

TRANSMITTAL SHEET FOR
NOTICE OF INTENDED ACTION

Control 482 Department or Agency Department of Insurance*

Rule No. Chapter 482-3-001

Rule Title: Accounting Requirements and Record Keeping for Preneed Funeral and Cemetery Providers

New Amend Repeal Adopt by Reference

Would the absence of the proposed rule significantly harm or endanger the public health, welfare, or safety? N/A*

Is there a reasonable relationship between the state's police power and the protection of the public health, safety, or welfare? N/A*

Is there another, less restrictive method of regulation available that could adequately protect the public? N/A*

Does the proposed rule have the effect of directly or indirectly increasing the costs of any goods or services involved and, if so, to what degree? N/A*

Is the increase in costs, if any, more harmful to the public than the harm that might result from the absence of the proposed rule? N/A*

Are all facets of the rulemaking process designed solely for the purpose of, and so they have, as their primary effect, the protection of the public? N/A*

Does the proposed rule have an economic impact? N/A*

If the proposed rule has an economic impact, the proposed rule is required to be accompanied by a fiscal note prepared in accordance with subsection (f) of Section 41-22-23, Code of Alabama 1975.

Certification of Authorized Official

I certify that the attached proposed rule has been proposed in full compliance with the requirements of Sections 27-2-17 and 27-7-43, Code of Alabama 1975, and that it complies with all applicable filing requirements of the Alabama Insurance Code.*

Signature of certifying officer Jim L. Ridling
Jim L. Ridling
Commissioner of Insurance

Date: September 19, 2014

*Note: *The Alabama Department of Insurance is exempt from the Alabama Administrative Procedures Act pursuant to Section 41-22-2(e), Code of Alabama 1975.*

Alabama Department of Insurance

NOTICE OF INTENDED ACTION

AGENCY NAME: Alabama Department of Insurance

RULE NO. & TITLE: Chapter 482-3-001: Accounting Requirements and Record Keeping for Preneed Funeral and Cemetery Providers.

INTENDED ACTION: Repeal Chapter 482-3-001.

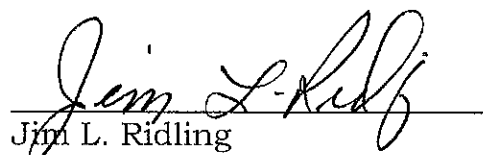
SUBSTANCE OF PROPOSED ACTION: The Commissioner of Insurance is proposing to repeal this regulation. This regulation originally became effective September 3, 2004. The provisions of this Regulation will be superseded by the provisions of proposed new Preneed Regulation No. 3 (Chapter 482-3-003). The proposed effective date of the repeal of this regulation will coincide with the effective date of new Preneed Regulation No. 3.

TIME, PLACE, MANNER OF PRESENTING VIEWS: Interested persons may submit data, views, or arguments in writing at any time prior to the date stated below to the Alabama Department of Insurance, Attention: Legal Division, Post Office Box 303351, Montgomery, Alabama 36130-3351, or orally by appearing at the public hearing, Suite 502, RSA Tower, 201 Monroe Street, Montgomery, Alabama, beginning at 10 a.m., November 13, 2014.

FINAL DATE FOR COMMENT AND COMPLETION OF NOTICE:

November 4, 2014

CONTACT PERSON AT AGENCY: Kathleen Healey
Associate Counsel



Jim L. Ridling
Commissioner of Insurance

**ALABAMA DEPARTMENT OF INSURANCE
PRENEED REGULATION**

CHAPTER 482-3-001

**ACCOUNTING REQUIREMENTS AND RECORD KEEPING FOR
PRENEED FUNERAL AND CEMETERY PROVIDERS**

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482-3-001-.01 Authority. This chapter is adopted pursuant to Section 27-2-17, Code of Alabama 1975.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.02 Purpose. The purposes of this chapter are to provide standards for the sale of preneed funeral and cemetery merchandise and services and to define the accounting and record keeping requirements for persons holding preneed certificates of authority under the Alabama Preneed Funeral and Cemetery Act of 2002.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004; Revised December 1, 2008, effective January 1, 2009

482-3-001-.03 Applicability and Scope. This chapter applies to all sales of preneed funeral and cemetery merchandise and services and the establishment and administration of funds held in trust in accordance with Chapter 17A of Title 27, Code of Alabama 1975.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.04 Definitions. In addition to the definitions provided in Section 27-17A-2, Code of Alabama 1975, the following definitions shall also apply in this chapter:

(a) DEPARTMENT. The Alabama Department of Insurance.

(b) GAAP (Generally Accepted Accounting Principles). Accounting principles generally accepted in the United States of America.

(c) FINANCIAL STATEMENT. The written disclosure of financial information by an applicant for or holder of a preneed certificate of authority according to accounting principles and in a form prescribed by this chapter.

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(d) PRENEED ENTITY. Any funeral establishment, cemetery authority or third-party seller that is selling preneed services and/or merchandise as defined under the Act.

(e) THE ACT. The Alabama Preneed Funeral and Cemetery Act of 2002, Chapter 17A of Title 27, Code of Alabama 1975.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004; Revised December 1, 2008, effective January 1, 2009

482-3-001-.05 Certificate of Authority; Financial Requirements.

(1) Every entity subject to the Act selling preneed funeral or cemetery services or merchandise must have a valid preneed certificate of authority (COA). All branches affiliated with a certificate holder must have a valid branch registration.

