
American Institute of Certified Public Accountants. Technical Information Division

Karyn M. Waller

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements
Checklist Supplement and Illustrative Financial Statements for Construction Contractors
Checklist Supplement and Illustrative Financial Statements for Investment Companies
Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures

Industry Checklists and Illustrative Financial Statements
Checklists and Illustrative Financial Statements for Agricultural Cooperatives
Checklists and Illustrative Financial Statements for Banks and Savings Institutions
Checklists and Illustrative Financial Statements for Colleges and Universities
Checklists and Illustrative Financial Statements for Common Interest Realty Associations
Checklists and Illustrative Financial Statements for Credit Unions
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Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans
Checklists and Illustrative Financial Statements for Finance Companies
Checklists and Illustrative Financial Statements for Health Care Providers
Checklists and Illustrative Financial Statements for Life Insurance Companies
Checklists and Illustrative Financial Statements for Not-for-Profit Organizations
Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies
Checklists and Illustrative Financial Statements for State and Local Governmental Units
Checklists and Illustrative Financial Statements for Finance Companies

A Financial Accounting and Reporting Practice Aid

Edited by
Karyn M. Waller, CPA
Technical Manager, Technical Publications

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.
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FSP Section 15,000
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR FINANCE COMPANIES

.01 The checklists and illustrative financial statements included in this section have been developed by the AICPA’s Technical Publications staff 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 to include relevant accounting pronouncements through AICPA Statement on Auditing Standards No. 74, FASB Statement of Financial Accounting Standards No. 122, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position 95-2, AICPA Audit and Accounting Guide Audits of Finance Companies (looseleaf version with conforming changes as of May 1, 1994 (including any changes made in the looseleaf service as of March 31, 1995)), and EITF consensuses adopted up to and including the May 19, 1995, Emerging Issues Task Force meeting. In addition, disclosures related to Statement on Standards for Attestation Engagements No. 2 have been included. 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 and generally accepted auditing standards.

- The checklists and illustrative financial statements do not include all disclosures and presentation items required by GAAP; pronouncements deemed unlikely to be encountered in audits of finance companies are not included in this document. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

.02 Users of 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 at 1 (800) 862-4272.

______________________________

Note: This publication was extracted from sections 15,000 through 15,500 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 15,100

Introduction

.01 Finance companies provide lending and financing services to consumers and business enterprises. The provisions of the AICPA Audit and Accounting Guide, Audits of Finance Companies, apply to independent and captive financing activities. It does not apply to banks, savings institutions, 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.

.02 Numerous state and federal statutes affect finance company 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.

.03 Common accounting and reporting practices 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, where 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 are no longer 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.
- Foreclosed assets held for sale are carried at the lower of (a) fair value minus estimated costs to sell or (b) cost. Foreclosed assets held for the production of income are treated the same way they would have been had the assets been acquired in a manner other than through foreclosure.
FSP Section 15,200
Checklists—General

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

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

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be 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.

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

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

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

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

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.
FSP Section 15,300

Financial Statements and Notes Checklist

.01 This checklist has been developed by the AICPA’s Technical Publications staff as a nonauthoritative practice aid.

.02 Explanation of References:
ARB = AICPA Accounting Research Bulletin
APB = AICPA Accounting Principles Board Opinion
SFAS = FASB Statement of Financial Accounting Standards
SAS = AICPA Statement on Auditing Standards
FASBI = FASB Financial Accounting Standards Board Interpretation
TB = Technical Bulletin issued by the staff of the FASB
AC = Reference to section number in FASB Accounting Standards—Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1)
AAG = AICPA Audit and Accounting Guide Audits of Finance Companies (with conforming changes as of May 1, 1994 (including any changes made in the looseleaf service as of March 31, 1995))
SOP = AICPA Statement of Position
EITF = Emerging Issues Task Force Consensus (up to and including the May 19, 1995 Emerging Issues Task Force meeting)

.03 Checklist Questionnaire

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A. Titles and References

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

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 the 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)]
   ___  ___  ___

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.
3. Does 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 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? [AAG, App. B (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? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]
   b. Justification for the change? [APB 20, pars. 19—22 and 25 (AC A06.115—.118 and .121)]
   c. Effect on income before extraordinary items and on net income? [SFAS 106, par. 115]
   d. Effect on related per-share amounts? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]

2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, par. 33 (AC A06.132)]

3. For changes in the method of accounting for postretirement life insurance and health care benefits in accordance with SFAS 106, are appropriate disclosures made? [SFAS 106, par. 115]

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, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]

5. For a change in accounting estimate affecting several future periods, is the effect on income before extraordinary items and on net income disclosed in the year of change? [APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]

6. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements? [APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]
   b. Effect of its correction on income before extraordinary items, net income, and related per-share amounts? [APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]

D. **Comparative Financial Statements**

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

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

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

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. Is the pooling-of-interest method of accounting 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 is accounted for by the purchase method do the statements and notes include the required disclosures?
   [APB 16, pars. 95—96 (AC B50.164—.165)]

3. Where the company 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 of, are the following disclosed:
   a. A description of the operations held for sale, the method used to assign amounts to those assets, the method used to account for those assets, and the expected disposal date?
   b. The operation's profit or loss that has been excluded from the consolidated income statement during the period, together with a schedule reconciling that amount to the earnings received or losses funded by the parent that have the carrying amount of the assets (the amount of allocated interest cost should be separately identified)?
   c. Any gain or loss on the ultimate disposition that has been treated as an adjustment of the original purchase price allocation?
   [EITF 90-6]

4. If a material liability is recognized by the combined company, for costs incurred to (1) exit an activity, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company, are disclosures made in accordance with EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, in addition to the disclosures required by APB 16, Business Combinations, paragraphs 95 and 96 (AC B50.164—165)?
   [EITF 95-3]

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)]

2. Are the accounts of majority-owned subsidiaries consolidated?
   [SFAS 94, par. 13 (AC C51.103)]

3. If the conditions of EITF 90-15 are met, does the lessee consolidate the assets, liabilities, results of operations, and cash flows of the special-purpose entities that are established for both the construction and subsequent lease of an asset in its financial statements?
   a. Does consolidation occur at the inception of the lease rather than at the beginning of the lease term?
      [EITF 90-15]

G. Related-Party Transactions

1. For related-party transactions, do disclosures include:
   a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?
   b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to understand the effects of the transactions on the financial statements?
c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?

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

[SFAS 57, pars. 2—4 (AC R36.102—.104)]

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e. If the company 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?

