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Accounting trends & techniques: employee benefit plans: financial statement reporting and disclosure practices

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Accounting Trends & Techniques — Employee Benefit Plans

Financial Statement Reporting and Disclosure Practices

NOTICE TO READERS

Accounting Trends & Techniques—Employee Benefit Plans is intended to provide preparers and auditors of financial statements of employee benefit plans with a compilation of illustrative financial statement disclosures based on examples provided by members of the 1997–1998 AICPA Employee Benefit Plans Committee. This edition has been updated to reflect the issuance of new accounting and auditing pronouncements specific to employee benefit plans and Department of Labor requirements through March 1, 2003. This Practice Aid has been prepared by the AICPA staff and the members of the 1997–1998 AICPA Employee Benefit Plans Committee and the 2002–2003 Employee Benefit Plans Audit Guide Revision Task Force. It has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA. Therefore, the contents of this publication have no official or authoritative status.

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American Institute of Certified Public Accountants

Accounting Trends & Techniques — Employee Benefit Plans

Financial Statement Reporting and Disclosure Practices

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Introduction

This publication provides illustrative disclosures for financial statements of employee benefit plans. It has been issued by the Accounting and Auditing Publications group of the American Institute of Certified Public Accountants and is intended to provide practitioners with nonauthoritative practical guidance on such disclosures.

The contents of this publication, its focus, and the way it has been presented have been shaped by the members of the 1997–1998 AICPA Employee Benefit Plans Committee recognizing the need for disclosure guidance in the area of employee benefit plans.

The examples contained herein have been taken from: (a) actual financial statements of audited pension plans, edited to protect confidentiality; (b) examples developed by the Employee Benefit Plans Committee; and (c) the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide). The company names used are fictitious. Any resemblance or similarities to real companies is entirely coincidental and beyond the intent of the staff or the committee.

This publication was originally issued as a Practice Aid titled *Financial Statement Reporting and Disclosure Practices for Employee Benefit Plans.* In 2000, it was updated for newly issued pronouncements and reissued as a second edition. This version of the document has been renamed *Accounting Trends & Techniques—Employee Benefit Plans* and has been modified by the AICPA staff to include certain changes necessary due to the issuance of authoritative pronouncements since the Practice Aid was last issued. In particular, this edition has been updated to include AICPA Statement of Position (SOP) 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans.* Further, a new chapter has been added to illustrate employee benefit plan related management letter comments.

Please note that all years have been changed to reflect the current year as 20X2 (with 20X1 as the prior year and 20X3 the succeeding year).

This publication is organized to be used as a reference tool based on disclosures for specific types of pension plans as follows:

- Chapter 1 contains illustrative disclosures specific to defined benefit pension plans.
- Chapter 2 contains illustrative disclosures specific to defined contribution pension plans.
- Chapter 3 contains illustrative disclosures specific to health and welfare benefit plans.
- Chapter 4 contains illustrative disclosures general to all types of plans, such as subsequent events, related parties, and tax status.
- Chapter 5 contains illustrative disclosures and auditor reports for limited-scope audits.

- Chapter 6 contains illustrative auditors reports for all types of pension plans.
- Chapter 7 contains illustrative Form 5500 supplemental schedules.
- Chapter 8 contains illustrative management letters and comments for all types of employee benefit plans.

This publication is not a substitute for the authoritative pronouncements. Users of this publication are urged to refer directly to applicable authoritative pronouncements when appropriate.

These disclosures are intended as guidance only and should be tailored to the specific circumstances of each engagement. Although many of the disclosures contained herein are for single employer plans, many of the disclosures also pertain to multiemployer plans and should be modified appropriately. For further guidance on financial statement disclosures, see the Guide and the AICPA's financial statement disclosure checklists: *Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans*, *Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans*, and *Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans.*

Financial Statement Reporting and Disclosures

SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans*

In April 2001 the AICPA Accounting Standards Executive Committee (AcSEC) issued SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans.* This SOP amends Chapter 4 of the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* and SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans.* This SOP:

- Specifies the presentation requirements for benefit obligations information. (Specifically, it allows information about the benefit obligations to be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to the financial statements.)
- Requires disclosure of information about retirees' relative share of the plan's estimated cost of providing postretirement benefits.
- Clarifies the measurement date for benefit obligations.
- Establishes standards of financial accounting and reporting for postemployment benefits provided by health and welfare benefit plans.
- Requires disclosure of the discount rate used for measuring the plan's obligation for postemployment benefits.
- Requires the identification of investments representing 5 percent or more of the net assets available for benefits.

This SOP is effective for financial statements for plan years beginning after December 15, 2000, with earlier application encouraged. Financial statements presented for prior plan years are required to be restated to comply with the provisions of this SOP.

Management Letter Comments

SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AICPA, *Professional Standards*, vol. 1 AU sec. 325), as amended, requires that auditors communicate deficiencies in the design and operation of the entity's control structure (referred to as "reportable conditions") that could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with management's financial statement assertions regarding existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure.

SAS No. 60 establishes two categories of reportable conditions: deficiencies in the design of the internal control structure, and deficiencies in the operation of the internal control structure. Design deficiencies relate to inadequate or absent control structure policies and procedures that could adversely affect the entity's ability to record and report financial information. A deficiency in the operation of the control structure occurs when the entity has designed appropriate control policies and procedures, but they are not being followed or they are ineffective.

Some material weaknesses may be of such a magnitude that a material error or irregularity could occur and not be detected timely by employees in performing their normal assigned functions. These reportable conditions are considered material weaknesses. Many auditors separately identify material weaknesses from other reportable conditions in their written communications, either because the client asks them to do so or because they want to emphasize the conditions; however SAS No. 60 does not require that an auditor separately identify material weaknesses in the report on reportable conditions.

SAS No. 60 also recognizes that an auditor may identify other matters during the course of the audit that would benefit management or the audit committee that are not reportable conditions. For example, the auditor may want to communicate to management suggestions for improving operational and administrative efficiencies. These matters are often communicated in writing to the client in a document known as a "management letter." These comments are often referred to as "management letter comments" (MLCs).

Chapter 8 of this publication shows illustrative MLCs that have been communicated to management on actual employee benefit plan audits to illustrate deficiencies noted and suggestions for improving operations of the plan.

The Form 5500 Series

Note: Effective February 2, 2003, the Pension and Welfare Benefits Administration (PWBA) has been renamed the Employee Benefits Security Administration (EBSA).

On February 2, 2000, the Department of Labor (DOL), Internal Revenue Service (IRS), and the Pension Benefit Guarantee Corporation (PBGC) announced the adoption of a substantially revised and improved Form 5500, Annual Return/Report of Employee Benefit Plan. The DOL is responsible for processing the Form 5500 and Form 5500-EZ. The DOL uses a computerized system for the receipt and processing of the Form 5500 that relies on computer-scannable forms and electronic filing technologies. This system, called the ERISA Filing Acceptance System (EFAST), processes the Form 5500 in two computer-scannable formats: machine print and hand print (the questions are the same, only the appearance is different). Except for those who file electronically, use of computer-scannable forms is mandatory. For more information on the Form 5500 and EFAST computerized filing system, see the DOL's EFAST Web site at http://www.efast.dol.gov and the EBSA's (formerly PWBA) home page at http://www.dol.gov/ebsa.

CHAPTER 1: Disclosures Specific to Defined Benefit Pension Plans

1. Description of Plan

Note X: Description of the Plan

The following brief description of the Retirement Income Plan for Certain Salaried Employees (the "Plan") is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

a. *General*—The Plan is a defined benefit pension plan covering certain salaried employees at divisions, plants, offices or locations designated by Red Corporation. Red Corporation's Employee Benefit Plan Committee, its Central Retirement Committee and the Plan Administrator control and manage the operation and administration of the Plan. ABC Bank serves as the trustee of the Plan and, together with several investment managers, manages a portion of the Plan's investment assets. The Plan's other investment assets consist of unallocated insurance contracts with National Insurance Company ("National"), and United Insurance Company ("United"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

b. *Pension Benefits*—Participants generally become fully vested after five years of vesting service, as defined by the Plan. There is no partial vesting of benefits. The Plan provides for normal retirement benefits upon reaching age 65 and has provisions for early retirement benefits. The Plan also provides for benefits upon meeting certain other preconditions. Upon retirement, the amount of benefits under the Plan is the highest amount determined based upon three different computations: 1) the Career Earnings Formula, 2) the Alternate Benefit Formula or 3) the Minimum Benefit Formula, as provided by the Plan. Under each benefit computation, the annual benefit is a percentage of earnings or average annual earnings multiplied or adjusted by years of credited service. Benefits are payable in the form of a joint and survivor annuity, a single life annuity or other optional forms.

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Note X: Plan Description

The following brief description of the C&H Company Pension Plan (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

1. *General.* The Plan is a defined benefit pension plan covering substantially all employees of C&H Company (Company). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. *Pension Benefits.* Employees with 5 or more years of service are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1½% of their final 5-year average annual compensation for each year of service. The Plan permits early retirement at ages 55-64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering 5 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the Company's contributions. Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement. For each employee electing a life annuity, payments will not be less than the greater of (a) the employee's accumulated contributions plus interest or (b) an annuity for five years.
3. *Death and Disability Benefits.* If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

Note X: Description of Plan

The XYZ Company Pension Plan (the "Plan") is a multiple employer plan maintained by XYZ Company and GHI Company (the "Sponsors") as a defined benefit pension plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Employees eligible to participate in the Plan are those employees of XYZ Company and GHI Company who are at least 21 years old.

The Pension Committee of XYZ Company is the Plan Administrator. Additional information concerning the Plan and its provisions can be found in the summary plan description. A copy of that document can be obtained from the Plan Administrator through XYZ Company, 1 New York Plaza, New York, NY 10021.

[*For a supplemental defined benefit pension plan that integrates with a "basic" defined benefit pension plan.*]

Note X: Description of the Plan

The following brief description of the Supplemental Retirement Plan for Non-Represented Employees of Jaba Corporation (the "Plan") is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

a. *General*—The Plan is a defined benefit pension plan intended to supplement the amount of the retirement benefits payable under Jaba Corporation's (the "Company") basic retirement plan, the Retirement Plan for Employees of Jaba Corporation ("Retirement Plan"), to employees who are not represented by a collective bargaining agreement. The Plan is administered by the company and provides for the establishment of a trust.

   Effective January 1, 20X0, a Master Trust arrangement was established for the Plan and the Retirement Plan. Use of the Master Trust permits the commingling of the Plan assets and the Retirement Plan assets for investment and administrative purposes. Although assets are commingled in the Master Trust, ABC Bank maintains supporting records for the purpose of allocating the net gain of the investment accounts to both plans.

   The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

b. *Vesting and Pension Benefits*—The Plan covers all full-time employees of Jaba Corporation, except those covered under a collective bargaining agreement. Employees become fully vested in benefits after 5 years of credited service as defined by the Plan. The Plan provides for regular retirement benefits upon reaching age 65 and has provisions for disability, early retirement, survivor and other benefits, each of which reduces the regular benefit by an amount stated in the Plan or determined by the Plan's actuary. Annual benefits at retirement are based on compensation and years of continuous service, reduced by the amount of the pension payable under the company's basic retirement plan.

. . . .

[*For a defined benefit pension plan that includes a medical-benefit component (401(h)) account.*]

Note X: Description of the Plan

The Plan includes a medical-benefit (health and welfare) component in addition to the normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the health and welfare component (401(h) account). In accordance with IRC section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health and welfare benefits for retirees and participants. Any assets transferred to the 401(h) account from the defined benefit pension plan in a qualified transfer of excess pension plan assets (and any income allocable thereto) that are not used during the plan year must be transferred out of the account to the pension plan. The related obligations for health and welfare benefits are not included in this Plan's obligations in the statement of accumulated plan benefits but are reflected as obligations in the financial statements of the health and welfare benefit plan. Plan participants do not contribute to the 401(h) account. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the Plan Sponsor.

Note X: 401(h) Account

Effective January 1, 20X0, the Plan was amended to include a medical-benefit component in addition to the normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Plan for the net assets related to the medical-benefit component (401(h) account). In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Any assets transferred to the 401(h) account from the defined benefit pension plan in a qualified transfer of excess pension plan assets (and any income allocable thereto) that are not used during the plan year must be transferred out of the account to the pension plan. The related obligations for health benefits are not included in this Plan's obligations in the statement of accumulated plan benefits but are reflected as obligations in the financial statements of the health and welfare benefit plan. Plan participants do not contribute to the 401(h) account. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the Sponsor. Certain of the Plan's net assets are restricted to fund a portion of postretirement health benefits for retirees and their beneficiaries in accordance with IRC Section 401(h).

[*The following disclosure is for when a pension plan becomes a cash balance pension plan.*]

Note X (In Part): Description of Plan

The Plan is a noncontributory cash balance plan covering substantially all employees of ABC Inc. .... Effective January 1, 20X2, a hypothetical account is maintained for each participant in which contributions are credited for the benefit of the individual. Participants who were actively employed on December 31, 20X1 were credited with a lump-sum opening balance equivalent to the present value of accrued pension benefit under the Plan's prior benefit provisions. For participants who were a least age 35 and had 10 or more years of service, transitional contributions ranging from 4% to 10% based on age and years of service, will be made for up to 10 years.

....

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Description of the Plan

The following description of the Candlestick Union and Industry International Pension Plan (the Plan) provides only general information. Participants should refer to the Trust Agreement and Summary Plan Description and Rules and Regulations for a more complete description of the Plan's provisions.

A. General

The Plan is a multiemployer collectively bargained defined benefit pension plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan operates as a trust to provide retirement benefits to retirees who, during active employment, were covered employees of participating employers under collectively bargained agreements with various local unions of the Candlestick, Wax Workers, and Wick Makers International Union.

B. Administration of the Trust

The administration of the Trust is the responsibility of the Plan's Board of Trustees comprised of Union Trustees and Employer Trustees. The investments of the Fund are managed by ten investment advisors. ABC Deposit and Trust Company serves as the custodian of the Plan's investments.

C. Pension Benefits

Generally, participants with five or more years of vested service are entitled to annual pension benefits beginning at age 65. The Plan permits early retirement at ages 55 through 64. The pension benefit amount varies depending on the benefit level in the Collective Bargaining Agreement when employment is terminated, earned pension credits, retirement age and certain participant elections.

Participants will generally receive benefits under one of several husband and wife options, which guarantee payment of benefits during the lives of both the participant and the participant's spouse, unless the participant, with spousal consent, elects the single life option. Alternatively, a participant may elect other options whereby pension payments are guaranteed for a certain period from the effective date of the pension and if the pensioner dies prior to the end of the period, his or her beneficiary receives the remaining payments.

D. Disability Benefits

Participants who become totally and permanently disabled, have at least 10 years of pension credit, and have been disabled for six months, receive disability pension benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled.

2. Summary of Significant Accounting Policies

Note X (In Part): Summary of Significant Accounting Policies

c. *Accumulated Plan Benefits*—Accumulated plan benefits are those future benefit payments attributable under the Plan's provisions to service that employees have rendered. The actuarial present value of accumulated plan benefits has been determined by an independent actuary, and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the benefit information date and the expected payment dates. The effect of Plan amendments on accumulated plan benefits is recognized during the year in which such amendments become effective.

The significant actuarial assumptions used in determining accumulated plan benefits as of December 31, 20X2 are as follows:

Investment Return:	8.0%, compounded annually
Mortality:	The UP-1984 Mortality Table, Modified for actual experience
Retirement:	Average retirement age—61.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Note X: Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the Plan:

1. *Basis of Accounting*. The accompanying financial statements are prepared on the accrual basis of accounting.

2. *Use of Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.
3. *Investment Valuation and Income Recognition.* If available, quoted market prices are used to value investments.

   The amounts shown in Note E for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that fair market value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. The fair value of real estate investments, principally rental property subject to long-term leases has been estimated on the basis of future rental receipts and estimated residual values discounted at interest rates commensurate with the risks involved. The fair value of the Plan's interest in the C&H Master Trust (Master Trust) is based on the beginning of year value of the Plan's interest in the trust plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses (Note F). Quoted market prices are used to value investments in the Master Trust. The Plan's investment contract with the National Insurance Company (National) (Note G) is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Funds under the investment contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the Plan's assets.

   Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.
4. *Actuarial Present Value of Accumulated Plan Benefits.* Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their

last five years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances—retirement, death, disability, and termination of employment are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from Plan assets are excluded from accumulated Plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 20X2 and 20X1 were (a) life expectancy of participants (the 1991 Group Annuity Mortality Table was used), (b) retirement age assumptions (the assumed average retirement age was 60), and (c) investment return. The 20X2 and 20X1 valuations included assumed average rates of return of 7% and 6.25%, respectively, including a reduction of .2% to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

5. *Payment of Benefits.* Benefit payments to participants are recorded upon distribution.

....

Note X (In Part): Summary of Significant Accounting Policies

(d) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of Plan assets and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

....

Note X (In Part): Summary of Significant Accounting Policies

Net Appreciation (Depreciation) in Fair Value of Investments

Net realized and unrealized appreciation (depreciation) is recorded in the accompanying financial statements as net appreciation (depreciation) in fair value of investments.

....

[*The following disclosure is for when a pension plan becomes a cash balance pension plan.*]

Note X (In Part): Summary of Significant Accounting Policies

Actuarial Present Value of Accumulated Plan Benefits

…Through December 31, 20X1, benefits under the plan were based on employee's years of credited service and the final average annual salary for a three consecutive year period which results in the highest average within the last ten plan years preceding the employee's retirement or termination of service. Effective January 1, 20X2, benefits under the Plan are based on the participant's hypothetical account balance.

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X (In Part): Summary of Significant Accounting Policies

H. Allocation of Administration Expenses

Certain expenses incurred for the benefit of both the Fund and the Candlestick Union and Industry Benefits Fund (the Benefits Fund) are allocated to the respective funds based upon various factors:

- Rental and related expenses are allocated based upon the square footage of office space devoted to each Fund
- Payroll processing expenses are based on the number of employees of each Fund.
- Administrative services, accounting, records processing and electronic data processing expenses are allocated 60% to the Fund and 40% to the Benefits Fund based on management's estimation of utilization.
- Certain administrative expenses incurred by the Fund for the processing of medical/death benefits to retirees are allocated to the Benefits Fund, based on management's determination of the expenses which relate to the processing of those benefits.

I. Employers' Withdrawal Liability

The Fund complies with provisions of the Multiemployer Pension Plan Amendments Act of 1980 that require imposition of "Withdrawal Liability" on a contributing employer that partially or totally withdraws from the Fund. The Trustees adopted the first alternative method set forth in ERISA Section 4211(c)(2), to allocate potential employers' liabilities. Basically, a portion of the Fund's actuarially determined unfunded vested liability is allocated to a withdrawing employer in proportion to the employer's contributions in the ten years before withdrawal compared to total employers' contributions during the same period.

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Termination Priorities

Benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC). In the event that the Plan terminates, the net assets of the Plan shall be allocated among the participants and beneficiaries in accordance with the priorities mandated by ERISA. Whether a particular participant's accumulated plan benefits will be paid depends on both the priority of those benefits and the level of benefits guaranteed by the PBGC at that time. Some benefits may be fully or partially provided for by the then existing assets and the PBGC guaranty, while other benefits may not be provided for at all.

A full description of the defined benefit plan termination priorities is available in the Summary Plan Description and Rules and Regulations.

3. Investments

Note X: Investments

During 20X2 and 20X1, the Plan's investments appreciated (depreciated) in fair value by $4,206,708 and $(449,844), respectively, as follows:

	Net Appreciation (Depreciation) in Fair Value	
	20X2	*20X1*
Collective investment trusts	$ 0	$(434,382)
Equity securities	3,880,090	152,126
Mutual funds	326,618	(167,588)
	$4,206,708	$(449,844)

Note X: Investments

The fair market values of individual assets that represent 5% or more of the Plan's net assets as of December 14, 20X2 and 20X1 are as follows:

	20X2
ABC Bank money market, variable rate—4.87% as of December 14, 20X2	$2,438,340
National Life Insurance Company, group annuity contract No. 6455739, variable rate—5.5% as of December 14, 20X2	242,718
National Life Insurance Company, group annuity contract No. 6455744, variable rate—5.5% as of December 14, 20X2	933,536

	20X1
Cash surrender value of Prosperity Life Insurance Policy	$ 946,908
National Life Insurance Company, group annuity contract No. 6455739, variable rate—5.25% as of December 14, 20X1	230,388
National Life Insurance Company, group annuity contract No. 6455744, variable rate—5.25% as of December 14, 20X1	886,510

[*The following disclosure is from a multiple employer plan.*]

Note X: Investments

The Plan's investment in a Commingled Trust Liquid Reserve Fund, which had a cost and fair value of $4,887,386, was the only investment held by the Plan that exceeded 5% of the Plan's net assets at March 31, 20X2.

The Plan's investment in the 9.25% United States Treasury notes due May 15, 20X5, which had a cost of $4,641,446 and a fair value of $4,537,974, was the only investment held by the Plan that exceeded 5% of the Plan's net assets at March 31, 20X2.

During the years ended March 31, 20X2 and 20X1, the Plan had net appreciation (depreciation) (including gains and losses on investments bought and sold, as well as held during the year) in the fair value of investments as follows:

	20X2	*20X1*
United States Government and agency securities	$ 358,124	$ (48,452)
Municipal bonds	7,158	16,758
Corporate bonds	29,600	(56,760)
Convertible bonds	94,872	61,682
Foreign bonds	(240,488)	(136,126)
Asset-backed securities	(21,158)	3,984
Mortgage-backed securities	131,482	62,970
Common stocks	11,489,778	4,452,674
Preferred stocks	38,652	50,478
Mutual funds	119,590	0
Totals	$12,007,610	$ 4,407,208

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Investments

Investments held at December 31, 20X2 and 20X1 are summarized as follows:

	20X2	*20X1*
Fair value determined by quoted market prices		
Short-term investments	$ 293,749,835	$ 376,342,476
U.S. government securities	302,667,460	588,109,934
Corporate bonds	607,054,024	458,279,500
Other bonds	103,600,826	207,955,409
Bond index fund	374,448,756	546,914,778
Stocks	2,252,828,064	2,271,647,515
Equity mutual funds	546,808,188	486,677,649
Estimated fair value		
Real estate investment trusts	322,088,945	296,087,740
Mortgages	—	578
Private equity holdings	42,225,925	27,038,205
Guaranteed insurance contracts	351,673,350	306,275,730
	$5,197,145,373	$5,565,329,514

The fair values of investments that individually represent 5% or more of the Fund's net assets available for benefits at December 31, 20X2 and 20X1 are as follows:

	20X2	*20X1*
U.S. Debt Bond Index Fund	$ 372,448,756	$ 546,914,778
Longview Collective Investment Fund	297,951,316	223,200,898
Guaranteed insurance contract	351,673,350	306,275,730
	$1,022,073,422	$1,076,391,406

During 20X2 and 20X1, the Fund's investments (including investments bought, sold and held during the year) appreciated (depreciated) in value as follows:

U.S. government securities	$ 7,973,265	$ 31,832,147
Corporate bonds	54,045	(5,167,688)
Other bonds	(12,350,719)	12,192,326
Bond index fund	45,228,879	62,386,171
Stocks	(232,968,190)	(46,738,844)
Equity mutual funds	(89,873,376)	(52,619,285)
Real estate investment trusts	18,829,680	22,368,868
Guaranteed insurance contracts	23,966,295	6,275,730
	$(239,140,121)	$ 30,529,425

4. Contracts With Insurance Companies

Note X (In Part): Summary of Significant Accounting Policies

b. *Investments*—Plan assets are invested in an annuity guaranteed deposit contract, an international stock separate account, a fixed-income separate account, an intermediate-term income account, a Prosperity Investments Capital Growth Account, a Fiduciary International Equity Account, an Industrial Income Account and a short-term separate account with National Insurance Company. Investments, excluding the guaranteed deposit contracts, are valued at fair value as measured by the quoted market price on the last day of the plan year. Guaranteed deposit contract assets are maintained in the general investment fund, which is stated at contract value, which represents cost, plus interest income, less distributions for benefits and administrative expenses to date.

The Plan's annuity guaranteed deposit contract was entered into prior to March 20, 1992. Such contract is permitted to be carried at contract value.

5. Interest in Master Trusts

Note X: Interest in C&H Master Trust

A portion of the Plan's investments are in the Master Trust which was established for the investment of assets of the Plan and several other C&H Company sponsored retirement plans. Each participating retirement plan has an undivided interest in the Master Trust. The assets of the Master Trust are held by GLC Trust Company (Trustee). At December 31, 20X2 and 20X1, the Plan's interest in the net assets of the Master Trust was approximately 9% and 11%, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based upon average monthly balances invested by each plan.

The following table presents the fair values of investments for the Master Trust.

	December 31,	
	20X2	*20X1*
Investments at fair value:		
Common stocks	$11,900,000	$ 8,800,000
Corporate bonds	11,800,000	6,700,000
U.S. government securities	867,000	750,000
	$24,567,000	$16,250,000

Investment income for the Master Trust is as follows:

	Year Ended December 31, 20X2	20X1
Investment Income:		
Net appreciation in fair value of investments:		
Common stocks	$ 300,000	$ 200,000
Corporate bonds	200,000	200,000
U.S. government securities	300,000	200,000
	800,000	600,000
Interest	400,000	300,000
Dividends	230,000	300,000
	$1,430,000	$1,200,000

Note X: Investment in Combined Trust Fund

The plan's investment assets are held in a trust account at ABC Bank and consist of an interest in an investment account of the Combined Trust Fund, a master trust established by XYZ Company and administered by ABC Bank. Use of the Combined Trust Fund permits the commingling of the trust assets of a number of pension plans of XYZ Company and its subsidiaries for investment and administrative purposes. Although assets are commingled in the Combined Trust Fund, ABC Bank maintains supporting records for the purpose of allocating the net gain of the investment accounts to the various participating trusts.

The investment accounts of the Combined Trust Fund are valued at estimated fair value at the end of each month. The net gain of the accounts for each month is allocated by the trustee to each participating trust based on the relationship of the interest of each trust to the total of the interests of all participating trusts.

