[SEC, March 11, 1999]

RULES AND REGULATIONS IMPLEMENTING THE UNIFORM CHART OF ACCOUNTS FOR PRE-NEED PLAN COMPANIES

Pursuant to Section 4 of the Revised Securities Act (RSA) of 1982 and RSA Ru|e 48-1: Rules and Regulations Covering Form and Content of Financial Statements, the following guidelines implementing the Uniform Chart of Accounts for Pre-Need PLan Companies are hereby adopted and promulgated.

OBJECTIVE

The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a pre-need company. Specifically, the financial statements should provide reliable financial information about the economic resources and obligations of a pre-need company. This information aids in evaluating the company's ability to meet its commitments. The financial statements should also provide reliable information about, the results of the company's profit-directed activities.

The financial accounting process is governed by generally accepted accounting principles, which determine the information that is included and how it is measured, journalized and presented in the financial statements.

The objective of this statement is to establish accounting and. reporting standards for the financial statements of pre-need companies. Pre-need companies are the companies authorized by the Securities and Exchange Commission to sell pre-need plans.

SCOPE

This statement should be applied in accounting and reporting of pre-need companies of their operations and of the trust funds for each specific pre-need plan that the company is authorized to sell.

DESCRIPTION OF PRE-NEED PLANS

The primary purpose of pre-need plans as defined in the RSA, is to "provide for the payment and/or performance of future service(s) or monetary considerations at the time of actual need, the price for which is payable in cash or installment by planholders with or without interest and/or insurance coverage."

There are many types of pre-need plans. There are three major kinds classified in accordance with the benefits promised to be paid at the time of need.

a. The Life Plan which provides cash or mortuary services upon, death of the planholder or his assignee.

b. The Educational Plan which provides cash grants to the beneficiary of the plan or payments to the school for tuition fees and other education-related expenses of the beneficiary, for the duration of the course elected by the planholder.

c. the Pension Plan which provides for the payment of cash benefit in one sum at a stated date, or periodic sums starting at a certain date, and for a fixed period and frequency as defined in the pre-need contract.

The price paid by the planholder for the pre-need plan is paid either in one sum at the issue date of the plan or installments for a fixed period, usually between five 950 to ten (10) years. The installments may be annual, semiannual, quarterly or monthly.

Because the price for a pre-need plan is paid long before the benefit or service to be rendered is due, the accounting for revenues, expenditures, assets, and liabilities for pre-need is similar to accounting for long duration contracts, like those of life insurance.

Pre-need contracts contain insurance benefits, usually to cover the risk .of the inability to complete the installments of the pre-need price as a result of the death or total or permanent disability of the planholder. To further enhance the services provided under a pre-need plan, most pre-need contracts contain additional insurance covers for death due to natural causes, and accidental death. These insurance covers are provided by life insurance companies through the pre-need company. Because these benefits are obligations of the life insurance company to the planholder, and are described also in the pre-need contract, the premiums payable to the life insurance company and the insurance benefits payable to the beneficiary require attention when accounting for this transaction.

To guarantee the delivery of property or performance of services to the planholders, trust funds are set up for each type of plan, separate and distinct from the other assets of the pre-need company. Only benefit payments due the planholder or his beneficiary are allowed to be withdrawn from the trust funds. The trust funds must be established with a trust company, trustee bank or investment house under a trust agreement. These trust funds grow from the required deposits from collections of pre-need installments paid by planholders to the pre-need company, and from the income net of expenses derived from investments of the accumulated deposits. A minimum of 40% of the total completed installments of pre-need plans is required to be deposited into the trust fund.

However, at the end of each fiscal year, the trust fund is compared with the actuarial reserve liability computed by an actuary accredited by SEC, and hired by the pre-need company to calculate the actuarial reserve liabilities in all the pre-need plans. Any shortfall in the trust fund compared to actuarial reserve is required to be matched by an additional deposit to the trust fund by the company.

A grace period of 60 days is allowed within which a planholder can still pay his installment due. Inability of the planholder to pay within such period will render his plan lapsed, that is, without force and effect. However, he is given a period of two years to apply for reinstatement of his plan.-following certain requirements and procedures. These lapsed plans can potentially be reinstated as in-force plans, hence, are included among the plans for which actuarial reserve liabilities are set up to account for the inability of the company until the two year reinstatement period has expired.

In such case that the planholder decides to discontinue the plan, he can withdraw part of the installments he has already paid, called a termination value. There is a schedule of the minimum termination values based on percentages of installments paid, that a withdrawing planholder is entitled on the date he withdraws. The total amount of these termination values that may still be paid in the future, stays in the trust funds until the end of the two-year period from date of lapse.

PART 1 - CONTENTS OF FINANCIAL STATEMENTS

A. For purposes of compliance with these rules, the basic contents of financial statements of a pre-need plan company shall consist of the following:

   1. Balance Sheet

   2. Statement of Income and Retained Earnings

   3. Statement of Cash Flows

   4. Notes to Financial Statements

   5. Related Schedules like actuarial valuation report, trust fund statements,- and other disclosures required under the SEC Circulars.