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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 109, par. 49 (AC 127.148)]

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

[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

H. Financial Instruments

In October 1994, the FASB issued SFAS 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments, which expands the disclosure requirements for entities that hold or issue derivative financial instruments. It also amends certain disclosure requirements of SFAS 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, and SFAS 107, Disclosures about Fair Value of Financial Instruments. This section has been updated to reflect SFAS 119's amendments to SFAS 105 and 107. For entities that have not adopted SFAS 119, guidance is provided in certain footnotes in this section of the checklist for applying the disclosure requirements of SFAS 105 and 107 prior to adoption of SFAS 119.

Only organizations that have adopted SFAS 119 should complete the section following, Section I, "Derivatives."

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

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

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

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

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(2) The cash requirements of those instruments?

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2 SFAS 119 is effective for fiscal years ending after December 15, 1994. For organizations with less than $150 million in total assets in the current statement of financial position, the effective date is for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

3 Category of financial instrument refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the entity also should describe for each category the classes of financial instruments included in that category. Practices for grouping and separately identifying similar financial instruments into classes 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. If the organization has not adopted SFAS 119, the disclosures in Steps 1a.-b. should be made by class of financial instrument, rather than by category.
(3) The related accounting policy pursuant to the requirements of APB 22 [AC A10]?
[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112)]

2. Do the disclosures in steps 1a. and b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading?4
[SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112A)]

3. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed either in the body of the financial statements or in the notes by category of financial instrument:
   a. The amount of accounting loss the company would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the organization?
   b. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?
[SFAS 105, par. 18 as amended by SFAS 119, par. 14 (AC F25.113)]

4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:
   a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?
   b. The amount of the accounting loss due to credit risk the company would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the organization?
   c. The company’s policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the organization’s access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?
[SFAS 105, par. 20 (AC F25.115)]

   NOTE: For organizations with less than $150 million in total assets in the current statement of financial position, the effective date for SFAS 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged.

5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position?6,7
[SFAS 107, par. 10 as amended by SFAS 119, par. 15 (AC F25.115C)]

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4 Not applicable to organizations that have not adopted SFAS 119.
5 See Footnote 3. If the organization has not adopted SFAS 119, the disclosures in Step 3 should be made by class of financial instrument, rather than by category.
6 If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.
7 Not applicable to entities that have not adopted SFAS 119.
6. Do the disclosures in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? 

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

7. Are the methods and significant assumptions used to estimate the fair value of financial instruments disclosed?

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

8. If it is not practicable to estimate the fair market value of a financial instrument, do disclosures include:

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 F25.115I)]

9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, does the organization, in disclosing the fair value of a derivative financial instrument, not:

a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?

b. Net the fair value with the fair value of other derivative financial instruments?

[SFAS 107, par. 13 as amended by SFAS 119, par. 15 (AC F25.115I)]

10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes?

[SFAS 107, par. 17]

**I. Derivatives** (SFAS 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than $150 million in total assets. For those entities, the Statement is effective for financial statements issued for fiscal years ending after December 15, 1995.)

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

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

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

   (1) Credit and market risk?

   (2) Cash requirements?

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

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

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

   (2) Purposes other than trading?

[SFAS 119, pars. 8 and 9]

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8 See footnote 7.
2. Does the company that holds derivative financial instruments for trading purposes disclose:
   a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities? __ __ __
   b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement? __ __ __
      (1) If the disaggregation is other than by class, did the organization also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose? __ __ __
   c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (This disclosure is encouraged but not required.) [SFAS 119, par. 10] __ __ __

3. Does a company that holds derivative financial instruments for purposes other than trading disclose:
   a. A description of:
      (1) The objectives for holding? __ __ __
      (2) The context needed to understand those objectives? __ __ __
      (3) The strategies for achieving those objectives? __ __ __
      (4) The classes of derivative financial instruments used? __ __ __
   b. A description of how each class of derivative financial instrument is reported in the financial statements, including:
      (1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments? __ __ __
      (2) When recognized, where the instruments and related gains and losses are reported? __ __ __
   c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:
      (1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence? __ __ __
      (2) A description of the classes of derivative financial instruments used to hedge? __ __ __
      (3) The amount of explicitly deferred hedging gains and losses? __ __ __
      (4) A description of the transaction or events that result in the recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11] __ __ __

4. Are the following encouraged, but not required, quantitative disclosures made:
   a. Interest rate? __ __ __
   b. Foreign exchange? __ __ __
   c. Commodity price? __ __ __
   d. Other market risks consistent with management’s strategies? __ __ __
   e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? [SFAS 119, pars. 12 and 13] __ __ __

*Suggested methods of disclosure of the above include: (continued)*

13
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 59.108)]

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

2. For loss contingencies not accrued, do disclosures indicate:
   
a. Nature of the contingency?
   
   [SFAS 5, par. 10 (AC 59.109 and 111)]

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<tr>
<th>Yes</th>
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3. Are the nature and amount of guarantees disclosed (e.g., obligations under standby letters of credit, guarantees to repurchase loans that have been sold)?
   
   [SFAS 5, par. 12 (AC C59.113); FASB 34, pars. 2—3 (AC 59.114)]

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<tr>
<th>Yes</th>
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4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided?
   
   [SFAS 5, par. 17 (AC C59.118)]

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<tr>
<th>Yes</th>
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5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans?
   
   [SFAS 5, par. 18 (AC C59.120)]

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<tr>
<th>Yes</th>
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SOP 94-6, Disclosure of Certain Significant Risks and Uncertainties, is effective for financial statements issued for fiscal years ending after December 15, 1995, and for financial statements for interim periods in fiscal years subsequent to the year for which this SOP is to be first applied. Early application is encouraged.

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

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

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<tr>
<th>Yes</th>
<th>No</th>
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8. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management’s estimates included in the financial statements?
   
   [SOP 94-6, par. 11]

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<th>Yes</th>
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9. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that (a) it is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events and (b) the effect of the change would be material to the financial statements?
   
   [SOP 94-6, par. 13]

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(Footnote Continued)

a. Additional details about current positions and period activity.

b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.

c. Gap analysis of interest rate repricing or maturity dates.

d. Duration of financial instruments.

e. The entity’s value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.

f. Any other helpful informative disclosures.
10. Does the disclosure in Step 9, above, indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in estimate will occur in the near term?[^10]

[SOP 94-6, par. 14]

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11. If the estimate in Step 9, above involves a loss contingency covered by SFAS 5, *Accounting for Contingencies*, do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made?[^11]

[SOP 94-6, par. 14]

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12. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 of SOP 94-6 are met?

[SOP 94-6, pars. 21—22]

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13. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the company’s home country that meet the criteria of paragraph 21 of SOP 94-6, are the following specific items disclosed:

a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?