The Combined Trust Fund is composed of three investment accounts: the Balanced Investment Account, which invests principally in equity and fixed-income securities and temporary investments; the Fixed-Income Investment Account, which invests in fixed-income securities; and the Guaranteed Investment Account, which invests in insurance contracts. The Plan has no interest in the Fixed-Income, or Guaranteed Investment Account.

The investment accounts of the Combined Trust Fund at December 31, 20X2 and 20X1 are summarized as follows (in millions):

	20X2	*20X1*
Balanced Investment Account	$15,798.2	$15,062.2
Fixed-Income Investment Account	45.4	54.8
Guaranteed Investment Account	11.4	17.0
Net Assets	$15,855.0	$15,134.0

The Combined Trust Fund's investments are valued at estimated fair value. If available, quoted market prices are used to value investments. In instances wherein quoted market prices are not available, the fair value of investments is estimated primarily by independent investment brokerage firms and insurance companies.

The net assets of the Combined Trust Fund at December 31, 20X2 and 20X1 are summarized as follows (in millions):

	20X2	*20X1*
Equity Investments	$10,206.8	$ 8,368.8
Fixed-Income Investments	4,604.0	5,239.0
Temporary Investments	1,025.6	1,454.0
Other Assets—net	18.6	72.2
Net Assets	$15,855.0	$15,134.0

The net investment income of the Combined Trust Fund for the years ended December 31, 20X2 and 20X1 is summarized as follows (in millions):

	20X2	*20X1*
Interest	$ 354.8	$ 439.6
Dividends	201.0	181.2
Net appreciation in fair value of investments	1,069.4	430.8
Net investment income	$1,625.2	$1,051.6

The Plan's interest in the total Combined Trust Fund as a percentage of net assets of the Combined Trust Fund was approximately 8.5% and 9.3% at December 31, 20X2 and 20X1, respectively.

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6. Plan Amendments

Note X: Subsequent Event

The plan was amended on April 1, 20X2 to increase the retirement benefit unit by $1 for all retirees, and terminated and active participants, effective for all retirements after May 31, 20X2. Using the assumptions used to measure the accumulated plan benefits at December 31, 20X1, the amendment will increase the actuarial present value of accumulated plan benefits by $5,236,000 of which $2,262,000 relates to vested benefits of plan participants currently receiving benefits, $365,000 relates to vested benefits of other plan participants, and $2,609,000 relates to nonvested benefits.

• •

Note X: Changes in the Plan

The Plan was not amended during 20X2.

Effective January 15, 20X1, the Plan was amended to provide full credited service for all layoff time accumulated through February 1, 20X1 for all employees on the Plan's seniority list.

During 20X1, the Plan was amended to increase the benefit unit per year of credited service for all retirements after February 1, 20X1, as follows:

	Benefit Unit Increased	
Effective Date	*From*	*To*
February 1, 20X1	$24.00	$25.00
January 1, 20X2	25.00	26.00
January 1, 20X3	26.00	27.00

For participants who retire after February 1, 20X1, with 25 or more years of credited service, the Plan was amended to increase the monthly early retirement supplement benefit prior to age 62 from $450 to $550 per month.

For participants who retire after January 1, 20X0 with 30 or more years of credited service, the Plan was amended to increase the total monthly early retirement benefit payable prior to age 62 to the following amounts:

Effective Date	*Total Monthly Benefit*
February 1, 20X1	$1,400
January 1, 20X2	1,500
January 1, 20X3	1,600

The Plan's actuary estimates that amendments becoming effective subsequent to December 31, 20X1 will increase accumulated plan benefits by approximately $655,850.

Note X: Changes in the Plan

Effective January 1, 20X2, a subsidiary part of the Plan, formerly known as the Retirement Income Plan for Certain Salaried Employees, was amended to include employees of the Toledo, Ohio Plant and to count vesting service for service before January 1, 20X2 and credited service beginning on that date.

Effective January 1, 20X2, a subsidiary part of the Plan, formerly known as the Retirement Plan for Represented Hourly-Rated Employees of the Altoona, Pennsylvania Plant, was amended to increase the benefit unit per year of credited service for employees who elect to waive participation in the Altoona Savings Plan and to establish a lump-sum retirement bonus in the year of retirement for participants retiring on or after January 1, 20X2, as follows:

Effective Date	*Benefit Unit From*	*Benefit Unit To*	*Retirement Bonus*
January 1, 20X2	$15.00	$15.50	$1,500
January 1, 20X3	15.50	16.00	2,000
January 1, 20X4	16.00	16.25	2,000
January 1, 20X5	16.25	16.50	2,000

Effective as of October 1, 20X1, a subsidiary part of the Plan, formerly known as the Hourly-Rated Employees Pension Plan-Union, was amended, for employment at the Hoboken and Hempstead plants, to increase the monthly benefit unit per year of credited service and the 30 and out provision for those employees retiring after October 1, 20X2 from $25 to $30 and from $1,550 and $1,950, respectively. In addition, the Plan was amended to include, for certain employees, credited service under the Plan for those periods previously not credit because of layoff from the active payroll.

The same subsidiary part of the Plan was also amended for retirements occurring on or after October 1, 20X2, to establish interim monthly supplement amounts for early retirements by participants with less than 30 years of credited service and temporary benefits payable until the earlier of age 61 and one month or payment of Social Security Disability Benefits. The monthly benefit per year of credited service used to calculate temporary benefits is $34, limited to a maximum of 30 years or a maximum monthly amount of $1,000.

Effective August 31, 20X1, the Plan was amended to approve the merger of 32 retirement plans of Starfish Company, Inc. and its affiliates into the Plan (see Note X.b.).

Effective August 1, 20X1, the name of the Plan was changed from the "Retirement Plan for Eligible Employees on the Salary and Weekly Payrolls of the Acme Section A Operations, Acme Section B Operations and Acme Section C Operations" to the "Acme Retirement Plan for Eligible Employees."

Effective January 1, 20X1, the Plan was amended to include as vesting service periods of service with companies which are members of the Vortex Operations Contract and to permit payment of internal administrative and investment management expenses directly to the ongoing operations of the plan.

Effective January 1, 20X1, the Plan was amended to allow retirees from the Retirement Income Plan for Certain Salaried Employees, now a subsidiary part of the Plan, to participate in and accrue benefits as members of the Acme flexible work force.

Note X: Plan Amendment

Effective July 1, 20X2, the Plan was amended to increase future annual pension benefits from 1¼% to 1½% of final 5-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the Plan amendment, an increase in the actuarial present value of accumulated plan benefits of $ 2,410,000, was accounted for in the year ended December 31, 20X2. [The actuarial present value of accumulated plan benefits at December 31, 20X0 do not reflect the effect of that Plan amendment. The Plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 20X0 was an increase of approximately $ 1,750,000, of which approximately $ 1,300,000 represents an increase in vested benefits.]

....

[*The following disclosure is for when defined benefit pension plan is amended to implement a voluntary early retirement window.*]

Note X (In Part): Description of Plan

Effective July 27, 20X2, the Plan was amended to implement a Voluntary Early Retirement Window Policy. This amendment provided the opportunity for eligible participants to elect early retirement during the window period of July 27, 20X2 through September 10, 20X2. The early retirement benefit was equal to the unreduced accrued benefit at age 65, and the participants could opt to receive this benefit as a lump sum payment. In addition, participants who elected to retire early under this program will receive an additional $300 per month for the period from May 1, 20X2 until attainment of age 65. Benefit payments that resulted from the Voluntary Early Retirement Window Policy approximated $6.6 million.

....

Note X: Plan Amendments

Effective January 1, 20X2, the Plan was amended to provide a permanent monthly increase of $50 for all pensioners whose pension effective date was during 20X2.

Effective July 1, 20X2, if a participant dies before retirement, the surviving spouse may defer receipt of the pension until the date when the participant would have attained the age at which he or she could have received a Golden 80, Golden 90 or normal retirement age pension, provided the participant earned at least one hour of pension credit on or after July 1, 20X1 and the participant (if alive) would have been otherwise qualified to receive such a pension.

The Plan was amended effective January 1, 20X1 as follows:

1. For husband and wife pensions (the normal form of pension for a married participant) with an effective date on or after January 1, 20X1, there will be

no reduction of benefits from the amount for a single pensioner during the participant's lifetime. Benefits paid to the surviving spouse upon the death of the participants will be reduced by one half.

2. For disability pensions with an effective date on or after January 1, 20X1 participants will be paid a benefit equal to the normal pension accrued.
3. A special pension benefit increase of $25 or $50 per month will be paid to each pensioner or beneficiary in addition to their regular monthly benefits otherwise payable. The increase will apply to any pensioner, surviving spouse and beneficiary who received a monthly pension check for December 20X0 or any month during calendar year 20X1 as follows:

Pension Effective Date	*Monthly Increase*
Prior to December 31, 19XX	$50
After December 31, 19XX but before December 31, 20X0	25
After December 31, 20X0 but before December 31, 20X1	50

   This special increase is determined for the surviving spouse or beneficiaries of any deceased pensioner based on the original pension effective date, as shown above, pursuant to a husband and wife pension, the 36-month guarantee benefit or any optional form of benefit elected by the pensioner.

4. The threshold for the $25 supplements was lowered from the $600–$699 level to the $25–$699 level for those who otherwise qualify.

7. Plan Mergers and Acquisitions

Note X: Plan Merger (*mid-year*)

On June 15, 20Xl, the ABC Co. was acquired by the plan sponsor and its pension plan was merged with the XYZ pension plan. At the date of the merger, the ABC plan's accumulated plan benefits and net assets available for benefits were as follows:

Actuarial present value of vested benefits	
Participants currently receiving benefits	$ 3,040,000
Other participants	8,120,000
	$11,160,000
Actuarial present value of nonvested benefits	2,720,000
Actuarial present value of accumulated plan benefits	$13,880,000
Net assets available for benefits (cash)	18,012,000
Excess of assets not available for benefits over actuarial present value of accumulated plan benefits	$ 4,132,000

Note X: Plan Merger (*year-end*)

On December 31, 20X1, the ABC subsidiary pension plan was merged into this plan. On the date of the merger, the ABC plan's accumulated plan benefits and net assets available for benefits were as follows:

[*Present full statement of accumulated plan benefits and net assets available for plan benefits for ABC at December 31, 20X1.*]

....

Note X (In Part): Description of Plan

b. *Plan Merger*—Effective August 31, 20X1, the Plan merged with the following eight qualified U.S. defined benefit pension plans:
   - Retirement Income Plan for Certain Salaried Employees
   - Salaried Employees' Retirement Plan—Acme A Operations
   - Pension Plan for Salaried Employees of Acme Corporation
   - Pension Plan for Represented Hourly Employees of Acme Corporation
   - Pension Plan for Hourly Employees of Acme Corporation
   - Acme D Operations Contract Retirement Plan for Eligible Employees of Acme Corporation
   - Beta Company Off-Site Retirement Plan
   - Beta International Service Company Retirement Plan for Operations and Maintenance Employees

   The eight Acme Company pension plans listed above had aggregate plan net assets of $7.2 billion at August 31, 20X1, and an aggregate present value of accumulated plan benefits, at December 31, 20X0 of $6.6 billion (computed in accordance with Financial Accounting Standards Board Statement No. 35—see Footnote 2c). This merger does not impact participant pension benefits as the benefit provisions of the merged plans are incorporated into the Plan.

....

Note X (In Part): Description of Plan

c. *Plan Merger*—Effective August 31, 20X1, Acme Company merged 33 of its qualified U.S. defined benefit pension plans (including the Plan) into one pension plan, the Acme Retirement Plan for Eligible Employees. This merger will not impact participant pension benefits as the benefit provisions of these plans will be incorporated into the merged pension plan. Acme management believes that the Plan merger was a tax-exempt transaction under the applicable provisions of the Internal Revenue Code and, therefore, is not subject to federal income taxes.

....

Note X: Subsequent Events—Merger of Pension Plan

On July 6, 20X2 the Swordfish Company's Board of Directors approved the merger, effective August 31, 20X2, of Swordfish Company's 33 qualified U.S. defined benefit pension plans (including the plan) into one pension plan, the Swordfish Company Retirement Plan for Eligible Employees. This merger will not impact participant pension benefits as the benefit provisions of these plans will be incorporated into the merged pension plan. Swordfish Company management expects the merged pension plan to have net assets in excess of actuarially determined accrued liabilities and to be qualified under the Internal Revenue Code.

....

Note X (In Part): Description of Plan

c. *Plan Merger*—Effective December 31, 20X2, the Plan was merged with the Group Employees' Retirement Plan—Operations. The net assets of the Plan were transferred to the Group Employees' Retirement Plan—Operations on December 31, 20X2. Accordingly, all benefits earned under the Plan and contributions due to the Plan prior to December 31, 20X2 will be payable or receivable in accordance with the Plan out of or into the Group Employees Retirement Plan—Operations. The management of the Company believes that the Plan merger was a tax-exempt transaction under the applicable provisions of the Internal Revenue Code and, therefore, is not subject to federal income taxes.

....

Note X: Subsequent Events

Following the close of business on January 31, 20X3, ABC Corporation (the Company), the holding company for the Association, acquired DEF Company, (DEF) with DEF ultimately merging with and into the Association.

Pursuant to the acquisition agreement, the Company and the Association agreed to amend the Plan so as to provide, at their option, either (i) credit, for benefit accrual purposes, for each employee of DEF who will remain in the employ of the Association following the acquisition, to the extent that such service would have been recognized for similar purposes under DEF's defined benefit plan (the DEF Plan), as in effect immediately prior to the acquisition, and to provide an offset to the accrued benefits provided under the DEF Plan through the date of the acquisition or (ii) benefits for each employee of DEF who will remain in the employ of the Association following the acquisition which will equal the sum of the accrued benefits provided under the DEF Plan through the date of the acquisition and such employee's accrued benefits under the benefit formula set forth in the Plan for the period after the acquisition.

Following the acquisition, the DEF Plan was merged into the Plan and the Plan was amended to provide credit, for benefit accrual purposes, for each participant of DEF who remained in the employ of the Association following the acquisition, to the extent that such service would have been recognized for similar purposes under the DEF Plan as in effect immediately prior to the acquisition. Former DEF Plan participants are eligible to receive a benefit using the Plan's benefit formula based on total service with the Association and DEF, not less than their accrued benefit under the DEF Plan through the date of the acquisition. As a result of a merger of the plans on April 30, 20X3, 642 additional participants became enrolled in the Plan and additional assets of $16,038,572 were acquired by the Plan from the DEF Plan. In addition, the actuarial present value of accumulated plan benefits for former DEF Plan participants as of April 30, 20X3 was $11,671,200.

....

Note X (In Part): Plan Description

The following brief description of the Brown Company Automobile Plant Pension Plan for Hourly Employees (the "Plan") is provided for general information purposes only. Participants should refer to the plan document for more complete information.

a. *General*—The Plan is a noncontributory, defined benefit plan which provides for pension and disability benefits covering substantially all of the hourly employees at the Automobile Plant of Brown Company (the "Company"). A subsidiary of Brown, Inc. ("Brown"). In January 20X2, Blue Company completed its acquisition of Brown and controls and manages the operation and administration of the Plan. As of June 1, 20X2, the Plan changed its trustee from XYZ Bank to ABC Bank. ABC Bank serves as the trustee of the Plan and, together with several investment managers, manages the Plan's investment assets. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

....

8. Plan Terminations

Note X: Plan Termination

The plan sponsor froze the accrued benefits as of February 28, 20X1 and terminated the plan as of March 31, 20X1. Therefore, the accrued benefits of each participant became nonforfeitable to the extent then funded and the net assets of the plan will be allocated, as prescribed by the terms and provisions of the plan in accordance with ERISA and its related regulations, generally, to provide the following benefits in the order indicated subject to any required approval of the Internal Revenue Service and the Pension Benefit Guaranty Corporation (PBGC):

First: Benefits attributable to employee contributions, if any, taking into account those paid out before termination.

Second: Annuity benefits former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under plan provisions in effect at any time during the five years preceding plan termination.

Third: Other vested benefits insured by the PBGC (a U.S. governmental agency) up to the applicable limitations (discussed below).

Fourth: All other vested benefits (that is, vested benefits not insured by the PBGC).

Fifth: All nonvested benefits.

Certain benefits under the plan are insured by the PBGC if the plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits and certain disability and survivors pensions. However, the PBGC does not guarantee all types of benefits under the plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the plan are guaranteed at the level in effect on the date of the plan's termination. However, there is a statutory ceiling on the amount of an individual's monthly benefit that the PBGC guarantees. For plan terminations occurring during 20X2 and 20X1, that ceiling which is adjusted periodically was $2,438 and $2,352 per month, respectively. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements, if any, attributable to plan amendments may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. The PBGC guarantees 20% of any benefit improvements that result in benefits below the ceiling each year following the effective date of the amendment. If the amount of the benefit increase below the ceiling is also less than $100, $20 of the increase (rather than 20%) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after the fifth year following the effective date of the amendment.

Note X: Plan Termination

On April 25, 20X2, the Board of Trustees expressed their intent to terminate the Plan. Benefits will continue to accrue through June 1, 20X2 and all participants will be considered to be fully vested as of January 1, 20X2. Employees will receive a lump-sum payment from the Plan once Beta Company receives IRS approval to terminate the Plan, and such employees may elect to have his/her lump-sum payment rolled over into an Individual Retirement Account (IRA) account. If an employee retires during 20X2, he or she may elect to have his/her lump-sum payment rolled over into an IRA account. A new defined contribution plan will be made available to Beta Company employees in 20X2.

Note X: Plan Termination

Benefits were accrued through June 1, 20X2, and were considered to be fully vested for all participants and no additional service was earned after June 1, 20X2. During May and June 20X2, the Plan purchased annuity contracts from National Life Insurance Company amounting to $485,242 to provide benefits to current retirees of the Plan. On August 1, 20X2, the Plan was terminated. The remaining Plan participants received a lump-sum payment from the Plan and the final distributions were made from the Plan on December 22, 20X2. Plan assets amounting to approximately $79,300 were reverted to ABC Company. On December 4, 20X2, ABC Company received Internal Revenue Service ("IRS") approval to terminate the Plan. A new defined contribution plan was made available to ABC Company employees effective July 1, 20X2.

Note X: Plan Termination

In the event the Plan is terminated, the net assets of the Plan will be allocated for payment of Plan benefits to the participants in order of priority determined in accordance with ERISA, applicable regulations thereunder and the Plan document.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation ("PBGC") if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination, subject to a statutory ceiling on the amount of an individual's monthly benefit.

Whether all participants receive their benefits, should the Plan be terminated at some future time, will depend on the sufficiency, at that time, of the Plan's net assets to provide those benefits, the priority of those benefits to be paid and the level and type of benefits guaranteed by the PBGC at that time. Some benefits may be fully or partially provided for by the then existing assets and the PBGC guaranty while other benefits may not be provided for at all.

Note X: Plan Termination

In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by ERISA and its related regulations, generally, to provide the following benefits in the order indicated:

a. Benefits attributable to employee contributions, taking into account those paid out before termination.
b. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under Plan provisions in effect at any time during the five years preceding Plan termination.
c. Other vested benefits insured by the Pension Benefit Guaranty Corporation (PBGC) (a U.S. government agency) up to the applicable limitations (discussed below).
d. All other vested benefits (that is, vested benefits not insured by the PBGC).
e. All nonvested benefits.

Benefits to be provided via contracts under which National (Note G) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the Plan are insured by the PBGC if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling, which is adjusted periodically, on the amount of an individual's monthly benefit that the PBGC guarantees. For Plan terminations occurring during 20X3 that ceiling is $X,XXX per month. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the Plan amendment effective July 1, 20X2, (Note H) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvements would be guaranteed if the Plan were to terminate before July 1, 20X3. After that date, the PBGC would guarantee 20% of any benefit improvements that resulted in benefits below the ceiling, with an additional 20% guaranteed each year the Plan continued beyond July 1, 20X3. If the amount of the benefit increase below the ceiling is also less than $100, $20 of the increase (rather than 20%) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 20X7.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide for accumulated benefit obligations and may also depend on the financial condition of the Plan sponsor and the level of benefits guaranteed by the PBGC.

Note X: Subsequent Events

The Company has experienced a decrease in plan participants subsequent to year end, which could possibly be deemed a partial termination of the plan. The Company is currently investigating the issue to determine if partial termination has occurred. If the decrease in participants is deemed to be a partial termination, all participants would become 100% vested in their account balances.

Note X: Plan Termination

On November 15, 20X0, the trustees of the Plan elected to terminate the Plan, effective April 1, 20X1. The Company applied for and received approval for the termination from the Internal Revenue Service. All participants became fully vested in their account balances, and had the option of either receiving a distribution (less applicable penalties and taxes), transferring their balance to another qualified fund, or transferring their balance to the Company's Profit Sharing Plan. All of the Plan's assets were either distributed or transferred, as elected by each participant, by February 5, 20X2.

Note X (In Part): Description of the Plan

The Plan was terminated on January 31, 20X2. All benefit and service accruals of the Plan were frozen as of December 31, 20X1.

[*The following disclosure is for when a plan sponsor files for bankruptcy after year end and announces that the plan will be terminated.*]

Note X: Subsequent Event and Plan Termination

On June 19, 20X3, ABC Company filed for Chapter 11 bankruptcy in the Columbia District of the United States District Bankruptcy Court. All of the

Company's assets were subsequently sold to XYZ Acquisition Company on October 28, 20X2. Participants have been notified that benefits under the Plan have stopped accruing effective November 30, 20X2. ABC Company also notified participants of its intent to terminate the plan promptly.

The following is a summary of how participants' claims are being satisfied during the termination process. The plan purchased a group annuity contract during 20X3 to fulfill the Plan's obligation to retirees currently receiving benefits. In addition, terminated vested participants have been paid out by lump-sum distributions. Management is in the process of paying benefits to active participants and believes the Plan will have the necessary funds to fulfill its obligations under the Plan. The Plan will terminate upon making its final distribution.

....

[*The following disclosure is for a partial termination of a defined benefit pension plan as a result of terminating the employees of a division of the plan sponsor.*]

Note X: Partial Termination

During the year ended December 31, 20X2, the Plan Sponsor terminated the employees of the Widget Division. In aggregate the termination represented a partial termination of the Plan. As a result of this partial termination, all accumulated benefits of affected employees were fully vested as of June 15, 20X2, the date on which the employees were terminated.

....

9. Other

Note X: Funding Policy

The Company's funding policy is to make quarterly contributions to the Plan as determined by the Plan's independent actuary. No employee contributions are permitted. The Company's contributions for 20X2 and 20X1 comply with the minimum funding requirements of ERISA.

....

[*The following disclosure is for a multiple employer plan.*]

Note X: Funding Policy

The Sponsors' funding policy is to contribute funds to the trust for the Plan as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, the Sponsors may elect not to make any contribution in a particular year. The Sponsors did not make any contributions in the years ended March 31, 20X2 and 20X1. The Plan met the minimum funding requirements of ERISA as of March 31, 20X2 and 20X1.

Note X: Funding Policy

As a condition of participation, employees are required to contribute 3% of their salary to the Plan. Present employees' accumulated contributions at December 31, 20X2 and 20X1 were $2,575,000 and $2,325,000, respectively, including interest credit on an interest rate of 5% compounded annually. The Company's funding policy is to make annual contributions to the Plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5% for 20X2 [and 20X1]), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 20X3, the Company's contribution is expected to increase to approximately 6% to provide for the increase in benefits attributable to the Plan amendment effective July, 20X2 (Note H). The Company's contributions for 20X2 [and 20X1] exceeded the minimum funding requirements of ERISA.

Although it has not expressed any intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

[*The following disclosure is for a multiple employer plan.*]

Note X: Benefits

Generally, pension benefits are computed based on 1% of credited annual earnings not in excess of Social Security covered earnings plus 1.50% of credited annual earnings in excess of Social Security covered earnings, multiplied by years of credited service, subject to the minimum benefit, as defined. Participants become fully vested after five years of service.

If the total present value of a participant's retirement or deferred vested benefit is $5,000 or less, the Pension Committee, at its discretion, may direct that the benefit be paid in a lump sum.

[*The following disclosure is for a multiple employer plan.*]

Note X: Changes in Accumulated Plan Benefits

The following is a summary of the changes in the actuarial present value of accumulated plan benefits for, effectively, the years ended March 31, 20X2 and 20X1:

	20X2	*20X1*
Actuarial present value of accumulated plan benefits at beginning of year	$50,231,746	$45,056,224
Increase (decrease) attributable to:		
Benefits accumulated	3,288,218	3,649,266
Increase for interest due to the decrease in the discount period	3,799,162	3,299,508
Benefits paid	(2,466,642)	(2,164,658)
Change in interest rate assumption	—	(1,425,916)
Effect of plan amendment related to compensation limits used in determining benefits	3,042	1,817,322
Net increase	4,623,780	5,175,522
Actuarial present value of accumulated plan benefits at end of year	$54,855,526	$50,231,746

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Actuarial Present Value of Accumulated Plan Benefits

As of January 1, 20X2 and 20X1, the actuarial present value of accumulated plan benefits is as follows:

	December 31,	
	20X2	*20X1*
Vested benefits		
Participants currently receiving payments	$2,970,816,755	$2,908,273,645
Other participants	1,951,089,163	1,803,090,548
	4,921,905,918	4,711,364,193
Nonvested benefits	356,111,006	310,414,350
Total actuarial present value of accumulated plan benefits—January 1, 20X2 and 20X1	$5,278,016,924	$5,021,778,543

The changes in the actuarial present value of accumulated plan benefits from the previous benefit information date were as follows:

	December 31, 20X2	20X1
Increase (decrease) attributable to		
Plan amendments and shifts in benefit levels	$ 43,887,845	$ 45,344,754
Benefits accumulated, net experience gain or loss or changes in data	152,794,088	140,870,057
Benefits paid	(399,871,629)	(394,896,490)
Interest	369,182,948	344,867,205
Changes in actuarial assumptions	90,245,129	73,461,356
Net increase (decrease)	256,238,381	209,646,882
Total actuarial present value of accumulated plan benefits—January 1, 20X1 and 20X0	5,021,778,543	4,812,131,661
Total actuarial present value of accumulated plan benefits—January 1, 20X2 and 20X1	$5,278,016,924	$5,021,778,543

As of January 1, 20X2 and 20X1, the fund's actuarially determined Minimum Funding Standards Account exceeded the minimum funding requirements of ERISA.