B. Financial Statements to be filed with the Commission shall be presented in comparative format, as of the end of each of the two most recent fiscal year periods; otherwise, the Auditor's Report shall include an explanation for presenting a single period statement.

C. A Pre-Need Plan Issuer or Company shall file financial statements in accordance with these Rules.

D. Balance Sheet - This shall indicate the various line items of assets, liabilities, and stockholder's equity as of given date, with certain additional disclosures on its face, or in the related accompanying explanation. (Balance Sheet Format is shown in Exhibit 1).

E. Statement of income and Retained Earnings - This is a combination of Income Statement and Statement of Retained Earnings. Income Statement summarizes business activities for a given period and reports net income or loss resulting from operations and from certain other defined activities. Statement of Retained Earnings simply reports undistrupted net income of past and current periods as a certain date with related changes appropriately shown herein. (Statement format is shown in Exhibit 11).

A unique feature in the Income Statement is the information pertaining to Trust Fund Income during the year.

F. Statement of Cash Flows - This Statement shows how the activities of the Company were financed and, how and/or where the financial resources were utilized during the reporting period.

G. Notes to Financial Statements - The Notes discusses significant accounting policies and changes in said policies, unusual or ubsequent events that would be better understood with explanation, methods of valuation, financial arrangements, existence and amounts of dividends in arrears, etc.

H. Related Schedules.-In addition to the schedule showing trust fund operations for the year, the following schedules enumerated in Part IV (e) of the RSA Rule 48-1: Rules and Regulations Covering Form and Content of Financial Statements shall apply.

1. Schedule A - Marketable Securities - (Current Marketable Equity Securities and Other Short- Term Cash investment)

2. Schedule B - Amounts Receivables from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Affiliates)

3. Schedule C - Non-Current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments

4. Schedule D - Indebtedness of Unconsolidated Subsidiaries and Affiliates.

5. Schedule E - Property and Equipment

6. Schedule F - Accumulated Depreciation

7. Schedule G - Intangible Assets and Other Assets

8. Schedule H - Long-Term Debt

9. Schedule I - Indebtedness to Affiliates and Related Parties

10. Schedule J - Guarantees of Securities and Related Parties

11. Schedule K - Capital Stock

PART II - CHART OF ACCOUNTS, BRIEF DESCRIPTION, AND THEIR FINANCIAL STATEMENTS PRESENTATION

A. These Rules supplement the definition and description of terms provided in RSA Rule 48-1: Rules and Regulation Covering Form and content of Financial Statements, particularly:

1. Part I (b): Definition of Terms Used

2. Part IV (b) (1) - (32): Balance Sheet -Form of Statement

3. To certain applicable extent, Part IV (c) (1) - (15): Statements of Income and Retained Earnings - Form of Statement

b. These Rules also supplement Section 1 of the New Rules on the Registration and Sale of Pre-Need Plans and Similar Contracts and Investments.

c. it is emphasized, however, that Accounts described herein are the ones most commonly observed in the books of pre-need companies.

A. Balance Sheet Accounts

1. **Current Assets**

   a. Cash on Hand and in Banks - The caption "cash" or "cash on hand or in banks" includes currency or cash items on hand (such as cash items awaiting deposit and cash working funds) as well as peso or foreign currency deposit in banks which are unrestricted and immediately available for use in current operations. Foreign currency deposits shall be recorded at their respective foreign currency amounts and at their local currency equivalent at the applicable rate of exchange on transaction date. Notes to financial statements shall include disclosure of the amount of foreign currency in US$ equivalent and peso equivalent at both historical or booking rate and at the applicable exchange rate at report date.

   b. Short-Term Investments - sometimes called Marketable Securities - This account should include only those securities which are readily marketable (i.e. such items which represent temporary investments of funds available for current operations and are intended to meet working capital requirements. This account usually includes current marketable equity securities (e.g. common-, preferred and other capital stock for which there is an active trading market) and other short-term cash investments such as investments in bonds, commercial papers, government obligations and certificates of deposits. Redeemable preferred shares and convertible debts, however, shall be treated as debt instruments and included in bonds, mortgages, notes and other similar debt instruments.

The purpose served by the investments is the controlling factor for its proper financial statements presentation. Investments in securities that are marketable are not normally classified among current assets if these are acquired for purposes of control, affiliation or for some continuing business advantage. Securities which are readily marketable may be held for several years and still be properly classified as short-term investments if management intends to sell them for working capital purposes whenever the need arises.

Marketable equity securities shall be carried at the lower of its aggregate cost or market value, determined at balance sheet date., the amount by which aggregate cost of the portfolio exceeds market value shall be accounted for as the valuation allowance.

Other short-term investments, on the other hand, should be reported at cost adjusted for any loss on price decline of the investments. The allowance for decline in value should be disclosed.