer reserves with any remaining deficiency charged to the allowance for losses?
 - b. Is a gain recorded if the proceeds from the sale of repossessed properties exceed the unpaid loan balance and are not required to be refunded?
[AAG, par. 2.31]
6. For foreclosed assets held for sale:
- a. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, has the deficiency been recognized and disclosed as a valuation allowance?

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>b. Have changes in the valuation allowance based upon fluctuations in the fair value less disposal costs been charged or credited to income and disclosed, if material? [SOP 92-3, par. 12]</p>	—	—	—
<p>7. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means? [SOP 92-3, par. 15]</p>	—	—	—
<p>8. If foreclosed assets originally classified as held-for-sale are to be held for the production of income, has the net effect been reported in income from continuing operations for the period in which the decision to retain the asset had been made? [SOP 92-3, par. 16]</p>	—	—	—
<p>9. In the period of transition for the adoption of SOP 92-3, has the nature of change been disclosed in the financial statements for the period in which the change is made? [SOP 92-3, par. 17]</p>			
<p>10. Are insurance policy acquisition costs deferred and amortized to income over the terms of the policies by the same method used to account for insurance premium income?</p>	—	—	—
<p>a. Are deferred costs associated with payment of commissions and other intercompany items eliminated in consolidation? [AAG, par. 5.16]</p>	—	—	—
<p>H. Income Taxes (Assumes the adoption of SFAS 109.)</p>			
<p>1. Have deferred tax assets and liabilities determined for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction been presented separately? [SFAS 109, par. 17 (AC I27.116)]</p>	—	—	—
<p>2. Have deferred tax assets and liabilities been classified as current or noncurrent based on the classification of the related asset or liability for financial reporting? [SFAS 109, par. 41 (AC I27.140)]</p>	—	—	—

YES NO N/A

- | | | | |
|--|---|---|---|
| 3. Have deferred tax assets and liabilities not related to an asset or liability for financial reporting, including those related to carryforwards, been classified according to the expected reversal date of the temporary difference pursuant to SFAS 37?
[SFAS 109, par. 41 (AC I27.140)] | — | — | — |
| 4. Have the following items been offset and presented as a single amount for a particular tax paying component and within a particular tax paying jurisdiction:

a. All current deferred tax liabilities and assets?
b. All noncurrent deferred tax liabilities and assets?
[SFAS 109, par. 42 (AC I27.141)] | — | — | — |
| 5. Has the valuation allowance for a particular tax jurisdiction been allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis?
[SFAS 109, par. 41 (AC I27.140)] | — | — | — |
| 6. Have the components of the total of all deferred tax assets and the valuation allowance recognized in the statement of financial position been disclosed?
[SFAS 109, par. 43b-c (AC I27.142b-c)] | — | — | — |
| 7. Have the components of the total of all deferred tax liabilities recognized in the statement of financial position been disclosed?
[SFAS 109, par. 43a (AC I27.142a)] | — | — | — |
| 8. Has the following information been disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23 (as amended by SFAS 109) or for deposits in statutory reserve funds by U.S. steamship enterprises: | | | |

YES NO N/A

- 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 the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable? _____
- d. The amount of the deferred tax liability for temporary differences other than those in (c) above (that is, undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC I27.130 and .131)? _____
[SFAS 109, par. 44 (AC I27.143)]

I. Other Liabilities

1. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 (AC C59) and the amount can be reasonably estimated? _____
[SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and .124-.127)]
2. Are liabilities appropriately accrued and reported for employees' compensation for future absences? _____
[SFAS 43, par. 6 (AC C44.104)]

YES NO N/A

- | | | | |
|--|------|------|------|
| 3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated?
[SFAS 88, par. 15 (AC P16.185)] | ____ | ____ | ____ |
| 4. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability?
[SFAS 77, par. 8 (AC R20.109)] | ____ | ____ | ____ |
| 5. Are "Dealer Reserves" (the unpaid portion of the finance charges) and "Dealer Holdbacks" classified as liabilities?
[AAG, par. 1.10] | ____ | ____ | ____ |
| 6. Are unpaid claims for property insurance and that portion of level term insurance and credit accident and health insurance (where the finance company will not receive the proceeds of such claims) presented as liabilities rather than as a reduction of finance receivables?
[AAG, par. 5.27] | ____ | ____ | ____ |

J. Debt

- | | | | |
|--|------|------|------|
| 1. Are the major components of debt disclosed on the face of the balance sheet or in the notes? | ____ | ____ | ____ |
| a. Is there disclosure of the aggregate amount of maturities and sinking fund requirements for all long-term borrowings and redeemable preferred stock for each of the five years following the balance-sheet date?
[SFAS 47, par. 10 (AC C32.105)] | ____ | ____ | ____ |
| b. Is information disclosed on liquidation preferences, participation rights, and interest rates? | ____ | ____ | ____ |
| c. Are the various types of subordinations, bank borrowings, and commercial paper separately disclosed? | ____ | ____ | ____ |
| d. Are the components of debt that matures in more than one year disclosed? | ____ | ____ | ____ |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
e. Is the existence of bank lines of credit and their relevant terms and amounts disclosed? [AAG, par. 3.24]	---	---	---
2. Are conversion features appropriately accounted for and disclosed? [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]	---	---	---
3. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement or both?	---	---	---
b. Aggregate gain on restructuring of payables and the related income tax effect?	---	---	---
c. Aggregate net gain or loss on transfers of assets recognized during the period?	---	---	---
d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]	---	---	---
4. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	---	---	---
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	---	---	---
5. Has debt been considered extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
respect to the debt under any guarantee?	---	---	---
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A)]	---	---	---
6. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:			
a. A general description of the transaction?	---	---	---
b. The amount of debt that is considered extinguished, as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	---	---	---
7. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20-21 (AC D14.103-.104); TB 80-1, pars. 3-4 (AC D14.503-.504); SFAS 84, par. 5 (AC D14.101)]	---	---	---
b. Identified as a separate or extraordinary item? [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]	---	---	---
8. Do disclosures for extinguishments of debt described in Step 6 above include:			
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	---	---	---
b. Income tax effect in the period of extinguishment?	---	---	---

YES NO N/A

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

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

___ ___ ___

9. If the entity has nonrecourse debt with related lease receivables used as collateral, was its liability on the bank loan not offset against its receivable on the note, and its interest expense on the bank loan not offset against interest income on the note?