Significant assumptions and methods underlying the actuarial computations are as follows:

- Actuarial Cost Method—Entry Age Normal
- Net Investment Return—7.5% on all assets
- Mortality Rates—1971 Group Annuity Mortality Table
- Employee Turnover, All Causes—Varying rates depending on age and sex
- Annual Administrative Expenses—$7,300,000 for 20X2 and $7,200,000 for 20X1
- Retirement Age—Based on retirement probability for various age ranges for active employees and inactive vested employees, including provision for retirement when age plus years of service equal 80 (Golden 80 pension) or when age plus years of service equal 90 (Golden 90 pension) under certain plans.
- Actuarial Value of Assets—Sum of actuarial value of total assets at beginning of year and increase in cost value during year excluding realized and unrealized gains or losses plus 20% of market value at end of year in excess of that sum, plus additional adjustments as necessary so that final actuarial value of assets is within 20% of their market value.

Benefits paid during the years ended December 31, 20X1 and 20X0 included bonus payments to active retirees. The bonus amounts were based on the retirees' retirement dates and aggregated approximately $42,779,000 and $76,321,000 for 20X1 and 20X0 respectively.

[*The following disclosure is for a multiemployer collectively bargained defined pension plan.*]

Note X: Fund Employee Benefits

The Plan and the Benefits Fund participate jointly in employee benefit plans as follows:

a. All employees and their families are included under the Plan's noncontributory health benefits plan. Contributions to the plan for the years ended December 31, 20X2 and 20X1 were $499,856 and $499,282, respectively.
b. Office employees are included under the Plan's noncontributory pension plan. Contributions to the Plan for the years ended December 31, 20X2 and 20X1 were $277,198 and $247,110, respectively.
c. Management and supervisory employees of the Plan and the Benefits Fund are covered by a separate, noncontributory pension plan (the Pension Plan for Salaried Employees). As of January 1, 20X2 and 20X1, the actuarially computed present value of accumulated benefits and the funded status of the Plan were as follows:

	December 31,	
	20X2	*20X1*
Vested benefits		
Participants currently receiving benefits	$ 3, 618,763	$ 3,588,967
Other vested benefits	3,469,480	4,274,735
	7.088,243	7,863,702
Nonvested benefits	138,680	183,647
Total actuarial present value of accumulated plan benefits	7,226,923	8,047,349
Fair value of plan assets	10,313,823	10,533,646
Funded status	$ 3,086,900	$ 2,486,297

Changes in the actuarial present value of accumulated plan benefits from 20X2 to 20X1 are as follows:

Plan amendments	$ 322,393
Benefits accumulated, net experience gain or loss or changes in data	407,441
Benefits paid	(433,804)
Interest	524,396
Net increase	820,426
Total actuarial present value of accumulated plan benefits at January 1, 20X1	7,226,923
Total actuarial present value of accumulated plan benefits at January 1, 20X2	8,047,349

Significant assumptions underlying the actuarial computations are as follows:

- Actuarial Cost Method—Entry Age Normal
- Net Investment Return—7.5% on all assets
- Monthly Rates—1971 Group Annuity Mortality Table (1965 RRB All Disabled Ultimate Mortality Table used for disabled lives)
- Annual Administrative Expenses—$35,000 for 20X2 and $42,000 for 20X1
- Retirement Age:
  - Employees from Active Status—Age 55 for those employees who complete 35 years of service by that age. Age 58 for those employees who complete 33 years of service by that age. Age 60 for those employees who complete 30 years by that age; otherwise age 65.
  - Employees from Inactive Vested Status—Age when age plus service sum to 80, but not earlier than age 60; otherwise age 65.
- Actuarial Value of Assets—Sum of actuarial value of total assets at beginning of year and increase in cost value during year excluding realized capital gains or losses plus 20% of market value at end of year in excess of that sum, plus additional write-up-as necessary so that final actuarial value of assets is within 20% of market value. A similar formula is used for write-down if actuarial value exceeds market value.

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Securities Lending

The Trustees of the Plan have an agreement with the custodial bank for the Plan authorizing the bank to lend securities held in the Plan account to third parties. The bank must obtain collateral from the borrower in the form of cash, letters of credit issued by an entity other than the borrower, or acceptable securities. Both the collateral and the securities loaned are marked-to-market on a daily basis so that all loaned securities are fully collateralized at all times. In the event that the loaned securities are not returned by the borrower, the bank will at its own expense either replace the loaned securities or, if unable to purchase those securities on the open market, credit the Plan account with cash equal to the fair value of the loaned securities.

The Plan and the bank each receive a percentage of the net income derived from securities lending activities based on the type of securities. Income earned during 20X2 and 20X1 was $1,363,284 and $1,133,473, respectively, net of bank fees of $569,960 and $489,944, respectively.

Although the Plan's securities lending activities are collateralized as described above, they involve both market and credit risk. In this context, market risk refers to the possibility that the borrowers of securities will be unable to collateralize the loan upon a sudden material change in the fair value of the loaned securities or the collateral. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

The fair value of securities loaned by the Plan is $138,000,000 at December 31, 20X2 and $112,000,000 at December 31, 20X1.

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Forward Exchange Contracts

The Plan has entered into forward exchange contracts for nontrading purposes in order to reduce its exposure to fluctuations in foreign currency exchange on its portfolio holdings. Forward exchange contracts are valued at the forward rate and are marked-to-market quarterly. The change in market value is recorded by the Plan as an unrealized gain or loss. When the contract is closed, the Plan records a realized gain or loss equal to the difference between the value of the contract at the time that it was opened and the value of the contract at the time that it was closed.

The use of forward exchange contracts does not eliminate fluctuations in the underlying prices of the Plan's investment securities, but it does establish a rate of exchange that can be achieved in the future. Although forward exchange contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency increase. In addition, the Plan could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts.

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Employers' Contribution Obligation Exemption

The Plan's Trustee voted to suspend each employer's obligation to contribute to the Fund in 20X2 and 20X1 for six weeks beginning July 1. The contribution obligation resumed after the respective periods of suspension.

[*The following disclosure is for a multiemployer collectively bargained defined benefit pension plan.*]

Note X: Occupancy Expense and Lease Commitment

The Plan and the Benefits Fund jointly lease office space from the International Union. Their five-year lease expired on December 31, 20X1 and they exercised their option to renew the lease for an additional five-year term. As of December 31, 20X2, the Plan's portion of the required minimum lease payments, representing 60% of the total obligation, is:

20X3	$ 455,361
20X4	469,022
20X5	483,093
20X6	497,585
	$1,905,061

Occupancy expenses, including rent and utilities, for 20X2 and 20X1 was $448,850 and $461,164, respectively, and is included in administrative expenses.

[*For a defined benefit pension plan that includes a medical-benefit component (401(h)) account.*]

Note X: Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for pension benefits per the financial statements to the Form 5500:

	December 31,	
	20X2	*20X1*
Net assets available for pension benefits per the financial statements	$40,860,000	$39,550,000
Net assets held in 401(h) account included as assets in Form 5500	3,041,000	2,789,000
Net assets available for benefits per the Form 5500	$43,901,000	$42,339,000

The net assets of the 401(h) account included in Form 5500 are not available to pay pension benefits but can be used only to pay retiree medical benefits.

The following is a reconciliation of the changes in net assets per the financial statements to the Form 5500:

	For the Year Ended December 31, 20X2		
	Amounts per Financial Statements	*401(h) Account*	*Amounts per Form 5500*
Net appreciation in fair value of investments	$ 430,000	$35,000	$ 465,000
Interest income	221,000	71,200	292,200
Employer contributions	679,000	50,000	729,000
Benefits paid to retirees	1,100,000	37,000	1,137,000
Administrative expenses	60,000	5,000	65,000

....

[*For a defined benefit pension plan that includes a medical-benefit component (401(h)) account.*]

Note X: Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for pension benefits per the financial statements to the Form 5500:

	December 31, 20X2	December 31, 20X1
Net assets available for pension benefits per the financial statements	$7,940,000	$7,180,000
Net assets held in 401(h) account included as assets in Form 5500	1,072,000	966,000
Net assets available for benefits per the Form 5500	$9,012,000	$8,146,000

The net assets of the 401(h) account included in Form 5500 are not available to pay pension benefits but can be used only to pay retiree health benefits.

The following is a reconciliation of the changes in net assets per the financial statements to the Form 5500:

	For the Year Ended December 31, 20X2		
	Amounts per Financial Statements	*401(h) Account*	*Amounts per Form 5500*
Net appreciation in fair value of investments	$233,000	$ 10,800	$243,800
Interest income	293,000	80,200	373,200
Employer contributions	740,000	40,000	780,000
Benefits paid to retirees	740,000	10,000	750,000
Administrative expenses	50,000	15,000	65,000

....

CHAPTER 2: Disclosures Specific to Defined Contribution Pension Plans

1. Description of Plan

Note X: Description of Plan

The following description of the Blue Company, Inc. Cash or Deferred Retirement Plan for Represented Employees (the "Plan") provides only general information. For a more complete description of the Plan's provisions, refer to the agreement governing the Plan (the "Plan Agreement").

General

The Plan was established as a result of a collective bargaining agreement (CBA) between Blue Company, Inc. ("Blue") and the Group Union (the GU) and replaces the benefits provided by the Group Council Cash or Deferred Plan ("Prior Plan"). The Plan was established on May 15, 20X1, and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. The Plan was adopted under the provisions of Section 401(a) of the Internal Revenue Code (the "Code") with a cash or deferred arrangement qualified under Section 401(k) of the Code. Pursuant to the requirements of Section 401(a)27 of the Code, the Plan is also a profit sharing plan. The Plan is a defined contribution plan that covers all active employees of Blue who are represented by a collective bargaining agreement.

The Plan accepted assets of $8,006,358 from the Prior Plan. The assets accepted were attributable to employees who participated in the Prior Plan and were transferred to the Plan on October 1, 20X1. Participants began contributing to the Plan in September 20X1.

The Plan is administered by Blue and advised by a committee whose members are appointed by the Board of Directors of Blue (the "Administration Committee"). The assets of the Plan are held and invested by ABC Bank ("the Trustee").

Tax Status of the Plan

Blue has filed for a determination letter from the Internal Revenue Service regarding the Plan's qualification under Section 401(a) and the related trust's tax-exempt status under provisions of Section 501(a) of the Code. The Administration Committee believes that the Plan is currently designed and is being operated in compliance with the applicable requirements of the Code. The Administration Committee will make any changes deemed necessary to ensure that the Plan is granted tax-exempt status.

Amendment and Termination of the Plan Agreement

The Plan Agreement may be amended or terminated by Blue at any time unless such amendment violates the CBA. No such termination is contemplated, but if it should occur, the assets of the Plan shall be used to pay or provide for the payment of any and all obligations hereunder in accordance with the provisions of the Plan and the directions of the Administration Committee. No portion of the assets of the Plan, directly or indirectly, shall revert to or accrue to the benefit of Blue. In addition, in the event of the termination or partial termination of the Plan, all participants shall have a fully vested interest in all accrued benefits.

Participation

Eligibility in the Plan includes all employees who were participants in the Prior Plan on May 15, 20X1. Any other represented employee of Blue may become a participant immediately after his/her employment date.

Contributions and Blue Matching

Contributions to the Plan include (i) salary reduction contributions authorized by participants, (ii) matching contributions made by Blue, (iii) nonelective contributions made by Blue, and (iv) rollovers from new participants in another qualified plan.

Each participant may authorize Blue to contribute into the Plan on a pre-tax basis up to 15% of their annual salary. The contribution is subject to a maximum of $9,500 for 20X2 and 20X1.

Participants must be employed on the last day of the plan year, complete 1,000 hours of service during the plan year, and be represented by the GU to receive matching contributions. Blue matching contributions are in the form of Blue stock calculated at $.50 for each dollar contributed by the participant, up to a maximum of 5% of the participant's compensation that is elected to be deferred as a salary reduction contribution. Forfeitures are used to reduce matching contributions.

No nonelective contributions by Blue were made in 20X2 or 20X1.

Vesting

If the participant terminates employment prior to normal or early retirement age (65 or 55) for any reasons other than death or permanent disability, the portion of the matching contribution that is vested is as follows:

Years of Service	*Vesting Percentage*
Less than 5 years	0%
5 years or more	100%

Participants are fully vested at all times in all other contributions.

Participants' Accounts/Benefits

Individual accounts are maintained for each plan participant to reflect the participant's contributions and related matching contribution. Income and loss is allocated to the participants' accounts based on the ratio of the account balance of the individual participant to the aggregate of all account balances of all participants in the fund within the Plan. Participants withdrawing from the Plan receive their balance by (i) a transfer to another qualified plan, (ii) a transfer to an individual retirement account, or (iii) a lump-sum distribution which is subject to a 20% income tax withholding.

Loans

The Plan Agreement specifies that in the event the Administration Committee decides to permit loans, it may authorize the Trustee to make a loan to any participant, subject to certain limitations stipulated in the Plan Agreement. As of December 31, 20X2 and 20X1, the Administration Committee had not elected to grant loans to participants.

Note X: Description of Plan

The following brief description of the Black Company 401(k) Savings Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

a. *General*—The Plan is a defined contribution savings plan established by Black Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974. Participation in the Plan is entirely voluntary. An eligible employee is any person employed by Black Company who is an employee at any of the following Black Company divisions: Charcoal, Grey, Marble, Absolute, or Night and an employee becomes eligible to participate in the Plan on the first day of the quarter immediately following hire. The Plan's Retirement Committee and plan administrator control and manage the operation and administration of the Plan. The Retirement Committee has all powers necessary to carry out the provisions of the Plan and to satisfy the requirements of any applicable law. ABC Bank is custodian and record keeper of the Plan. ABC Bank is custodian of the Plan's assets, invests all contributions and allocates to each participant account its proportionate share of the funds' investment earnings.

b. *Contributions*—An eligible employee may become a participant in the Plan by completing an enrollment form whereby the employee agrees to accept a specified reduction in salary/wage for each pay period in consideration of Black Company contributing such amount to the Plan. Participants may elect to contribute between 1% and 15% of their compensation, excluding bonuses and commissions, to the Plan each year. Such contributions are excluded from the participant's taxable income for federal income tax purposes until received as a withdrawal or distribution from the Plan. A participant may increase or decrease the amount of the salary/wage reduction on the first day of each Plan quarter.

Each month Black Company will make a matching contribution to each participant's account equal to 25% of the amount of the participant's contribution. The maximum contribution amount eligible to be matched is 5% of compensation. The Black Company matching contributions are allocated to participants' accounts on each monthly valuation date. Total participant contributions in any calendar year are limited to the applicable limit under the Internal Revenue Code Section 402(g). Such limit is $9,500 for calendar years 20X2 and 20X1. The Plan also provides that certain limitations may be imposed on participants' contributions in order to comply with statutory requirements.

The participant contributions and Black Company matching contributions may be allocated to six mutual funds as the participant directs.

c. *Investment Elections*—Each participant may direct that salary reduction contributions be invested in one or more of the six mutual funds. Allocations must be in increments of 5% of each contribution. A participant may change such allocation at any time directly with ABC Bank and may transfer all or a portion of the value of his or her account, in increments of 5%, among the six funds as often as once each calendar quarter. On each monthly valuation date, the investment earnings will be determined for each fund. A participant's share of these investment earnings for a month are determined based upon the participant's percentage of the total fund balance as of the previous monthly valuation date.

d. *Valuation*—All of a participant's salary reduction contributions are credited to his or her account. The value of each of the separate funds is determined by ABC Bank on each monthly valuation date. ABC Bank then values and increases or decreases each participant's account to reflect his or her proportionate interest in each of the funds as adjusted for fund activity since the preceding valuation date.

e. *Vesting and Distributions*—Participants' contributions are fully vested at all times. The matching contributions to each participant's account are subject to vesting requirements. The matching contributions vest according to the following schedule:

Completed Years of Service	*Percentage of Matching Contribution Vested*
Less than 2	0%
2 or more	100%

Amounts contributed through salary/wage reductions may be withdrawn by, or distributed to, a participant only upon (1) termination of employment or

(2) attaining the age of 59½. Withdrawals prior to attaining age 59½ are not permitted except in the event of retirement, disability or as a hardship distribution. Upon proof, to the satisfaction of the plan administrator, of an immediate and heavy financial need, amounts contributed may be withdrawn for a hardship purpose. Certain income tax penalties may apply to withdrawals or distributions prior to age 59½.

f. *Forfeitures*—When certain terminations of participation in the Plan occur, the nonvested portion of the participant's account, as defined by the Plan, represents a forfeiture. Forfeitures are utilized to reduce Black Company matching contributions for the plan year. However, if the participant is re-employed and fulfills certain requirements, as defined in the Plan, the participant's account will be reinstated.

g. *Termination of the Plan*—Black Company may terminate, amend, modify or suspend the Plan in whole or in part at any time. However, in any such event, the participants' rights to their accrued benefits are nonforfeitable.

Note X: Description of Plan

The following description of the XYZ Company ("Company") 401(k) Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. *General.* The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. *Contributions.* Each year, participants may contribute up to 12 percent of pretax annual compensation, as defined in the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. The matching contribution is invested in XYZ Company common stock. Additional amounts may be contributed at the option of the Company's board of directors and are invested in a portfolio of investments as directed by the Company. Contributions are subject to certain limitations.
3. *Participant Accounts.* Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and, (b) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. *Vesting.* Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching and discretionary

contribution portion of their accounts plus actual earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.

5. *Investment Options.* Upon enrollment in the Plan, a participant may direct employee contributions in 25 percent increments in any of four investment options.

   Participants may change their investment options quarterly.

6. *Participant Notes Receivable.* Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50 percent of their account balance. Loan transactions are treated as a transfer to (from) the investment fund from (to) the Participant Notes fund. Loan terms range from 1–5 years or up to 25 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined quarterly by the Plan administrator. Interest rates range from 6 percent to 10 percent. Principal and interest is paid ratably through monthly payroll deductions.
7. *Payment of Benefits.* On termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
8. *Forfeited Accounts.* At December 31, 20X2, forfeited nonvested accounts totaled $7,500. These accounts will be used to reduce future employer contributions. Also, in 20X2, employer contributions were reduced by $5,000 from forfeited nonvested accounts.

Note X: Description of Plan

The following description of the XYZ Company ("Company") Profit-Sharing Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. *General.* The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. *Contributions.* Each year, the Company contributes to the Plan 10 percent of its current profits before pension and profit-sharing costs and income taxes. Additional amounts may be contributed at the option of the Company's board of directors. Participants may contribute up to 10 percent of their

annual wages before bonuses and overtime. Contributions are subject to certain limitations.

3. *Participant Accounts.* Each participant's account is credited with the participant's contribution and an allocation of (a) the Company's contribution, (b) Plan earnings, and (c) forfeitures of terminated participants' nonvested accounts and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. *Vesting.* Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the Company contributions portion of their accounts plus earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. *Payment of Benefits.* On termination of service due to death, disability or retirement, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in either a lump-sum amount, or in annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

Note X: Plan Description and Basis of Presentation

The following brief description of the Sponsor Company Employee Stock Ownership Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan Agreement for complete information.

The Sponsor Company (Company) established the Sponsor Company Stock Ownership Plan (Plan) effective as of January 1, 20XX. As of January 1, 20XY, the Plan was amended and operates, in relevant part, as a leveraged employee stock ownership plan (ESOP), and is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is administered by an Employee Benefits Administration Committee comprising up to three persons appointed by the Sponsor Company's Board of Directors. The trust department of an independent third-party bank is the Plan's Trustee.

The Plan purchased Company common shares using the proceeds of a bank borrowing (see Note 6) guaranteed by the Company, and holds the stock in a trust established under the Plan. The borrowing is to be repaid over a period of ten years by fully deductible Company contributions to the trust fund. As the Plan makes each payment of principal, an appropriate percentage of stock will be allocated to eligible employees' accounts in accordance with applicable regulations under the Code. Shares vest fully upon allocation.

The borrowing is collateralized by the unallocated shares of stock and is guaranteed by the Company. The lender has no rights against shares once they are allocated under the ESOP. Accordingly, the financial statements of the Plan for the years 20X2 and 20X1 present separately the assets and liabilities and changes therein pertaining to:

a. the accounts of employees with vested rights in allocated stock (Allocated) and

b. stock not yet allocated to employees (Unallocated).

Eligibility

Employees of the Company and its participating subsidiaries are generally eligible to participate in the Plan after one year of service providing they worked at least 1,000 hours during such plan year. Participants who do not have at least 1,000 hours of service during such plan year or are not employed on the last working day of a plan year are generally not eligible for an allocation of Company contributions for such year.

Payment of Benefits

No distributions from the Plan will be made until a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, his or her legal representatives), or otherwise terminates employment with the Company and its participating subsidiaries. Distributions are made in cash or, if a participant elects, in the form of Company common shares plus cash for any fractional share.

Under the provisions of the Plan, the Company is obligated to repurchase participant shares which have been distributed under the terms of the Plan as long as the shares are not publicly traded or if the shares are subject to trading limitations. During 20X2, the Company repurchased from participants XXXX shares at prices determined from the independent appraisal.

Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee is not permitted to vote any allocated share for which instructions have not been given by a participant. The Trustee is required, however, to vote any unallocated shares on behalf of the collective best interest of plan participants and beneficiaries.

Termination

The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon such termination of the Plan, the interest of each participant in the trust fund will be distributed to such participant or his or her beneficiary at the time prescribed by the Plan terms and the Code. Upon termination of the Plan, the Employee Benefits Administration Committee shall direct the Trustee to pay all liabilities and expenses of the trust fund and to sell shares of financed stock held in the loan suspense account to the extent it determines such sale to be necessary in order to repay the loan.

Participant Accounts

The Plan is a defined contribution plan under which a separate individual account is established for each participant. Each participant's account is credited as of the last day of each plan year with an allocation of shares of the Company's common stock released by the Trustee from the unallocated account and forfeitures of terminated participants' nonvested accounts. Only those participants who are eligible employees of the Company as of the last day of the plan year will receive an allocation. Allocations are based on a participant's eligible compensation, relative to total eligible compensation.

Vesting

If a participant's employment with the Company ends for any reason other than retirement, permanent disability or death, he or she will vest in the balances in his or her account based on total years of service with the Company. Participants vest 20% per year of service and are 100% vested after five years of service.

Put Option

Under Federal income tax regulations, the employer stock that is held by the Plan and its participants and is not readily tradable on an established market, or is subject to trading limitations includes a put option. The put option is a right to demand that the Company buy any shares of its stock distributed to participants for which there is no market. The put price is representative of the fair market value of the stock. The Company can pay for the purchase with interest over a period of five years. The purpose of the put option is to ensure that the participant has the ability to ultimately obtain cash.

Diversification

Diversification is offered to participants close to retirement so that they may have the opportunity to move part of the value of their investment in Company stock into investments which are more diversified. Participants who are at least age 55 with at least 10 years of participation in the Plan may elect to diversify a portion of their account. Diversification is offered to each eligible participant over a six-year period. In each of the first five years, a participant may diversify up to 25% of the number of post-1986 shares allocated to his or her account, less any shares previously diversified. In the sixth year, the percentage changes to 50%. Participants who elect to diversify receive a cash distribution.

Participant Accounts and Forfeitures

Employer contributions and Plan forfeitures are allocated to each participant's account based upon the relation of the participant's compensation to total compensation for the Plan year. Forfeitures of terminated nonvested account balances allocated to remaining participants at December 31, 20X2 and 20X1 totaled XXXX and XXXX, respectively. Plan earnings are allocated to each participant's account based on the ratio of the participant's beginning of the year account balance to all participants' beginning of the year account balances.

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2. Summary of Significant Accounting Policies

Note X (In Part): Summary of Significant Accounting Policies

(d) Forfeited Accounts

In 20X2 and 20X1, forfeited nonvested accounts totaling $150,486 and $50,170, respectively were used to reduce employer contributions.

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Note X: Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the Plan are prepared under the accrual method of accounting.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Investment Valuation and Income Recognition. The Plan's investments are stated at fair value except for its investment contract which is valued at contract value (Note C). Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. The Company stock is valued at its quoted market price. Participant notes receivable are valued at cost which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits. Benefits are recorded when paid.

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Note X (In Part): Summary of Significant Accounting Policies

Investment Valuation and Income Recognition. The Plan's investments are stated at fair value except for its investment contract which is valued at contract value with an insurance company (Note D). If available, quoted market prices are used to value investments. The amounts shown in Note C for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices. Certificates of deposit are valued based on amortized cost or original cost plus accrued interest.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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Note X (In Part): Summary of Significant Accounting Policies

Investment Valuation and Income Recognition. The common shares of the Company are valued at fair value on December 31, 20X2 and 20X1. Fair value is determined by annual independent appraisals.

Dividend income is accrued on the ex-dividend date.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method.

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[*The following disclosure is for financial statements prepared on the modified cash basis of accounting.*]

Note X (In Part): Summary of Significant Accounting Policies

<u>Accounting Method</u>

The accounts of the Plan are maintained, and the accompanying financial statements have been prepared, on the modified cash basis: investment income is recognized when received, disbursements are recognized when made and contributions are accrued at year-end. Additionally, securities investments are reflected at fair value. Accordingly, the financial statements are not intended to present the net assets and changes in net assets of the Plan in conformity with generally accepted accounting principles.

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3. Investments

Note X (In Part): Summary of Significant Accounting Policies

a. *Valuation of Investments*—Investments in the Balanced, Fixed and Growth investment accounts are presented at estimated fair value. If available, quoted market prices are used to value investments. Quoted market prices are based on the last reported sales price on the last business day of the year, securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at bid quotations. In instances wherein quoted market prices are not available, securities are stated at estimated fair value as determined by independent investment brokerage firms. Investments in common trust funds ("funds") are stated at estimated fair values, which have been determined based on the unit values of the funds. Unit values are determined by the bank sponsoring such funds by dividing the fund's net assets at fair value by its units outstanding at the valuation dates. Investments in real estate are valued at estimated fair values as determined by independent appraisals. Investments in the growth limited partnerships are determined by the investment managers based on the estimated value of the various holdings of the partnership portfolio. Generally, the holdings are valued at public market, private market or appraised value.