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b. The carrying amounts of net assets and the geographic areas in which they are located for operations located outside the company’s home country?

[SOP 94-6, par. 24]

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14. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered?

[SOP 94-6, pars. 14—15]

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**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)]

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2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading?

[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09)]

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**L. Pension Plans** (For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe5))

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)]

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b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?[^12]

[SFAS 87, par. 54b (AC P16.150b)]

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[^10]: If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.


[^12]: 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: (continued)
c. All amounts shown within three months of the balance-sheet date using a consistent date from year to year (estimates may be necessary)?
[SFAS 87, par. 52 (AC P16.148)]

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d. A schedule reconciling the funded status of the plan with amounts reported in the employer’s statement of financial condition, showing separately:

(1) The fair value of plan assets?
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?
(3) The amount of unrecognized prior-service cost?
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC P16)?
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—130) (which is the net result of combining the preceding six items)?
[SFAS 87, par. 54c (AC P16.150c)]

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e. 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)]

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f. 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)]

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g. 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. 54e (AC P16.150e)]

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h. If more than one defined benefit plan exists:

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

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(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?

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(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)]

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

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

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(Footnote Continued)

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 assets).

b. Amortization of the net gain or loss from earlier periods.

c. Amortization of unrecognized prior-service cost.

d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87.

16
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(s), 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 result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied?  
[SFAS 87, par. 70 (AC P16.167)]

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

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. Is the unallocated amount treated as if it were part of the employer’s investments portfolio and recorded as an asset?  
      (1) Is the income attributed to such securities, including dividends, interest and realized gains and losses, reported in a manner consistent with the employer’s reporting of similar items?  
   c. Are the unallocated assets consisting of the employer’s own stock recorded as treasury stock in the employer’s financial statements?  
   d. Are the unallocated assets consisting of the employer’s debt securities recorded as assets (rather than debt extinguishment) in the employer’s financial statements?  
[EITF 86-27]

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

[ETTF 86-27]

M. Postretirement Benefits Other Than Pensions (Assumes adoption of SFAS 106—See Exhibit A if SFAS 106 has not been adopted)

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

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

b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components?\(^\text{13}\)

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

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

\(^{13}\) The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 (AC P40). That net total includes:

a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).

b. Amortization of unrecognized prior-service cost.

c. Amortization of the net gain or loss from earlier periods.

d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 (AC P40.156)).
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:

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

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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?

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

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

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

[SFAS 106, par. 74a—j (AC P40.169a—j)]

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

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

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

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

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

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

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

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

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

[SFAS 106, par. 82a—b (AC P40.178)]

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

(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?

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, are the following items disclosed separately from defined benefit postretirement plan disclosures:

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

b. The amount of cost recognized during the period?

[SFAS 106, par. 106 (AC P40.198)]

N. Employee Stock Ownership Plans

1. If an employer sponsors an ESOP, do the employer’s disclosures include:

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

b. For leveraged ESOPs and pension reversion ESOPs, the basis for releasing shares and how dividends on allocated and unallocated shares are used?

c. A description of the accounting policies followed for ESOP transactions, including the method of measuring compensation, the classification of dividends on ESOP shares, and the treatment of ESOP shares for EPS computations?

d. If the company has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, the accounting policies for both blocks of shares?

e. The amount of compensation cost recognized during the period?

f. The number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date?

(1) If the company has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, is the above disclosure made separately for both blocks of shares?

g. The fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6?14

h. The existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation?15

[SOP 93-6, par. 53]

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14 This disclosure need not be made for old ESOP shares for which the company does not apply the guidance in SOP 93-6.

15 Employers may wish to disclose additional information about the obligation, particularly information about the timing of payments. [SOP 93-6, par. 95]
2. Are all the items listed in Step 1. above disclosed even if the employer with an ESOP does not adopt SOP 93-6 for shares held by the ESOP on December 31, 1992?
   [SOP 93-6, par. 55]

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

4. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported in the employer’s balance sheet?
   [SOP 93-6, par. 26]

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

O. Other Matters

1. If significant, is the amount of the insurance subsidiary’s marketable securities deposited with state regulatory authorities disclosed?
   [AAG, par. 5.19]

A. Investment Securities

1. If significant, is the amount of the insurance subsidiary’s marketable securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each balance sheet presented:
   a. Aggregate fair value?
   b. Gross unrealized holding gains or losses?
   c. Amortized cost basis?
   d. Disclosure of major-security types including:
      (1) Equity securities?
      (2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?
      (3) Debt securities issued by states of the U.S. and political subdivisions of the states?
      (4) Debt securities issued by foreign governments?
      (5) Corporate debt securities?
      (6) Mortgage-backed securities?
      (7) Other debt securities?
      (8) Other security types as deemed appropriate?
   [SFAS 115, par. 19 (AC I.80.118)]

2. For investments in debt securities classified as available-for-sale or held-to-maturity, is:
   a. Disclosure made about their contractual maturities as of the date of the latest balance-sheet date presented (maturity information may be combined in appropriate groupings)?
b. Disclosure of the fair value and the amortized cost of debt securities in at least four maturity groupings:
   (1) Within one year?  
   (2) After one year through five years?  
   (3) After five years through ten years?  
   (4) After ten years?  
   [SFAS 115, par. 20 (AC I80.119)]  
4. Is consideration given to separate disclosure for securities not due at a single date and the basis for allocation if such securities are allocated?  
   [SFAS 115, par. 20 (AC I80.119)]  

### B. Mortgage Loans

1. Are mortgage loans held for sale distinguished from mortgage loans held for long-term investment?  
   [SFAS 65, par. 28 (AC Mo4.129)]  
2. Are mortgage loans 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 the right to service mortgage loans is 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)]  

SFAS 122 is effective for fiscal years beginning after December 15, 1995 and its provisions should be applied prospectively. Earlier application is encouraged.