(2) An applicant for a preneed certificate of authority must meet and a certificate holder must maintain the requirements set forth in this Rule demonstrating its ability to discharge its liabilities as they become due in the normal course of business and must have sufficient funds available to perform its obligations under its existing preneed contracts.

(3) On and after the effective date of this Rule, the Financial Statement submitted to the Department with an application for or renewal of a certificate of authority shall, at the preneed entity's option, be (i) a financial statement accompanied by a compilation, review or audit report from a licensed certified public accountant prepared in conformity with GAAP or (ii) a financial statement in the form set forth in the Appendix to this chapter using the alternate basis of accounting described in Rule 482-3-001-.05(6).

(4) The Financial Statement must be for the preneed entity holding a certificate of authority or the applicant seeking a certificate of authority. Information in the Financial Statement must be accurate and contain all relevant notes and disclosures appropriate to the accounting basis used. The Financial Statement must be signed by the certificate holder or applicant and, if prepared by a certified public accountant or public accountant, by the accountant.

(5) Financial Statements prepared in conformity with GAAP that are consolidated must include supplementary consolidating schedules to provide supporting detail for each consolidated financial statement presented.

(6) The financial statement form set forth in the Appendix to this chapter reflects a basis of accounting adopted by the Department as an alternative to GAAP reporting. This

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alternative basis differs from the measurements and disclosures required by GAAP in the following respects:

(a) GAAP requires consolidation of certain equity investments and of variable interest entities under FIN 46(R), entitled *Consolidation of Variable Interest Entities*. The Department requires that only the primary reporting entity's accounts and activities be reported. Investment in trusts are to be marked-to-market as of the Financial Statement date. Closely-held investments should be recorded using the equity method.

(b) Deferred revenue for preneed contracts incurred prior to May 1, 2002 (the Act's effective date), is to be equal to the current cost of providing the preneed services and merchandise.

(c) A noncurrent receivable is to be recorded for the face amount of life insurance policies used to fund preneed contracts, with the offset being a credit to deferred revenue.

(7) The Financial Statement of an applicant or certificate holder (in the case of annual renewals) must demonstrate the following levels of equity determined on the basis of the accounting method used in the Financial Statement:

(a) An applicant or certificate holder with total preneed deferred revenue of \$100,000 or less must have a minimum of \$10,000 equity.

(b) An applicant or certificate holder with total preneed deferred revenue of \$100,001 to \$1,000,000 must have equity in an amount not less than ten percent (10%) of the total preneed deferred revenue.

(c) An applicant or certificate holder with total preneed deferred revenue in excess of \$1,000,000 must have a minimum of \$100,000 equity.

(8)(a) If, based on the accounting method used in its Financial Statement, the certificate holder or applicant does not meet the Rule 482-3-001-.05(6), the certificate holder or applicant may voluntarily submit to the Commissioner additional evidence or enter into written agreements intended to demonstrate the certificate holder's or applicant's ability to meet the requirements of Section 27-17A-11, Code of Alabama 1975, and as a condition for receiving and/or retaining a Certificate of Authority. Such additional evidence or agreements may include any or all of the following as deemed appropriate by the Commissioner:

1. Submission of monthly financial statements.
2. Submission of quarterly financial statements.
3. Appraisal of the certificate holder's or applicant's property and/or a broker's opinion of the value of the certificate holder's or applicant's assets.

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4. A credit report on the certificate holder or applicant or its principal owners (in the case of an entity).

5. An agreement to subordinate debt, on a form approved by the Department, as to debts identified by the Department.

6. An indemnification/subrogation agreement binding the certificate holder or applicant and its principal owners (in the case of an entity).

7. Written explanation of past financial activity.

8. Submission of a twelve month projected business plan which shall include all of the following:

(i) Statement of cash flows.

(ii) Pro forma income statement with sources of revenue identified.

(iii) Marketing initiatives.

9. The certificate holder's or applicant's agreement to make deposits to a merchandise and services trust and/or cemetery endowment care trust in amounts and at times which exceed the requirements of the Act.

10. Posting of a surety bond or letter of credit acceptable to the Commissioner in addition to any surety bond or letter of credit provided to comply with the Act's security requirements.

11. Such other conditions or agreements as the Commissioner may determine are warranted under the particular circumstances.

(b) The Commissioner, in his discretion, may issue or renew a certificate of authority if the Commissioner determines from such additional information or agreement(s) that the applicant or certificate holder meets the requirements of Sections 27-17A-11, Code of Alabama 1975, in which event the certificate may be expressly conditioned on satisfactory continued compliance with any and all terms or conditions set forth in any agreement(s) entered into by the person or entity receiving the certificate.

(9) The certificate holder must notify the Department of any plans to surrender or transfer a certificate of authority. The surrender or transfer of any certificate of authority must utilize forms provided by the Department. Until the Commissioner has approved the surrender or transfer in writing, no preneed funds may be released from any trust required under the Act except as provided in the trust documents in the ordinary course of business.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

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History: New August 24, 2004, effective September 3, 2004; Revised December 1, 2008, effective January 1, 2009

482-3-001-.06 Preneed Contracts. A written preneed contract must be used to sell preneed merchandise and services for funerals and cemeteries. The preneed contract must be approved by the Commissioner prior to use. The preneed contract must contain at a minimum all of the required disclosures of the sample preneed contract provided by the Department and a preneed funeral contract must contain a 30 day refund provision. Any changes in the preneed contract must be approved by the Department prior to use. The preneed contract must be filled in completely, including all of the required signatures and dates.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.07 Preneed Sales Agents.