Note X (In Part): Summary of Significant Accounting Policies

Valuation of Investments

Investments in the Money Market Investment Fund are based on historical cost, which approximates fair value. Investments in the Stock Index Fund are reported at fair value based on the quoted asset value of shares of the fund. Investments in the Common Stock Fund are stated at fair value based upon the closing sales price of Common Stock reported on recognized securities exchanges on the last business day of the year. Investments in the Long-Term Income Fund are reported at fair value based on the quoted asset value of the bond issues of the fund. Investments in Whale Company Preferred Stock, Plan Series A, are valued at the greater of the fair value of 1.5 shares of Whale Company common stock or $71 per share. The value of $71 per share is the liquidation value established in the Statement with respect to the Preferred Stock, Plan Series A, filed with the Department of State under Section 1522 of the Delaware Business Corporation Law of 1988.

Note X (In Part): Summary of Significant Accounting Policies

a. *Investments*—Investments consist of short-term common trust funds stated at estimated fair values which represent the net asset value of shares held by the plan at year-end. The investments included in the common trust funds are limited primarily to bonds, notes and other evidences of indebtedness which are payable upon demand. At September 30, 20X2 and 20X1, all investments were in the ABC Bank Temporary Investment Fund.

b. *Expenses*—The Plan's administrative expenses are paid by either the Plan or the Company, as provided by the Plan document.

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Note X (In Part): Summary of Significant Accounting Policies

a. *Valuation of Investments*—The investments of the Short-Term Fund, the Balanced Fund, the Equity Index Fund, and the Growth Fund are valued at fair market value based on quoted market prices. The investments of the Long-Term Fund are also valued at fair market based quoted market prices with the exception of private placement investments held by the Long-Term Fund. The private placement investments have been estimated by ABC Bank's Valuation Committee in the absence of readily ascertainable market values. Net appreciation of the fair value of investments consists of the unrealized appreciation or depreciation of investments held during the year and the realized gain or loss on investments sold during the year.

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Note X: Investments

The following table presents the individual investment securities that exceeded 5% of the Plan's net assets available for benefits at December 31, 20X2 and 20X1:

	December 31, 20X2		
	Number of shares	*Net value*	*Fair value*
Prosperity Trust Company Mutual Funds:			
Balanced Fund	1,706,096	34.00	29,020,694
Stock Fund	1,309,820	61.54	40,303,192
Equity Fund	798,756	42.86	17,117,360
XYZ Company Common Stock*	500,000	20.22	10,110,000
ABC Company Common Stock*	200,000	10.00	5,000,000

	Crediting interest rate	Maturity date	Contract value
Insurance company investment funds, at contract value:			
National Insurance Company Ct. No. HB-078080	6.78%	6/X4–12/X5	31,976,348
Primary Insurance Company Group Ct. No. HB-25220	5.01%–5.90%	1/X3–6/X4	20,464,236
The XYZ Insurance Company Group Pension Contract No. HB-7012-322	8.36%	6/X3	27,762,794
Short-Term Money Market Portfolio	—	—	14,365,116

	December 31, 20X1		
	Crediting interest rate	Maturity date	Contract or fair value
XYZ Company Common Stock,* 460,991 shares, 80.11 net value	—	—	36,930,000
ABC Company Common Stock,* 1,325,691 shares, 10 net value	—	—	13,256,914
Insurance company investment funds, at contract value:			
Prosperity Life Insurance Company Contract Ct. No. HB-0382	4.50%	6/X2–6/X4	22,646,544
National Insurance Company Ct. No. HB-078080	6.78%	6/X4–12/X5	29,923,544
DEF Life Insurance Company GAC No. 24318	7.00%	12/X2–12/X4	23,008,478
Primary Insurance Company Group Ct. No. HB-25220	5.01–8.00%	1/X2–6/X4	30,912,756
National Assurance Company G.A.C. No. HD-138-15800	9.10%	6/X2	26,737,662
The XYZ Insurance Company Group Pension Contract No. HB-7012-322	8.36%	6/X3	25,597,268

* Nonparticipant-directed

During 20X2, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $1,003,000 as follows:

Mutual funds	$ 900,000
Bank collective investment funds	80,000
Common stock	60,000
U.S. Government Securities	(37,000)
	$1,003,000

Note X: Investments

The following presents investments that represent 5 percent or more of the Plan's net assets.

XYZ Company common stock, 400,000 and 390,000 shares, respectively	$ 470,000*	$ 420,000*
ABC Corporation common stock, 390,000 and 380,000 shares, respectively	490,000*	450,000*
Prosperity Investments Common Stock Fund, 226,250 and 200,000 shares, respectively	2,262,500*	2,000,000*
Prosperity Investments Balanced Fund, 40,000 and 210,000 shares, respectively	1,422,000	2,100,000
Investment Contract with National Insurance Company, #2012A, matures 12/31/X5 (Note E)	1,500,000	650,000

* Nonparticipant-directed

During 20X1, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $279,000 as follows:

Mutual funds	$229,000
Common stock	30,000
Corporate bond	30,000
U.S. Government Securities	(10,000)
	$279,000

Note X: Nonparticipant-Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	December 31,	
	20X2	*20X1*
Net Assets:		
Investments:		
Common stock	$ 656,000	$ 678,000
Mutual funds	1,455,500	1,456,000
Corporate bonds	344,000	300,000
U.S. Government Securities	345,000	100,000
Employer contribution receivable	500,000	400,000
	$3,300,500	$2,934,000

	Year Ended December 31, 20X2
Changes in Net Assets:	
Employer contributions	$ 500,000
Dividends	165,000
Net appreciation	60,000
Benefits paid to participants	(280,000)
Transfers to participant-directed investments	(78,500)
	$ 366,500

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Note X: Nonparticipant-Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	December 20X2	*December 20X1*
Net Assets:		
Common stock	$ 960,000	$ 870,000
Mutual funds	2,262,500	2,000,000
Corporate bonds	307,500	255,000
U.S. Government Securities	225,000	120,000
	$3,755,000	$3,245,000

	Year Ended December 31, 20X2
Changes in Net Assets:	
Contributions	$ 699,000
Dividends	165,000
Net appreciation	60,000
Benefits paid to participants	(280,000)
Transfers to participant-directed investments	(134,000)
	$ 510,000

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[*The following disclosure relates to self-directed assets when the self-directed assets are immaterial.*]

Note X: Investments

Participant contributions and investment earnings were directed by the individual Plan Participants to nine investment choices offered under the Plan: the Moon Common Share Fund, seven mutual funds (Asset Manager, Big Stock, Retirement Government Money Market, U.S. Equity Index, Intermediate Bond, International

Growth and Income and Equity) managed by Star Investments, and Star Brokerage Link. Star Brokerage Link is a self-directed brokerage account through which Participants are able to invest in a variety of securities, including stock, bonds, mutual funds and certificates of deposit. Effective April 2, 20X2, the Moon Savings Plan began offering twelve investment choices: seven Star-managed investment options, a 500 index and growth and income mutual funds, a growth-oriented mutual fund, a self-directed brokerage account and the Moon Common Share Fund.

Investments at fair value are summarized as follows. Investments representing more than 5% of plan assets are listed separately:

	December 31,	
	20X2	*20X1*
Registered investment companies:		
Star Asset Manager	$ 5,723	$ 4,781
Star Growth	19,924	17,506
Star U.S. Equity Index	5,708	5,112
Star Equity	4,864	3,076
Other registered investment companies	4,512	3,723
Total registered investment companies	40,731	34,198
Star Brokerage Link	2,830	2,695
Moon Common Share Fund*	18,428	17,695
Participant loans receivable	1,500	1,313
Total investments	$63,489	$55,901

*Partially nonparticipant-directed.

Investments Valuation

Plan investments held by Star Brokerage Link were stated at fair value. Fair value of shares of registered investment companies represented the net asset value of such shares as of the close of business at the end of the period. Fair value of Moon common shares were based on the last quoted market price as of the close of business at period end. Fair value of the Star Brokerage Link Account assets, which consist primarily of registered investment companies, were determined using the methods stated above. Participant notes receivable were valued at cost plus accrued interest, which approximated fair value.

Net Appreciation/Depreciation

Net appreciation/depreciation by investment type is as follows:

Net depreciation in fair value of investments:	
Registered investment companies	(3,608)
Common shares of Moon	(1,695)
Star Brokerage Link	(544)
	(5,847)

Nonparticipant-Directed Investments

Information about the significant components of the changes in net assets relating to the nonparticipant-directed investments was as follows (in thousands):

		Year Ended December 31, 20X2
Moon Common Share Fund:		
Beginning of period		$14,643
Changes in net assets		
Contributions	$ 326	
Net depreciation	(1,399)	
Benefits paid to participants	(104)	
End of period		$13,466

4. Contracts With Insurance Companies

Note X: Investment Contracts

Investment contracts are presented at contract value (cost plus accrued interest) on the statement of net assets available for benefits. The fair value of the contracts are estimated to be approximately $27 million as of December 31, 20X2. The crediting interest rates at December 31, 20X2 for the contracts range from 5.15% to 8.25%, and the fair value interest rate for similar contracts was 5.10% at December 31, 20X2. The crediting interest rates are reset upon the maturity of the contracts.

Note X (In Part): Summary of Significant Accounting Policies

(b) Investment Valuation and Income Recognition

The Plan's Guaranteed Investment Accounts are fully benefit-responsive and in accordance with SOP 94-4 are recorded at contract value, which approximates fair value. Contract value represents contributions made under the contract, plus interest at a specified rate determined semi-annually by ABC Bank. The average effective yield on these accounts, which equals the average crediting interest rate, were as follows:

January 1, 20X2—August 31, 20X2	6.00%
September 1, 20X2—December 31, 20X2	5.70%

In 20X1, the Plan's investment in guaranteed investment accounts with ABC Bank and National Life Insurance Company (National) are valued at contract value. The guaranteed rates on the contracts for 20X1 were 6.00% and 8.25% for the ABC Bank and National contracts, respectively.

Shares of registered investments are valued at their quoted market prices which represent the net asset value of shares held by the Plan at year-end. Participant loans receivable are valued at cost which approximates fair value. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Note X (In Part): Summary of Significant Accounting Policies

Investment Income—Investment income is credited annually to the contracts as earned and is based upon a calculation made by ABC Bank. Interest is guaranteed at an effective annual rate of return of 4.50% for the contract that matured on December 31, 20X2 and 7.50% for the contract that matures on December 31, 20X4. If during the contract period January 1, 20X2, through December 31, 20X4, the average annual rate of return is less than 7.5% the Company will make an additional contribution to the Plan which will provide a 7.5% average annual rate of return to the Plan.

Note X (In Part): Summary of Significant Accounting Policies

a. *Valuation of Investment Securities*—Investments in common stocks are stated at fair value based upon closing sales prices reported on recognized securities exchanges on the last business day of the fiscal year or, for listed securities having no sales reported and for unlisted securities, upon last reported bid prices on that date. Investments in Class A Common Stock of the Company are stated at fair value based upon the closing sales prices of the Common Stock into which it is convertible. Investments in certificates of deposit, money market funds and corporate debt instruments (commercial paper) are stated at cost which approximates fair value.

b. *Valuation of Guaranteed Annuity Contracts*—The guaranteed annuity contracts with insurance companies are valued at contract value. Contract value represents contributions made by participants, plus interest at the contract rates, less withdrawals or transfers by participants. The fair value of the guaranteed annuity contracts is approximately $644 million at September 30, 20X2.

c. *Expenses*—Plan fees and expenses, including fees and expenses connected with the providing of administrative services by external service providers, are paid from Plan assets.

Note X: Investment Contract With Insurance Company

In 20X1, the Plan entered into an investment contract with National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with earnings on the underlying investments and charged for Plan withdrawals and administrative expenses charged by National. The contract is included in the financial statements at contract value, (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses), because it is fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 20X2 and 20X1 was $2,600,000 and $1,716,000, respectively. The average yield and crediting interest rates were approximately eight percent for 20X2 and 20X1. The crediting interest rate is based on an agreed-upon formula with the issuer, but cannot be less than four percent.

Note X: Insurance Company Investment Contracts

Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments" defines the fair value of a financial instrument as the amounts at which the instruments could be exchanged in a current transaction between willing parties. The carrying value of all the financial instruments of the Plan are at fair market value, except for investment contracts included in the Insurance Company Investment Fund.

Funds may be withdrawn pro rata from all the investment contracts at contract value determined by the respective insurance companies to pay Plan benefits and to make participant-directed transfers to other funds pursuant to the terms of the Plan after the amounts in the STF (Short-Term Fund) reserve are depleted.

Fair value for fixed rate GICs is calculated by projecting the future cash flows for the contract at the contractual crediting rate, and then discounting it by a rate that approximates the current market rates for a contract of equal credit quality and duration. For synthetic GICs, fair value is equal to the market value of the underlying security plus any accrued income.

	Maturity date	*Crediting interest rate (%)*	*Contract value*	*Fair value*
Prosperity Life Insurance Company Ct. No. HB-0832	6/X4	4.78	7,914,636	7,855,028
XYZ Life Insurance Company Ct. No. 8377 GAC	12/X4	4.89	6,547,204	6,501,628

	Maturity date	*Crediting interest rate (%)*	*Contract value*	*Fair value*
DEF Life Insurance Company Group Annuity Ct. No. 24318	12/X4	7.00	12,338,296	12,568,652
National Insurance Company Ct. No. HB078080	6/X4-12/X5	6.80	31,976,348	33,254,592
Workers Life ABS Ct. No. CEB11285UV#1	7/X3-12/X3	5.92	7,572,060	7,590,656
Workers Life ABS Ct. No. CEB11285UV#2	4/X4	6.10	7,613,532	7,668,394
Primary Insurance Company Group Ct. No. HB-25220	1/X3-6/X4	5.01-5.90	20,464,236	20,454,126
The XYZ Insurance Company: Group Pension Ct. No. HB-7012-322	6/X3	8.36	27,762,794	28,159,150
Group Pension Ct. No. GA-7012-323	12/X3-12/X4	5.01	5,050,686	5,030,934
DEF Life Insurance Company Ct. No. 5675	9/X4	6.30	7,187,012	7,288,758
Short-Term Fund			14,365,116	14,365,116
			148,791,920	150,737,034

[*The following disclosure is of a troubled insurance company.*]

Note X: Sample Life Contract

The Plan's Fixed Fund has an investment in a Sample Life Insurance Company (of Wisconsin) Guaranteed Investment Contract. On March 10, 20X0, the Insurance Commissioner of Wisconsin (the Commissioner) took legal action which resulted in Sample Life being placed into conservatorship. Various subsequent actions by the Commissioner and the Wisconsin courts have resulted in the proposed sale of Sample Life to an investor group, resolution that no payments will be made under existing contracts for five years, unless contract holders opt out of the restructuring plan at a penalty, and interest rates on existing contracts being reduced.

In June 20X0, the Company notified employees that it had agreed to protect the interests (as of March 10, 20X0) of those Plan participants invested in the Sample Life contract. During 20X1, the Company requested and received Department of Labor and Internal Revenue Service approval to make a special one-time total payment of $51,322,990 to the Plan which was paid in December 20X1. This action released for reinvestment Plan funds that were frozen because of the pending liquidation of Sample Life. Participants who had any portion of their individual accounts invested in the Sample Life contract were given an opportunity to reinvest that balance in any of the Plan's funds.

Included in Plan assets at December 31, 20X2 is $21,874,512 representing the Plan's interest in the Sample Life contract valued at the March 31, 20X0 contract value, net of $29,448,478 received by those plans during 20X2 and 20X1 from the Sample Life contract which was repaid to the Company. The Plan's potential repayment of the remainder of the one-time payment to the Company which is shown as a liability in the Statement of Net Assets Available for Benefits at December 31, 20X2, is restricted to amounts actually received by the Plan with respect to the Sample Life contract not to exceed the amount of the one-time payments.

5. Loan Payable

Note X: Loan Payable (ESOP)

In 20XX, the Plan entered into an $80,000,000 term loan agreement with a bank. The proceeds of the loan were used to purchase Company's common stock. Unallocated shares are collateral for the loan. The agreement provides for the loan to be repaid over ten years. The scheduled amortization of the loan for the next five years and thereafter is as follows: 20X3—$6,500,000; 20X4—$7,000,000; 20X5—$7,500,000; 20X6—$8,000,000; 20X7—$8,500,000; and thereafter—$31,470,900. The loan bears interest at the prime rate of the lender. For 20X2 and 20X1 the loan interest rate averaged 7.34 percent and 5.12 percent, respectively.

6. Employer Contributions

Note X: Matching Contributions

Effective January 1, 20X2, a matching contribution feature, which provides that the Company will contribute $.25 for every $1.00 of salary reduction contributions by a Participant to his or her 401(k) account up to a maximum of 6% of his or her eligible salary, was implemented by the Plan.

The Company will match up to an additional $.25 on every $1.00 of eligible employee contributions as an annual performance matching contribution if the Company achieves certain performance objectives established by the Company's board of directors. The Company is funding its match with contributions to a tandem leveraged Employee Stock Ownership Plan (ESOP). See Note X below. In 20X2 and 20X1, these incentive goals were met and an additional performance matching contribution was made to each Participant's Matching Contribution Account.

Note X (In Part): Description of the Plan

Contributions—An eligible employee may become a participant in the Plan by completing an enrollment form whereby the employee agrees to accept a specified reduction in salary/wage for each pay period in consideration of Yellow Company contributing such amount to the Plan. Participants may elect to contribute between 1% and 15% of their compensation, excluding bonuses and commission, to the Plan each year. Such contributions are excluded from the participant's taxable income for federal income tax purposes until received as a withdrawal or distribution from the Plan. A participant may increase or decrease the amount of the salary/wage reduction on the first day of each Plan quarter.

Each month Yellow Company will make a matching contribution to each participant's account equal to 25% of the amount of the participant's contribution. The maximum contribution amount eligible to be matched is 5% of compensation. The Yellow Company matching contributions are allocated to participants' accounts on each monthly valuation date. Total participant contributions in any calendar year are limited to the applicable limit under Internal Revenue Code Section 402(g). Such limit is $9,500 for calendar years 20X2 and 20X1. The Plan also provides that certain limitations may be imposed on participant's contributions in order to comply with statutory requirements.

Note X (In Part): Description of Plan

b. *Contributions*—Contributions under the Plan may be made by both the participants and the Corporation. A participant may elect to make pre-tax contributions of at least 1% of eligible annual compensation up to a maximum percentage as determined by the plan administrator. For 20X2, the maximum employee contribution permitted was $9,240 and the maximum employee matching contribution was $5,000. Additionally, the Plan document provides for voluntary after-tax contributions. Contributions are invested in seven mutual funds at the discretion of the participants. The investments are allocated to seven funds as the participants direct. Participants may transfer or redirect contributions monthly.

   The Corporations may make contributions to the Plan in amounts determined by the Board of Directors. Any such contributions are allocated to the participants' pre-tax account as provided by the Plan, and invested directly in Corporation common stock. Dividends paid on the Corporation common stock in 20X2 and 20X1 were $25,000 and $20,000; distributions of Corporation common stock were $40,000 and $30,000; and transfers out to other investment options were $55,000 and $66,000, respectively. Contributions of $280,000 and $200,000 were made by the Corporation in 20X2 and 20X1 respectively. See Note X for additional information regarding the contributions made by the Corporation.

7. Interest in Master Trust

Note X: Investment in Master Trust

At June 30, 20X2 and 20X1, the Plan's investment assets were held in a trust account at Prosperity and consist of an interest in a Master Trust. The Master Trust also includes the investment assets of the Retirement Plan for Hourly Employees of the XYZ Company's Toledo, Ohio Division, Richmond, Virginia Division, and Louisville, Kentucky Division.

The Master Trust was composed of the following investments at June 30, 20X2 and 20X1:

	20X2	*20X1*
Mutual Funds	$ 690,526	$ 619,154
Short-Term Investments	180,996	184,684
Common Stock	491,606	392,412
Bank Collective Investment Funds	749,326	595,618
Pooled Separate Insurance Company Accounts	864,098	707,742
Corporate Bonds	528,592	555,816
Net Assets	$3,505,144	$3,055,426

The net investment income of the Master Trust for the years ended June 30, 20X2, and 20X1 is summarized as follows:

	20X2	*20X1*
Interest	$ 221,126	$ 273,684
Dividends	17,596	16,058
Net appreciation (depreciation) in fair value of investments	178,724	(89,812)
	$ 417,446	$ 199,930

The Plan's interest in the Master Trust as a percentage of net assets of the Master Trust was 61.3% and 59.3% at June 30, 20X2, and 20X1, respectively.

[*The following disclosure is for when a defined contribution plan establishes a master trust mid-year. Prior to the master trust being established the plan held investments in its own related trust.*]

Note X (In Part): Summary of Significant Accounting Policies

Valuation of Investments

The ABC Company, Inc. 401(k) Master Trust (Master Trust) was established in October 1, 20X1 to hold the investment assets of plans sponsored by ABC Company, Inc. (the Company and Plan Sponsor). Investments, and the income therefrom, are allocated to participating plans based on each plan's participation in investment options within the Master Trust. Accordingly, the

Plan's investment gain for the year ended December 31, 20X2 includes its allocable share of the Master Trust's interest and dividends and net appreciation in fair value of mutual funds since October 1, 20X2.

Investments, other than the group annuity contract, held in the Master Trust after October 1, 20X2 and by the Plan prior to the transfer of assets to the Master Trust are stated at fair value. The mutual funds are valued at quoted market prices, which represent the net asset value of underlying investments held by the mutual fund. The group annuity contract is valued at contract value, which represents contributions and reinvested income, less any withdrawals plus accrued interest, because this investment has fully benefit-responsive features. Participant loans are valued at their outstanding balances, which approximate fair value.

[*The following disclosure is for when a defined contribution plan establishes a master trust mid-year. Prior to the master trust being established the plan held investments in its own related trust.*]

Note X: Interest in ABC Company 401(k) Master Trust

At December 31, 20X2, the Plan's interest in the net assets of the Master Trust was approximately 52%. Investment income and expenses are allocated to the Plan based upon its pro rata share in the net assets of the Master Trust.

The following table represents the value of investments held in the Master Trust at December 31, 20X2.

Investments at fair value as determined by quoted market prices:	
Mutual funds	$25,000,000
Investments at estimated fair value:	
Participant loans	1,000,000
Investments at contract value:	
Group annuity contract	750,000
	$26,750,000

Investment income for the Master Trust was as follows for the portion of the year ended December 31, 20X2 that the Master Trust was in existence.

Net appreciation in fair value of mutual funds	$2,400,000
Interest and dividends	580,000

8. Plan Amendments

Note X (In Part): Description of Plan

Plan Amendment. Effective October 1, 20X2, the Plan was amended and restated ("Plan Amendment") and a new trustee, administrator and custodian

("Trustee") of the Plan was appointed. Plan assets transferred to the new Trustee were transferred into funds comparable to those offered by the previous custodian. The conversion initiated a "Black Out" period beginning October 1, 20X2 and continued through January 15, 20X3. During this period, funds could not be applied to the employee selected funds with the Trustee or withdrawn from the Plan until the Trustee had time to accurately complete the conversion. During this period, employee contributions continued to be made through payroll deductions and the contributions were deposited and held in the Equity Fund until the completion of the Black Out period. At the end of the Black Out period, these funds were transferred to the new Trustee and invested in funds as requested by each participant.

Note X: Changes in the Plan

The Plan had no significant amendments during the periods ended December 31, 20X1, December 31, 20X0, or November 30, 20X0, except for changing the Plan year-end from November 30 to December 31, effective December 1, 20X1.

Effective October 1, 20X2, the name of the Plan was changed to the Omega Savings and Investment Plan for Salaried Employees. In addition, on October 1, 20X2, the Plan was amended to provide for four investment funds in which participant contributions to the Plan may be invested. These are Fund A, which invests primarily in debt securities with maturities of three years or less; Fund B, which invests primarily in stocks, bonds and other corporate securities, except those issued by Omega Corporation, Fund C, which invests in insurance company contracts providing a guarantee of principal and stated rate of interest for a specified period; and Fund D, which invests in U.S. Treasury and government agency bonds, with intermediate maturities averaging five years or less. Company contributions are invested in the Stock Fund, which invests in common stock of Omega Corporation. Effective October 1, 20X2, the Plan was also amended to provide a variable Company match ranging from 50% to 100% of a participant's contributions, provided that such amount does not exceed 6% of a participant's base compensation. The percentage match is determined based on the consolidated net sales growth of Omega Corporation. Company contributions, effective October 1, 20X2 are made in the form of cash or common stock, or any combination thereof.

9. Plan Mergers, Acquisitions, and Spin-offs

Note X (In Part): Description of Plan

(a) General

The Plan is a defined contribution plan covering substantially all employees of ABC Savings and Loan Association (the Association and plan administrator).

The Plan was established in March of 20X0, and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

After the close of business on January 31, 20X2, ABC Corporation, the holding company for the Association, acquired DEF Company (DEF) with DEF ultimately merging with and into the Association.

Effective January 27, 20X2, DEF terminated the DEF 401(k) Plan (the DEF Plan). Upon termination of the DEF Plan, all of its participants were immediately fully vested in the benefits provided pursuant to the DEF Plan, and the trustee of the DEF Plan was directed to distribute the assets of the DEF Plan to the eligible participants.

Pursuant to the terms of the Plan, as amended, participants in the DEF Plan who continued in the employ of the Association following the acquisition of DEF were provided the opportunity to transfer the distributions (including loans) from the DEF Plan to the Plan. Distributions of $1,675,254 consisting of $1,467,746 in cash and $207,508 in loans, were transferred from the DEF Plan to the Plan during the first five months of 20X2. In addition, the Plan was amended to provide service credit for eligibility and vesting for individuals employed by DEF, as of the date of acquisition and who subsequently became employees of the Association.