5. If the right to service mortgage loans is acquired, is the following information disclosed:
   a. The fair value of capitalized mortgage servicing rights and the methods and significant assumptions used to estimate that fair value?  
   b. If no cost is allocated to certain mortgage servicing rights in accordance with the last sentence of paragraph 16 of SFAS 122, a description of the mortgage servicing rights and the reasons why it is not practicable to estimate the fair values of the mortgage servicing rights and loans?  
   c. The risk characteristics of the underlying loans used to stratify capitalized mortgage servicing rights for purposes of measuring impairment?  
   d. The activity in the valuation allowances for capitalized mortgage servicing rights, including the aggregate balance of the allowances at the beginning and end of each period, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances for each period for which result of operations are presented?  
   [SFAS 122, par. 3i (Mo4.131—.134)]  

### C. Finance Receivables

1. Are both interest-bearing (simple interest) and precomputed (discount) loans classified as finance receivables?  
   [AAG, par. 2.39]  

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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]

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. With respect to the composition of finance receivables, are the following 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. The amount of accrued interest included in the finance receivables?
   b. The amount of nonearning assets represented by consumer and commercial loans for which accrual has been suspended separately disclosed?
   c. Information about the terms and maturities of finance receivables?
   d. If contractual maturity data is not considered relevant, the data on prior collection experience?
      [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, is the amount of participations disclosed?
   c. If participations are, in substance, other than a pro rata sharing of risk, are they accounted for as a liability on the balance sheet?
   d. Are significant amounts of loans that collateralize first-out participations disclosed in the notes?
      [AAG, pars. 4.05 and 4.06]

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 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. Information required by SFAS 105?
      [SFAS 77, par. 9 (AC R20.109), as amended by SFAS 105]

8. 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?
   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. Impairment of Loans Receivable ( Assumes adoption of SFAS 118 and SFAS 114—See Exhibit B if SFAS 118 has not been adopted)

1. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes for impaired loans:16

   a. As of the dates of each statement of financial condition presented:

      (1) Total recorded investment in the impaired loans at the end of each period and the amount of the recorded investment for which there is a related allowance for loan losses?

      (2) The amount of the allowance?

      (3) The amount of the recorded investment for which no allowance for loan losses was recorded?

      (4) The credit union’s policy for recognizing interest on impaired loans, including how cash receipts are recorded?

   b. For each period for which an income statement is presented:

      (1) Average recorded investment?

      (2) Related amount of interest income recognized during the time within that period that the loans were impaired?

      (3) If practicable, the amount of interest income recognized using the cash basis method of accounting during the time within the period the loans were impaired?

      (4) The activity in the allowance for loan losses related to impaired loans including the following:

         i. Opening balance?

         ii. Additions charged to operations?

         iii. Direct write-downs charged against the allowance?

         iv. Recovery of amounts previously charged off?

         v. Ending Balance?

   [SFAS 118, par. 6 (AC l08.118 and 118A); AAG, pars. 6.20 and 6.21]

E. 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. 23a, iv (AC L10.119a)]

2. Are leasing arrangements described?

   [SFAS 13, pars. 23a—c and 29 (AC L10.119a—c and .125); SFAS 91 par. 25, as amended by SFAS 98; SFAS 98, pars. 17—18 (AC L10.130k—l)]

3. Are leveraged leases appropriately accounted for and reported?

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

F. 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)]

---

16 In certain circumstances, information about an impaired loan that has been restructured in a trouble debt restructuring involving a modification of terms need not be included in the disclosures in Steps 1a. and 1.b(1)-(3).
2. When the accrual of interest income is 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]

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. 2.09]

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]

G. 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)]

H. Other Assets

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

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)]

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, is the deficiency recognized and disclosed as a valuation allowance?
b. Are changes in the valuation allowance based upon fluctuations in the fair value less disposal costs charged or credited to income and disclosed, if material?  
[AAG, App. C (SOP 92-3, par. 12)]  

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**I. Impairment of Assets**

SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to assets to be held and used or disposed of. This Standard is effective for financial statements for fiscal years beginning after December 15, 1995, however earlier application is encouraged. Restatement of previously issued financial statements is not permitted.

1. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down:
   a. A description of the impaired assets and the facts and circumstances leading to the impairment?  
   b. The amount of the impairment loss and how fair value was determined?  
   c. The caption in the income statement in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?  
   d. The business segment(s) affected, if applicable?  
   [SFAS 121, par. 14]

2. If assets to be disposed of are accounted for in accordance with paragraphs 15—17 of SFAS 121, are the following disclosed in financial statements that include a period during which those assets were held:
   a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?  
   b. The business segments(s) in which assets to be disposed of are held, if applicable?  
   c. The loss, if any, resulting from the application of paragraph 15 of SFAS 121?
d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121?

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

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f. The results of operations for assets to be disposed of to the extent that those results are included in the entity’s results of operations for that period and can be identified?

[SFAS 121, par. 19]

3. If an impairment loss is recognized, is it reported as a component of income from continuing operations?

[SFAS 121, pars. 13 and 18]

J. **Income Taxes**

1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual company or group of companies that are consolidated for tax purposes) in each tax jurisdiction presented separately?

[SFAS 109, par. 17 (AC 127.116)]

2. Are the components of the total of all deferred tax assets and the valuation allowance recognized in the statement of financial position disclosed?

[SFAS 109, par. 43b—c (AC 127.142b—c)]

3. Are the components of the total of all deferred tax liabilities recognized in the balance sheet disclosed?

[SFAS 109, par. 43a (AC 127.142a)]

4. Is the following information disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23 (as amended by SFAS 109) or for deposits in statutory reserve funds by U.S. steamship enterprises:

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

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

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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?

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

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

K. **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, pars. 2, 3 (fr. 1), 4—7 (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)]
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]

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

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L. 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)]

2. Is debt classified as subordinated and senior rather than as short-term and long-term?  
   [AAG, par. 3.25]

3. Are conversion features appropriately accounted for and disclosed?  
   [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]

4. 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?  
   [SFAS 15, par. 25 (AC D22.121)]

5. 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)]
6. Is debt considered to be 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 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)]
   ____  ____  ____

7. 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)]
   ____  ____  ____

8. 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)]
   ____  ____  ____

9. Do disclosures for extinguishments of debt described in Step 7. 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?
   [SFAS 4, par. 9 (AC D14.107)]
   ____  ____  ____

10. If the company has nonrecourse debt resulting from a sale of property with the property used as collateral and the company obtains a loan from a bank on essentially the same terms as the note, is 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]
    ____  ____  ____

11. 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, has the debtor not offset the debt against the third-party receivable in the borrower's financial statements?
    [EITF 86-18]
    ____  ____  ____

**M. 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))]
   ____  ____  ____

   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 costs and imputed interest to reduce net minimum lease payments to present value?
   [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(2))]
   ____  ____  ____

   c. Total of future minimum sublease rentals under noncancelable subleases, as of the date of the latest balance sheet presented?
   [SFAS 13, par. 16a (AC L10.112a(3))]
   ____  ____  ____
d. Total contingent rentals actually incurred for each period for which an income statement is presented?
   [SFAS 13, par. 16a, as amended by SFAS 29, par. 12 (AC L10.112a(4))]
   
   e. Separate identification of:
      (1) Assets recorded under capital leases?
      (2) Accumulated amortization of capital leases?
      (3) Obligations under capital leases?
      (4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense?
   [SFAS 13, par. 13 (AC L10.112a(5))]