[EITF 84-11]

___ ___ ___

10. If a debtor's old callable debt is exchanged for new noncallable debt and if the old callable debt is actually acquired by a third party with funds loaned by the debtor to the third party with an agreement to offset the respective receivables and obligations:

a. Has the borrower continued to account for the original debt securities (and not considered them extinguished)?

___ ___ ___

b. Has the debtor not offset the debt against the third-party receivable in the borrower's financial statement?

[EITF 86-18]

___ ___ ___

K. Lessee Leases

1. For capital leases, do disclosures include:

a. Gross amounts of assets recorded by major classes, as of the date of each balance sheet presented?

[SFAS 13, par. 16a (AC L10.112a(1)-(4))]

___ ___ ___

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 appropriate separate deductions for executory

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)-(4))]	---	---	---
c. Total of future minimum sublease rentals under noncancelable subleases, as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1)-(4))]	---	---	---
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC L10.112a(1)-(4)) amended 10/1/79 by SFAS 29, par. 12]	---	---	---
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. 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 options or escalation clauses? _____
- c. Restrictive covenants?
[SFAS 13, par. 16d (AC L10.112d); for amendments of SFAS 13, see SFASs 17, 22, 23, 27, 28, 29, 76, 77, 91, 94, 96, and 98; for interpretations, see FASBIs 19, 21, 23, 24, 26, and 27; for technical bulletins, see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2, and 88-1] _____

L. Capital Stock

1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share?
[APB 12, par. 10 (AC C08.102)] _____
2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example: dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights?
[APB 15, par. 19 (AC E09.110)] _____
3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]	—	—	—
4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	—	—	—
5. For preferred stock, do disclosures include:			
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?	—	—	—
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 (AC C16.102)]	—	—	—
6. For stock option and stock purchase plans, do disclosures include:			
a. The number of shares under option?	—	—	—
b. The option price?	—	—	—
c. The number of shares as to which options are exercisable?	—	—	—
d. For shares exercised, the number of shares exercised and option price? [APB 43, Ch. 13B, par. 15 (AC C47.123); FASBI 28 (AC C47.119-.122 and .138-.146); TB 82-2, pars. .10-.12 (AC C47.513-.515); FASBI 38 (AC C47.135A-.135E)]	—	—	—

M. Retained Earnings

1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120), AAG, page 95]	—	—	—
2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]	—	—	—

YES NO N/A

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

N. Other Stockholders' Equity Accounts

1. Are cumulative translation adjustments separately disclosed?
[SFAS 52, par. 31 (AC F60.141)]
- _____
2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed?
[TB 85-6, par. 3 (AC C23.501-.503)]
- _____
3. Is the valuation allowance for marketable equity securities separately disclosed?
[SFAS 12, par. 11 (AC I89.104)]
- _____
4. If an entity receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of shareholders' equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time?
[EITF 85-1]
- _____

Income Statement

A. Interest Income

1. For interest income from loans:
- a. Do the financial statements disclose interest and finance charges earned separately from other kinds of income, such as insurance premiums?
- _____
- (1) Does the summary of significant accounting policies disclose the method of income recognition used?
- _____

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(2) Are the policies for suspending and resuming accruals of income on delinquent loans and policies for charging off uncollectible loans disclosed, including the basis for making such decisions?	—	—	—
(3) If the charge-off policy is based on a specific period, is that period disclosed? [AAG, par. 2.45]	—	—	—
b. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield, reported as interest income? [AAG, par. 2.40; SFAS 91, par. 22 (AC L20.121)]	—	—	—
2. Is the interest (actuarial) method used to account for interest income?	—	—	—
a. Is interest on fixed-rate installment loans measured and accrued over the lives of the loans to produce constant rates of interest (yields) when applied to the outstanding loan balance at any time in the lives of the loans?	—	—	—
b. If other computational methods are used, do they clearly produce results that reasonably approximate the interest (actuarial) method? [AAG, par. 2.13]	—	—	—
3. For interest income from investment securities:			
a. Is the interest method used to record amortization and accretion? [AAG, par. 2.13]	—	—	—
4. Are revenues from insurance provided to finance customers presented as part of revenues from the finance business?	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<p>a. Alternately, if a net interest income presentation is used, are the revenues from captive insurance activities presented separately below net interest income? [AAG, par. 5.28]</p>	—	—	—
<p>5. Are factoring commissions recognized in income over the periods in which service is rendered? [AAG, par. 2.23]</p>	—	—	—
<p>6. Is insurance premium income recognized in accordance with Statement 60 (AC In6)?</p>	—	—	—
<p>a. Have insurance policies issued in connection with consumer lending been considered to represent short-duration contracts with the premiums recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided?</p>	—	—	—
<p>b. Are level term credit life insurance premiums recognized as revenue on a straight-line basis?</p>	—	—	—
<p>c. Are decreasing term credit life insurance premiums recognized as revenue using the interest method?</p>	—	—	—
<p>d. Are credit accident and health insurance premiums recognized in income in reasonable relationship to anticipated claims (i.e., an amount that falls between the straight-line method and the insurance-in-force method)?</p>	—	—	—
<p>e. Are property and liability insurance premiums recognized on a straight-line basis unless the amount of coverage declines on a predetermined schedule? [AAG, pars. 5.14 and 5.15]</p>	—	—	—
<p>B. Other Income</p>			
<p>1. For marketable equity securities, are the following disclosed for each period for which an income statement is presented:</p>			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
a. Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	---	---	---
b. For entities with certain specialized accounting practices, the change in net unrealized gain or loss? [SFAS 12, par. 16b (AC I89.110b)]	---	---	---
c. Basis on which cost was determined in computing realized gain or loss? [SFAS 12, par. 12c (AC I89.106c)]	---	---	---
d. The change in valuation allowance(s) during the period? [SFAS 12, par. 12c (AC I89.106c)]	---	---	---
2. For investments in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)]	---	---	---
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]	---	---	---
c. Are income taxes on the investor's share of the investee's earnings appropriately accrued? [APB 24, pars. 7-10 (AC I42.114-.116 and .119)]	---	---	---
C. Other Expenses			
1. Salaries:			
a. If there is a compensatory stock issuance plan:			