....

Note X: Subsequent Events

On January 1, 20X2, the Plan was merged into the Company's Deferred Compensation Plan. Under the new consolidated plan, the three individual components (Deferred Compensation Plan, Capital Accumulation, and Employee Savings Plan) formerly comprising the two separate plans, will be retained.

In addition, the Plan changed its trustee from XYZ Bank to ABC Bank and its record keeper from DEF to GHI, effective January 1, 20X2. In April of 20X2, GHI was acquired and record keeping responsibilities were assumed by Alpha Bank and Trust Company.

....

[*The following disclosure is for a defined contribution plan that has been split into two plans (from the perspective of the original plan).*]

Note X (In Part): Description of Plan

Plan Split

Effective January 1, 20X2, the Plan was split into two separate plans identical in all respects except as to participating employer locations and employee groups. The employees, excluding employees who satisfy the Plan definition of highly compensated employee (HCE), at the following locations became eligible to participate in the Supplemental Plan rather than the Plan: ABC Corporation, New York, NY; XYZ Tools, Miami, FL; Widget Plastics, Cincinnati, OH; Typical Manufacturing, Lexington, KY. These participants were transferred along with their corresponding assets of the Plan to the Supplemental Plan on January 1, 20X2. The participants that remain in the Plan include employees of the following locations: ABC Forging, Minneapolis, MN; ABC Trucks, Troy, MI; Generic Products, Inc., Madison, WI; Common Components Mfg., Seattle, WA; and employees of any participating employer location who on or after January 1, 20X2 qualified as HCEs.

[*The following subsequent event disclosure is when a decision has been made after the plan's year end to merge a DC plan into another DC plan.*]

Note X: Subsequent Event

On May 14, 20X3, the Board of Directors of XYZ Company, as permitted by the plan document, made the decision to merge the XYZ Company 401(k) Plan into the XYZ Company Retirement Income Plan effective June 30, 20X3.

[*The following disclosure is for a subsequent event change in plan sponsor.*]

Note X: Subsequent Event

Effective April 1, 20X3, ABC Company became the sponsor of the Plan as part of an asset purchase agreement whereby ABC Company acquired the operating assets of the XYZ Company.

[*The following disclosure is for a subsequent event change in plan year-end (assuming preceding fiscal year ending on March 31.*]

Note X: Subsequent Event

Effective July 1, 20X3, an amendment to the Plan was adopted that will change the plan year to January 1 of each year through the following December 31.

10. Plan Terminations

Note X: Plan Terminations

The company has reserved the right to terminate the Plan or reduce or cease contributions at the discretion of the Board of Directors, or to amend the Plan at any time and in any respect. However, no such action may deprive any participant or beneficiary under the Plan of any vested right.

Note X (In Part): Description of Plan

Plan Termination. In the event the Plan is wholly or partially terminated, or upon the complete discontinuance of contributions under the Plan by any entity that is a part of the Company, each participant's interest in their Company Account affected by such termination or discontinuance shall be nonforfeitable on the date of such termination or discontinuance. Any unallocated assets of the Plan fund then held by the Trustee shall be allocated among the appropriate Company Accounts, and Employee Accounts of the participants and will be distributed in such a manner as the Company may determine.

Note X: Subsequent Events—Plan Termination

Effective April, 20X3, Dolphin, Inc. announced the termination of the Plan and the intention to transfer existing account balances into successor plans. The hourly employees at the Columbus and Augusta, Georgia, and Mobile, Alabama facilities of the Electronic Systems Division became eligible to participate in the Dolphin Corporation Savings Plan effective May 1, 20X3. The hourly employees at the Ames, Cedar Rapids, Dubuque, Des Moines, and Waterloo, Iowa facilities of the Missile Division became eligible to participate in a new Retirement Savings Plan effective June 1, 20X3.

Note X: Termination of Plan

On June 1, 20X2, the company entered into an agreement providing for the sale of certain assets of Alpha Company ("Alpha") to Beta Company ("Beta") effective June 2, 20X2. As a result of this transaction, most participants in the Plan terminated their employment with Alpha and commenced employment with Beta, and their Plan accounts were transferred to the Beta Employee Retirement Savings Plan. Most of the remaining participants who terminated employment with Alpha and did not commence employment with Beta have had their Plan accounts distributed during 20X2 in accordance with Plan provisions. With respect to plan participants who are continuing employment with an affiliate of the company, their Plan accounts were transferred to the Beta Affiliate Pension Plan. The company has adopted amendments to the Plan discontinuing all contributions as of June 2, 20X2, and terminating the Plan as of that date. The Plan was also amended to include the transfer of remaining Profit-Sharing Plan participant accounts into the Beta Plan as of May 31, 20X3. Transferred accounts will be treated in accordance with the Beta Plan's provision concerning unclaimed benefits.

Note X (In Part): Description of the Plan

Plan Termination

By action of its Board of Directors, Sample Company and its U.S. subsidiaries (the Company) terminated the Plan on December 31, 20X1, and filed an application with the Internal Revenue Service for approval.

Once Internal Revenue Service approval has been received, the net assets will be distributed to participants. Participants will have a choice of options regarding these distributions. Participants may elect either an annuity, lump-sum payment, IRA rollover or direct transfer into one of the Company's other plans.

11. Other

Note X: Employee Stock Ownership Plan (ESOP) and Note Payable to Company

In December 20W0, Guppie, Inc. established an ESOP to provide matching contributions under the Plan. Guppie, Inc. issued and sold 1,690,140 shares of Preference Stock, Plan Series A, to the Plan. As consideration for the stock, the Plan issued a promissory note to Guppie, Inc. valued at $59,999,970 with an interest rate of 8.25%.

Principal payments, due January 1, commenced in 20X0. Effective December 31, 20X0, the terms of the Plan's promissory notes were amended to reflect a 35 year amortization period. The revised minimum loan amortization requirements for the next five years are as follows: 20X3—$324,026; 20X4—$350,758; 20X5—$379,696; 20X6—$411,022; 20X7—$411,022; and thereafter, $38,260,498. The Company is obligated to make contributions in cash to the Plan which, when aggregated with the Plan's dividends, equal the amount necessary to enable the Plan to make its regularly scheduled payment of principal and interest due on the note payable. This preference stock represented an unallocated investment of the Plan which the Plan began to allocate to individual Participant Accounts beginning March 31, 20X0, as the promissory note was repaid. The preference stock has an annual dividend rate of $2.50 per share and at December 31, 20X2 and 20X1, each share of the preference stock is redeemable for equivalent share of Common Stock. Alternatively, the Participant may elect to receive a cash distribution upon withdrawal from the Plan.

[*The following is for failure to remit participant contributions timely (a nonexempt transaction) when it is determined that this disclosure is material to the overall presentation of the financial statements.*]

Note X: Nonexempt Transaction

Participant contributions of $500,000 were withheld from participants' pay during the month of August 20X2 but were not remitted to the Plan's trust within the time frame required by the Department of Labor under the plan asset rules. This constituted a $500,000 loan from the Plan to the Plan Sponsor for the period September 23, 20X2 through December 20, 20X2. The loan plus interest of $10,100, 10% based on the yields earned by the Plan's assets during the period, was remitted to the Plan's trust on December 20, 20X2.

CHAPTER 3: Disclosures Specific to Health and Welfare Benefit Plans

1. Description of Plan

Note X: Description of Plan

The following description of the Allied Industries Health Care Benefit Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General. The Plan provides health and other benefits covering all participants in the widgets industry in the Greater Metropolis area. The Plan and related trust were established on May 8, 1966, pursuant to a collective bargaining agreement between the Allied Employers' Trade Association and the Allied Union, Local 802. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Benefits. The Plan provides health benefits (medical, hospital, surgical, major medical, and dental), life insurance coverage, long-term disability benefits, and death benefits to full-time participants (with at least 450 hours of work in the industry during a consecutive three-month period) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health benefits (in excess of Medicare coverage) provided they have attained at least age sixty-two and have fifteen years of service with participating employers before retirement.

The Plan also provides health benefits to participants during periods of unemployment, provided they have accumulated in the current year or in prior years credit amounts (expressed in hours) in excess of the hours required for current coverage. Accumulated eligibility credits equal to one year's coverage may be carried forward.

Health, disability, and death claims of active and retired participants, dependents, and beneficiaries are processed by the Administrator Group, but the responsibility for payments to participants and providers is retained by the Plan.

In 20X2, the board of trustees amended the Plan to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 20X3. The amendment will not affect participating employers' contributions to the Plan in 20X3 under the current collective bargaining agreement.

Contributions. Participating employers contribute 5.5 percent of wages pursuant to the current collective bargaining agreement between employers and the union (expiring February 19, 20X5). Employees may contribute specified amounts, determined periodically by the Plan's actuary, to extend coverage to eligible dependents. The costs of the postretirement benefit plan are shared by the Plan's participating employers and retirees. In addition to deductibles and copayments, participant contributions in the current (and prior, if applicable) year were as follows:

Participants Retiring	*20X1 Retiree Contribution*	*20X0 Retiree Contribution*
(1) Pre-19X0	(1) None	(1) None
(2) 19X0–19X4	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits*	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits
(3) 19X5–19X9	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap"(approximately 60% of the estimated cost)	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 50% of the estimated cost)
(4) 20X0 and after	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits

* Excluding $15 per month per capita increase in 20X1 due to adverse claims experience in 20X0.

Other. The Plan's board of trustees, as Sponsor, has the right under the Plan to modify the benefits provided to active employees. The Plan may be terminated only by joint agreement between industry and union, subject to the provisions set forth in ERISA.

Note X: Description of Plan

The International Plumbers Union XXX Welfare Fund was formed in 1952 under an agreement between the National Plumbers Contractor's Association, Inc. and the International Plumbers Union XXX. The current agreement provides, among other things, for employers of members of the Union to contribute, on behalf of each member employed, based on employee classifications and work zones, to the Fund, on a weekly basis, and with a written report. Details of this agreement can be obtained at the Fund Office.

The Fund provides for accident, hospital, medical, surgical, disability, death, dental, optical and prescription benefits for eligible members as specified in the Plan. All benefits are provided from the assets of the Fund. All other pertinent information regarding the plan can be obtained at the Fund office.

A favorable ruling dated August 1, 1989, has been obtained from the Internal Revenue Service regarding the merger of International Plumbers Union XXX Vacation and Paid Holiday Fund with International Plumbers Union XXX

Welfare Fund. As of September 30, 1989, International Plumbers Union XXX Vacation and Paid Holiday Fund ceased to exist as an independent entity and became a part of International Plumbers Union XXX Welfare Fund.

[*For a health and welfare benefit plan with a 401(h) (retiree medical) component.*]

Note X: Description of the Plan

The Lynntine Company Pension Plan (the "Pension Plan"), a separate plan sponsored by the Company, includes a medical-benefit (health and welfare) component in addition to normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Pension Plan for such contributions. In accordance with IRC section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health and welfare benefits for retirees and participants. The related obligations for health and welfare benefits are not included in the Pension Plan's obligations in the statement of accumulated plan benefits but are reflected as obligations in the financial statements of the Plan.

Note X: 401(h) Account

Effective January 1, 20X0, the C&H Company pension plan (the "benefit plan") was amended to include a medical-benefit component in addition to normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the benefit plan for such contributions. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. The related obligations for health benefits are not included in the benefit plan's obligations in the statement of accumulated plan benefits but are reported as obligations in the financial statements of the Health and Welfare Benefit Plan.

Note X: Description of Plan

In connection with a negotiated contract, the Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America (the Plan) provides for payment of supplemental unemployment benefits to covered employees who have completed two years of continuous service. Payments are made to (*a*) employees on layoff and (*b*) certain employees who work less than 32 hours in any week. The following description is provided for general information purposes. The Plan document should be referred to for specific information regarding benefits and other Plan matters.

....

2. Summary of Significant Accounting Policies

Note X: Summary of Significant Accounting Policies

A. *Use of Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations, and changes therein, IBNR, eligibility credits, claims payable, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

B. *Valuation of Investments.* The Plan's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Plan's board of trustees has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

C. *Postretirement Benefits.* The amount reported as the postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed by the terms of the plan to employees' service rendered to the date of the financial statements, reduced by the actuarial present value of contributions expected to be received in the future from current plan participants. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with participating employers. The postretirement benefit obligation represents the amount that is to be funded by contributions from the plan's participating employers and from existing plan assets. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service in the industry rendered to the valuation date.

   The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3; the rate was assumed to decrease gradually to 8.0 percent for 20X8 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 20X2.

The following were other significant assumptions used in the valuations as of December 31, 20X2 and 20X1.

Weighted-average discount rate	8.0%—20X2; 8.25%—20X1
Average retirement age	60
Mortality	1971 Group Annuity Mortality Table

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

D. *Other Plan Benefits.* Plan obligations at December 31 for health claims incurred by active participants but not reported at that date, for accumulated eligibility of participants, and for future disability payments to members considered permanently disabled at December 31 are estimated by the Plan's actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statement of the Plan's benefit obligations at present value, based on an 8.0 percent discount rate. Health claims incurred by retired participants but not reported at year end are included in the postretirement benefit obligation.

Note X: Accounting Policies

The records of International Plumbers Union XXX Welfare Fund are maintained on the accrual basis of accounting, except that benefit payments are recorded when paid (See Note Y).

Note X: Summary of Accounting Policies

Basis of Accounting. The financial statements of the Plan are prepared under the accrual method of accounting.

Investment Valuation. The Plan's investments consist of shares of a money market portfolio. The investments are reported at fair value.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Benefit Obligations. The Plan's obligation for accumulated eligibility credits is discounted using a weighted-average assumed rate of 7½ percent.

....

3. Benefit Obligations

Note X (In Part): Summary of Significant Accounting Policies

d. *Postretirement Benefit Obligations*—The postretirement benefit obligations represent the actuarial present value of those estimated future benefits that are attributed to employee service rendered to September 30, 20X2 and 20X1. Postretirement benefits include future benefits to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with Hoth Corporation. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for deaths, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

For measurement purposes, healthcare cost trend rates were 8.0 percent for 20X3, gradually decreasing to 5.0 percent in the year 20XX; remaining at that level thereafter. All of the assumptions in the 20X2 valuations are the same as in the previous valuation except for assumptions relating to Compensatory Health Trend for 20X2, and the discount rate, which increased from 7.50 percent in 20X1 to 8.00 percent in 20X2.

The following were other significant assumptions used in the valuations as of September 30, 20X2 and 20X1:

- Retirement rates vary by age or by age and service for various groups of employees and divisional locations.

- Mortality assumptions were primarily based on the UP-20X2 Mortality Table with certain modifications made for various groups of employees and divisional locations.

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligations.

e. *Other Benefit Obligations*—Benefit claims currently payable include the Plan's liability for claims incurred as of September 30, 20X2 and 20X1 but not reported, and the Plan's liability for claims reported as of September 30, 20X2 and 20X1 but not yet processed. The Plan's liability for claims incurred but not reported is estimated by the third-party administrators utilizing actuarial methods which take into consideration prior claims experience and the expected time period from the date such claims are incurred to the date that the related claims are submitted and paid.

Note X: Benefit Obligations

The Plan's excess of benefit obligations over net assets at September 30, 20X2 and 20X1, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current funding vehicle. It is expected that the deficiency will be funded through future contributions from the Plan sponsor and participants.

The weighted average health care cost-trend rate assumption (see Note X.d.) has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point in each year, it would increase the obligations as of September 30, 20X2 and 20X1, by $238,000,000 and $260,200,000, respectively.

Note X: Benefit Obligations

The Plan's deficiency of net assets over benefit obligations at December 31, 20X2 and 20X1, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current bargaining agreement. It is expected that the deficiency will be funded through future increases in the collectively bargained contribution rates.

The weighted-average health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point in each year, it would increase the obligation as of December 31, 20X2 and 20X1, by $2,600,000 and $2,500,000, respectively.

Note X: Funding and Operation of the Plan

Funding of the Plan. Contributions funded by ABC Company, the Plan's sponsor, pursuant to the Plan are invested in assets held in a trust fund (the Fund). General Bank, the trustee of the Fund (the Trustee), invests the Fund's money as set forth in the Plan document. Investments consist of money market funds and are reported in the accompanying financial statements at fair value. Interest income from investments is recognized when earned.

Administration. The ABC Company Benefit Plan Administrative Committee has responsibility for administering the Plan. The ABC Company Benefit Plan Asset Review Committee has responsibility for the management and control of the assets of the Trust.

Benefits Under the Plan. The Plan provides for the payment of weekly and short-week supplemental unemployment benefits. The benefits payable are reduced by any state unemployment benefits or any other compensation received. Also, a "waiting-week" benefit of $100 will be payable if a participant fails to receive a state unemployment benefit solely because of the state's waiting-week requirement. Benefits paid for any week for which the employee received state unemployment benefits are limited to $180. Benefits paid for all other weeks are limited to $235. The Plan provides for a possible reduction of weekly benefits for employees with less than twenty years of service based upon a percentage determined generally by dividing the net assets of the Plan, as defined in the Plan document, by the "maximum financing" (see "ABC's Obligations Under the Plan"). Employees earn one-half credit unit for each week in which hours are worked or, in some situations, in which hours are not worked (vacation, disability, serving on grievance committee, and so on) up to a maximum of fifty-two credit units for employees with less than twenty years of service and 104 credit units for employees with twenty or more years of service. Generally, one credit unit is canceled for each weekly benefit paid and one-half credit unit is canceled for each short-week benefit paid.

ABC's Obligations Under the Plan. The "maximum financing" of the Plan at any month end is the lesser of (*a*) the product of $.40 and the number of hours worked by covered employees during the first twelve of the fourteen months next preceding the first day of the month and (*b*) 100 times the sum of the monthly benefits paid for sixty of the preceding sixty-two months divided by sixty. ABC's monthly contribution to the Plan is computed as the lesser of (*a*) the product of $.175 and the number of hours worked by covered employees in the month and (*b*) the amount that, when added to the net assets of the Plan, as defined by the Plan document, as of the end of the preceding month, will equal the "maximum financing." In addition, ABC contributes an income security contribution of $.25 per hour worked by covered employees in the month. In the event of a plan deficit, ABC intends to make sufficient contributions to fund benefits as they become payable.

The following tables present the components of the plan's benefit obligations and the related changes in the plan's benefit obligations.

Benefit Obligations

	December 31, 20X1	December 31, 20X0
Accumulated eligibility credits and total benefit obligations	$ 1,107,777	$ 1,095,620

Changes in Benefit Obligations

	Year Ended December 31, 20X1
Benefit obligations, beginning of year	$ 1,095,620
Benefits earned	1,390,330
Interest	77,287
Claims paid	(1,455,460)
Benefit obligations, end of year	$ 1,107,777

Plan Expenses. ABC bears all administrative costs, except trustee fees, that are paid by the Plan.

4. Other

Note X: Estimated Contractor Contributions Receivable

Included in Estimated Contractor Contributions Receivable is the amount of $192,900 which has been turned over to the Fund's Collection Attorney for appropriate legal action. A reserve for uncollectible accounts has been set up for 20XX in the amount of $127,430 after discussion with the Fund's Collection Attorney and Union officials regarding the probability of collecting some of the older receivables which are in litigation or bankruptcy.

Note X: Rent

International Plumbers Union XXX and all affiliated Funds lease office space in Albany, New York from Sample Realty Corp. (a New York tax-exempt corporation), which is wholly owned by the International Plumbers Local Union XXX Pension Fund. On January 1, 20X2, a new three (3) year lease became effective in which monthly rent payments were $2,831 for 20X2 and are scheduled to increase to $2,972.50 and $3,121, respectively, for the 20X3 and 20X4 calendar years.

On July 1, 20X2, the fund also entered into a ten year lease arrangement for rental of furniture from Sample Realty Corp. at $295.84 per month.

[*For a health and welfare benefit plan with a 401(h) (retiree medical) component.*]

Note X: 401(h) Account

The following table presents the components of the net assets available for postretirement health and welfare benefits in the 401(h) account and the related changes in net assets.

Net Assets Available for Postretirement Health and Welfare Benefits in 401(h) Account

	December 31, 20X2	December 31, 20X1
Investments at fair value:		
U.S. government securities	$ 90,000	$ 50,000
Money market fund	20,000	30,000
	110,000	80,000
Employer's contribution receivable	9,000	5,000
Accrued interest	2,000	4,000
	121,000	89,000
Accrued administrative expenses	(5,000)	(5,000)
Net assets available	$116,000	$ 84,000

Changes in Net Assets in 401(h) Account

	For the Year Ended December 31, 20X2
Net appreciation in fair value of investments:	
U.S. government securities	$ 10,000
Interest	5,000
	15,000
Employer contributions	35,000
Health and welfare benefits paid to retirees	(10,000)
Administrative expenses	(8,000)
Net increase in net assets available	$ 32,000

[*For a health and welfare benefit plan with a 401(h) (retiree medical) component.*]

Note X: 401(h) Account

A portion of the Plan's obligations are funded through contributions to the C&H Company's pension plan in accordance with IRC Section 401(h). The following table presents the components of the net assets available for such obligations and the related changes in net assets available.

Net Assets Available for Postretirement Health and Welfare Benefits in 401(h) Account

	December 31, 20X2	*20X1*
Investments at fair value:		
U.S. government securities	$ 140,000	$ 150,000
Money market fund	900,000	800,000
	1,040,000	950,000
Cash	20,000	10,000
Employer's contribution receivable	20,000	15,000
Accrued interest	7,000	6,000
Total assets	1,087,000	981,000
Accrued administrative expenses	(15,000)	(15,000)
Net assets available	$1,072,000	$ 966,000

Changes in Net Assets in 401(h) Account

	For the Year Ended December 31, 20X2
Net appreciation in fair value of investments:	
U.S. government securities	$ 10,800
Interest	80,200
	91,000
Employer contributions	40,000
Health and welfare benefits paid to retirees	(10,000)
Administrative expenses	(15,000)
Net increase in net assets available	$106,000

[*For a health and welfare benefit plan with a 401(h) (retiree medical) component.*]

Note X: Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits at December 31, 20X2 and 20X1 per the financial statements to the Form 5500:

	20X2	*20X1*
Net assets available for benefits per the financial statements	$4,321,000	$4,283,000
Claims payable	(31,000)	(28,000)
Claims incurred but not reported	(58,000)	(53,000)
Net assets held in ABC Inc. Pension Plan 401(h) account	(145,000)	(132,000)
Net assets available for benefits per Form 5500	$4,087,000	$4,070,000

The following is a reconciliation of claims paid per the financial statements to the Form 5500 for the year ending December 31, 20X2:

Claims paid per the financial statements	$220,000
Add: Amounts payable at December 31, 20X2	31,000
Less: Amounts payable at December 31, 20X1	(28,000)
Claims paid per Form 5500	$223,000

Note X: Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

Net assets available for benefits per the financial statements	$ 9,557,000
Claims payable	(1,200,000)
Net assets held in defined benefit plan—401(h) account	(1,072,000)
Net assets available for benefits per Form 5500	$ 7,285,000

The following is a reconciliation of claims paid per the financial statements to the Form 5500:

Claims paid per the financial statements	$16,770,000
Add: Amounts payable at December 31, 20X2	1,200,000
Less: Amounts payable at December 31, 20X1	(1,050,000)
Claims paid per Form 5500	$16,920,000

The following is a reconciliation of total additions per the financial statements to the Form 5500:

Total additions per financial statements	$18,941,000
Less: Net increase in 401(h) net assets available	(106,000)
Net additions per Form 5500	$18,835,000

[*This disclosure is for a supplemental unemployment benefit plan in accordance with SOP 01-2.*]

Note X: Termination of the Plan

Under certain conditions, the Plan may be terminated. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Plan then in effect and shall be used until exhausted to pay benefits to employees in the order of their entitlement.

CHAPTER 4: Other Financial Statement Disclosures

1. Subsequent Events

Note X: Subsequent Event

Effective January 1, 20X2, assets of participants that are employees of Red Corporation and Green Filmworks, Inc. were spun-off to a separate qualified plan.

Effective January 1, 20X2, the investments were transferred to ABC Bank. The funds are invested in the following investment options, as directed by the participants:

a. *Fund A*—This Portfolio consists of common stock, bonds and cash equivalents in an effort to generate a significant rate of capital growth over time.
b. *Fund B*—This Portfolio consists of common stocks, bonds and cash equivalents in an effort to generate a mix of some capital growth and some capital preservation.
c. *Fund C*—This option invests in a pooled investment trust fund. The Fund is comprised of a diversified portfolio of GICs and/or other stable value investments, such as certificates of deposits. The objective of this option is to generate a relatively high rate of interest while protecting against declines in market value.

Note X: Subsequent Events

Effective April 1, 20X2, the name of the ABC Growth Fund was changed to the ABC Growth and Income Fund.

Effective June 1, 20X2, the Company has added four investment funds to the Plan. These funds are the Bullet Fund, the United Balanced Fund, the American Bond Fund, and the Constellation Capital Appreciation Fund.

Note X: Subsequent Event

On May 25, 20X3, DEF Corporation agreed to acquire from ABC Corporation, its XYZ subsidiary. The effect this acquisition will have on the Plan has not been determined.

Note X: Subsequent Event

On February 14, 20X3, the ABC Employee Savings Plan (ABC Plan) merged into the Plan. ABC plan participants' investment account balances were transferred into the Plan. As a result of the merger, participants of the ABC Plan can participate in the Plan, effective January 1, 20X3.

Note X: Subsequent Event

On December 29, 20X2, the Company's Board of Directors approved merger of the Plan, effective February 28, 20X3, into the ABC Plan. As of the approval date, the Plan was frozen and the ABC Plan assumed all of the assets and liabilities of the Plan.

On February 14, 20X3, QRR participants' investment account balances were liquidated and the cash and participant loans were transferred into the ABC Plan. As a result of the merger, participants of the Plan were allowed to participate in the ABC Plan, effective January 1, 20X3.

Note X: Subsequent Events

In January 20X3 Brown Insurance Company (Brown) was purchased by ABC National Corporation, a wholly owned subsidiary of XYZ Company. Brown is already a participating company in the Plan, but now they are "employees" of ABC National Corporation/XYZ Company, so they are no longer treated as a "participating company." Credit for past service with Brown continues.