(1) To sell preneed contracts, every certificate holder must have at least one preneed sales agent (PSA) registered. All employees or agents selling preneed contracts for funeral and/or cemetery services and merchandise must be registered. The PSA registration must be renewed annually.

(2) Each PSA registration requires payment of a registration fee of \$25, which is to be paid with the initial registration and annually thereafter. The fee for issuing or renewing a certificate of authority does not include payment for any PSA registrations.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004;

Revised: December 1, 2008; Effective January 1, 2009

482-3-001-.08 Deposit of Preneed Funds.

(1) Deposits. A detailed record of preneed funds collected must be maintained by the preneed entity.

(2) Trust.

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(a) All preneed funds subject to the trust requirements of the Act must be placed into the trust within 30 days after the end of the calendar month in which the preneed contract is paid in full. The preneed entity must maintain a record of receipts for each preneed contract sold. The record must include, at a minimum, the name of the buyer, the amount of preneed funds collected and the date the preneed funds were collected. The trust agreement must have been approved by the Commissioner prior to use. A statement of Activities of Trust for Preneed Funds must be filed with the Department each year on a form specified by the Department. The form must be provided on or before April 1 of each year for the preceding calendar year. The trustee must provide to the funeral establishment or cemetery authority a valuation of the assets it holds in trust at least on a quarterly basis.

(b) There are two types of trusts that may apply: a funeral merchandise and services trust, and a cemetery merchandise and services trust. If a certificate holder subject to the trust requirements engages in the preneed sale of both funeral and cemetery merchandise and services, the certificate holder must establish two separate trusts. Funds collected for preneed funeral merchandise and services must be placed in the funeral merchandise and services trust and funds collected for preneed cemetery merchandise and services must be placed in the cemetery merchandise and services trust.

(3) Surety Bond.

(a) A surety bond may be used as an alternative to the trust requirements. The surety bond must be approved by the Department prior to use.

(b) The amount of the initial surety bond must be not less than the aggregate value of outstanding liabilities on undelivered preneed contracts of the certificate holder as of the end of its last fiscal year. For purposes of determining the amount of the surety bond, "outstanding liabilities" means the original retail amount of services and cash advances and the actual cost to the certificate holder to provide the undelivered merchandise sold on preneed contracts entered into by the certificate holder after April 30, 2002.

(c) Annually thereafter, the amount of the bond shall be increased or decreased as necessary to correlate with changes in the outstanding liabilities. On or before April 1 of each year the certificate holder must provide a report documenting the outstanding liabilities of the preneed provider as of the end of its last fiscal year. The report shall be signed by the certificate holder, if an individual, or by the chief executive officer or chief financial officer of the certificate holder, if a corporation or other business entity.

(4) Letter of Credit. A letter of credit may be used in lieu of a surety bond. The letter of credit must be approved by the Department prior to use. The letter of credit must be "evergreen," meaning it will not expire without an affirmative action by the issuer of the letter of credit. The amount of the letter of credit shall be determined in the same manner as indicated above for the amount of surety bonds. The same information required on surety bonds must be provided initially and annually thereafter for letters of credit.

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(5) Pre-act Trusts.

(a) A preneed trust established for funds collected on preneed contracts entered into prior to May 1, 2002, may not be merged with a trust established for preneed contracts entered into on and after May 1, 2002, without the express permission of the Commissioner.

(b) To approve the merger of the trusts, the Commissioner must be satisfied that the minimum amounts required to be trusted under the law have been trusted on the contracts entered into prior to the law.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.09 Schedule of Charges and Price List.

(1) In accordance with Section 8-30-2, Code of Alabama 1975, every cemetery authority must display a full and complete schedule of charges for burial services and merchandise provided by the cemetery authority.

(2) In accordance with Section 34-13-9, Code of Alabama 1975, every funeral home must have a published price list of services and merchandise available.

(3) The schedule of charges and price list must be dated. The preneed entity must retain a copy of all price lists covering the period since the last Department preneed examination.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.10 Safekeeping of Records.

(1) All burial records and those contracts under the jurisdiction of the Commissioner and which have not been audited by the Commissioner must be filed and kept in a secure manner. For purposes of this rule, "secure" means any of the following:

(a) A vault or fire-proof container with a properly certified fire resistant capability of at least one hour.

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(b) A computer readable media backed up by diskette, or optical disk, or tape which is stored at an off-site location.

(c) Microfilm backed up by a security roll stored at an off-site location.

(d) A duplicate copy of the records referenced in this rule is kept at an off-site location.

(2) Records that are deemed "secure" at an off-site location shall be updated quarterly.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.11 Cemetery Records.

(1) The following records for cemetery authorities shall be made available to the Commissioner for the purposes of examinations or inspections:

(a) Cemetery License and/or Certificate of Authority.

(b) Schedule of charges and price lists as required in Rule 482-3-001-.09.

(c) Advertising file.

(d) By-Laws and Rules and Regulations.

(e) Financial and accounting records, including financial statements, general ledger, accounts receivable, accounts payable and cash receipts, journals, receipt books and invoices.

(f) Preneed Contracts.

(g) Other contracts, including at need sales and contracts for burial rights.

(h) Burial Records.

(i) Lot ownership records.

(j) Procedures for handling complaints.