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
(1) Is compensation expense accrued in the proper periods? [APB 25, pars. 12-15 (AC C47.112-.115); FASBI 38, pars. 2-6 (AC C47.135A-.135E)]	—	—	—
(2) Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16-18 (AC C47.116-.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	—	—	—
(3) Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	—	—	—
b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6-7 (AC C38.101-.102)]	—	—	—
2. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20-34, 39-53 and 77? ⁵ [SFAS 87, pars. 20-34, 39-53 and 77 (AC P16.114-.128, .133-.138 and .141-.149)]	—	—	—
3. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30? [SFAS 88, pars. 9-10, 12-13 and 15 (AC P16.177, .179, .182-.183 and .185)]	—	—	—
4. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6-8 (AC C38.101-.102)]	—	—	—

⁵ Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Is the provision for credit losses presented separately as an expense item in the income statement? [AAG, par. 2.41]	---	---	---
6. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	---	---	---
7. Operating Leases:			
a. Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed? [SFAS 13, par. 16c (AC L10.112c)]	---	---	---
8. Is the discount or premium on debt being amortized to interest expense over the life of the debt, using the interest method? [APB 12, pars. 16-17 (AC I69.108); APB 21, pars. 15-16 (AC I69.108-.109); AAG, page 59]	---	---	---
9. Is interest income on overnight investments resulting from sales of commercial paper combined with interest expense in the income statement and not shown separately?	---	---	---
a. If material, is such interest income disclosed in a note to the financial statements? [AAG, par. 3.23]	---	---	---
10. Are insurance commissions received from independent insurers deferred and systematically amortized to income over the life of the related insurance contract?	---	---	---
a. Is the method of amortization consistent with the method of premium income recognition for that type of policy?	---	---	---
b. Is the income from experience-related or retrospective commission arrangements accrued over the insurance risk period?	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
c. Are commissions paid to a finance company by an insurance subsidiary eliminated in consolidation? [AAG, pars. 5.21-.23]	---	---	---
11. Are the financial statements of insurance subsidiaries prepared for submission to regulatory authorities adjusted to conform to GAAP before they are consolidated with the financial statements of the parent company? [AAG, par. 5.20]	---	---	---
12. For an existing property with an asbestos problem, were the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13]	---	---	---
D. Income Taxes			
1. Have the types of significant temporary differences and carryforwards been disclosed? [SFAS 109, par 43 (ACI27.142)]	---	---	---
2. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes:			
a. Current tax expense or benefit?	---	---	---
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	---	---	---
c. Investment tax credits?	---	---	---
d. Government grants (to the extent recognized as a reduction of income tax expense)?	---	---	---
e. The benefits of operating loss carryforwards?	---	---	---
f. Tax expense that results from allocating certain benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?	---	---	---
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?	---	---	---

YES NO N/A

- h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?
[SFAS 109, par. 45a-b (AC I27.144a-h)] _____
3. Has 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]) been disclosed for each year for which those items are presented?
[SFAS 109, par. 46 (AC I27.145)] _____
4. Has the nature of significant reconciling items been disclosed?
[SFAS 109, par. 47 (AC I27.146)] _____
5. Have the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes been disclosed?
[SFAS 109, par. 48 (AC I27.147)] _____
6. If the entity is a member of a group that files a consolidated tax return, have the following items been 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 balance sheet 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. 49 a-b (AC I27.148 a-b)] _____

YES NO N/A

- | | | | | |
|----|---|-----|-----|-----|
| 2. | Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items?
[APB 30, pars. 8 and 13-18 (AC I13.101-.103, .105-.106 and .108-.109)] | --- | --- | --- |
| 3. | If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale?
[FASBI 37, par. 2 (AC F60.120)] | --- | --- | --- |
| 4. | For the period encompassing the measurement date, do notes to financial statements disclose: | | | |
| a. | Identity of the segment discontinued? | --- | --- | --- |
| b. | Expected disposal date, if known? | --- | --- | --- |
| c. | Expected manner of disposal? | --- | --- | --- |
| d. | Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date? | --- | --- | --- |
| e. | Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?
[APB 30, par. 18 (AC I13.108.-.109)] | --- | --- | --- |
| 5. | For periods after the measurement date and including the period of disposal, do notes to financial statements disclose the information required?
[APB 30, par. 18 (AC I13.108.-.109)] | --- | --- | --- |
| 6. | If a company had accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decided to retain the segment, was any impairment writedown of the individual assets classified in continuing operations?
[EITF 90-16] | --- | --- | --- |

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. If the entity plans to dispose of two segments of a business, and one has a net gain and the other a loss, was that gain shown net? [EITF 85-36]	---	---	---
F. Extraordinary Items			
1. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence? [APB 30, pars. 19-24 (AC I17.106-.111 and .118)]	---	---	---
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10-12 (AC I17.102-.103)]	---	---	---
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(s) or transaction(s) and the principal items entering into determination of extraordinary gain(s) or loss(es)? [APB 30, par. 11 (AC I17.102)]	---	---	---
5. 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); TB 82-1, par. 6 (AC I25.505)]	---	---	---
6. For nonpublic companies, if there was a restructuring charge, was it reflected using the most meaningful income statement presentation within the framework of APB 30? [EITF 87-4]	---	---	---

YES NO N/A

G. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances?
- a. Adjustments or charges or credits resulting from transactions in the company's own capital stock. _____
 - b. Transfers to and from accounts properly designated as appropriated retained earnings. _____
 - c. Adjustments made pursuant to a quasi-reorganization. _____
[APB 9, par. 28 (AC C08.101)]
2. Is earnings per share information presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation? _____
[APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c and .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128-.131 and .169-.176); FASBI 38, par. 7 (AC E09.130A); and SFAS 85, par. 3 (AC E09.123A)]

Statement of Changes in Stockholders' Equity

- A. Are changes in separate component accounts of stockholders' equity disclosed? _____
[APB 12, par. 10 (AC C08.102)]
- B. Are changes in the number of shares of equity securities disclosed? _____
[APB 12, par. 10 (AC C08.102)]
- C. Are prior period adjustments limited to:
- 1. Correction of an error in financial statements of prior periods? _____
[SFAS 16, par. 11 (AC A35.103)]
 - 2. Adjustments resulting from realization of income tax benefits of preacquisition operating loss or tax credit carryforwards of purchased subsidiaries? _____
[SFAS 96, par. 23 (AC I25.122)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
D. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	---	---	---
E. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:			
1. Nature of the error in previously issued financial statements?	---	---	---
2. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable)? [APB 20, par. 37 (AC A35.105)]	---	---	---