In January 20X3 Green Insurance Company (Green), a wholly owned subsidiary of XYZ, joined the Plan as a participating company with credit for vesting service counted back to original date of hire with Green.

Note X: Subsequent Events

The Plan was amended and restated effective January 1, 20X3 to comply with the requirements of the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, and the IRS Restructuring and Reform Act of 1998 (collectively referred to as "GUST"). The Plan sponsor filed for a new tax determination letter in August 20X3.

Note X: Subsequent Event

During 20X3, the sponsoring employer amended and completely restated the Plan and trust document, effective January 1, 1997, to incorporate provisions of the set of laws known collectively as “GUST”—GATT (the General Agreement on Tariffs and Trade, as part of the Uruguay Round Agreements Act), USERRA (the Uniformed Services Employment and Re-employment Act of 1994), SBJPA (the Small Business Job Protection Act of 1996), TRA ’97 (the Taxpayer Relief Act of 1997) and the IRS Restructuring and Reform Act of 1998.

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Note X: Subsequent Event

Plan participants have been allowed to leave their funds in the Plan or take a distribution. XYZ, Inc. intends to begin forcing distributions during the second quarter of fiscal year 20X3.

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Note X: Subsequent Event

The Company’s Board of Directors voted on July 31, 20X2 to adopt a Section 401(k) safe harbor design for the Plan which means that the Plan automatically complies with the nondiscrimination requirements of Section 401 of the IRC. The Company amended the Plan for the 20X3 plan year. Effective January 1, 20X3, the Company will provide for a fully vested 100% matching contribution on up to 5% of pay deferred by a participant and eligible participants may begin participating in the Plan on the first day of each plan quarter.

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2. SOP 94-6, Disclosure of Certain Significant Risks and Uncertainties

Note X: Certain Significant Estimates

The plan sponsor’s operations involve manufacturing and supplying parts for a segment of the automotive industry that has been experiencing significant economic difficulties which has caused revenues of the sponsor to decline for the second consecutive year. While some layoffs have already occurred as a result, the sponsor does not provide layoff benefits to terminated or laid off employees. Although management expects to ultimately replace the lost revenues with new business, there is a reasonable possibility that in the subsequent period a significant number of employees will choose to retire early without a monetary incentive to do so in order to avoid being laid-off without benefits. A significant increase in the number of retired plan participants would significantly increase the present value of accumulated plan benefits and, depending on the number of participants electing to retire early, could cause the plan to be underfunded.

Note X: Certain Significant Estimates

The plan sponsor is engaged in collective bargaining with the union representing plan participants. Among other things, the union has demanded that employees receive a significant increase in hourly wages. Management of the plan sponsor has offered a significant increase in pension benefits in lieu of granting the union's request for an increase in cash compensation. If accepted during the next year, the increase in pension benefits would significantly increase the present value of accumulated plan benefits.

Note X: Certain Significant Estimates

As part of an announced downsizing program, the plan sponsor intends to reduced employee headcount but has not yet decided on the number of employees to be terminated. Management intends to decide on that number during the next year. It is reasonably possible that when that decision is made it will result in some eligible employees receiving pension benefits sooner than expected and in an amount greater than originally projected which would significantly increase the present value of accumulated plan benefits.

Note X: Current Vulnerability Due to Certain Concentrations

The plan holds several apartment buildings for investment purposes. The properties are located in a town that has only one significant employer. The employer announced this year that it is considering leaving the area and it is reasonably possible that the company will do so within the next year, which would significantly affect the plan's future cash flows from rents and the value of the properties.

Note X: Current Vulnerability Due to Certain Concentrations

The plan holds investments in several high-tech companies whose values have tended to fluctuate based on market demand for their products and the market's reaction to competing investment products in that industry. Given the rapidly changing state of the high-tech industry, it is reasonably possible that a significant decline in the fair value of those investments during the next year will occur and therefore it is reasonably possible that a change in the assumed rates of return used to calculate the present value of accumulated plan benefits would be needed.

Note X (In Part): Summary of Significant Accounting Policies

c. *Use of Estimates*—The preparation of financial statements in conformity with generally accepted accounting principles requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of Plan income and expenses during the reporting period. Actual results could differ from those estimates.

d. *Concentration of Investments*—Included in the Plan's net assets available for benefits at December 31, 20X2 and 20X1, are investments in Goldfish Company common stock amounting to $10.0 million and $10.4 million, respectively, whose value could be subject to change based upon market conditions.

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Note X: Risks and Uncertainties

The Plan may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for plan benefits.

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3. Derivatives

Note X (In Part): Summary of Significant Accounting Policies

The derivatives most commonly used by the investment managers are highly liquid exchange traded equity and fixed income futures and over-the-counter foreign exchange forward contracts. The use of derivative instruments is not believed to materially increase the credit or market the risk of the Plan's investments.

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Note X: Derivatives

The Plan uses derivative financial instruments in the normal course of business to hedge against adverse changes in interest rates and foreign exchange rates. These financial instruments include options written, forward foreign exchange contracts, and futures contracts. The time period related to these hedges is dependent upon the types of securities being hedged, and typically varies from three months to one year.

The plan manages market risk by limiting the use of derivatives to hedging activities or by limiting potential exposures to amounts that are not considered to be material to the statement of changes in net assets available for plan benefits. The Plan does not enter into individually structured deals, limiting derivative investments to standardized exchange-traded securities. The Plan posts collateral for the equity and fixed income futures contracts in the form of U.S. Treasury Bills with face values of $10,500,000 and $8,000,000 and market value of $10,374,000 and $7,918,000 at June 30, 20X2 and 20X1, respectively. The Plan had sold $164,146,000 and $71,440,000 S&P 500 Index futures as hedges against its equity holdings as of June 30, 20X2 and 20X1, respectively. The Plan had sold $34,060,000 and $0 U.S. Treasury long bond futures as hedges against its fixed income holdings as of June 30, 20X2 and 20X1, respectively.

Forward foreign exchange contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest and currency rates. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of net assets available for plan benefits. The Plan attempts to mitigate this credit risk by utilizing the same policies in making commitments and conditional obligations as it does for on-balance-sheet instruments, and through structured trading with reputable parties and continual monitoring procedures. Accordingly, the Plan does not anticipate losses for nonperformance. The Plan does not require collateral or other security to support forward foreign exchange contracts.

At June 30, 20X2 and 20X1, the Plan had $102,558,000 and $127,882,000 of foreign currency exchange contracts receivable and $105,012,000 and $133,758,000 of foreign currency exchange contracts payable, respectively.

The Plan participates in a program of selling covered call and put options. The equities under option had a market value of $1,062,676,000 at June 30, 20X2 and $1,242,882,000 at June 30, 20X1.

Note X (In Part): Summary of Significant Accounting Policies

Derivative financial instruments are used by the Plan's equity and balanced portfolio investment managers primarily to rebalance the fixed income/equity allocation of the Plan's portfolio and to hedge the currency risk component of the Plan's foreign investments. Certain of the fixed income investment managers are permitted to use certain specified types of derivative instruments as part of their respective strategies. These strategies include the use of futures and options as substitutes for certain types of fixed income securities. Leveraging of the Plan's assets and speculation are prohibited. Currency hedge positions are not permitted to exceed the level of exposure in the related Plan's assets.

Note X (In Part): Summary of Significant Accounting Policies

c. *Derivative Financial Instruments*—Derivative financial instruments are utilized by the Group Trust Fund to reduce interest rate and foreign exchange risks. The Group Trust Fund has established a control environment which includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Group Trust Fund does not hold or issue derivative financial instruments for trading purposes. At December 31, 20X2 and 20X1, the Group Trust Fund held variable rate deposits ($1.8 million and $35.2 million, respectively) and forward exchange contracts ($5 million and $1.6 million, respectively). These derivative financial instruments are presented at estimated fair value on the Statements of Net Assets. During 20X2 and 20X1, the net gains or losses generated from the purchases and sales of these derivative financial instruments was not material. The future value of these derivative financial instruments and the related currency positions are subject to offsetting market risk resulting from foreign currency exchange rate volatility. Current market pricing models were used to estimate the fair values of the forward exchange contracts and the variable rate deposits.

Note X: Derivative Financial Instruments

Foreign Currency Exchange Contracts—The Plan enters into forward contracts to purchase and sell foreign currencies in the normal course of its investing activities to manage the currency exposure associated with the plan's foreign equity and fixed income investments. The terms of these contracts generally do not exceed one year. The credit risk associated with these contracts is minimal as they are entered into with a limited number of highly rated counterparties.

The Plan reflects the fair value of all forward contracts as an asset or liability in the plan's financial statements. The fair values associated with the foreign currency contracts have been estimated by valuing the net position of the contracts using the applicable spot rates and forward rates as of the reporting date. In the statements of net assets available for benefits, forward contracts to purchase foreign currency are shown as currency contract payables and forward contracts to sell foreign currency are shown as currency contract receivables. Changes in fair value are accounted for as net appreciation (depreciation) in fair value of investments.

Futures Contracts—The Plan enters into futures contracts in the normal course of its investing activities to manage market risk associated with the Plan's equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of net assets available for benefits. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

During 20X2 and 20X1, the Plan was a party to futures contracts held for trading purposes for the Standard & Poors (S&P) 500 index, Russell 2000 index, S&P BARRA Value index and U.S. Treasury Bonds. Upon entering into a futures contract, the Plan is required to deposit either in cash or securities an amount ("initial margin") equal to a certain percentage of the nominal value of the contract. Subsequent payments are then made or received by the Plan, depending on the daily fluctuation in the value of the underlying contracts. U.S. Treasury bills owned and included in the investments of the Plan, with a value of $X million and $Y million at December 31, 20X2 and 20X1, respectively, were held by the Plan's brokers as performance security on futures contracts.

The Plan had futures contracts with notional amounts of $XX million and $XX million at December 31, 20X2 and 20X1, respectively. At December 31, 20X2 the Plan had futures contracts to purchase (sell) S&P 500 index, Russell 2000 index, S&P BARRA Value index and U.S. Treasury Bonds contracts with notional amounts of $XX million, $XX million, $XX million, and ($XX million), respectively. At December 31, 20X1, the Plan had futures contracts to purchase (sell) S&P 500 index, Russell 2000 index, S&P BARRA Value index and U.S. Treasury Bonds contracts with notional amounts of ($XX million), ($XX million), $XX million, and $XX million, respectively. Notional amounts do not quantify risk or represent assets or liabilities of the Plan, but are used in the calculation of cash settlements under the contracts.

The fair value of futures contracts in the statements of net assets available for benefits is zero at December 31, 20X2 and 20X1, as settlements are by cash daily. Changes in fair value are accounted for as net appreciation (depreciation) in fair value of investments.

4. Related Party Disclosures

Note X: Related Parties

Little Title Company ("LTC") was one of five investment managers utilized by the Plan Administrator to manage the investments held by the Lobster Trust, Inc. LTC was a wholly owned subsidiary of Lobster, Inc. All of the members of the Board of Directors of Lobster, Inc. served on the Board of Directors of LTC. At December 31, 20X1 the fair value of assets held by the Lobster Trust that were managed by LTC was $72.8 million. LTC does not manage any investments held by the Company. Fees paid to LTC in 20X2 and 20X1 are considered to represent the fair market value of the services performed and are comparable to fees paid to the other investment managers.

LTC provides certain accounting, administrative and investment management services to the Plan for which no fees are charged.

Note X: Party-In-Interest Transactions

The plan has not considered Company contributions to the Plan or benefits accrued or paid by the Plan for participants as party-in-interest transactions.

For the year ended March 31, 20X2 and 20X1, the Plan purchased 45,114 and 5,316 shares of Sparks Company common stock, respectively, at a cost of $1,100,246 and $136,066, respectively. Of the shares acquired in 20X2, 39,700 were purchased from Sparks Company and 5,414 shares were purchased from employees.

Fees incurred by the Plan for investment management services amounted to $50,326 and $39,684 for the years ended March 31, 20X2 and 20X1, respectively.

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Note X: Related Party Transactions

Certain Plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest. Fees paid by the Plan for the investment management services amounted to $105,000 for the year ended December 31, 20X2.

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Note X: Transactions With Parties-In-Interest

Fees paid during the year for legal, accounting, actuarial and other professional services rendered by parties-in-interest were based on customary and reasonable rates for such services.

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Note X: Transactions With Parties in Interest

ABC provides to the Plan certain accounting and administrative services for which no fees are charged.

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Note X: Related Party Transactions

The majority of the Plan's corporate stock investments are invested in the common stock of XYZ, Inc. XYZ is a related party and these transactions qualify as party-in-interest. In addition, certain Plan investments were shares of investment funds managed by Insurance Trust Company, the trustee, as defined by the Plan and, therefore, these transactions qualify as party-in-interest.

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Note X: Related Party Transactions

On December 29, 20X2, the Plan issued Seller Notes to fund the purchase of 329,446 shares of the Company's common stock for $11,316,470 from various members of the Jones Family (note 4).

In 20X2, the Plan purchased, at fair value, as determined by an independent appraiser, approximately 379,000 shares of the Company's common stock for approximately $12,887,000. These shares purchased include the remaining 332,681 outstanding shares the Plan purchased on December 29, 20X2 at $34.35 per share (note 4) from the Selling Shareholders. As of December 31, 20X2, the Plan owns 100% of the Company.

In 20X1, the Plan purchased, at fair value, as determined by an independent appraiser, approximately 103,500 shares of the Company's common stock for approximately $1,995,000. As of December 31, 20X1, the Plan owns approximately 60% of the Company.

5. Prohibited Transactions

Note X: Prohibited Transaction

During 20X2, the Plan was advanced funds by one of the custodians, ABC Bank, for the purchase of certain investments. The amount payable to ABC Bank at March 31, 20X2 amounted to approximately $173,800. This amount is included in accounts payable in the March 31, 20X2 financial statements. The Plan intends to repay ABC Bank for the amount borrowed which was prohibited according to the provisions of ERISA and the Internal Revenue Code. The Plan also paid $10,076 in interest during fiscal year 20X2 related to the funds advanced to the Plan.

6. Going Concern

Note X: Subsequent Events

On April 15, 20X2, Bluefish Incorporated filed for reorganization under the protection of Chapter 11 of the Federal Bankruptcy Code. Management of the Company is in the process of developing its plan of reorganization, which will include the Plan's unfunded liability (approximately $900,000 at December 31, 20X1), for submission to the Federal Bankruptcy Court for approval. In connection with this process, the possibility exists that the Court may terminate the Plan (a "distress termination") or, alternatively, the Pension Benefit Guaranty Corporation (P.B.G.C.) may terminate the Plan (an "involuntary termination"). In either case, vested benefits of the Plan are insured by P.B.G.C. subject to certain limitations including a ceiling on the maximum benefits payable which may be lower than certain Plan participants would otherwise have received under the Plan. In the event of a Plan termination, the net assets of the Plan would be distributed in accordance with the provisions of the Plan document. No provision for the above uncertainty has been made in the Plan's financial statements.

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Note X (In Part): Summary of Significant Accounting Policies

a. *Basis of Presentation.* The accompanying financial statements of the ABC Hospital Employees' Pension (Plan) have been prepared on an accrual basis of accounting. The financial statements and supplemental schedule have been prepared assuming that ABC Hospital (Hospital), the Plan's sponsor will continue as a going concern. The Hospital's recurring losses from operations and a partners' deficit raise substantial doubt about the Hospital's ability to continue as a going concern. On December 23, 20X0 the Hospital filed a petition for relief under Chapter 11 of the Federal bankruptcy laws in the United Sates Bankruptcy Court of the East District of New York. The uncertainty regarding the Hospital's ability to continue as a going concern raises substantial doubt about the Plan's continuation. Should the Plan be terminated, the terms discussed in note X(e) would be applicable. The financial statements and the supplemental schedule do not include any adjustments that might result from the outcome of this uncertainty.

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[*An ESOP Plan.*]

Note X: Subsequent Events

At December 31, 20X2, the Plan had a net deficiency in assets of $750,000. The Plan incurred unrealized depreciation in fair value of investments in 20X2 of $1,300,000 and the investments have continued to depreciate during 20X3. A valuation of the preferred stock subsequent to December 31, 20X2 estimates the total value of these investments to be $336,000. These factors raise substantial doubt about the Plan's ability to continue as a going concern.

For the Plan to remain viable, XYZ Company must pursue and obtain appropriate financing and eventually become profitable.

The financial statements do not include any adjustments that might result from the going concern consideration noted above.

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7. Tax Status

Note X: Tax Status

The Plan obtained its latest determination letter in 20X3 in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. Seahorse

Corporation believes that the Plan currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and that, therefore, the Plan qualifies under Section 401(a) and the related trust is tax-exempt as of December 31, 20X2. Therefore, no provision for income taxes has been included in the Plan's financial statements.

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Note X: Tax Status

The Plan obtained its latest determination letter in 20X0, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. The Plan was not timely amended to bring it into compliance with the requirements of the Tax Reform Act of 1986 and the Technical and Miscellaneous Revenue Act of 1988.
The Company voluntarily requested to correct the defect under the Closing Agreement Program with the Internal Revenue Service. Under this program, the Company amended the Plan on September 30, 20X2, to bring the Plan into compliance. On June 15, 20X3, the Company and the Internal Revenue Service entered into a signed closing agreement in which the Internal Revenue Service concluded that it will treat the Plan as having been timely amended for the purposes of Tax Reform Act of 1986 and the Technical and Miscellaneous Revenue Act of 1988 with respect to plan years beginning after December 31, 1986. As part of the agreement, the Company paid $135,000 in penalties.

Effective October 1, 20X2, the Plan was amended and restated. The Company has not yet received a determination letter for the amended and restated plan. The Company believes that the Plan currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and that, therefore, the plan continues to qualify under Section 401(a) and the related trust continues to be tax-exempt as of December 31, 20X1. Therefore, no provision for income taxes is included in the Plan's financial statements.

....

Note X: Tax Status

The Plan then known as the Lando Corporation Plan for Eligible Employees of the Salary and Weekly Payrolls of Group Operations, obtained its latest determination letter in 20X0, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended and merged since receiving the determination letter. Lando Corporation (the "Company") is currently restating the Plan document to reflect all changes and upon completion of the restatement, will request a new determination letter. The Company believes that the Plan currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and that, therefore, the Plan continues to qualify under Section 401(a) and the related trust continues to be tax-exempt as of December 31, 20X2. Therefore, no provision for income taxes has been included in the Plan's financial statements.

....

Note X: Federal Income Taxes

The Company adopted a Prototype Standardized Profit Sharing Plan with a cash or deferral arrangement which received a favorable opinion letter from the Internal Revenue Service (IRS) on November 15, 20X0 which stated that the Plan and related trust are designed in accordance with applicable sections of the IRC. The Company identified certain operational omissions with respect to the Plan and has submitted an application under the Standardized Voluntary Compliance Resolution (SVP) program to the IRS. The plan administrator and counsel for the Company expect that the final outcome of the SVP process will not have any material effect on the Plan's financial statements.

....

[*The following disclosure is for a Health and Welfare Pension Plan.*]

Note X: Income Tax Status

The trust fund established under the Plan to hold the Plan's assets qualifies as an exempt organization under Section 501(c)(9) of the Internal Revenue Code (IRC).

The Internal Revenue Service made a favorable determination in a letter dated September 1, 20X0 that the Plan meets the requirements of IRC Section 501(c)(9) and is, therefore, exempt from federal income taxes under IRC Section 501(a). The Plan has since been amended and restated. The Trustee, plan sponsor and plan administrator are not aware of any course of action or series of events that have occurred that would adversely affect the qualified status of the Plan.

....

[*The following disclosure is for a VEBA plan.*]

Note X: Income Tax Status

The Trust funding the Plan has received an exemption letter from the Internal Revenue Service dated September 15, 20X0, stating that the Trust is tax-exempt under the provisions of Section 501(c)(9) of the Internal Revenue Code (the "Code") as a Voluntary Employee Beneficiary Association. The Plan and trust are required to operate in conformity with the Code to maintain the tax-exempt status of the Trust. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code, and therefore, believes the related trust is tax exempt.

....

Note X: Tax Status

The Internal Revenue Service issued its latest determination letters on August 15, 20X0 which stated that the former plans (note X) and the underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from Federal income taxes. Subsequently, the Plan has been amended and submitted to the Internal Revenue Service for a determination letter. In the opinion of the Plan Administrator, the Plan and its underlying trust have operated within the terms of the Plan and should remain qualified under the applicable provisions of the Internal Revenue Code.

• •

Note X: Federal Income Taxes

The Plan has received a favorable determination letter from the Internal Revenue Service (IRS) dated February 28, 20X2 relating to amendments adopted by the Plan effective prior to the date thereof. The Plan was further amended on March 15, 20X3 effective February 1, 20X3. However, the Plan Administrator believes the Plan, as amended, is currently being operated in compliance with applicable requirements of the Internal Revenue Code and is exempt from Federal income taxes.

• •

Note X: Income Tax Status

The Internal Revenue Service has ruled that the Plan and Trust qualify under Section 501 (c) (9) of the Internal Revenue Code and the Fund, therefore, is not subject to tax under present Federal income tax laws.

• •

[*This disclosure is for a supplemental unemployment benefit plan in accordance with SOP 01-2.*]

Note X: Tax Status

The Plan obtained its latest determination letter in 1990, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. Plan management and Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

• •

Note X: Income Tax Status

The Plan has applied for but has not received a determination letter from the Internal Revenue Service stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the "Code"). However, the plan administrator believes that the Plan is qualified and, therefore, the related trust is exempt from taxation.

....

Note X: Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service (IRS) dated July 14, 20X2, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification.

Currently, the 20X2 plan year is under audit by the IRS and the plan administrator expects that no issues will be identified as a result of the audit. Additionally, the plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

....

[*The following disclosure is for a plan that either has entered into an IRS correction program or has identified issues that may require corrective action.*]

Note X: Income Tax Status

The plan has received a determination letter from the Internal Revenue Service dated July 1, 20XX, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan sponsor has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status.

....

8. Reconciliation of Financial Statements to Form 5500

Note X: Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for plan benefits per the financial statements to the Form 5500:

	December 31, 20X2	December 31, 20X1
Net assets available for plan benefits per the financial statements	$7,953,182	$6,608,408
Amounts allocated to withdrawing participants	(117,944)	(103,212)
Net assets available for plan benefits per Form 5500	$7,835,238	$6,505,196

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

	Year ended December 31, 20X2
Benefits paid to participants per the financial statements	$ 1,195,582
Add: Amounts allocated to withdrawing participants at December 31, 20X2	117,944
Less: Amounts allocated to withdrawing participants at December 31, 20X1	(103,212)
Benefits paid to participants per the Form 5500	$ 1,210,314

9. Other

Note X: Demutualization of City Life Insurance Company

During April 20X2, the Plan received a one-time payment of City Life Insurance Company (CityLife) common stock under the contract issued by New England Financial. The payment was made to the Plan as a result of the conversion of CityLife, the parent company of New England Financial, from a mutual insurance company to a stock insurance company. The amount received by the Plan represents the compensation to which the Plan was entitled under CityLife's demutualization plan which was approved by the state of New York on April 7, 20X2. The shares of common stock were sold in November 20X2 and the proceeds were allocated as a one-time pro rata earnings adjustment to the accounts of all current participants in proportion to each participant's account balance.

Note X: Nonexempt Transactions

It was noted that in 20X2 there were unintentional delays by the Company in submitting employee contributions and loan repayments in the aggregate amount of $60,292 to the trustee. The Company intends to reimburse the Plan for lost interest in the amount of $2,797 in 20X3.

CHAPTER 5: Limited Scope Audit Disclosures and Auditor's Reports

DISCLOSURES

1. Information Certified by Trustee

Note X: Information Certified by the Trustee

For 20X2, the financial information included in the Plan financial statements, except for contributions receivable, contributions, and distributions for withdrawals and terminations, has been derived from information certified as complete and accurate by the Trustee, in accordance with Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Note X: Investments

All investment information disclosed in the accompanying financial statements and schedules including investments held at December 31, 20X2 and 20X1, and net appreciation (depreciation) in fair value of investments, interest, dividends and investment expenses for the year ended December 31, 20X2, were obtained or derived from information supplied to the plan administrator and certified as complete and accurate by the Trustee.

Note X: Trustee Information

The following is a summary of the investment information regarding the Plan as of December 31, 20X2 and 20X1, and for the years then ended, included in the Plan's financial statements and supplemental schedules, that was prepared by or derived from information prepared by ABC Bank, the trustee of the Plan, and furnished to the plan administrator. The plan administrator has obtained certifications from the trustee that such information is complete and accurate.

	20X2	20X1
Investments:		
ABC Bank Reserve Fund	$1,482,712	$1,573,696
ABC Bank Growth and Income Fund	2,538,366	2,100,286
ABC Bank Stable Fund	2,273,506	2,286,188
Investment Income:		
Dividends	235,036	176,480
Interest	168,680	172,124
Net appreciation (depreciation) in fair value of Investments	467,154	(125,212)

Note X: Investment Information

The following is a summary of the investment information regarding the Plan, included in the Plan's financial statements and supplemental schedules, that was prepared by or derived from information prepared by ABC Bank and furnished to the plan administrator. The plan administrator has obtained certifications from the custodian that the information is complete and accurate as of June 30, 20X2 and 20X1:

	20X2	20X1
Statements of net assets available for benefits:		
Investments—Value of interest in pooled separate accounts	$9,465,570	$8,537,038
Statements of changes in net assets available for benefits:		
Net investment gain from pooled separate accounts	1,186,434	596,712

Note X: Investments

The Plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, as permitted under such election, the following information was certified by the Insurance Company and was not subjected to any auditing procedures performed by the independent public accountants:

a. Total investments as shown in the accompanying statements of net assets available for benefits of $9,568,326 as of December 31, 20X2, and $4,431,808 as of December 31, 20X1.

b. Net investment earnings as shown in the accompanying statement of changes in net assets available for benefits of $105,622 for the year ended December 31, 20X2.