(k) Any mortgages on the property.

(l) Record of cancellation requests and refunds given.

(m) List of current preneed sales agents.

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- (n) Detailed maps of the cemetery.
- (o) Procedure manuals.
- (p) Any other items the examiner may request.

(2) These records will be available for review at the licensed facility or an alternative site of the cemetery company if approved by the Commissioner. Certificate of Authority holders will send written notification to the Commissioner if records are available for review at an alternative site.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.12 Endowment Care Cemeteries.

(1) All endowment care cemeteries must establish an endowment care fund which shall be placed with and held by a bank, trust company, savings and loan association, or other financial institution authorized to provide trust services under the provisions of Alabama Code or under the applicable laws of the United States or any other state, or a board of trustees, consisting of at least three members, who shall reside in Alabama, one of whom is engaged in outside cemetery management, and each of whom shall be bonded to honestly perform the duties of trustee under a formal trust agreement. The amount in the endowment care fund must comply with Section 27-17A-47. Cemeteries must make contributions as required by Section 27-17A-49. An annual report of the endowment care fund shall be made to the commissioner by each cemetery authority within 90 days of the close of each calendar year.

(2) Existing endowment care trusts need not be terminated and can be simply merged with any such post-Act funds provided the existing trust agreement is modified or amended to comply with the provisions of the Act.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.13 Accounts Receivable Records.

(1) Accounts receivable records pertaining to each individual purchaser shall be assigned the same serial number as shown on the purchaser's contract and a log shall be

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maintained in numerical sequence. The name of the purchaser or beneficiary, total preneed contract amount, amounts required to be deposited in each trust upon payment in full, date and amount of each payment, outstanding balance, retail price of each item, and a schedule of payments.

(2) The information listed in paragraph (1) is the minimum information to be contained in the accounts receivable records.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-.14 Records Required.

(1) A preneed entity must maintain and provide upon request by the Department detailed records for each preneed contract written. The detailed records shall include, but not be limited to, a preneed contract file that includes all supporting documentation, such as the preneed contract form, copies of insurance policies, trust account statements, and a complete history of preneed contract transactions. The preneed entity must have available this information on all preneed contracts sold since May 1, 2002.

(2) Records required to be maintained by the preneed entity shall include at least the following information for each contract:

- (a) Sequentially ordered contract number.
- (b) Contract type (i.e., void or cancelled).
- (c) Date of contract.
- (d) Payments received since May 1, 2002.
- (e) Total trust liability.
- (f) Trust liability percentage.
- (g) Prior liability accrual.
- (h) Current examination liability accrual.
- (i) Prior total withdrawals from Trust.
- (j) Current withdrawals from Trust.

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(3) The items identified in subparagraphs (d) and (f) of paragraph (2) may be provided on the accounts receivable records, as separate identifiable entries, in lieu of the records.

(4) For the purposes of this rule, trust liability and accruals should be detailed by trust as applicable (i.e., Merchandise, Preneed, Preconstruction, and Cemetery).

(5) Current records maintained shall include all new contracts written during the examination period and all contracts written in prior examination period with transactional activity and/or trust liability remaining to be accrued. Records should include page totals for all applicable items and a grand total.

(6) Upon renewal, the certificate holder shall provide a complete listing of all life insurance policies, the statement of activities of the trust, and a full and true report documenting the outstanding liabilities secured by the surety bond or letter of credit, as may be appropriate depending upon the funding method employed by the certificate holder.

(7) This rule is applicable to all contracts written under the Act on or after May 1, 2002.

(8) The Commissioner shall give the licensee an appropriate notice of the scheduled examination to provide sufficient time for the preparation of the records.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-15 Severability. If any portion of this chapter or its applicability to any person or circumstance is held invalid by a court, the remainder of the chapter or the applicability of the provision to other persons or circumstances shall not be affected.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-16 Effective date. This chapter shall be effective upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days.

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Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New August 24, 2004, effective September 3, 2004

482-3-001-17 Response to requests for information; effect of pending administrative action.

(1) If records, information, and/or a response are requested in writing of any applicant for or holder of a preneed certificate of authority by any duly appointed employee, examiner, or agent of the Commissioner, the requested records, information, or response shall be provided within ten (10) business days of receipt of the request unless the request specifies another time not less than ten (10) business days from receipt. A failure to timely respond to a request shall be deemed a violation of this chapter unless the Commissioner or the person making the request grants an extension in writing or the applicant or certificate holder can demonstrate to the satisfaction of the Commissioner that there is reasonable justification for failure to timely respond.

(2) If the Department has notified an applicant for or holder of a preneed certificate of authority of any administrative action, that action must be addressed and/or resolved to the Commissioner's satisfaction before the Department will (i) issue a certificate of authority or branch registration, (ii) renew a certificate or branch registration, (iii) approve a proposed transfer of a certificate or branch registration, or (iv) enter an order of termination on an application for voluntary surrender of a preneed certificate. For purposes of this Rule, "administrative action" includes:

(a) A pending administrative complaint alleging violation(s) of the Act and/or violations of the Alabama Insurance Code in connection with activities engaged in under or pursuant to a certificate of authority or without a certificate of authority in violation of the Act.

(b) Failure to comply with requirements imposed in a prior settlement agreement, consent order, or final adjudicated order in an administrative complaint proceeding or court action.