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:
   a. Future minimum rental payments required, as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years?
   b. 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)]

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)]

N. Capital Stock
   1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share?
   [APB 12, par. 10 (AC C08.102)]

   2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)?
   [APB 15, par. 19 (AC E09.110)]

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

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

   5. For 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 and APB 15, par 50, fn. 16 (AC C16.102)]
6. For stock option and stock purchase plans, do disclosures include:
   a. The number of shares under option? [ ] [ ] [N/A]
   b. The option price? [ ] [ ] [N/A]
   c. The number of shares as to which options are exercisable? [ ] [ ] [N/A]
   d. For shares exercised, the number of shares exercised and option price? [ ] [ ] [N/A]

O. Retained Earnings
1. Are restrictions on the use of retained earnings for payment of dividends disclosed? [ ] [ ] [N/A]
2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [ ] [ ] [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? [ ] [ ] [N/A]

P. Other Stockholders’ Equity Accounts
1. Are cumulative translation adjustments separately disclosed? [ ] [ ] [N/A]
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? [ ] [ ] [N/A]
3. If a company 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? [ ] [ ] [N/A]

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? [ ] [ ] [N/A]

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? [ ] [ ] [N/A]

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? [ ] [ ] [N/A]
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?
   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]  
   
5. Are factoring commissions recognized in income over the periods in which service is rendered?
      [AAG, par. 2.23]  
   
6. Is insurance premium income recognized in accordance with Statement 60 (AC In6)?
   a. Are insurance policies issued in connection with consumer lending 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?
   b. Are level term credit life insurance premiums recognized as revenue on a straight-line basis?
   c. Are decreasing term credit life insurance premiums recognized as revenue using the interest method?
   d. Are credit accident and health insurance premiums recognized in income in a reasonable relationship to anticipated claims (i.e., an amount that falls between the straight-line method and the insurance-in-force method)?
   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]  

B. Other Income

1. 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)]  

2. For each period for which an earnings statement is presented, are the following disclosures made:
   a. The proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales?
   b. The basis on which cost was determined in computing realized gain or loss, (i.e., specified identification, average cost, or other method used)?
   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?
   d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders’ equity during the period?
e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings during the period? [SFAS 115, par. 21 (AC 180.120)]

3. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:
   a. Amortized cost amount of the sold or transferred security? 
   b. Related realized or unrealized gain or loss? 
   c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC 180.121)]

4. Is the following disclosed with respect to purchased and originated credit card fees and costs:
   a. Accounting policy? 
   b. Net amount capitalized at the balance-sheet date? 
   c. Amortization period? [EITF 92-5]

C. Other Expenses

1. Salaries:
   a. If there is a compensatory stock issuance plan:
      (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? [SFAS 87, pars. 20—34, 39—53 and 77 (AC P16.114—.128, .133—.138 and .141—.149)]

3. Is the provision for credit losses presented separately as an expense item in the income statement? [AAG, par. 2.41]

4. 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)]

5. 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)]

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17 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.
6. 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]

7. 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?
   c. Are commissions paid to a finance company by an insurance subsidiary eliminated in consolidation? [AAG, pars. 5.21—.23]

8. 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]

9. Do disclosures for advertising costs include:
   a. The accounting policy selected from the two alternatives in the beginning of paragraph 26 of SOP 93-7 for reporting advertising, indicating whether such costs are expensed as incurred or the first time the advertising takes place?
   b. A description of the direct-response advertising reported as assets (if any), the accounting policy for it, and the amortization period?
   c. The total amount charged to advertising expense for each income statement presented, with separate disclosure of amounts, if any, representing a writedown to net realizable value?
   d. The total amount of advertising reported as assets in each balance sheet presented? [SOP 93-7, par. 49]

D. Income Taxes

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

2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or 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?
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, pars. 45a—b (AC 127.144a—h)]

i. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes? 
[SFAS 109, par. 48 (AC 127.147)]

j. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? 
[SFAS 109, par. 48 (AC 127.147)]

3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS 109 (AC 127.134—.138)) disclosed for each year for which those items are presented? 
[SFAS 109, par. 46 (AC 127.145)]

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

5. Are the following items disclosed:
   a. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?
   b. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated either to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? 
[SFAS 109, par. 48 (AC 127.147)]

6. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:
   a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates as of the date of each 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 Step 6a. above are presented? 
[SFAS 109, pars. 49 a—b (AC 127.148 a—b)]

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

8. When initially presented, do the financial statements for the year SFAS 109 is first adopted disclose:
   a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (e.g., the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented?
   b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per-share amounts) for each year for which restated financial statements are presented? 
[SFAS 109, pars. 52a—b]
E. Discontinued Operations

1. Are operations of a segment that has been discontinued or is the subject of a formal plan for disposition:
   a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items?
      [APB 30, pars. 8, 13, and 15—18 (AC I13.101—103, .105—106 and .108—109)]
      ||||| 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, 13, and 15—18 (AC I13.101—103, .105—106 and .108—109)]
   ||||| Yes | No | N/A

3. If the company sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale?
   [FASB 37, par. 2 (AC F60.120)]
   ||||| Yes | No | N/A

4. For the period encompassing the measurement date, do notes to the financial statements disclose:
   a. Identity of the segment discontinued?
   ||||| Yes | No | N/A
   b. Expected disposal date, if known?
   ||||| Yes | No | N/A
   c. Expected manner of disposal?
   ||||| Yes | No | N/A
   d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?
   ||||| Yes | No | N/A
   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)]
   ||||| Yes | No | N/A

5. For periods after measurement date and including the period of disposal, do notes to the financial statements disclose the information required?
   [APB 30, par. 18 (AC I13.108—109)]
   ||||| Yes | No | N/A

6. If the loss on disposal cannot be estimated within reasonable limits, has this fact been disclosed?
   [APB 30, par. 18 fn. 7 (AC I13.109)]
   ||||| Yes | No | N/A

7. If a company accounts for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment writedown of the individual assets classified in continuing operations?
   [EITF 90-16]
   ||||| Yes | No | N/A

8. If the company plans to dispose of two segments of a business, and one has a net gain and the other a loss, is that gain shown net?
   [EITF 85-36]
   ||||| Yes | No | N/A

F. Extraordinary Items

1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?
   [APB 30, par. 11 (AC I17.102)]
   ||||| Yes | No | N/A

2. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable?
   [APB 30, par. 11 (AC I17.102)]
   ||||| Yes | No | N/A
3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]

4. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):
   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)]

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

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

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

3. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:
   a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?  
   b. No disclosure made on the face of the income statement for earnings per share effect?  
   c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income?  
      [EITF 94-3, Section B]
4. If the activities that will not be continued are significant to the company’s revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:
   a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?  
   b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?  
   c. A description of the type and amount of exit costs paid and charged against the liability?  
   d. The amount of any adjustment(s) to the liability?  
   e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations?  
   [EITF 94-3, Section B]

**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 and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?  
   [APB 9, par. 26 (AC A35.107)]  
D. 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 flows from purchases, sales, and maturities of available-for-sale securities classified as cash flows from investing activities?  
   [SFAS 102, par. 8 (AC C25.122A), as amended by SFAS 115]  
   3. 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)]  
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 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. 20—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. 10 and 16—17 (AC C25.113—.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?