Statement of Cash Flows

A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)]	---	---	---
B. Are cash receipts and payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27-28 (AC C25.125-.126)]	---	---	---
1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)]	---	---	---
2. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
C. Are cash receipts and 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? [SFAS 95, pars. 22-23 (AC C25.120-.121)]	___	___	___
D. Are cash receipts and payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	___	___	___
E. Are cash receipts and payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from collections or sales of loans?	___	___	___
2. Receipts from sales of property or investments?	___	___	___
3. Loans to other entities?	___	___	___
4. Payments to acquire property or investments? [SFAS 95, pars. 16-17 (AC C25.114-.115)]	___	___	___
F. Are cash receipts and payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	___	___	___
G. Are cash receipts and payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt or capital stock?	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. Repayment of amounts borrowed?	—	—	—
3. Dividend payments to shareholders?	—	—	—
4. Acquisition of treasury stock? [SFAS 95, pars. 19-20 (AC C25.117-.118)]	—	—	—
H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	—	—	—
I. Does the statement of cash flows explain the change in cash and cash equivalents during the period? [SFAS 95, par. 7 (AC C25.105)]	—	—	—
J. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	—	—	—
K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, par. 29-30 (AC C25.127-.128)]	—	—	—
L. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	—	—	—
M. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)]	—	—	—

YES NO N/A

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

A. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:

- a. Description of benefits and employee groups covered?
- b. Description of accounting and funding policies?
- c. Cost of benefits recognized during the period?
- d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?

___ ___ ___
___ ___ ___
___ ___ ___
___ ___ ___

[SFAS 81, par. 6 (AC P50.102)]

Auditors' Reports Checklist

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

Explanation of references:

- SAS = Statement on Auditing Standards
- AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
- SSARS = Statement on Standards for Accounting and Review Services
- AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited
- AAG = Audit and Accounting Guide, Audits of Finance Companies

Checklist Questionnaire

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	___	___	___
b. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46); SAS 26, pars. 15-17 (AU 504.15-.17)]	___	___	___
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	___	___	___
2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 26, par. 9 (AU 504.09)]	___	___	___
a. For a public entity? [SAS 26, pars. 8-10 (AU 504.08-.10)]	___	___	___
b. For a nonpublic entity? [SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period? [SAS 58, par. 8 (AU 508.08)]	—	—	—
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	—	—	—
4. Does the auditor's report include appropriate language with respect to the following?			
a. The auditor's opinion is based in part on the report of another auditor. [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]	—	—	—
b. Departure from a promulgated accounting principle which could lead to a misleading financial statement. [SAS 58, pars. 14-15 (AU 508.14-.15)]	—	—	—
c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation. [SAS 58, pars. 16-33 (AU 508.16-.33)]	—	—	—
d. The auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its [the entity's] ability to continue as a going concern." [SAS 64, par. 1 (AU 341.12)]	—	—	—
e. There has been a material change between periods in accounting principles or in the method of their application. [SAS 58, pars. 34-36 (AU 508.34-.36)]	—	—	—
f. Opinion on prior period financial statements differs from the opinion previously expressed. [SAS 58, pars. 77-78 (AU 508.77-.78)]	—	—	—
g. Predecessor auditor's report is reissued. [SAS 58, pars. 80-82 (AU 508.80-.82)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
h. Selected quarterly financial data required by the SEC have been omitted or have not been reviewed. [SAS 36, par. 29 (AU 722.29)]	—	—	—
i. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements. [SAS 8, par. 4 (AU 550.04)]	—	—	—
j. A matter regarding the financial statements should be emphasized. [SAS 58, par. 37 (AU 508.37)]	—	—	—
k. The auditor has been engaged to report on one basic financial statement and there are no scope limitations. [SAS 58, par. 48 (AU 508.48)]	—	—	—
l. Comparative financial statements are presented. [SAS 58, pars. 74-75 (AU 508.74-.75)]	—	—	—
m. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, a disclaimer, or an explanatory paragraph on one or more financial statements for one or more periods. [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	—	—	—
n. Comparative financial statements are presented and the current opinion on the prior period statements is different from the opinion previously expressed. [SAS 58, pars. 77-78 (AU 508.77-.78)]	—	—	—
o. Audited and unaudited financial statements are presented in comparative form. [SAS 26, pars. 14-17 (AU 504.14-.17)]	—	—	—
p. Comparative statements of income, retained earnings, and cash flows are presented without presentation of comparative balance sheets for the prior periods? [SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)]	—	—	—

YES NO N/A

5. If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor indicated in the introductory paragraph:
- a. That the financial statements of the prior period were audited by another auditor? _____
 - b. The date of the report? _____
 - c. The type of report issued by the predecessor auditor? _____
 - d. If the report was other than a standard report, the substantive reasons therefor? _____
[SAS 64, par. 2 (AU 508.83)]
6. If the prior period financial statements audited by a predecessor auditor have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the prior period financial statements before restatement? _____
[SAS 64, par. 2 (AU 508.83)]
7. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself as to the appropriateness of the restatement adjustments, did he report on it in accordance with SAS No. 64, par. 2? _____
[SAS 64, par. 2 (AU 508.83)]
8. If, following a pooling-of-interest transaction, an auditor is engaged to report on restated financial statements for one or more prior years when other auditors audited one or more of the entities included in such financial statements, did he include explanatory language in accordance with SAS No. 64, par. 3? _____
[SAS 64, par. 3 (AU 543.16)]
9. Has a qualified opinion or disclaimer of opinion been expressed if:
- a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? _____
[SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40-48 (AU 508.40-.48)]

