2009 NAIC QUARTERLY STATEMENT INSTRUCTIONS – FRATERNAL

SEP 2009 REVISIONS

PAGE 34.2 & 34.3:	**NOTES TO FINANCIAL STATEMENT**
Revision:	Add instructions for Note 5D
Reason:	Disclosure requirements per adoption of SSAP No. 43R by AP&P

EDITOR'S NOTE:

The above changes are highlighted within the attached instructions that follow this page.

Recent Blanks Working Group Agenda Items (Exposure Drafts) may be viewed in detail at the following web site: http://www.naic.org/committees_e_app_blanks.htm.

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Supplemental Disclosure of Non-cash Transactions

Report the amount of non-cash investing and financing transactions consistent with the classifications contained on the Assets and Liabilities, Surplus and Other Funds (all except Health) Liabilities, Capital and Surplus (Health) page of the financial statement excluding amounts associated with policy or contract loans. Refer to SSAP No. 69, Statement of Cash Flows, for accounting guidance.

Examples of non-cash investing and financing transactions include:

- Converting debt to equity;
- Acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; and
- Exchanging non-cash assets or liabilities for other non-cash assets or liabilities.

Illustration:

The Company reported the following non-cash investing and financing activities in 20___:

		Current Year	Prior Year
20.0001.	Real estate acquired in satisfaction of debt	XXX	XXX
20.0002.	Bonds & stocks acquired in a business acquisition	XXX	XXX
20.0003.	Policy reserves acquired in a business acquisition	XXX	XXX

NOTES TO FINANCIAL STATEMENTS

The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted but the footnote number and annotation such as "no change" should be included. However, provide disclosure for annual Note 1A, 5D, 17C and 24 in all quarters; and all other Notes where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the reporting entity. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as statutory accounting principles and practices; estimates inherent in the preparation of financial statements; status of long term contracts; capitalization including significant new borrowings or modifications of existing financial arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year-end may not have occurred. If the reporting entity has changed the accounting policies since the end of its preceding year, the changes shall be disclosed in the quarterly financial statements. Information should be reported for current year-to-date.

1. Summary of Significant Accounting Policies

Instruction:

Refer to SSAP No. 1, Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures, for accounting guidance regarding disclosure requirements. The major disclosure requirements are as follows:

A. This note is to be completed, even if there are no prescribed practices or permitted practices to report. Indicate that the statement has been completed in accordance with the NAIC *Accounting Practices and Procedures Manual* If a reporting entity employs accounting practices that depart from the NAIC *Accounting Practices and Procedures Manual* including different practices required by state law, disclose the following information about those accounting practices that affect net income, statutory surplus or risk-based capital.

Include:

(1) A description of the accounting practice;

(2) A statement that the accounting practice differs from NAIC statutory accounting practices and procedures (NAIC SAP);

(3) The monetary effect on net income and statutory surplus of using an accounting practice that differs from NAIC statutory accounting practices and procedures; and

(4) If an Insurance enterprise's risk-based capital would have triggered a regulatory event had it not used a prescribed or permitted practice, that fact should be disclosed in the financial statements.

In addition, disclose the following information about accounting practices when NAIC statutory accounting practices and procedures do not address the accounting for the transaction:

(1) A description of the transaction and of the accounting practice used; and

(2) A statement that the NAIC statutory accounting practices and procedures do not address the accounting for the transaction.

Illustration:

A. Accounting Practices

The financial statements of XYZ Company are presented on the basis of accounting practices prescribed or permitted by the ABC Insurance Department.