(c) A preneed examination. If the certificate holder has been examined by the Department and the examination report adopted by the Commissioner, the certificate holder must (i) have filed a written statement, signed by or on behalf of the certificate holder, detailing the corrective action the certificate holder proposes to take to comply with the report's recommendations, and (ii) satisfactorily resolve or settle any violations of the Act identified in the report.

(d) Payment of or compliance with a payment arrangement for all examination invoices and/or amounts otherwise imposed by prior settlement agreement, consent order,

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or final adjudicated order in or in lieu of an administrative complaint proceeding, to include, where applicable, deposits in a merchandise and services trust and/or cemetery endowment care trust.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New December 1, 2008, effective January 1, 2009

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APPENDIX

FINANCIAL STATEMENT FORM

This appendix contains the form financial statement provided in paragraph (3) of Rule 482-3-001-.05.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, §§ 27-2-17 & 27-17A-11

History: New December 1, 2008, effective January 1, 2009

STATE OF ALABAMA

**DEPARTMENT OF INSURANCE
201 MONROE STREET, P.O. BOX 303351
MONTGOMERY, ALABAMA 36130**

**PRENEED CERTIFICATE OF AUTHORITY
CONFIDENTIAL ANNUAL FINANCIAL STATEMENT**

Type of Organization:

_____ **An Individual**

_____ **Partnership**

_____ **C Corporation**

_____ **S Corporation**

_____ **LLC (a Limited Liability Company)**

_____ **LLP (a Limited Liability Partnership)**

_____ **Not for Profit Organization**

Name of Preneed Entity

Address:

COA Number

Phone #:

Fax #:

E Mail Address:

INSTRUCTIONS

READ THE FOLLOWING CAREFULLY BEFORE COMPLETING THIS FORM. MAIL TO: ALABAMA DEPARTMENT OF INSURANCE, PRENEED DIVISION, P. O. BOX 303351, MONTGOMERY, ALABAMA 36130.

1. Preparation of the attached financial statement by a Certified Public Accountant is preferred, but not required. If prepared by a Certified Public Accountant, the proper report must be completed. Each report must be personally signed by the preparer together with indication of State of registration and certificate or license number. Firm signatures will not be accepted.
2. The Alabama Department of Insurance will accept only this form or a compiled, reviewed or audited financial statement prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). No other form of financial statement will be accepted. Each item, when applicable, must be set forth in full. Wherever explanations are requested, they must be given in detail. Please round amounts to the nearest dollar.
3. This form is to follow the statutory basis of accounting for preneed entities as prescribed by the State of Alabama Department of Insurance. The statutory basis prescribed by the State of Alabama Department of Insurance differs from measurements and disclosures required by accounting principles generally accepted in the United States of America (GAAP) as noted in A. through C. below:
 - A. GAAP requires the consolidation of certain equity investments and of variable interest entities under FIN 46(R), entitled *Consolidation of Variable Interest Entities*. The Department requires that only the primary reporting entity's accounts and activities be reported on this form. Investment in trusts are to be marked-to-market as of the financial statement date. Closely-held investments should be recorded using the equity method.
 - B. Deferred revenue for preneed contracts incurred prior to May 1, 2002 (pre-law) is to be equal to the current cost of providing the preneed services and merchandise.
 - C. A noncurrent receivable is to be recorded for the face amount of life insurance policies used to fund preneed contracts, with the offset being a credit to deferred revenue.
4. The signatory statement on page 2 must be signed by the individual if the applicant is an individual, by the duly authorized officer if a corporation, managing member if a limited liability entity, or by a general partner if a partnership.
5. The attached financial statement is to be prepared for the certificate holder as of the entity's most recent fiscal year-end and is due annually on April 01. Preneed applications will not be accepted if more than twelve (12) months have transpired since the date of the financial statement.
6. All preneed entities must have at least the required minimum equity required by Alabama Department of Insurance Preneed Regulation Chapter 482-3-001.05:

<u>Total preneed deferred revenue</u>	<u>Minimum equity</u>
\$100,000 or less	\$10,000
\$100,001 - \$1,000,000	not less than 10% x total preneed deferred revenue
\$1,000,001 or greater	\$100,000
7. Notes are an integral part of this financial statement and should be attached. The Department of Insurance has provided sample notes to aid the preparer with some of the more common notes required. These sample disclosures are intended to serve as an aid and may include notes which do not apply to your Company or may not provide for your particular situation. Please add or delete notes as necessary for your Company. The Department requires certain disclosures it deems necessary to its understanding of the filing entity's financial position and operations. These notes are marked with an "*" and must be included.

SIGNATORY

Individual, Partnership, Corporation or Limited Liability Entity

The undersigned hereby declares that the following is a true statement of the financial condition, operations, and cash flows of the Individual, Partnership, Corporation, or Limited Liability Company herein first named as of the date herein first given and that this statement is for the express purpose of securing a preneed certificate of authority (either initial or renewal).