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
10. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			
a. An uncertainty is not adequately disclosed in the financial statements? [SAS 58, par. 20 (AU 508.20)]	___	___	___
b. The accounting principles used cause the financial statements to be materially misstated? [SAS 58, par. 21 (AU 508.21)]	___	___	___
c. Unreasonable accounting estimates that cause the financial statements to be materially misstated? [SAS 58, par. 22 (AU 508.22)]	___	___	___
d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change? [SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]	___	___	___
e. Client representations about related-party transactions? [SAS 45, par. 12 (AU 334.12)]	___	___	___
f. Clients' voluntarily including supplementary information which has not been audited? [SAS 52, par. 3, (AU 558.03)]	___	___	___
11. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP? [SAS 58, pars. 67-69 (AU 508.67-.69)]	___	___	___
12. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion? [SAS 58, par. 70 (AU 508.70)]	___	___	___
a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed? [SAS 58, par. 71 (AU 508.71)]	___	___	___

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
13. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]	—	—	—
b. Is the reporting language clear and appropriate for the:			
(1) Qualified opinion? [SAS 58, pars. 38-66 (AU 508.38-.66)]	—	—	—
(2) Adverse opinion? [SAS 58, pars. 67-69 (AU 508.67-.69)]	—	—	—
(3) Disclaimer of opinion? [SAS 58, pars. 70-72 (AU 508.70-.72)]	—	—	—
14. Does the auditor's report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)]	—	—	—
b. Regulated companies? [SAS 1, sec. 544.02-.04 (AU 544.02-.04); SAS 62, pars. 2-8 (AU 623.02-.08)]	—	—	—
c. Inadequate disclosure? [SAS 58, pars. 55-58 (AU 508.55-.58)]	—	—	—
d. Client representations about related-party transactions? [SAS 45, par. 2 (AU 334.12)]	—	—	—
e. Client's refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	—	—	—
f. Limitations on scope of lawyer's response? [SAS 12, pars. 12-14 (AU 337.12-.14)]	—	—	—
g. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
h. Scope limitation concerning errors or irregularities? [SAS 53, pars. 26-27 (AU 316.26-.27)]	---	---	---
i. Illegal acts by clients? [SAS 54 (AU 317)]	---	---	---
j. Segment information? [SAS 21 (AU 435)]	---	---	---
k. Entity's continued existence? [SAS 59, pars. 12-16 (AU 341.12-.16)]	---	---	---
l. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	---	---	---
m. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, sec. 410 (AU 9410.13-.15)]	---	---	---
15. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]	---	---	---
16. For special reports, have the provisions of SAS 35 and SAS 62 been complied with for the following:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 62, pars. 2-8 (AU 623.02-.08)]	---	---	---
b. Specified elements, accounts or items of a financial statement? [SAS 62, pars. 11-14 (AU 623.11-.14); SAS 35 (AU 622)]	---	---	---
c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements? [SAS 62, pars. 19-21 (AU 623.19-.21)]	---	---	---

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
d. Financial information that requires a prescribed form of auditor's report? [SAS 62, pars. 22-26 (AU 623.22-.26)]	—	—	—
17. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document:			
a. Is there a clear distinction between the client's representation and the auditor's representations? [SAS 29, par. 20 (AU 551.20)]	—	—	—
b. Does the auditor's report on the accompanying information:			
(1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?	—	—	—
(2) Specifically identify the accompanying information?	—	—	—
(3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?	—	—	—
(4) State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements and whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6-11 (AU 551.06-.11)]	—	—	—
18. If an auditor-submitted document with accompanying information is coexisting with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all coexisting documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [SAS 29, par. 21 (AU 551.21)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	—	—	—
19. If the document contains interim financial information, has the auditor's report been expanded if required? [SAS 71 pars. 30-34 (AU 722.30-.34)]	—	—	—
20. If supplementary information required by the FASB is presented outside the basic financial statement in an auditor-submitted document, has an opinion been disclaimed on such information unless it has been audited? [SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 558.08 and .11)]	—	—	—
21. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, has the auditor's report been appropriately modified if:			
a. Required supplementary information is omitted?	—	—	—
b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?	—	—	—
c. The auditor is unable to complete the procedures prescribed by SAS 52? [SAS 52, par. 8 (AU 558.08)]	—	—	—
22. If a report on internal accounting control is to be issued [material weaknesses in internal accounting controls ("reportable conditions") that have come to the auditor's attention which must be communicated, preferably in writing, to the audit committee or board of directors, as required by SAS 60 (AU 325)], is the appropriate form used for:			
a. Expression of an opinion on the entity's system of internal accounting control in effect, as of a specified date or during a specific period of time? [SAS 30, pars. 37-46 (AU 642.37-.46)]	—	—	—

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed-upon matters? [SAS 60, pars. 12-19 (AU 325.12-.19)]	---	---	---
c. Report on all or part of an entity's system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies' preestablished criteria? [SAS 30, pars. 54-59 (AU 642.54-.59)]	---	---	---
d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	---	---	---
23. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate:			
a. That the auditor has examined and expressed an opinion on the complete financial statements?	---	---	---
b. The date of the report on the complete financial statements?	---	---	---
c. The type of opinion expressed?	---	---	---
d. Whether, in the auditor's opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 5 (AU 552.05)]	---	---	---

YES NO N/A

24. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements, and if the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure?
[SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]
25. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:
- a. That the auditor has examined and expressed an opinion on the complete financial statements?
 - b. The type of opinion expressed?
 - c. The specific data on which the auditor is reporting?
 - d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?
[SAS 42, par. 9 (AU 552.09)]
26. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data?
[SAS 42, par. 9 (AU 552.09)]

Illustrative Financial Statements

ILLUSTRATIVE FINANCE COMPANY FINANCIAL STATEMENTS

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

The banking industry has adopted an income statement format that emphasizes presentation of net interest income. Because of the similarity between many banking activities and finance company activities, the AICPA Finance Companies Guide Special Committee believes that such a presentation is of increasing relevance for the finance industry. Therefore, the illustrative financial statements in this appendix include two alternative income statement formats, the first of which emphasizes a net interest income presentation.

Nevertheless, certain factors may limit the usefulness of the net interest income presentation. An income statement that does not emphasize net interest income may be more appropriate for companies that engage primarily or solely in factoring operations or that otherwise derive a substantial portion of their income from commissions for services rather than from interest earned on loans. Additionally, the scope of what is to be included in net interest income needs to be considered. For example, as not done in the illustrative financial statements, a finance company may include credit insurance premiums and insurance claims expense on affiliated credit insurance business in the display of net interest income to recognize the integral nature of lending and credit insurance activities. In addition, all or a portion of investment income may be included in the display of net interest income.