The fair values of individual investments that represent 5 percent or more of the Plan's net assets as of December 31 are as follows:

	20X2	*20X1*
Guaranteed investment account	$2,184,846	$ 990,396
U.S. equity account	2,830,554	1,440,492
Bond and mortgage account	1,420,766	755,016
International equity account	1,408,862	554,532
Stock index account	1,007,920	468,976

[*The following disclosure is appropriate when only a portion of the investments and related investment income is certified.*]

Note X: Information Certified by the Plan's Custodians

The plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, The Main Financial Group and National Assurance Company of America, the custodians of certain plan assets, have certified to the completeness and accuracy of the retirement investment fund contracts with The Main Financial Group and National Assurance Company of America reflected in the statements of changes in assets available for plan benefits for the years ended December 31, 20X2 and 20X1 and the supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2 and related investment activity reflected in the statements of changes in assets available for plan benefits for the years ended December 31, 20X2 and 20X1. Included in the statement of changes in assets available for plan benefits for the year ended December 31, 20X2 is net investment income of $117,188 and $63,836 which was certified by The Main Financial Group and National Assurance Company of America, respectively.

Note X: Investments

The Trustee of the Plan has certified that the investments and related transactions of the Plan are complete and accurate, except for the XYZ Securities Portfolio and ABC Cap Value Fund. Investment information certified by the Trustee has not been audited by independent auditors. Investment information is summarized as follows:

	December 31, 20X2	December 31, 20X1
Investments, at fair value:		
Bond mutual fund	$1,902,358	$ 884,327
Stock mutual fund	2,371,701	3,154,136
Investments at fair value (certified by Trustee)	4,274,059	4,038,463
XYZ Securities Portfolio	340,946	336,505
ABC Cap Value Fund	1,691,105	1,461,272
	2,032,051	1,797,777
Total investments, at fair value	$6,306,110	$5,836,240

	Year Ended December 31, 20X2
Net appreciation (depreciation) in fair value of investments:	
Bond mutual fund	$ 61,877
Stock mutual fund	72,894
Net appreciation (depreciation) in fair value of investments (certified by Trustee)	134,771
XYZ Securities Portfolio	(27,077)
ABC Cap Value Fund	184,396
Total net appreciation (depreciation) in fair value of investments	$292,090
Interest and dividend income:	
Bond mutual fund	$ 39,501
Stock mutual fund	11,657
Interest and dividend income (certified by Trustee)	51,158
XYZ Securities Portfolio	7,423
ABC Cap Value Fund	9,875
	17,298
Total interest and dividend income	$ 68,456

[*The following disclosure is appropriate when all or a portion of the investments and related investment income are certified.*]

Note X: Information Certified by the Trustee

The plan administrator has elected the method of compliance as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, as permitted under such election, the plan administrator instructed the Plan's independent auditors not to perform any auditing procedures with respect to the following information certified by ABC Bank, the trustee of the Plan, as complete and accurate, except for comparing such information certified by the trustee to information included in the Plan's financial statements and supplemental schedules:

(a) Investments held and certified to by ABC Bank:

	December 31,	
	20X2	*20X1*
Guaranteed investment fund	$ 230,522	$ 217,238
Diversified bond fund	8,956,988	7,032,488
Money market fund	173,470	1,014,596
Growth stock fund	12,510	9,426
Indexed stock fund	12,710	9,352
	$9,386,200	$8,283,100

(b) Investment income (loss) certified by ABC Bank:

	Year Ended December 31,			
	20X2		*20X1*	
	Interest income	*Net (depreciation) appreciation in fair value*	*Interest income*	*Net (depreciation) appreciation in fair value*
Guaranteed investment fund	$12,108	$ —	$12,120	$ (18,888)
Diversified bond fund	—	1,242,404	—	(211,232)
Money market fund	—	56,958	—	36,014
Growth stock fund	—	3,084	—	8,778
Indexed stock fund	—	3,358	—	9,352
	$12,108	$1,305,804	$12,120	$(175,976)

[*The following disclosure is appropriate when all investments and related investment income of the plan are certified.*]

Note X: Information Certified by the Plan's Trustee

The plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, ABC Bank, the trustee of the Plan, has certified to the completeness and accuracy of all investments reflected on the accompanying statements of assets available for pension benefits as of June 30, 20X2 and 20X1 and the supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of June 30, 20X2, the related investment activity reflected in the statements of changes in assets available for pension benefits for the years ended June 30, 20X2 and 20Xl, and the information reflected on the schedule of reportable transactions for the year ended June 30, 20X2.

Note X: Information Certified by the Plan's Custodian

The plan administrator has elected the method of compliance as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, as permitted under such election, the plan administrator instructed the Plan's independent auditors not to perform any auditing procedures with respect to the following information certified by ABC Bank, except for comparing, such information certified by the custodian to information included in the Plan's financial statements and supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year):

Investments	*December 31, 20X1*	*December 31, 20X0*
Investment contract with Insurance Company	$1,000,000	$ 890,000
Corporate bonds and debentures	3,500,000	3,670,000
U.S. Government securities	350,000	270,000
Mortgages	480,000	460,000
	$5,330,000	$5,290,000

The custodian also certified to the completeness and accuracy of $110,000 and $290,000 of net appreciation in fair value of investments and $195,000 and $75,000 of interest income related to the aforementioned investments for the year ended December 31, 20X1 and 20X0, respectively.

AUDITOR'S REPORTS

1. Limited Scope Audit Reports

Standard Report

Independent Auditor's Report

[*Addressee*]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, as listed in the accompanying index.[1] These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X2 and 20X1 and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance

[1] If an index is not used, the first paragraph of the auditor's report would be as follows:

> We were engaged to audit the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the statement of accumulated benefits as of December 31, 20X2 and 20X1, and the related statement of changes in accumulated benefits for the year ended December 31, 20X2, and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets (Held at End of Year) and (2) Schedule H, line 4j—Schedule of Reportable Transactions. These financial statements and supplemental schedules are the responsibility of the plan's management.

with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Limited-Scope Audit in Prior Year

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects not to limit the scope of the audit in the current year even though the scope of the audit in the prior year was limited in accordance with DOL regulations.

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits 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 audits provide a reasonable basis for our opinion.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, investment assets held by ABC Bank, the trustee of the Plan, and transactions in those assets were excluded from the scope of our audit of the Plan's 20X1 financial statements, except for comparing the information provided by the trustee, which is summarized in Note X, with the related information included in the financial statements.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the Plan's financial statements as of December 31, 20X1. The form and content of the information included in the

20X1 financial statements, other than that derived from the information certified by the trustee, have been audited by us and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the financial statements, referred to above, of XYZ Company 401(k) Plan as of December 31, 20X2, and for the year then ended present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit of the Plan's financial statements as of and for the year ended December 31, 20X2, was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 20X2, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Limited-Scope Audit in Current Year

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects to exclude from the auditor's examination plan assets held by banks or insurance companies in the current year, whereas the scope of the audit in the prior year was unrestricted.

Independent Auditor's Report

[*Addressee*]

We were engaged to audit the accompanying statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets (Held at End of Year), (2) Schedule H, line 4j—Schedule of Reportable Transactions, and (3) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or

Classified as Uncollectible as of or for the year ended December 31, 20X2. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 20X2 financial statements and the supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information in the Plan's 20X2 financial statements that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules as of or for the year ended December 31, 20X2. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

We have audited the statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X1, and in our report dated May 20, 20X2, we expressed our opinion that such financial statement presents fairly, in all material respects, the net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X1, in conformity with accounting principles generally accepted in the United States of America.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Modified Report—Omitted Information or Omitted Schedule Required Under DOL Regulations in a Limited Scope Engagement

In the following illustration, the supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) which accompanies the Defined Contributions Plan's financial statements does not disclose that the Plan has loans to participants. Because the omitted participant loan information is information that is not certified by the trustee or custodian, an omission of participant loan information would require that a qualified or adverse opinion be issued on the applicable supplemental schedules.

Independent Auditor's Report

[*Addressee*]

[*Same first and second paragraphs as the limited-scope report.*]

The supplemental schedule, Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose that the Plan has loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Or

In the following illustration, the Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Because the schedule of reportable transactions is information that is certified by the trustee or custodian, an omission of the schedule would require that an explanatory paragraph be added to the auditor's report.

Independent Auditor's Report

[*Addressee*]

[*Same first, second, and third paragraphs as the limited-scope report.*]

The Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

The following illustrates a limited-scope audit in the current year with a comparative statement of assets compiled. Cost information is missing from the supplemental schedules.

Independent Auditor's Report

The Trustees
Pictures Inc. Savings and Investment Plan:

We were engaged to audit the financial statements and supplemental schedules of Pictures, Inc. Savings and Investment Plan (Plan) as of and for the year ended December 31, 20X2, as listed in the accompanying index. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by Section 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in note X, which was certified by National Insurance Company, the custodian of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the custodian as of and for the year ended December 31, 20X2, that the information provided to the plan administrator by the custodian is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, is presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose the historical costs of certain nonparticipant directed plan assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

We have compiled the accompanying statement of net assets available for benefits as of December 31, 20X1, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying statement of net assets available for benefits and, accordingly, do not express an opinion or any other form of assurance on it.

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[*Name of Firm*]

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[*City and State*]

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[*Date*]

Modified Cash Basis of Accounting

The financial statements and supplemental schedules were prepared on a modified cash basis of accounting.

Report of Independent Public Accountants

To the Administrative Committee of the
Pension Plan of XYZ Corporation

We were engaged to audit the accompanying financial statements—modified cash basis and supplemental schedules—modified cash basis of the Pension Plan of XYZ Corporation (the Plan) as of and for the years ended December 31, 20X2 and 20X1, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the 20X2 and 20X1 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of December 31, 20X2 and 20X1, and for the years then ended, that the information provided to the plan administrator by the trustee is complete and accurate.

As described in Note Y, these financial statements and supplemental schedules were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America, and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Plan Merger (with a short period)

Report of Independent Public Accountants

To the Compensation Committee of
Lucky Company

We were engaged to audit the accompanying financial statements and supplemental schedules of the Lucky Company Employee Savings Plan as of January 31, 20X2 and December 31, 20X1 and 20X0, and for the thirty-one day period ended January 31, 20X2 and for the year ended December 31, 20X1, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the 20X2, 20X1, and 20X0 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee for the thirty-one day period ended January 31, 20X2 and for the year ended December 31, 20X1, that the information provided to the plan administrator by the trustee is complete and accurate.

As further discussed in Note Y, the Plan was merged into the Lucky Company Deferred Compensation Plan effective January 31, 20X2.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Plan Termination

The following illustrates a limited-scope audit report of a terminated plan.

<u>Report of Independent Public Accountants</u>

To the Advisory Committee of
Sample Company Pension Plan:

We were engaged to audit the accompanying financial statements and supplemental schedules of Sample Company Pension Plan as of March 31, 20X2 and 20X1, and for the year ended March 31, 20X2, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of March 31, 20X2 and 20X1, and for the year ended March 31, 20X2, that the information provided to the plan administrator by the trustee is complete and accurate.

As further discussed in Note Y, the Company's Board of Directors elected to terminate the Plan effective December 31, 20X1.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

2. Prior Year Audited by Another Firm

The following illustrates a full scope audit in the current year, limited scope in the prior year with reference made to the report of prior auditor.

Independent Auditor's Report

To the Cookie Company
Savings and Investment Plan
and Participants:

We have audited the accompanying statement of net assets available for benefits of the Cookie Company Savings and Investment Plan as of December 31, 20X2, and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. Other auditors were engaged to audit the financial statements for the year ended December 31, 20X1. Their report dated May 21, 20X2, disclaimed an opinion on the 20X1 financial statements as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits as of December 31, 20X2, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets (Held at End of Year) and (2) Schedule H, line 4j—Schedule of Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules are the responsibility of the Plan's management. Such supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

The following illustrates a limited scope audit in the current and prior year with reference made to the report of the prior auditor.

Independent Auditor's Report

To the Retirement Plan for Salaried Employees of
Epsilon Corporation and Participants:

We were engaged to audit the financial statements and supplemental schedule of the Retirement Plan for Salaried Employees of Epsilon Corporation as of

June 30, 20X2, and for the year then ended, listed in the accompanying Table of Contents. These financial statements and supplemental schedule are the responsibility of the Plan's management. Other auditors were engaged to audit the financial statements of the Plan for the year ended June 30, 20X1, whose report dated October 15, 20X1 disclaimed an opinion on the 20X1 financial statements for the same reasons described in the following paragraph.

As permitted by Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by the custodian of the Plan, except for comparing such information with the related information included in the 20X2 financial statements and supplemental schedule. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained certifications from the custodian as of and for the year ended June 30, 20X2 that the information provided to the plan administrator by the custodian is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to express, and do not express an opinion on the accompanying financial statements and supplemental schedule as of and for the year ended June 30, 20X2. The form and content of the information included in the 20X2 financial statements and supplemental schedule, other than that derived from the information certified by the custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America, and in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

CHAPTER 6: Independent Auditor's Reports

1. Unqualified Opinions

Unqualified Opinion on the Financial Statements of a Profit-Sharing Plan [*Guide, par. 13.06*]

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2 in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[1]

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Terminated Plan

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for plan benefits of the GHI Company Pension Plan as of February 5, 20X2 and March 31, 20X1, and the related statement of changes in net assets available for plan benefits for the period ended February 5, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the GHI Company Pension Plan as of February 5, 20X2 and March 31, 20X1, and the changes in net assets available for plan benefits for the period ended February 5, 20X2 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note Y to the accompanying financial statements, the Plan has been terminated and all assets of the Plan have been distributed. In accordance with accounting principles generally accepted in the United States of America, the financial statements are presented on the liquidation basis of accounting.

[1] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Schedule H, line 4j—Schedule of Reportable Transactions is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule has been subjected to the auditing procedures applied in the audit sof the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

The financial statements and supplemental schedules were prepared on a modified cash basis of accounting. A full scope audit was performed.

Report of Independent Public Accountants

To the Administrative Committee of the
Pension Plan of XYZ Corporation:

We have audited the accompanying statements of net assets available for benefits (modified cash basis) of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits (modified cash basis) for the year ended December 31, 20X2. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As described in Note X, these financial statements and supplemental schedules were prepared on a modified cash basis of accounting, 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 net assets available for benefits and the accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits and changes in accumulated plan benefits for the year ended December 31, 20X2, on the basis of accounting described in Note X.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules (modified cash basis) of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

2. Supplemental Schedules

The following are illustrations of paragraphs that should be added to the auditor's report when the auditor should modify his or her report on the supplemental schedules because of omitted information or an omitted schedule which is required under DOL regulations. [*Guide, par. 13.16*]

Modified Report—Omitted Information or Omitted Schedule Required Under DOL Regulations

Independent Auditor's Report

[*Addressee*]

[*Same first, second, and third paragraphs as the standard report.*]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose the historical cost of certain nonparticipant directed plan assets held by the Plan trustee. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Or

The Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Qualified Opinion—Omitted or Incomplete Schedule or Material Inconsistency

The following paragraphs should be added to the auditor's report when the auditor concludes that his or her opinion on the supplemental schedules should be qualified because a schedule, or information thereon, was omitted (when the schedules are not covered by a trustee's certification as to completeness and accuracy), or because information in a required schedule is materially inconsistent with the financial statements.

Independent Auditor's Report

[*Addressee*]

[*Same first, second, and third paragraphs as the standard report.*]

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) that accompanies the Plan's financial statements does not disclose that the Plan had loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

3. Prohibited Transactions

The following illustrates an auditor's report on the plan's financial statements when the auditor concludes that the plan has entered into a prohibited transaction with a party in interest that is also considered a related party transaction and (1) is material to the financial statements, (2) the transaction has not been properly disclosed in the notes to the financial statements and the supplemental schedule, and (3) the auditor should express a qualified opinion on the financial statements and supplemental schedule.

Qualified Opinion—Disclosure of Material Prohibited Transaction With Party-in-Interest Omitted

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

The Plan's financial statements do not disclose that the Plan [*describe related-party transaction*]. Disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2 in conformity with accounting principles generally accepted in the United States of America.

The supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Adverse Opinion—Disclosure of Material Prohibited Transaction With Party-in-Interest Omitted

The following illustrates an auditor's report when the auditor decides that an adverse opinion should be expressed on the supplemental schedules because disclosure of a material prohibited transaction with a party in interest is omitted. [*Guide, par. 13.17*]

Independent Auditor's Report

[*Addressee*]

[*Same first, second, and third paragraphs as the standard report.*]

The supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the Plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, because of the omission of the information discussed in the preceding paragraph are not fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Modified Report—Disclosure of Immaterial Prohibited Transaction With Party-in-Interest Omitted

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor decides to modify his or her report on the supplemental schedules because disclosure of a prohibited transaction with a party in interest that is ***not material*** *to the financial statements has been omitted.* [*Guide, par. 13.17*]

<u>Independent Auditor's Report</u>

[*Addressee*]

[*Same first, second, and third paragraphs as the standard report.*]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental Schedule G, Part III—Schedule of Nonexempt Transactions that accompanies the plan's financial statements does not disclose that the

Plan [*describe prohibited transaction*]. Disclosure of this information, which is not considered material to the financial statements taken as a whole, is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

4. Going Concern

Independent Auditor's Report

The Administrative Committee,
Dagobar Incorporated Past Services
Defined Benefit Plan:

We have audited the accompanying financial statements of the Dagobar Incorporated Past Services Defined Benefit Plan as of December 31, 20X2 and 20X1 and for the years then ended listed in the foregoing table of contents. These financial statements and the supplemental schedules discussed below are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note X to the financial statements, Dagobar Incorporated (the Plan sponsor) has filed for reorganization under the protection of Chapter 11 of the Federal Bankruptcy Code and, at December 31, 20X2, the Plan's net assets available for benefits were less than the actuarial present value of accumulated Plan benefits. As a result of the Plan sponsor's bankruptcy filing, the continuation of the Plan is uncertain. The financial statements do not include any adjustments that might result from this uncertainty.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules for 20X2, listed in the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

The following illustrates an auditor's report when the auditor concludes that there is substantial doubt about the plan's ability to continue as a going concern.

Independent Auditor's Report

To the Trustees of DEF Hospital
Employees' Pension Plan:

We have audited the accompanying statements of assets available for plan benefits of DEF Hospital Employees' Pension Plan (the Plan) as of December 31, 20X2 and 20X1, and the related statements of changes in assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for plan benefits of DEF Hospital Employees' Pension Plan as of December 31, 20X2 and 20X1, and the changes in assets available for plan benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplementary schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements and supplemental schedule has been prepared assuming that DEF Hospital (Hospital), the Plan's sponsor, will continue as a going concern. Our report on the December 31, 20X2 financial statements of the Hospital was issued under the date of April 5, 20X3 and stated that the Hospital's recurring losses from operations and a partners' deficit raise substantial doubt about the Hospital's ability to continue as a gong concern. On December 23, 20X0 the Hospital filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court of the Eastern District of New York. The uncertainty regarding the Hospital's ability to continue as a going concern raises substantial doubt about the Plan's continuation. Should the Plan be terminated, the terms discussed in Note X(e) would be applicable. The financial statements and supplemental schedule do not include any adjustments that might result from the outcome of this uncertainty.

The schedule of assets held for investment purposes at end of year that accompanies the Plan's financial statements does not disclose the historical cost of certain nonparticipant directed plan assets held by the Plan custodian. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

The Plan has not presented the schedule of reportable transactions (transaction or series of transactions in excess of 5 percent of the current value of plan assets at the beginning of the year). Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of Firm*]

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[*City, State*]

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[*Date*]

5. Prior Year Audited by Another Firm

Reference Made to Report of Prior Auditor—Prior Year and Current Year Are Full Scope

Independent Auditor's Report

To the Trustee of Alpha
Inc. Profit Sharing Plan:

We have audited the accompanying statement of net assets available for plan benefits of Alpha Incorporated Profit Sharing Plan and Trust (the "Plan") as of December 31, 20X2 and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Trustee and Plan Administrator of the Plan. Our responsibility is to express an opinion on these financial statements based upon our audit. The financial statements of the Plan as of December 31, 20X1 were audited by other auditors whose report dated May 15, 20X2 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 20X2 and the changes in net assets available for plan benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City, State*]

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[*Date*]

6. Initial Audits

Independent Auditor's Report

To the Twinkle Company Savings Plan for
Certain Eligible Employees:

We have audited the accompanying statement of net assets available for benefits of the Twinkle Company Savings Plan for Certain Eligible Employees (the "Plan") as of December 31, 20X2 and related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan'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.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2, and supplemental Schedule H, line 4j—Schedule of Reportable Transactions for the year ended December 31, 20X2, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

Independent Auditor's Report

To the Star Corporation Investment Committee:

We have audited the accompanying statement of net assets available for plan benefits of the Star Corporation Employees' Savings and Profit-Sharing Plan (the "Plan") as of December 31, 20X2 and the related statement of changes in net assets available for plan benefits for the period from June 15, 20X2 (inception) to December 31, 20X2. These financial statements are the responsibility of the Plan'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan at December 31, 20X2, and the changes in net assets available for plan benefits for the period from June 15, 20X2 (inception) to December 31, 20X2, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2, and supplemental Schedule H, line 4j—Schedule of Reportable Transactions for the period from June 15, 20X2 (inception) to December 31, 20X2, are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

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[*Signature of Firm*]

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[*City and State*]

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[*Date*]

CHAPTER 7: Illustrative Form 5500 Schedules

The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting has now been standardized in that some of these schedules are now required to be reported on Schedule G, Financial Transactions Schedules, of Form 5500.

The following schedules are required to be reported on Schedule G:

- Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Schedule of Nonexempt Transactions

Practice Tip: If you have a late remittance, the following information should be reported on the Form 5500 Schedule G, Part III, Nonexempt Transactions:

1. The interest rate used to calculate the lost income (on line c, "Description of the transaction")
2. The amount of lost interest (included on line i, "Current value of asset")

Often there is confusion when reporting a late deposit of employee deferrals on Part III of Schedule G. As there are no precise instructions, consider completing the following items:

1. The employer is generally considered the "party involved."
2. The relationship is the "plan sponsor."
3. The description is "loan to employer in the form of late deposit of employee 401(k) deferrals."
4. The current value of asset is the amount of the lost interest.
5. Other items should be left blank.

For questions or further information, contact the DOL Office of Regulations and Interpretations at (202) 693-8500.

The following schedules are required to be attached to the Form 5500 filing:

- Schedule H, line 4i—Schedule of Assets (Held at End of Year)
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within Year)
- Schedule H, line 4j—Schedule of Reportable Transactions

Practice Tip: *Schedule of Assets (Held at End of Year) and Schedule of Reportable Transactions.* Large plan filers and certain Direct Filing Entities that have assets held for investment purposes at the end of the year and reportable transactions are required to complete these forms. Computer-scannable forms will not be required; however, they must be prepared in accordance with the instructions to the Form 5500. Auditors should note the following:

- Historical cost information is no longer required on the Schedule of Assets (Held at End of Year) for participant-directed investments. (The illustrative schedules in this chapter may show cost information for some participant directed investments because such disclosure is not prohibited and some plans may continue to disclose it.)
- Participant- or beneficiary-directed transactions are no longer required to be taken into account for purposes of preparing the Schedule of Reportable Transactions.
- In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.
- With the exception of investments in tangible personal property, participant directed brokerage accounts should be reported in the aggregate on line 1c(15) of Schedule H and treated as one asset on the Schedule of Assets (Held at End of Year).

Beginning July 1, 2000, the Department of Labor (DOL) took over the processing responsibilities for the Form 5500 and Form 5500-EZ from the Internal Revenue Service (IRS). The DOL has developed a new computerized system that will simplify and expedite the receipt and processing of the Form 5500 by relying on computer-scannable forms and electronic filing technologies. This system, called the ERISA Filing Acceptance System (EFAST), will reduce government and filer costs associated with filing, receiving, and processing annual reports.

EFAST will process the Form 5500 in two computer-scannable formats: machine print and hand print (the questions are the same; only the appearance is different). Except for those who file electronically, use of computer-scannable forms is mandatory.

Filers can choose a machine print format that uses computer software to complete the Form 5500. The machine print forms can be filed electronically, or they may be printed out on computer printers and mailed to the DOL's processing center in Lawrence, Kansas. The printed form will include a computer-scannable two-dimensional bar code on the bottom of each page for expedited processing. Plans interested in using the machine print version of the Form 5500 will need to use EFAST-approved software. Those wishing to file the Form 5500 or 5500EZ electronically must have the individual who will sign the filing apply for an electronic signature by submitting a completed Form EFAST-1.[1]

[1] Also, companies, trades, businesses, or other persons applying for codes to be EFAST transmitters or software developers must submit the Form EFAST-1 signed by an authorized person.

Practice Tip: Copies of the Form EFAST-1 and instructions are available for viewing and downloading from the EFAST Web page at http://www.efast.dol.gov. Check the DOL's EFAST Web site at www.efast.dol.gov for more information regarding the machine print forms and electronic filing.

When plan annual reports are filed electronically, the DOL encourages attachments to the electronic form (for example, certain applicable supplemental schedules) to be submitted in a single Adobe Portable Document format (PDF); however, data can be submitted in a single file or multiple files in any of the following formats:

- ASCII/EBCIDIC Character (text) format
- Microsoft Word Document format
- Corel Wordperfect Document format
- Adobe Portable Document format (PDF)
- Hypertext-Markup Language (HTML) format
- Microsoft Excel format
- Lotus 1-2-3 format

Filers can also choose a hand print format to complete their Form 5500 by hand or typewriter. However, the hand print format can be filed only by mail (including certain private delivery services) to the DOL's processing center in Lawrence, Kansas. The hand print version of the Form 5500 uses special paper and special ink that enables EFAST to scan hand and typewritten entries. Accordingly, hand print filers must file using the original hand print form. Filings made using photocopies of the hand print version may be subject to rejection by the DOL.

Practice Tip: The 5500 forms will be available in the Form 5500 package mailed by the IRS and will also be available twenty-four hours a day, seven days a week, by calling (800) TAX-FORM ((800) 829-3676).