Dated this _____ day of _____

Name of Preneed Entity _____

By _____

Social Security Number or FEIN _____

Affix Corporate Seal

NAME OF PRENEED ENTITY
STATEMENT OF ASSETS, LIABILITIES AND NET WORTH - STATUTORY BASIS
MONTH, DAY, YEAR

ASSETS

CURRENT ASSETS

Cash and cash equivalents		\$ _____
Investments		_____
Receivables:		_____
Accounts receivable	\$ _____	
Other receivables	_____	
Less allowance for doubtful accounts	_____	_____ -
Inventories		_____
Prepaid expenses		_____
Deferred tax asset		_____
Other current assets:		_____
_____		_____
_____		_____
_____		_____
Total current assets		_____ -

PROPERTY AND EQUIPMENT

Office furniture and equipment		_____
Automobiles and other vehicles		_____
Leasehold improvements		_____
Land and buildings		_____
_____		_____
_____		_____
Less accumulated depreciation		_____
Net property and equipment		_____ -

OTHER ASSETS

Receivables		_____
Deferred tax asset		_____
Assets held in trust		_____
Long-term investments		_____
Goodwill		_____
Intangible assets		_____
Preneed receivables		_____
_____		_____
_____		_____
_____		_____
Total other assets		_____ -

TOTAL ASSETS \$ _____ -

NAME OF PRENEED ENTITY
STATEMENT OF ASSETS, LIABILITIES AND NET WORTH - STATUTORY BASIS
MONTH, DAY, YEAR

LIABILITIES AND NET WORTH

CURRENT LIABILITIES

Accounts payable		\$	_____
Notes payable			_____
Current maturities of long-term debt			_____
Commission payable			_____
Taxes payable:			
Payroll	\$		_____
Real property			_____
Federal and state			_____
Other			_____
Deferred tax liability			_____
Other accrued expenses			_____
_____			_____
_____			_____
_____			_____
Total current liabilities			_____ -

OTHER LIABILITIES

Noncurrent maturities of long-term debt			_____
Deferred tax liability			_____
Pre-law deferred revenue			_____
Post-law deferred revenue			_____
_____			_____
_____			_____
Total other liabilities			_____ -

TOTAL LIABILITIES

			_____ -
--	--	--	---------

NET WORTH

Individual or partnership capital			_____
Capital stock			_____
Additional paid-in capital			_____
Retained earnings			_____
Accumulated other comprehensive income			_____
Treasury stock at cost _____ shares			_____
_____			_____
_____			_____
Total net worth			_____ -

TOTAL LIABILITIES AND NET WORTH

		\$	_____ -
--	--	----	---------

NAME OF PRENEED ENTITY
STATEMENT OF INCOME AND EXPENSES - STATUTORY BASIS
FOR THE YEAR ENDED MONTH, DAY, YEAR

INCOME

Preneed merchandise and services fulfilled	\$ _____
At-need merchandise and services	_____
Interest income	_____
Other income	_____
<hr/>	
Total income	_____ - _____

EXPENSES

Cost of sales	_____
Operating expenses:	_____
Administrative fees - trusts	_____
Advertising	_____
Bank charges	_____
Commissions	_____
Contract labor	_____
Depreciation and amortization	_____
Dues and subscriptions	_____
Insurance	_____
Interest	_____
Meals and entertainment	_____
Miscellaneous	_____
Office supplies and expense	_____
Payroll taxes	_____
Professional fees	_____
Profit-sharing	_____
Rent	_____
Repairs and maintenance	_____
Salaries	_____
Supplies	_____
Taxes and licenses	_____
Telephone	_____
Travel	_____
Utilities	_____
<hr/>	
Total expenses	_____ - _____

INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES _____ - _____

PROVISION FOR INCOME TAXES _____

NET INCOME (LOSS) \$ _____ - _____

NAME OF PRENEED ENTITY
STATEMENT OF COMPREHENSIVE INCOME - STATUTORY BASIS
FOR THE YEAR ENDED MONTH, DAY, YEAR

NET INCOME (LOSS)	\$ _____
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:	
Unrealized gains (losses) on securities:	
Unrealized holding gains (losses) arising during period	
Less reclassification adjustment for gains (losses)	
included in net income	_____
OTHER COMPREHENSIVE INCOME (LOSS)	_____ -
COMPREHENSIVE INCOME (LOSS)	\$ _____ -

See accountants' report and notes to financial statements.

NAME OF PRENEED ENTITY
STATEMENT OF CASH FLOWS - STATUTORY BASIS
FOR THE YEAR ENDED MONTH, DAY, YEAR

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	\$ _____ -
Adjustments to reconcile net income (loss) to net cash provided (used) by operations:	
Depreciation	_____
Amortization	_____
(Gain) loss on sale of securities	_____
(Gain) loss on sale of property and equipment	_____
Deferred income taxes	_____
Changes in assets and liabilities:	
Accounts receivable	_____
Inventories	_____
Prepaid expenses and other assets	_____
Preneed activity	_____
Accounts payable	_____
Accrued expenses	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Net cash provided (used) by operating activities _____ -

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of securities	_____
Purchase of securities	_____
Proceeds from sale of property and equipment	_____
Purchase of property and equipment	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Net cash provided (used) by investing activities _____ -

NAME OF PRENEED ENTITY
STATEMENT OF CASH FLOWS - STATUTORY BASIS
FOR THE YEAR ENDED MONTH, DAY, YEAR

CASH FLOWS FROM FINANCING ACTIVITIES

Borrowings on notes payable	_____
Repayment of notes payable	_____
Borrowings on long-term debt	_____
Repayment of long-term debt	_____
Distributions to stockholders	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Net cash provided (used) by financing activities - _____

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS - _____

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR _____

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ -

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	<u>\$ -</u>
Income taxes	<u>\$ -</u>

Please note: These reports are to be completed only by a certified public accountant (audit or compilation report) or a public accountant (compilation report only).