The ABC Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of ABC for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the ABC Insurance Law. The *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of ABC. The state has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 1) goodwill arising from the purchase of a subsidiary, controlled or affiliated entity is written off directly to surplus in the year it originates by ABC domiciled companies. In NAIC SAP, goodwill in amounts not to exceed 10% of an insurer's capital and surplus may be capitalized and all amounts of goodwill are amortized to unrealized gains and losses on investments over periods not to exceed 10 years, and, 2) 100% of all fixed assets are admitted by ABC domiciled companies. In NAIC SAP, fixed assets are not admitted. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

The Company, with the explicit permission of the Commissioner of Insurance of the State of ___, records the value of its home office building at fair market value instead of at depreciated cost required by the NAIC SAP. If the home office building were carried at depreciated cost, home office property and statutory surplus would be decreased by $______ and $______ as of December 31, 20__ (prior year end) and 20__(current year to date), respectively. Additionally, net income would be increased by $______ and $______ respectively, for the years then ended. Finally, if the Company had not been permitted to record the value of its home office building at fair market value, the Company's risk-based capital would have triggered a regulatory event.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of ABC is shown below:

	State of Domicile	20___	20__
(1) Net Income ABC state basis	________	$ ______________	$ ___________
(2) State Prescribed Practices (Income):			
Depreciation of fixed assets	________	$ ______________	$ ___________
(3) State Permitted Practices (Income):			
Depreciation, home office property	________	$ ______________	$ ___________
(4) Net Income, NAIC SAP	________	$ ______________	$ ___________
(5) Statutory Surplus ABC basis	________	$ ______________	$ ___________
(6) State Prescribed Practices (Surplus):			
Goodwill, net	________	______________	___________
Fixed Assets, net	________	______________	___________
(7) State Permitted Practices (Surplus):			
Home Office Property	________	______________	___________
(8) Statutory Surplus, NAIC SAP	________	$ ______________	$ ___________

5D. Loan-Backed Securities

Instruction:

For loan-backed securities, disclose the following:

(1) Fair values in accordance with SSAP No. 27, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments (SSAP No. 27).

(2) Descriptions of sources used to determine prepayment assumptions.

(3) Concentrations of credit risk in accordance with SSAP No. 27.

(4) All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment:

a. intent to sell,

b. inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or

c. present value of cash flows expected to be collected is less than the amortized cost basis of the security.

(5) For each security with a recognized other-than-temporary impairment, currently held by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:

a. The amortized cost basis, prior to any current-period other-than-temporary impairment.

b. The other-than-temporary impairment recognized in earnings as a realized loss.

c. The fair value of the security.

d. The amortized cost basis after the current-period other-than-temporary impairment.

(6) All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):

a. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value) and

b. The aggregate related fair value of securities with unrealized losses.

The disclosures in (i) and (ii) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 27.

(7) Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

(8) When it is not practicable to estimate fair value in accordance with SSAP No. 27, the investor should disclose the following additional information, if applicable:

a. The aggregate carrying value of the investments not evaluated for impairment, and

b. The circumstances that may have a significant adverse effect on the fair value.

Illustration:

(2) Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from broker dealer survey values or internal estimates.

17C. Wash Sales

Instruction:

A reporting entity shall disclose the following information for wash sales, as defined in paragraph 9, of SSAP No. 91, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, involving transactions for securities with an NAIC designation of 3 or below, or unrated. (The disclosures shall be made for the current quarter in the quarterly statement and for the year in the annual statement.)

1. A description of the reporting entity's objectives regarding these transactions;
2. An aggregation of transactions by NAIC designation 3 or below, or unrated;
   a. The number of transactions involved during the reporting period;
   b. The book value of securities sold;
   c. The cost of securities repurchased;
   d. The realized gains/losses associated with the securities involved.

Illustration:

C. Wash Sales

In the course of the reporting entity's asset management, securities are sold and reacquired within 30 days of the sale date. The details, of NAIC designation 3 or below, of securities sold during the first quarter ended March 31, 20__, and reacquired within 30 days of the sale date are:

	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Gain/(Loss)
Bonds:				
NAIC 3	________	$ ________	$ ________	$ ________
NAIC 4	________	$ ________	$ ________	$ ________
NAIC 5	________	$ ________	$ ________	$ ________
NAIC 6	________	$ ________	$ ________	$ ________
Preferred Stock:				
NAIC P/RP3	________	$ ________	$ ________	$ ________
NAIC P/RP4	________	$ ________	$ ________	$ ________
NAIC P/RP5	________	$ ________	$ ________	$ ________
NAIC P/RP6	________	$ ________	$ ________	$ ________