FASB Statement No. 95, *Statement of Cash Flows*, requires a statement of cash flows as part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position.

Both the direct and indirect methods of presenting a statement of cash flows are illustrated in this section.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
XYZ Finance Corporation
Anytown, U.S.A.

We have audited the accompanying consolidated balance sheets of XYZ Finance Corporation and subsidiaries as of December 31, 19X8 and 19X7, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XYZ Finance Corporation and subsidiaries at December 31, 19X8 and 19X7, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.
January 15, 19X9

**XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES**

Balance Sheets

December 31, 19X8 and 19X7

(in thousands except share and per share amounts)

	<u>19X8</u>	<u>19X7</u>
Assets		
Finance receivables, net	\$333,649	\$272,166
Investments in securities	32,760	30,838
Cash	6,015	4,907
Property and equipment	4,689	3,830
Other	11,628	9,577
Total assets	<u>\$388,741</u>	<u>\$321,318</u>
Liabilities		
Senior debt	\$163,064	\$113,723
Senior subordinated debt	84,204	74,572
Junior subordinated debt	31,400	30,500
Accounts payable and accrued liabilities	15,727	13,866
Credit balances of factoring clients	4,120	3,112
Deferred income taxes	3,972	3,469
Total liabilities	<u>302,487</u>	<u>239,242</u>
Shareholders' Equity		
Common stock, \$1 par value; 4,269,000 shares authorized and outstanding	4,269	4,269
Additional paid-in capital	18,945	18,945
Net unrealized depreciation of marketable equity securities	(626)	(278)
Retained earnings	63,666	59,140
Total shareholders' equity	<u>86,254</u>	<u>82,076</u>
Total liabilities and shareholders' equity	<u>\$388,741</u>	<u>\$321,318</u>

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

**XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES**

**Statements of Income and Retained Earnings: Format 1
Years Ended December 31, 19X8 and 19X7
(in thousands except per share amounts)**

	<u>19X8</u>	<u>19X7</u>
Interest income		
Interest and fee income	\$55,510	\$47,302
Interest expense	<u>18,825</u>	<u>16,283</u>
Interest margin	36,685	31,019
Provision for credit losses	<u>4,284</u>	<u>3,623</u>
Interest margin after provision for credit losses	32,401	27,396
Insurance premiums and other income	<u>13,040</u>	<u>11,650</u>
Interest margin after provisions for credit losses and other revenues	<u>45,441</u>	<u>39,046</u>
Other expenses		
Salaries and fringe benefits	10,546	8,987
Other operating expenses	<u>13,227</u>	<u>11,565</u>
Total operating expenses	23,773	20,552
Policyholders' benefits	<u>6,644</u>	<u>5,600</u>
Total operating expenses and policyholders' benefits	<u>30,417</u>	<u>26,152</u>
Income before income taxes	15,024	12,894
Income taxes	<u>7,211</u>	<u>6,189</u>
Net income	7,813	6,705
Retained earnings, beginning of year	59,140	55,551
Dividends	<u>(3,287)</u>	<u>(3,116)</u>
Retained earnings, end of year	<u>\$63,666</u>	<u>\$59,140</u>
Earnings per share	<u>\$ 1.83</u>	<u>\$ 1.57</u>
Dividends per share	<u>\$ 0.77</u>	<u>\$ 0.73</u>

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

**XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES**

**Statements of Income and Retained Earnings: Format 2
Years Ended December 31, 19X8 and 19X7
(in thousands except per share amounts)**

	<u>19X8</u>	<u>19X7</u>
Revenues		
Interest and fee income	\$55,510	\$47,302
Insurance premiums and other income	<u>13,040</u>	<u>11,650</u>
Total revenues	<u>68,550</u>	<u>58,952</u>
Expenses		
Interest expense	18,825	16,283
Provision for credit losses	4,284	3,623
Salaries and fringe benefits	10,546	8,987
Other operating expenses	<u>13,227</u>	<u>11,565</u>
Total before policyholders' benefits	46,882	40,858
Policyholders' benefits	<u>6,644</u>	<u>5,600</u>
Total expenses	<u>53,526</u>	<u>46,058</u>
Income before income taxes	15,024	12,894
Income taxes	<u>7,211</u>	<u>6,189</u>
Net income	7,813	6,705
Retained earnings, beginning of year	59,140	55,551
Dividends	<u>(3,287)</u>	<u>(3,116)</u>
Retained earnings, end of year	<u>\$63,666</u>	<u>\$59,140</u>
Earnings per share	<u>\$ 1.83</u>	<u>\$ 1.57</u>
Dividends per share	<u>\$ 0.77</u>	<u>\$ 0.73</u>

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

**XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES**

Statements of Cash Flows: Direct Method

Years Ended December 31, 19X8 and 19X7

(in thousands)

	19X8	19X7
Cash flows from operating activities:		
Interest and fees received	\$54,698	\$46,589
Interest paid	(18,275)	(15,897)
Cash payments for operating expenses	(21,912)	(18,686)
Income taxes paid	(5,242)	(4,565)
Insurance premiums received	12,790	11,498
Other	(2,611)	(1,937)
Net cash provided by operating activities	19,448	17,002
Cash flows from investing activities:		
Loans originated or purchased*	(190,304)	(136,571)
Loans repaid or sold*	118,705	83,750
Net investment in commercial paper	(346)	(555)
Securities purchased	(19,243)	(17,512)
Securities sold or matured*	17,471	16,639
Capital expenditures	(1,409)	(1,656)
Proceeds from sale of property and equipment	200	643
Net cash used in investing activities	(74,926)	(55,262)
Cash flows from financing activities:		
Net borrowings of commercial paper	16,939	10,215
Proceeds from issuance of other debt	71,000	50,000
Repayment of other debt	(28,066)	(18,215)
Proceeds from issuance of common stock	—	955
Dividends paid	(3,287)	(3,116)
Net cash provided by financing activities	56,586	39,839
Net increase in cash	1,108	1,579
Cash, beginning of year	4,907	3,328
Cash, end of year	\$ 6,015	\$ 4,907
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 7,813	\$ 6,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on finance receivables	4,284	3,623
Policyholders' benefits	6,644	5,600
Depreciation	350	303
Deferred income taxes	503	473
Accounts payable and accrued liabilities	1,861	1,530
Accrued interest receivable	(812)	(713)
Gain on sale of securities	(152)	(183)
Other	(1,043)	(336)
Net cash provided by operating activities	\$19,448	\$17,002

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

*If the amounts are significant, this caption may be separated into two line items.

**XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES**

**Statements of Cash Flows: Indirect Method
Years Ended December 31, 19X8 and 19X7
(in thousands)**

	19X8	19X7
Cash flows from operating activities:		
Net income	\$ 7,813	\$ 6,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on finance receivables	4,284	3,623
Policyholders' benefits	6,644	5,600
Depreciation	350	303
Deferred income taxes	503	473
Accounts payable and accrued liabilities	1,861	1,530
Accrued interest receivable	(812)	(713)
Gain on sale of securities	(152)	(183)
Other	(1,043)	(336)
Net cash provided by operating activities	19,448	17,002
Cash flows from investing activities:		
Loans originated or purchased*	(190,304)	(136,571)
Loans repaid or sold*	118,705	83,750
Net investment in commercial paper	(346)	(555)
Securities purchased	(19,243)	(17,512)
Securities sold or matured*	17,471	16,639
Capital expenditures	(1,409)	(1,656)
Proceeds from sale of property and equipment	200	643
Net cash used in investing activities	(74,926)	(55,262)
Cash flows from financing activities:		
Net borrowings of commercial paper	16,939	10,215
Proceeds from issuance of other debt	71,000	50,000
Repayment of other debt	(28,066)	(18,215)
Proceeds from issuance of common stock	—	955
Dividends paid	(3,287)	(3,116)
Net cash provided by financing activities	56,586	39,839
Net increase in cash	1,108	1,579
Cash, beginning of year	4,907	3,328
Cash, end of year	\$ 6,015	\$ 4,907

Supplemental disclosures of cash flow information:

Cash paid during the year for:		
Interest	\$18,275	\$15,897
Income taxes	\$ 5,242	\$ 4,565

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

*If the amounts are significant, this caption may be separated into two line items.

XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

Notes to Financial Statements

A. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of XYZ Finance Corporation (the Company) and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Income Recognition

Interest income from finance receivables is recognized using the interest (actuarial) method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for ninety days or more. The accrual is resumed when the loan becomes contractually current, and past-due interest income is recognized at that time. In addition, a detailed review of commercial loans will cause earlier suspension if collection is doubtful. Premiums and commissions for credit life insurance are recognized as revenue using the interest method. Premiums and commissions for credit accident and health insurance are recognized over the terms of the contracts based on the mean of the straight-line and interest methods.

Credit Losses

Provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing portfolio. The Company's charge-off policy is based on a loan-by-loan review for all receivables except consumer loans and factored receivables, which are charged off when they are 180 days and 90 days contractually past due, respectively.

Loan Origination Fees and Costs

Fees received and direct costs incurred for the origination of loans are deferred and amortized to interest income over the contractual lives of the loans using the interest method. Unamortized amounts are recognized in income at the time that loans are sold or paid in full.

Investments

Investments in marketable equity securities are carried at lower of aggregate market value and cost. Investments in bonds and notes are carried at amortized cost. The amount by which the aggregate cost of investments in marketable equity securities exceeds aggregate market value is reported as a deduction from equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in income.

B. Finance Receivables and Allowance for Credit Losses

Finance receivables as of December 31 consisted of the following (in thousands of dollars):

	19X8	19X7
Consumer		
Real estate secured	\$131,961	\$104,078
Other	119,135	97,857
Accrued interest	3,175	2,550
	254,271	204,485
Commercial		
Accounts receivable loans	32,002	27,440
Factored accounts		
Receivables	21,404	18,594
Inventory loans to clients	2,965	2,876
Overadvances to clients	2,947	2,260
Floor plan loans	5,441	5,763
Other	29,962	23,620
Accrued interest	1,200	1,013
	95,921	81,566
Total finance receivables	350,192	286,051
Allowance for credit losses	(9,506)	(7,839)
Unearned credit insurance premiums and liabilities for policyholder benefits	(7,037)	(6,046)
Finance receivables, net	\$333,649	\$272,166

At December 31, 19X8, the accrual of interest income was suspended on \$4,086,000 and \$2,107,000 of consumer and commercial loans, respectively.

At December 31, 19X8, contractual maturities of finance receivables were as follows (in thousands of dollars):

	<u>19X9</u>	<u>19X0</u>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>Thereafter</u>	<u>Total</u>
Consumer							
Real estate secured	\$ 20,963	\$10,785	\$10,474	\$ 8,480	\$ 8,917	\$72,342	\$131,961
Other	51,325	29,374	20,164	9,507	2,423	6,342	119,135
Commercial							
Accounts receivable loans	32,002						32,002
Factored accounts	27,316						27,316
Floor plan loans	4,686	755					5,441
Other	6,140	8,243	5,192	4,934	5,453		29,962
Accrued interest	<u>4,375</u>						<u>4,375</u>
Total finance receivables	<u>\$146,807</u>	<u>\$49,157</u>	<u>\$35,830</u>	<u>\$22,921</u>	<u>\$16,793</u>	<u>\$78,684</u>	<u>\$350,192</u>

It is the Company's experience that a substantial portion of the consumer loan portfolio generally is renewed or repaid before contractual maturity dates. The above tabulation, therefore, is not to be regarded as a forecast of future cash collections. During the years ended December 31, 19X8 and 19X7, cash collections of principal amounts of consumer loans totaled \$57,670,000 and \$40,719,000, respectively, and the ratios of these cash collections to average principal balances were 25 percent and 29 percent, respectively.