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of assets, liabilities, and net worth - statutory basis of XYZ Company as of [Date], and the related statements of income, comprehensive income and cash flows - statutory basis for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

These financial statements were prepared in conformity with the accounting practices prescribed or permitted by the State of Alabama Department of Insurance, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net worth of XYZ Company as of [Date], and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the management of XYZ Company and the State of Alabama Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Firm Name: _____
Signature (Firm Signatures Not Acceptable): _____
Certificate Number: _____
State of Certification: _____
Federal Identification Number: _____

ACCOUNTANTS' COMPILATION REPORT

We have compiled the accompanying statement of assets, liabilities, and net worth - statutory basis of XYZ Company as of [Date], and the related statements of income, comprehensive income and cash flows - statutory basis for the year then ended included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Alabama Department of Insurance information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

This report is intended solely for the information and use of the management of XYZ Company and the State of Alabama Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Firm Name: _____
Signature (Firm Signatures Not Acceptable): _____
Certificate Number: _____
State of Certification: _____
Federal Identification Number: _____

AFFIDAVIT FOR INDIVIDUAL

STATE OF _____
COUNTY OF _____

_____, being duly sworn, deposes and says that the foregoing financial statements, taken from his books, are a true and accurate statement of his financial condition, results of operations, and cash flows as of the date thereof and the period then ended.

Applicant's signature _____
Social security number _____

Sworn to and subscribed before me this ____ day of _____, 20____

Notary Public

AFFIDAVIT FOR PARTNERSHIP OR LIMITED LIABILITY COMPANY

STATE OF _____
COUNTY OF _____

_____, being duly sworn, deposes and says that he is a partner (member) of the firm of _____, and that the foregoing financial statements, taken from the books of said firm, are a true and accurate statement of the financial condition, results of operations and cash flows of said firm as of the date thereof and the period then ended.

Applicant's signature _____

Sworn to and subscribed before me this ____ day of _____, 20____

Notary Public

AFFIDAVIT FOR CORPORATION

STATE OF _____
COUNTY OF _____

_____, being duly sworn, deposes and says that he is an officer of _____, the corporation described in and which executed the foregoing financial statements; that he is familiar with the books of the said corporation showing its financial condition, results of operations, and cash flows and that the foregoing financial statements taken from the books of the said corporation, are a true and accurate statement of the financial condition, results of operations and cash flows of said corporation as of the date thereof and the period then ended.

Applicant's signature _____

Sworn to and subscribed before me this ____ day of _____, 20____

Notary Public

The following sample disclosures are intended to serve as a practice aid and are not considered to be all inclusive. The sample disclosures may include notes that do not apply to the filing entity or provide information that is applicable to the entity's circumstances. Please add, delete, or otherwise change the notes as necessary to comply with the statutory basis prescribed by the State of Alabama Department of Insurance for the Individual or Company for which you are filing. The Department requires certain disclosures it deems necessary to its understanding of the filing entity's financial position and operations. These notes are marked with an "*" and must be included.

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

XYZ Funeral Home and Cemetery, Inc. (the Company) provides at-need funeral services and related products, as well as cemetery lot sales and pre-arranged funeral and cemetery contract sales in the Montgomery, Alabama area.

Cash and Cash Equivalents

For purposes of the statement of cash flows the Company considers all highly liquid debt instruments and certificates of deposit purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company reports trade receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against the allowance or against earnings.

Inventories

Inventories consist of cemetery plots, mausoleum vaults and crypts and are valued at the lower of cost or market, using the first-in, first-out method.

Property and Equipment

Major additions of property and equipment are capitalized at cost. Maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property and equipment disposed of are removed from their respective accounts, and any related gain or loss is reflected in income. For financial reporting purposes, depreciation is provided using the straight-line and accelerated methods over the estimated useful lives of the assets.

Goodwill

The Company tests goodwill annually for impairment. Although the Company currently expects no impairment of goodwill as of Month, Day, Year, there can be no assurance that it will not be impaired in subsequent reporting periods.

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The accompanying financial statements present financial results on the statutory basis of accounting as prescribed by the State of Alabama Department of Insurance, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). This basis differs from GAAP in the following material areas. GAAP requires the consolidation of certain variable interest entities under FIN 46(R), entitled *Consolidation of Variable Interest Entities*. However, the Department requires that only the filing entity's accounts and activities be reported on in the accompanying statements. Therefore, investments in trusts are marked-to-market as of the financial statement date and closely-held investments are recorded using the equity method. The Department also requires a noncurrent receivable to be recorded for the face amount of life insurance policies used to fund pre-need contracts, with the offset being a credit to deferred revenue. Further, the Department requires deferred revenue for preneed contracts incurred prior to May 1, 2002 (pre-law) to be equal to the current cost of providing preneed services and merchandise.

Revenue Recognition

The Company's operation is subject to the Code of Alabama 1975, Title 27, Chapter 17A, as enacted by the 2002 Legislature of Alabama under Act No. 2002-74 and cited as the "Alabama Preneed Funeral and Cemetery Act." The Company recognizes revenue from two main sources: at-need and preneed sales. At-need sales are recorded as a completed contract; therefore, income and related expenses are recognized currently. Preneed sales are recorded as deferred revenue when the sales contract is accepted. Current Alabama law requires that any preneed arrangement made on or after May 1, 2002, be refundable to or transferable to the consumer; therefore, management believes that the proper method of accounting is as deferred revenue. Following this method, revenue would not be recognized until the contracted goods and services are used. Additionally, the cost of goods sold would be recognized at that time. The current State law requires a facility licensed to sell preneed arrangements to fund State approved trusts within thirty (30) days of receiving the final payment on the preneed contract. The funding rate is generally between 60% and 75% of the contract price.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$X,XXX for the year ended Month, Day, Year.