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, pars. 29—30 (AC C25.127—.128)]

L. Are noncash investing and financing activities (e.g., converting debt to equity) either explained in a narrative or summarized in a separate schedule?

[SFAS 95, par. 32 (AC C25.134)]

M. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed?

[SFAS 95, par. 29 (AC C25.127)]
Exhibit A—Postretirement Health Care Benefits [SFAS 81]

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

A. Postretirement Health Care and Life Insurance Benefits

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

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

Exhibit B—Impairment of Loans Receivable

The effective date of SFAS 118 is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. SFAS 118 amends SFAS 114 but supersedes the disclosure requirements of SFAS 114. Until implementation of SFAS 118, the following disclosures remain in effect:

A. Impairment of Loans Receivable

1. Is the following information disclosed either in the body of the financial statements or in the accompanying notes:
   a. As of the date of each statement of financial position presented, the recorded investment in the loans for which impairment has been recognized in accordance with SFAS 114 and the total allowance for credit losses related to those impaired loans?
   b. For each period for which results of operations are presented, the activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off?
   c. The income recognition policy, dealing with the periodic changes in present value of impaired loans.
   d. For a company that recognizes income in accordance with this policy, the amount of interest recognized?

[SFAS 114, par. 20 (AC 108.118)]

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

B. Impairment of Loans Receivable

1. 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?
<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>d. Amounts of any commitment to lend additional funds to debtors owning restructured troubled loans? [SFAS 15, pars. 40–41 (AC D22.136–.137); TBs 79-6 and 79-7 (AC D22.501–.505)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FSP Section 15,400
Auditors' Reports Checklist

.01 This checklist has been developed by the AICPA's Technical Publications staff as a nonauthoritative practice aid.

.02 Explanation of References:

<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAS</td>
<td>AICPA Statement on Auditing Standards</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>AR</td>
<td>Reference to section number in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>AT</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>AAG</td>
<td>AICPA Audit and Accounting Guide Audits of Finance Companies (with conforming changes as of May 1, 1994 (including any changes made in the looseleaf service as of March 31, 1995))</td>
</tr>
<tr>
<td>SSAE</td>
<td>AICPA Statement on Standards for Attestation Engagements</td>
</tr>
<tr>
<td>SSARS</td>
<td>Statements on Standards for Accounting and Review Services</td>
</tr>
</tbody>
</table>

.03 Checklist Questionnaire

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the auditor's report include appropriate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Addressed?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 58, par. 9 (AU 508.09)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Date (or dual dates) of the report?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 1, sec. 530.05 (AU 530.05)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. A title that includes the word &quot;independent&quot;?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 58, par. 8a (AU 508.08a)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. If the accountant is not independent, is a compilation report the highest level of service performed?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. For a public entity?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 26, pars. 8—10 (AU 504.08—.10)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Does the reporting language conform with the auditor's standard report on:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Financial statements of a single year or period?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 58, par. 8 (AU 508.08)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Comparative financial statements?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 58, pars. 47—48 (AU 508.47—.48)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Does the report include appropriate language for the following situations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Only one basic financial statement is presented and there are no scope limitations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 58, pars. 14—17 (AU 504.14—.17)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Audited and unaudited financial statements are presented in comparative form (SEC engagements only)?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SAS 58, pars. 47—48 (AU 508.47—.48)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

43
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor’s report?  
[SAS 58, pars. 16—33 (AU 508.16—.33)]  
Note: Consult the Topical Index to the AICPA Professional Standards under “Uncertainties” for additional references to specific types of uncertainties.

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

b. There is substantial doubt about the company’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about its (the company’s) ability to continue as a going concern”?

[SAS 64, par. 1 (AU 341.12—.13)]

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

c. There is a material change between periods in accounting principles or in the method of their application?

[SAS 58, pars. 34—36 (AU 508.34—.36)]

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

d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed?

[SAS 58, pars. 77—78 and 81—82 (AU 508.77—.78 and .81—.82)]

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

e. The prior-period financial statements are audited by a predecessor auditor whose report is not presented?

[SAS 64, par. 2 (AU 508.83)]

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

f. 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)]

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

g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation?

[SAS 58, pars. 14—15 (AU 508.14—.15)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>g.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements?

[SAS 8, par. 4 (AU 550.04)]

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

i. The auditor decides to emphasize a matter in the report?

[SAS 1, sec. 560 (AU 560.09); SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]

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

6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances?

[SAS 58, pars. 40—45 (AU 508.40—.45); SAS 31, par. 22 (AU 326.23); SAS 19, par. 12 (AU 333.12)]  
Note: Consult the Topical Index to the AICPA Professional Standards under “Scope of Audit—Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

7. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present?

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

8. Is a qualified or adverse opinion expressed if the company specifically requests the auditor to report on prior-period financial statements that are incomplete (e.g., prior-period totals only)?

[SAS 58, fn. 27 (AU 508, fn. 27)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified?

[SAS 58, pars. 39, 68—69, and 71 (AU 508.39, .68—.69, and .71)]
10. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information:
   a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?
   b. Specifically identify the accompanying information?
   c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?
   d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer?
   [SAS 29, pars. 6—11 (AU 551.06—.11)]

11. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure-related matters noted in an audit?
   [SAS 60, pars. 9—19 (AU 325.09—.19)]

12. Is the reporting form and content of SAS 72 followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings?
   [SAS 72 (AU 634)]

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

14. If a report is issued on the effectiveness of the company’s internal control structure, is it not stated in the report that no reportable conditions are noted?
   [SSAE 2, par. 45 (AT 400.45)]

15. Does the report conform to SSAE 2 if management presents its assertion in a separate report that will accompany the practitioner’s report on the effectiveness of the company’s internal control structure?
   [SSAE 2, pars. 50 and 51 (AT 400.50—.51)]

16. If management does not present a written assertion that accompanies the practitioner’s report, is the report appropriately modified?
   [SSAE 2, pars. 53—54 (AT 400.53—.54)]

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

---

1 Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]
FSP Section 15,500
Illustrative Financial Statements

.01 The illustrative financial statements are reproduced from the AICPA Audit and Accounting Guide Audits of Finance Companies. These illustrative financial statements are intended to provide sample finance statement formats and disclosures for a hypothetical finance company; they are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist.