Changes in the allowance for credit losses were as follows (in thousands of dollars):

	<u>Consumer</u>		<u>Commercial</u>				<u>Total</u>
	<u>Real Estate Secured</u>	<u>Other</u>	<u>Accounts Receivable Loans</u>	<u>Factored Accounts</u>	<u>Floor Plan Loans</u>	<u>Other</u>	
Balance as of December 31, 19X6	\$ 762	\$3,885	\$628	\$556	\$112	\$620	\$6,563
Provision for credit losses	597	1,564	627	534	129	172	3,623
Loans charged off	(376)	(1,357)	(749)	(639)	(154)	(156)	(3,431)
Recoveries	<u>58</u>	<u>490</u>	<u>225</u>	<u>192</u>	<u>46</u>	<u>73</u>	<u>1,084</u>
Balance as of December 31, 19X7	1,041	4,582	731	643	133	709	7,839
Provision for credit losses	651	2,090	664	583	121	175	4,284
Loans charged off	(448)	(1,601)	(808)	(710)	(147)	(178)	(3,892)
Recoveries	<u>76</u>	<u>601</u>	<u>243</u>	<u>213</u>	<u>44</u>	<u>98</u>	<u>1,275</u>
Balance as of December 31, 19X8	<u>\$1,320</u>	<u>\$5,672</u>	<u>\$830</u>	<u>\$729</u>	<u>\$151</u>	<u>\$804</u>	<u>\$9,506</u>

C. Investments in Securities

Investments in securities as of December 31 were as follows (in thousands of dollars):

	19X8			19X7		
	Cost	Market	Carrying Amount	Cost	Market	Carrying Amount
Marketable equity securities						
Common stocks	\$10,454	\$ 9,523	\$ 9,523	\$ 9,429	\$ 8,382	\$ 8,382
Preferred stocks	5,897	6,202	6,202	5,551	6,320	6,320
Total marketable equity securities	<u>16,351</u>	<u>15,725</u>	<u>15,725</u>	<u>14,980</u>	<u>14,702</u>	<u>14,702</u>
Other						
Government bonds	6,552	6,128	6,552	6,267	5,832	6,267
Corporate bonds	4,586	4,271	4,586	4,318	4,017	4,318
Commercial paper	5,897	5,897	5,897	5,551	5,551	5,551
Total other	<u>17,035</u>	<u>16,296</u>	<u>17,035</u>	<u>16,136</u>	<u>15,400</u>	<u>16,136</u>
Total investments in securities	<u>\$33,386</u>	<u>\$32,021</u>	<u>\$32,760</u>	<u>\$31,116</u>	<u>\$30,102</u>	<u>\$30,838</u>

All but \$6,710,000 and \$3,801,000 of the above investments were held by insurance subsidiaries as of December 31, 19X8 and 19X7, respectively. As of December 31, 19X8, the marketable equity securities portfolio had gross unrealized gains of \$428,000 and gross unrealized losses of \$1,054,000. The gross unrealized losses have not been reduced for their tax effects. Sales of marketable equity securities resulted in net realized gains of \$152,000 and \$183,000 in 19X8 and 19X7, respectively.

D. Debt

Debt as of December 31 consisted of the following (in thousands of dollars):

	19X8	19X7
Senior debt		
Commercial paper	\$ 62,600	\$ 45,661
4% to 7% notes due 19X9-19X2	73,866	47,570
7½% notes due 19Y3-19Y7	12,090	9,314
8% notes due 19Y2	9,671	7,452
Variable interest rate notes due 19Y1	4,837	3,726
Total senior debt	<u>163,064</u>	<u>113,723</u>
Senior subordinated debt		
6% notes due 19Y2	40,000	40,000
7% notes due 19Y3	34,572	34,572
8½% notes due 19Y6-19Z0	9,632	—
Total senior subordinated debt	<u>84,204</u>	<u>74,572</u>
Junior subordinated debt		
8% notes due 19Y2	25,000	25,000
10½% notes due 19Y3-19Y9	6,400	5,500
Total junior subordinated debt	<u>31,400</u>	<u>30,500</u>
Total subordinated debt	<u>115,604</u>	<u>105,072</u>
Total debt	<u>\$278,668</u>	<u>\$218,795</u>

The Company maintains various bank credit agreements, primarily to support commercial paper borrowings. As of December 31, 19X8, these agreements included \$50,000,000 of formal credit lines and \$158,460,000 of revolving credit agreements. Credit lines are reviewed annually, and the revolving credit agreements consist of \$50,160,000 and \$108,300,000 expiring June 30, 19Y0, and September 30, 19Y2, respectively. As of December 31, 19X8, none of the credit lines or revolving credit agreements were in use. To support the availability of credit agreements, the Company pays commitment fees or maintains compensating balances, or both. Borrowings under these lines generally are available at the prime rate. Compensating balance and annual commitment fee requirements as of December 31, 19X8 totaled \$742,000 and \$987,000, respectively.

Data on commercial paper were as follows (in thousands of dollars):

	<u>19X8</u>	<u>19X7</u>
Weighted average interest rate at year end	9.2%	8.7%
Maximum amount outstanding at any month end	\$62,600	\$48,735
Average borrowings	54,131	43,867
Weighted average interest rate during the year	<u>9.0%</u>	<u>8.5%</u>

Maturities as of December 31, 19X8, were as follows (in thousands of dollars):

	<u>19X9</u>	<u>19X0</u>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>There- after</u>	<u>Total</u>
Senior debt	\$81,100	\$18,500	\$22,337	\$29,037	\$ 2,400	\$ 9,690	\$163,064
Senior subordinated debt				40,000	34,572	9,632	84,204
Junior subordinated debt				25,000	1,000	5,400	31,400
Total debt	<u>\$81,100</u>	<u>\$18,500</u>	<u>\$22,337</u>	<u>\$94,037</u>	<u>\$37,972</u>	<u>\$24,722</u>	<u>\$278,668</u>

The loan agreements under which certain of the senior and subordinated debts were issued contain restrictions on the payment of dividends, the purchase of common stock, and the requirements for maintenance of certain financial ratios and other financial conditions. Under the most restrictive of the dividend payment provisions, approximately \$21,056,000 of consolidated retained earnings were free of such restrictions as of December 31, 19X8. Requirements for maintenance of certain financial ratios and other financial conditions have the effect of requiring maintenance of consolidated shareholders' equity at certain minimum amounts; as of December 31, 19X8, consolidated equity exceeded this minimum amount by approximately \$38,600,000.

Note: See appropriate FASB and AICPA pronouncements for additional guidance in presenting other information required by generally accepted accounting principles, such as disclosures about insurance activities, segment data, lease commitments, employee benefit plans, and income taxes.

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