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The Company's differences relate to marketable equity securities and to depreciable assets and the use of different depreciation methods for financial statement and income tax purposes. The resulting deferred tax asset or liability represents the future tax return consequences of these differences.

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with the statutory basis of accounting as prescribed by the State of Alabama Department of Insurance, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

2. CASH AND CASH EQUIVALENTS

The Company maintains its cash in bank deposit accounts which, at times, may exceed Federal Deposit Insurance Corporation limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk in regard

3. INVESTMENTS

Equity securities have been classified in the balance sheet according to management's intent. The carrying amount of securities and approximate fair values as of Month, Day, Year are as follows:

Cost	\$
Gross unrealized gains	
Gross unrealized losses	
	<hr/>
Fair value	<u>\$ -</u>

Proceeds and gross realized gains on sales of available-for-sale securities using the specific identification method were \$XX,XXX and \$XX,XXX, respectively, for the year ended Month, Day, Year.

4. LONG-TERM DEBT

Long-term debt as of Month, Day, Year consisted of the following:

Installment notes payable to banks, bearing interest at rates ranging from X.X% to X.X%, payable in monthly installments totaling \$X,XXX including interest, maturing from January XXXX to September XXXX, secured by certain equipment	\$
Unsecured note payable to related party, bearing interest at a rate of 5%, maturing January XXXX	<hr/>
Total long-term debt	
Current maturities of long-term debt	<hr/>
Noncurrent maturities of long-term debt	<u>\$</u>

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

5. INCOME TAXES

The provision for income taxes consisted of the following for the year ended Month, Day, Year:

Federal:	
Current	\$
Deferred	
State:	
Current	
Deferred	
Total provision for income taxes	\$

The provision for income taxes for the year ended Month Day, Year is included in the financial statements as follows:

Statement of income and expenses- continuing operations	\$
Statement of comprehensive income - unrealized holding gains on securities	
Total provision for income taxes	\$

6. EQUITY

Capital stock consisted of XXX shares of common stock authorized, issued and outstanding.

Changes in Company retained earnings accounts during XXXX consisted of the following:

Beginning balance - retained earnings	\$
Net income (loss)	
Distributions to owners	
Ending balance - retained earnings	\$

Changes in Company accumulated other comprehensive income during XXXX consisted of the following:

Beginning balance	\$
Other comprehensive income	
Ending balance	\$

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

7. PRENEED RECEIVABLES *

The amount of preneed receivables to be shown in the statement of assets, liabilities and net worth - statutory basis depends upon the method of funding. For those entities that fund using a letter of credit or a surety bond, the amount of preneed receivables is the sum of the future preneed payments to be made by the preneed purchaser at the date of the financial statement. For those entities that fund using a trust, the amount of the preneed receivables is the sum of the future preneed payments to be made by the preneed purchaser plus the amount in trust on the date of the financial statement (the amount in the trust may be different than the amount required by the preneed law to be deposited into trust because of any gains or losses on the trust). For those entities that fund using life insurance contracts, the amount of preneed receivables is the face amount of the life insurance contract purchased to fund the preneed services and merchandise. For those preneed entities that utilize more than one of the above methods of funding, each of the above procedures must be followed for each method of funding.

Preneed receivables as of Month, Day, Year consisted of the following:

Pre-law:

Funded by letter of credit	\$
Funded by surety bond	
Funded by trust	
Funded by life insurance	
Not funded	
	<hr/>
Pre-law preneed receivables	<hr/> - <hr/>

Post-law

Funded by letter of credit - ABC Bank	
Funded by letter of credit - XYZ Bank	
Funded by letter of credit - 123 Bank	
Funded by surety bond - ABC Insurance Co.	
Funded by surety bond - XYZ Insurance Co.	
Funded by surety bond - 123 Insurance Co.	
Funded by trust - ABC Bank	
Funded by trust - XYZ Bank	
Funded by trust - 123 Bank	
Funded by life insurance - ABC Insurance Co.	
Funded by life insurance - XYZ Insurance Co.	
Funded by life insurance - 123 Insurance Co.	
	<hr/>
Post-law preneed receivables	<hr/> - <hr/>
Total preneed receivables	<hr/> \$ - <hr/>

NAME OF PRENEED ENTITY
NOTES TO FINANCIAL STATEMENTS
MONTH, DAY, YEAR

8. DEFERRED REVENUE*

Regardless of the method of funding, the amount of preneed deferred revenue to be shown in the financial statements is: (1) for preneed contracts incurred prior to May 1, 2002, the current cost of providing preneed services and merchandise; and (2) for preneed contracts incurred subsequent to April 30, 2002, the retail value of the preneed services and merchandise.

Pre-law:

Funded by letter of credit	\$
Funded by surety bond	
Funded by trust	
Funded by life insurance	
Not funded	
	<hr/>
Pre-law deferred revenue	<hr/> -

Post-law

Funded by letter of credit	
Funded by surety bond	
Funded by trust	
Funded by life insurance	
	<hr/>
Post-law deferred revenue	<hr/> -
Total deferred revenue	<hr/> \$ - <hr/>