.02 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 section include two alternative income statement formats, the first of which emphasizes a net interest income presentation.

.03 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 expenses 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.

.04 FASB 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.

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

.06 FASB 114, Accounting by Creditors for Impairment of a Loan, requires that impaired loans within the scope of this statement be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

.07 The illustrative financial statements are reproduced from the AICPA Audit and Accounting Guide Audits of Finance Companies and do not necessarily contain all required disclosures.
These illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical finance company; they are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist.

Independent Auditors' 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 consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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)

<table>
<thead>
<tr>
<th>Assets</th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance receivables, net</td>
<td>$333,649</td>
<td>$272,166</td>
</tr>
<tr>
<td>Investments in securities(^1)</td>
<td>32,760</td>
<td>30,838</td>
</tr>
<tr>
<td>Cash</td>
<td>6,015</td>
<td>4,907</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>4,689</td>
<td>3,830</td>
</tr>
<tr>
<td>Other</td>
<td>11,628</td>
<td>9,577</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$388,741</strong></td>
<td><strong>$321,318</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior debt</td>
<td>$163,064</td>
<td>$113,723</td>
</tr>
<tr>
<td>Senior subordinated debt</td>
<td>84,204</td>
<td>74,572</td>
</tr>
<tr>
<td>Junior subordinated debt</td>
<td>31,400</td>
<td>30,500</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>15,727</td>
<td>13,866</td>
</tr>
<tr>
<td>Credit balances of factoring clients</td>
<td>4,120</td>
<td>3,112</td>
</tr>
<tr>
<td>Deferred income taxes(^2)</td>
<td>3,972</td>
<td>3,469</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>302,487</strong></td>
<td><strong>239,242</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholders’ Equity</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, $1 par value; 4,269,000 shares authorized, issued, and outstanding</td>
<td>4,269</td>
<td>4,269</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>18,945</td>
<td>18,945</td>
</tr>
<tr>
<td>Net unrealized depreciation of marketable equity securities</td>
<td>(626)</td>
<td>(278)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>63,666</td>
<td>59,140</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td><strong>86,254</strong></td>
<td><strong>82,076</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>$388,741</strong></td>
<td><strong>$321,318</strong></td>
</tr>
</tbody>
</table>

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

\(^1\) These financial statements have not been revised to reflect SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. See SFAS 115 for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1993.

\(^2\) See SFAS 109, Accounting for Income Taxes, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1992.
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)

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fee income</td>
<td>$55,510</td>
<td>$47,302</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(18,825)</td>
<td>(16,283)</td>
</tr>
<tr>
<td>Interest income before provision for credit losses</td>
<td>36,685</td>
<td>31,019</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>(4,284)</td>
<td>(3,623)</td>
</tr>
<tr>
<td>Net interest income</td>
<td>32,401</td>
<td>27,396</td>
</tr>
<tr>
<td>Insurance premiums and other income</td>
<td>13,040</td>
<td>11,650</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and fringe benefits</td>
<td>(10,546)</td>
<td>(8,987)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(13,227)</td>
<td>(11,565)</td>
</tr>
<tr>
<td>Policyholders' benefits</td>
<td>(6,644)</td>
<td>(5,600)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>15,024</td>
<td>12,894</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(7,211)</td>
<td>(6,189)</td>
</tr>
<tr>
<td>Net income</td>
<td>7,813</td>
<td>6,705</td>
</tr>
<tr>
<td>Retained earnings, beginning of year</td>
<td>59,140</td>
<td>55,551</td>
</tr>
<tr>
<td>Dividends</td>
<td>(3,287)</td>
<td>(3,116)</td>
</tr>
<tr>
<td>Retained earnings, end of year</td>
<td>$63,666</td>
<td>$59,140</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>$1.83</td>
<td>$1.57</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>$0.77</td>
<td>$0.73</td>
</tr>
</tbody>
</table>

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

3 See SFAS 114, Accounting by Creditors for Impairment of a Loan, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1994.
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)

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

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

4 See SFAS 114, Accounting by Creditors for Impairment of a Loan, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1994.
XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

Statements of Cash Flows (Direct Method)

Years Ended December 31, 19X8 and 19X7

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fees received</td>
<td>$54,698</td>
<td>$46,589</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(18,275)</td>
<td>(15,897)</td>
</tr>
<tr>
<td>Cash payments for operating expenses</td>
<td>(21,912)</td>
<td>(18,686)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(5,242)</td>
<td>(4,565)</td>
</tr>
<tr>
<td>Insurance premiums received</td>
<td>12,790</td>
<td>11,498</td>
</tr>
<tr>
<td>Other</td>
<td>(2,611)</td>
<td>(1,937)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>19,448</td>
<td>17,002</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans originated or purchased$^5$</td>
<td>(190,304)</td>
<td>(136,571)</td>
</tr>
<tr>
<td>Loans repaid or sold$^5$</td>
<td>118,705</td>
<td>83,750</td>
</tr>
<tr>
<td>Net investment in commercial paper</td>
<td>(346)</td>
<td>(555)</td>
</tr>
<tr>
<td>Securities purchased$^6$</td>
<td>(19,243)</td>
<td>(17,512)</td>
</tr>
<tr>
<td>Securities sold or matured$^5,6$</td>
<td>17,471</td>
<td>16,639</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(1,409)</td>
<td>(1,656)</td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>200</td>
<td>643</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(74,926)</td>
<td>(55,262)</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net borrowings of commercial paper</td>
<td>16,939</td>
<td>10,215</td>
</tr>
<tr>
<td>Proceeds from issuance of other debt</td>
<td>71,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Repayment of other debt</td>
<td>(28,066)</td>
<td>(18,215)</td>
</tr>
<tr>
<td>Proceeds from issuance of common stock</td>
<td>—</td>
<td>955</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(3,287)</td>
<td>(3,116)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>56,586</td>
<td>39,839</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>1,108</td>
<td>1,579</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>4,907</td>
<td>3,328</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$6,015</td>
<td>$4,907</td>
</tr>
</tbody>
</table>

Reconciliation of net income to net cash provided by operating activities:

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$7,813</td>
<td>$6,705</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for credit losses on finance receivables</td>
<td>4,284</td>
<td>3,623</td>
</tr>
<tr>
<td>Policyholders' benefits</td>
<td>6,644</td>
<td>5,600</td>
</tr>
<tr>
<td>Depreciation</td>
<td>350</td>
<td>303</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>503</td>
<td>473</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>1,861</td>
<td>1,530</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>(812)</td>
<td>(713)</td>
</tr>
<tr>
<td>Gain on sale of securities</td>
<td>(152)</td>
<td>(183)</td>
</tr>
<tr>
<td>Other</td>
<td>(1,043)</td>
<td>(336)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$19,448</td>
<td>$17,002</td>
</tr>
</tbody>
</table>

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

---

$^5$ If the amounts are significant, this caption may be separated into two line items.

$^6$ These financial statements have not been revised to reflect SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. See SFAS 115 for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1993.
XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

Statements of Cash Flows (Indirect Method)

Years Ended December 31, 19X8 and 19X7

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>19X8</th>
<th>19X7</th>
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</thead>
<tbody>
<tr>
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<td></td>
</tr>
<tr>
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<tr>
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<td>(18,215)</td>
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<tr>
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<td>503</td>
</tr>
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<td>(3,116)</td>
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</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ 6,015</td>
<td>$ 4,907</td>
</tr>
</tbody>
</table>

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.

---

7 If the amounts are significant, this caption may be separated into two line items.
8 These financial statements have not been revised to reflect SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. See SFAS 115 for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1993.
XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

Notes to Financial Statements

Note 1: 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.

Note: See SFAS 114, Accounting by Creditors for Impairment of a Loan, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1994.

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.

Note: See SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1993.

Note 2: Finance Receivables and Allowance for Credit Losses

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

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate secured</td>
<td>$131,961</td>
<td>$104,078</td>
</tr>
<tr>
<td>Other</td>
<td>119,135</td>
<td>97,857</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>3,175</td>
<td>2,550</td>
</tr>
<tr>
<td></td>
<td>254,271</td>
<td>204,485</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>32,002</td>
<td>27,440</td>
</tr>
<tr>
<td>loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factored accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>21,404</td>
<td>18,594</td>
</tr>
<tr>
<td>Inventory loans to</td>
<td>2,965</td>
<td>2,876</td>
</tr>
<tr>
<td>clients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overadvances to</td>
<td>2,947</td>
<td>2,260</td>
</tr>
<tr>
<td>clients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floor plan loans</td>
<td>5,441</td>
<td>5,763</td>
</tr>
</tbody>
</table>
Other ................................................................. 19X8 19X7 29,962 23,620
Accrued interest .................................................. 1,200 1,013

Total finance receivables ....................................... 95,921 81,566
Allowance for credit losses ................................... (9,506) (7,839)
Unearned credit insurance premiums and reserves 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.

Note: See SFAS 114, Accounting by Creditors for Impairment of a Loan, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1994.

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

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

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):

<table>
<thead>
<tr>
<th></th>
<th>Consumer</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Real Estate Secured</td>
<td>Other</td>
</tr>
<tr>
<td>Balance as of December 31, 19X6</td>
<td>$762</td>
<td>$3,885</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>597</td>
<td>1,564</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(376)</td>
<td>(1,357)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>58</td>
<td>490</td>
</tr>
<tr>
<td>Balance as of December 31, 19X7</td>
<td>1,041</td>
<td>4,582</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>651</td>
<td>2,090</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(448)</td>
<td>(1,601)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>76</td>
<td>601</td>
</tr>
<tr>
<td>Balance as of December 31, 19X8</td>
<td>$1,320</td>
<td>$5,672</td>
</tr>
</tbody>
</table>
Note 3: Investments in Securities

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

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

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.

Note: See SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, for disclosure requirements that are applicable to financial statements for fiscal years beginning after December 15, 1993.

Note 4: Debt

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

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper</td>
<td>$62,600</td>
<td>$45,661</td>
</tr>
<tr>
<td>4% to 7% notes due 19X9—19Y2</td>
<td>73,866</td>
<td>47,570</td>
</tr>
<tr>
<td>71/2% notes due 19Y3—19Y7</td>
<td>12,090</td>
<td>9,314</td>
</tr>
<tr>
<td>8% notes due 19Y2</td>
<td>9,671</td>
<td>7,452</td>
</tr>
<tr>
<td>Variable interest rate notes due 19Y1</td>
<td>4,837</td>
<td>3,726</td>
</tr>
<tr>
<td>Total senior debt</td>
<td>163,064</td>
<td>113,723</td>
</tr>
<tr>
<td>Senior subordinated debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6% notes due 19Y2</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>7% notes due 19Y3</td>
<td>34,572</td>
<td>34,572</td>
</tr>
<tr>
<td>81/2% notes due 19Y6—19Z0</td>
<td>9,632</td>
<td>—</td>
</tr>
<tr>
<td>Total senior subordinated debt</td>
<td>84,204</td>
<td>74,572</td>
</tr>
<tr>
<td>Junior subordinated debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% notes due 19Y2</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>101/2% notes due 19Y3—19Y9</td>
<td>6,400</td>
<td>5,500</td>
</tr>
<tr>
<td>Total junior subordinated debt</td>
<td>31,400</td>
<td>30,500</td>
</tr>
<tr>
<td>Total subordinated debt</td>
<td>115,604</td>
<td>105,072</td>
</tr>
<tr>
<td>Total debt</td>
<td>$278,668</td>
<td>$218,795</td>
</tr>
</tbody>
</table>
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):

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

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

<table>
<thead>
<tr>
<th></th>
<th>19X9</th>
<th>19Y0</th>
<th>19Y1</th>
<th>19Y2</th>
<th>19Y3</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior debt</td>
<td>$81,100</td>
<td>$18,500</td>
<td>$22,337</td>
<td>$29,037</td>
<td>$2,400</td>
<td>$9,690</td>
<td>$163,064</td>
</tr>
<tr>
<td>Senior subordinated debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>34,572</td>
<td>6,632</td>
<td></td>
<td></td>
<td></td>
<td>84,204</td>
</tr>
<tr>
<td>Junior subordinated debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total debt</td>
<td>$81,100</td>
<td>$18,500</td>
<td>$22,337</td>
<td>$94,037</td>
<td>$37,972</td>
<td>$24,722</td>
<td>$278,668</td>
</tr>
</tbody>
</table>

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, income taxes, debt securities held as assets, financial instruments with off-balance-sheet risk, financial instruments with concentrations of credit risk, postemployment benefits other than pensions, and the fair value of financial instruments.
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