The illustration contained in this chapter is of the hand print form only.

1. Schedule of Assets (Held at End of Year)

SCHEDULE I

DEF Holdings, Inc. 401(k) Plan
Plan Sponsor: DEF Holdings, Inc.
Plan Sponsor EIN: 55-5555555
Plan Number: 002

Schedule of Assets (Held at End of Year)
as of December 31, 20X2

(a)	*(b)* Identity of Issue, Borrower, Lessor, or Similar Party	*(c)* Description of Investments (No. of Shares)	*(d)* Cost[1]	*(e)* Current Value
	MUTUAL FUNDS			
	Cash or Cash Equivalents			
*	DEF Dollar Fund	$1,207,358	$1,207,358	$1,207,358
	Fixed Income Investments			
*	DEF Strategic Income Fund	60,246	638,496	730,788
*	DEF Government Income Fund	18,678	91,594	164,926
*	DEF High Income Fund	110,232	1,317,904	1,694,282
	Total Fixed Income		2,047,994	2,589,996
	Growth and Income Investments			
*	DEF Growth & Income Fund	107,338	642,970	795,368
	Equity Investments			
*	DEF New Pacific Growth Fund	127,506	1,601,002	1,677,968
*	DEF Europe Growth Fund	87,142	944,424	1,125,866
*	DEF Japan Growth Fund	34,822	403,966	341,604
*	DEF International Growth Fund	59,024	535,758	531,216
*	DEF America Growth Fund	110,304	2,010,514	2,289,904
*	DEF Worldwide Growth Fund	138,780	2,132,738	2,334,268
*	DEF Health Care Fund	35,646	689,836	875,132
*	DEF Latin America Growth Fund	41,796	724,574	774,056
*	DEF Telecommunications Fund	82,152	1,287,640	1,289,802
*	DEF Emerging Markets Fund	164,872	2,573,790	2,397,228
*	DEF Financial Services Fund	5,592	1,378	77,716
*	DEF Infrastructure Fund	39,658	475,094	583,370
*	DEF Natural Resources Fund	63,648	980,202	1,122,744
*	DEF Consumer Products Fund	61,704	960,046	1,232,238
*	DEF America Value Fund	20,140	274,502	296,448
*	DEF Small Cap Growth Fund	30,758	382,286	386,936
	Bank in Lisbon Bearer Participating Certificates	1,102	566,022	564,676
	Total Equity		16,543,772	17,901,172
*	Participant loans, Interest Rate: 9.75%–10.0%		574,816	574,816
	TOTAL INVESTMENTS		$21,016,910	$23,068,710

* Represents a party-in-interest to the Plan.

[1] Historical cost information is no longer required on the Schedule of Assets (Held at End of Year) for participant directed investments. This example shows the cost information for some participant directed investments because such disclosure is not prohibited and some plans continue to disclose it.

SCHEDULE I

AB& C Enterprises
401(k) Retirement Plan
EIN: 55-5555555
Plan Number: 001

Schedule of Assets (Held at End of Year)
As of December 31, 20X2

(a)	*(b) Identity*	*(c) Description of Investment*	*(d) Cost*	*(e) Current Value*
*	The National Group	133,404 shares of National Fund	**	3,488,532
*	The National Group	1,792,072 shares of National Money MarketReserves—Federal Portfolio	**	1,792,072
*	The National Group	123,494 shares of National Fixed Income Securities Fund—Short-Term Portfolio	**	1,327,554
*	The National Group	51,204 shares of National Index Trust—500 Portfolio	**	3,541,276
*	The National Group	50,770 shares of National International Portfolio	**	1,398,188
*	The National Group	78,402 shares of National Equity Income Fund	**	1,436,336
*	The National Group	81,312 shares of National U.S. Growth Portfolio	**	1,930,340
*	The National Group	17,520 shares of National Index Market Portfolio	**	458,852
*	Participant Loans	Interest ranging from 6.5 percent to 7 percent	**	55,482
	Total		**	15,428,632

* A party-in-interest as defined by ERISA.

** Cost omitted for participant directed investments

Sample Company Retirement Plan
Schedule for Assets (Held at End of Year)
as of December 31, 20X2

(a)	*(b)* *Identity of Issue, Borrower, Lessor, or Similar Party*	*(c)* *Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value*	*(d)* *Cost*	*(e)* *Current Value*
	XYZ Trust Fixed Income Fund	Retirement Mutual Fund, 64,500 shares	200,000	300,000
	XYZ Trust Equity Fund	Retirement Mutual Fund, 68,900 shares	400,000	450,000
	XYZ Trust Growth Fund	Retirement Mutual Fund, 48,800 shares	1,100,000	1,000,000
	XYZ Cash Fund	Money Market Fund	30,000	30,000
*	Participant Loans	Loans, ranging 0–5 years maturity with interest rates of 7.25% to 9.75%	90,000	90,000
	Federal Government	U.S. Treasury Note; maturity date 12/31/2001; 7.25% interest	400,000	400,000
	Total		2,220,000	2,270,000

*A party-in-interest as defined by ERISA.

XYZ Savings Program
EIN: 55-5555555
Plan: 002

Schedule of Assets (Held at End of Year)
December 31, 20X2

(a) Identity of Party Involved	(b) Description of Asset	(c) Number of Shares or Units	(d) Current Value
*ABC Bank	Money Market Fund*	8,284,990	$ 8,603,200
Prosperity Investments	Mutual Fund	3,001,084	201,224,580
DEF Inc.	Money Market Mutual Fund	32,830,692	32,762,690
GHI Investors	Balanced Fund	1,637,252	85,138,916
ABC Global Investors	Equity Index Fund	7,656,770	125,894,220
Participant Loans	Interest ranging from 7%–10%	13,247,714	12,933,714
National Synthetic:			
GNMA ARM	#H3-9246 6.50%	2,600,000	1,931,158
GNMA ARM	#H3-9013 6.50%	1,145,708	723,358
GNMA ARM	#H3-957882, 6.50%	1,572,778	1,127,842
GNMA ARM	#H3-9611, 7.15%	2,321,586	819,084
GNMA ARM	#H3-9645, 7.15%	5,000,132	1,828,616
GNMA ARM	#H3-9933, 7.15%	1,950,002	1,208,864
GNMA ARM	#H3-9080, 7.75%	1,950,000	999,994
FHLMC FRM	7.50%	16,000,000	15,975,040
GNMA FRM	7.50%	10,044,994	10,044,994
Interest Rate Floor Agreement	5.50%	16,000,000	317,600
U.S. Treasury Note	#U-091642, 6.00%	710,000	712,108
*ABC Bank	Money Market Fund	32,308,798	32,316,798
National Wrapper	Synthetic Wrapper Agreement	—	(393,352)
ABC Life Contract	#HBD-41463, 6.15%, 3-1-X6	20,661,604	20,661,604
DEF Contract	#HBD-8568322, 5.65%, 9-1-X3	26,272,740	26,272,740
GHI Mutual Contract	#HBD-50870, 5.00%, 2-28-X4	17,796,028	17,814,028
GHI Mutual Contract	#HBD-50870-3, 6.50%, 3-1-X5	11,574,102	11,560,102
JKL Life Contract	#HBD-25193, 7.25%, 3-1-X5	14,290,224	14,290,224
JKL Life Contract	#HBD-25276, 6.15%, 3-1-X6	17,299,096	17,299,096
MNO Contract	#HBD-23991, 5.50%, 3-2-X4	13,880,466	13,880,466
PQR International Group	#HBD-29318, 7.00%, 9-1-X5	14,379,788	14,379,788
STU Contract	#HBD-0019, 5.75%, 3-1-X4	4,331,894	4,331,894
STU Contract	#HBD-0882, 4.75%, 8-31-X3	8,724,514	8,724,514
VWX Int'l Group Contract	#HBD-987, 5.75%, 3-1-X5	11,781,558	11,781,558
YZA Int'l Life	#HBD-29205, 7.00%, 9-1-X5	7,256,842	7,256,842
BCD Life Insurance Company	#HBD-HB0004, 7.25%, 9-1-X4	8,219,378	8,219,378
ABC Life Contract	#HBD-41587, 6.25%, 3-1-X7	20,000,000	20,887,880
EFG Mutual Life Insurance	#HBD-9737, 6.75%, 3-1-X7	14,657,064	14,656,664
HIJ Contract	#CJD 114062, 6.50%, 9-1-X3	10,893,652	10,884,652
			$757,070,854

* A party-in-interest as defined by ERISA.

Plan Name: ABC Company Pension Plan II
Sponsor: ABC Holdings (Operations) Inc.
Employer Identification Number: 55-5555555
Plan Number: 001
Plan Year Ending: December 31, 20X2

Schedule of Assets (Held at End of Year)—See Form 5500

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Face Value or Number of Shares	(e) Current Value
*	ABC Bank Liquid Reserve Fund	Money Market Fund	485,698	$ 485,698
*	GHI Bank Temporary Investment	Money Market Fund	1,542	1,542
*	GHI Bank Bond Index Fund	Bond Fund	110,612	19,225,196
*	GHI Bank Stock Index Fund	Equity Fund	85,578	59,901,044
*	Sample Company, Ltd.	Common Stock	115,956	3,275,756
	XYZ Company	Common Stock	28	230
*	DEF Realty Fund	Real Estate Fund	42	1,741,808
	Total			$84,631,274

*A party-in-interest as defined by ERISA.

SCHEDULE I

Sample Company, Inc. Pension Plan
Schedule of Assets (Held at End of Year)
December 14, 20X2

Description	*Cost*	*Current Value*
ABC Bank money market, variable rate—4.87% as of December 14, 20X2	$2,438,340	$2,438,340
Prosperity Life Insurance Company, Inc. group annuity contract No. 207503, variable rate—5% as of December 14, 20X2	53,142	53,142
Prosperity Life Insurance Company, Inc. group annuity contract No. 207636, variable rate—5% as of December 14, 20X2	89,616	89,616
National Life Insurance Company, group annuity contract No. 6455739, variable rate—5.5% as of December 14, 20X2	242,718	242,718
National Life Insurance Company, group annuity contract No. 6455744, variable rate—5.5% as of December 14, 20X2	933,536	933,536
Total investments	$3,757,352	$3,757,352

2. Schedule of Reportable Transactions

Sample Company Retirement Plan
Schedule of Reportable Transactions for the Year Ending
December 31, 20X2

(a) *Identity of Party Involved*	*(b)* *Description of Asset*	*(c)* *Purchase Price*	*(d)* *Selling Price*	*(e)* *Lease Rental*	*(f)* *Expense Incurred With Transaction*	*(g)* *Cost of Asset*	*(h)* *Current Value of Asset on Transaction Date*	*(i)* *Net Gain/(Loss)*
XYZ Trust Fixed Income Fund	Retirement Mutual Fund, 12 purchases, 20,500 shares	$100,000	N/A	N/A	N/A	$100,000	$100,000	N/A
XYZ Trust Equity Fund	Retirement Mutual Fund, 20 sales, 40,000 shares	N/A	$400,000	N/A	N/A	$300,000	$400,000	$100,000
ABC Company	$450,000 note dated 2/15/X0, 7.25% interest, matures 2/15/X6	N/A	$432,278	N/A	N/A	$429,272	$432,280	$3,008
DEF Growth Fund	Retirement Mutual Fund, purchase of 100,000 shares	$500,000	N/A	N/A	N/A	$500,000	$500,000	N/A

(*a*) Represents transaction or a series of transactions in securities of the same issue in excess of 5% of the plan market value as of December 31, 20X1.

DEF Holdings Inc. Pension Plan
Plan Sponsor: DEF Holdings, Inc.
Plan Sponsor EIN: 55-5555555
Plan Number: 002

Schedule of Reportable Transactions
for the Year Ended December 31, 20X2

(a) Identity of Party Involved*	(b) Description of Securities	Number of Transactions	(c) Transactions Aggregate Purchase Price	(d) Transactions Aggregate Sale Price	(e) Lease Rental	(f) Expenses Incurred With Transaction	(g) Cost of Asset	(h) Current Value of Asset on Transaction Date	(i) Net Gain (Loss)
DEF Dollar Fund	Mutual Fund shares	82	$ 836,064	—	—	—	$ 836,064	$ 836,064	—
DEF Dollar Fund	Mutual Fund Shares	84	—	773,288	—	—	**	773,288	**
DEF America Growth Fund	Mutual Fund Shares	60	696,986	—	—	—	696,986	696,986	—
DEF America Growth Fund	Mutual Fund Shares	94	—	1,297,394	—	—	**	1,297,394	**
DEF Emerging Markets Fund	Mutual Fund Shares	60	1,082,634	—	—	—	1,082,634	1,082,634	—
DEF Emerging Markets Fund	Mutual Fund Shares	82	—	931,458	—	—	**	931,458	**
DEF High Income Fund	Mutual Fund Shares	82	1,113,632	—	—	—	1,113,632	1,113,632	—
DEF High Income Fund	Mutual Fund Shares	62	—	804,396	—	—	**	804,396	**
DEF Natural Resources Fund	Mutual Fund Shares	60	1,015,116	—	—	—	1,015,116	1,015,116	—
DEF Natural Resources Fund	Mutual Fund Shares	22	—	62,554	—	—	**	62,554	**
DEF Consumer Products Fund	Mutual Fund Shares	60	919,756	—	—	—	919,756	919,756	—
DEF Consumer Products Fund	Mutual Fund Shares	64	—	325,118	—	—	**	325,118	**

* All parties represent parties-in-interest to the Plan.
** Information not available.

XYZ Profit Sharing Program
EIN: 55-5555555
Plan: 002

Schedule of Reportable Transactions
for the Year Ended December 31, 20X2

(a) Identity of Party Involved*	(b) Description of Asset	Number of Purchase Transactions	(c) Purchase Price	Number of Sales Transactions	(d) Selling Price	(e) Lease Rental	(f) Expense Incurred With Transaction	(g) Cost of Assets	(h) Current Value of Asset on Transaction Date	(i) Net Gain (Loss)
*ABC Bank	Money Market Fund	718	$374,309,306	—	—	—	—	$374,309,306	$374,309,306	—
*ABC Bank	Money Market Fund	—	—	700	365,660,824	—	—	365,660,824	365,660,824	—
Prosperity Investments	Mutual Fund	148	60,082,384	—	—	—	—	60,082,384	60,082,384	—
Prosperity Investments	Mutual Fund	—	—	298	56,731,132	—	—	52,321,134	56,731,132	4,409,998
DEF Inc.	Money Market Mutual Fund	166	18,729,248	—	—	—	—	18,729,248	18,729,248	—
DEF Inc.	Money Market Mutual Fund	—	—	312	11,197,446	—	—	11,197,446	11,197,446	—
GHI Investors	Balanced Fund	272	33,188,156	—	—	—	—	33,188,156	33,188,156	—
GHI Investors	Balanced Fund	—	—	184	11,748,138	—	—	10,356,300	11,748,138	1,391,838
ABC Global Investors	Equity Index Fund	324	51,644,964	—	—	—	—	51,644,964	51,644,964	—
ABC Global Investors	Equity Index Fund	—	—	116	17,692,672	—	—	16,211,918	17,692,672	1,480,754

*A party-in-interest as defined by ERISA.

Sample Company, Inc. Pension Plan
Schedule of Reportable Transactions
for the Year Ended December 14, 20X2

Identity of Party	*Description of Asset*	*Number of Transactions*	*Purchase Price*	*Number of Transactions*	*Selling Price*	*Cost*	*Net Gain (Loss)*
ABC Bank	United States Treasury bills	1	$1,804,000	1	$1,804,000	$1,804,000	$0
Prosperity Life Insurance	Life insurance policies	0	0	516	990,894	990,894	0

This schedule is prepared using the alternative way of reporting (iii) series transactions under DOL Regulation 2520.103-b(d)(2).

Plan Name: ABC Company Pension Plan II
Sponsor: ABC Holdings (Operations) Inc.
Employer Identification Number : 55-5555555
Plan Number: 001
Plan Year Ending: December 31, 20X2
Schedule of Reportable Transactions—See Form 5500

Identity of Party Involved	*Description of Asset (Include Interest Rate and Maturity in Case of a Loan)*	*(a) Number of Purchases*	*(b) Number of Sales*	*(c) Total Value of Purchases*	*(d) Total Value of Sales*	*(e) Net Gain (Loss)*
* ABC Bank Liquid Reserve Fund	Commingled Employee Benefit Trust	52	N/A	7,073,036	N/A	N/A
* ABC Bank Liquid Reserve Fund	Commingled Employee Benefit Trust	N/A	40	N/A	6,587,338	N/A
* GHI Bank	GHI Bank Stock Index Fund	22	N/A	758,650	N/A	N/A
* GHI Bank	GHI Bank Stock Index Fund	N/A	8	N/A	4,051,030	1,180,478
* GHI Bank	GHI Bank Bond Index Fund	16	N/A	1,101,452	N/A	N/A
* GHI Bank	GHI Bank Bond Index Fund	N/A	10	N/A	3,461,454	(73,002)

*A party-in-interest as defined by ERISA.

3. Schedule of Nonexempt Transactions

Schedule G (Form 5500) 2001 Page **4**

Official Use Only

Part III **Nonexempt Transactions**
If a nonexempt prohibited transaction occured with respect to a disqualified person, file Form 5330 with the IRS to pay the excise tax on the transaction.

(a) Identity of party involved
ABC COMPANY

(b) Relationship to plan, employer, or other party-in-interest
PLAN SPONSOR

(c) Description of transactions including maturity date, rate of interest, collateral, par or maturity value
1000000 NOTE 8.25% INTEREST DATED
01-01-X0 DUE 12-31-X4

(d) Purchase price
1000000 .00

(e) Selling price
.00

(f) Lease rental
.00

(g) Expenses incurred in connection with transaction
20000 .00

(h) Cost of asset
.00

(i) Current value of asset
980000 .00

(j) Net gain or (loss) on each transaction
.00

(a) Identity of party involved
ABC COMPANY

(b) Relationship to plan, employer, or other party-in-interest
PLAN SPONSOR

(c) Description of transactions including maturity date, rate of interest, collateral, par or maturity value
LOAN TO EMPLOYER IN THE FORM OF
LATE DEPOSITS OF EMPLOYEE DEFERRALS

(d) Purchase price
.00

(e) Selling price
.00

(f) Lease rental
.00

(g) Expenses incurred in connection with transaction
.00

(h) Cost of asset
.00

(i) Current value of asset
4000 .00

(j) Net gain or (loss) on each transaction
.00

2 3 0 1 A B 0 4 0 V

CHAPTER 8: Management Letter Comments

WHAT ARE MANAGEMENT LETTER COMMENTS?

SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AICPA, *Professional Standards,* vol. 1, AU sec. 325), as amended, requires that auditors communicate deficiencies in the design and operation of the entity's control structure (referred to as "reportable conditions") that could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with management's financial statement assertions regarding existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure. Reportable conditions are:

> …matters coming to the auditor's attention that, in his judgment, should be communicated to the audit committee because they represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Such deficiencies may involve aspects of the internal control structure elements of (*a*) the control environment, (*b*) the accounting system, or (*c*) control procedures.

SAS No. 60 establishes two categories of reportable conditions: deficiencies in the design of the internal control structure, and deficiencies in the operation of the internal control structure. Design deficiencies relate to inadequate or absent control structure policies and procedures that could adversely affect the entity's ability to record and report financial information. A deficiency in the operation of the control structure occurs when the entity has designed appropriate control policies and procedures, but they are not being followed or they are ineffective.

Some material weaknesses may be of such a magnitude that a material error or irregularity could occur and not be detected timely by employees in performing their normal assigned functions. These reportable conditions are considered material weaknesses. Many auditors separately identify material weaknesses from other reportable conditions in their written communications, either because the client asks them to do so or because they want to emphasize the conditions; however SAS No. 60 does not require that an auditor separately identify material weaknesses in the report on reportable conditions.

SAS No. 60 also recognizes that an auditor may identify other matters during the course of the audit that would benefit management or the audit committee that are not reportable *conditions. For example, the auditor may want to communicate to management suggestions for improving operational and administrative efficiencies. These matters are often communicated in writing to the client in a document known as a "management letter." These comments are often referred to as "management letter comments" (MLCs).*

This chapter shows three illustrative management letters and illustrative MLCs that have been communicated to management on actual employee benefit plan audits to illustrate deficiencies noted and suggestions for improving operations of the plan.

SAMPLE MANAGEMENT LETTERS

The following three reports illustrate typical management letters where no material weaknesses were found.

Plan Administrator
XYZ Company 401(k) Plan

In planning and performing our audit of the financial statements of the XYZ Company 401(k) Plan for the year ended December 31, 20X2, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and supplemental schedules and not to provide assurance on the internal control. During our engagement to audit, the following matters came to our attention that we believe merit your consideration.

[*Insert comments here.*]

This letter is intended solely for the information and use of the Plan Administrator and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions at your convenience.

____
[*Signature*]

____
[*Date*]

Limited Scope Audit

Plan Administrator
XYZ Company 401(k) Plan

In planning and performing our engagement to audit the financial statements of the XYZ Company 401(k) Plan for the year ended December 31, 20X2, we considered its internal control, except for internal control related to investment information which is excluded as permitted by Regulation 2520.203-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and as instructed by you, to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and supplemental schedules and not to provide assurance on internal control or to identify reportable conditions. During our engagement to audit, the following matters came to our attention that we believe merit your consideration.

[*Insert comments here.*]

This letter is intended solely for the information and use of the Plan Administrator and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions at your convenience.

____
[*Signature*]

____
[*Date*]

Governmental Employee Pension Trust

The Pension Committee and plan administrator of the ABC Government Employees Pension Trust

We have completed our audit of the financial statements of the ABC Government Employees Pension Trust for the year ended December 31, 20X2. While an audit is not intended to provide assurance on the internal control structure, as a result of our observations and documentation of the Plan's systems, we noted several areas for improvement that we would like to convey to you for further action.

[*Insert comments here.*]

We appreciate the opportunity to be of service to the ABC Government Employees Pension Trust. We have enjoyed working with the staff and look forward to continuing our relationship. We hope that our comments and suggestions will be received in the caring and constructive fashion they are intended. We would be pleased to offer additional insight into or assist in implementing any of our suggestions. It is our hope that you should contact us should you have any questions any time.

____
[*Signature*]

____
[*Date*]

ILLUSTRATIVE MANAGEMENT LETTER COMMENTS

This section contains the following illustrative management letter comments:

1. Benefits	Accumulated Plan Benefit Obligations Benefit Obligations Benefit Payments
2. Contributions	Participant/Employee Contributions Employer Contributions Excess Contribution Deferrals Rollovers
3. Distributions	Hardship Withdrawals Improper Calculation of Benefits Improper or Missing Benefit Approval Improper Payment of Benefits Lack of Review/Reconciliation of Benefits Taxability of Distributions Miscellaneous Distributions Qualified Domestic Relations Order (QDRO)
4. Investments	
5. Loans	Participant Loans Improper Execution of Loans
6. Participant Data Testing	Participant Accounts Participant Enrollment Forms
7. Internal Control	Internal Controls
8. Administrative Matters	Regulatory Compliance Administrative Costs Investment Policy Guidelines Personnel Files Segregation of Duties Dual Signatures Accuracy of Data Sent From Third-Party Administrator Accuracy of Employee Data Use of Third-Party Administrators Minutes of Trustees Meetings Plan Fees and Expenses
9. Other Matters	Float Pool Employees Nondiscrimination Rules Participation Plan Administration Reconciliations Plan Compensation Expenses Eligibility Adopting Employers Demographic Data

1. Benefits

Accumulated Plan Benefit Obligations

During our audit, we noted errors in the participant data (e.g., hire date, birth date, etc.) used by the actuary.

Although an occasional error does not materially distort the actuarial information, a lack of reliable, accurate data can invalidate the actuary's results.

Perform a detailed review of the current participant data records to ensure accuracy. For large data files, software such as ACL can assist in identifying errors. Design and implement controls to ensure that all eligible employees are included and that the information about each participant is correct.

The plan's actuary determines the actuarial methods and assumptions with little input from plan personnel.

The plan engages an actuary because of the complexity of the actuarial calculations. It is appropriate to rely on a specialist for these services; however, the plan personnel possess knowledge which may influence the actuary's selection of methods and assumptions.

Review the actuarial methods and assumptions with the actuary prior to completion of the valuation. Challenge whether the factors used in the valuation are reasonable in lieu of prior year factors and changes in the plan, demographics of the employee group and major changes in the plan sponsor (i.e., mergers, spin-offs, etc.).

Benefit Obligations [*Health and Welfare Benefit Plan*]

During our testing, we noted several instances of missing or incomplete information, including missing participant enrollment forms and missing or incomplete documentation for claims processed by [*insurance company*]. Maintaining proper documentation regarding participant data and claims can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered a prohibited transaction.

Procedures should be implemented to ensure all enrollment forms and supporting documentation for claims processed are maintained and properly filed.

Benefit Payments

During our testing of benefit payments made during 20X2, we noted two instances where the participant requested a distribution of their account in The Defined Contribution Plan of ABC Company. However, the Plan Sponsor's personnel completed the wrong paperwork and the participant received a distribution of their account from The Tax Sheltered Annuity Plan of ABC Company.

We recommend that the Plan Sponsor develop and execute policies and procedures to have distributions reviewed by someone other than the individual preparing the requests prior to submission to the recordkeeper. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

....

We noted several instances in which incorrect benefit payment distributions were processed. These instances included overpayments to beneficiaries of deceased individuals, overpayments due to calculations based on hours worked instead of elapsed time and manual calculation errors.

We understand that the overpayments to beneficiaries of deceased individuals were identified in an audit performed by XXXX last year and are being corrected. We also understand that XXX changed from hours counting to elapsed time, retroactive to the beginning of the year. This change resulted in de minimus errors, which have since been corrected. XXX also intends to begin utilizing calculator software, which should eliminate manual errors in the future.

We recommend considering any additional procedures which may need to be implemented to assess the propriety of benefit payments and the computation of the payments. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

....

2. Contributions

Participant/Employee Contributions

a. Timely Deposit of Participant Contributions

Issue:

During our audit, it was noted that sufficient controls are not in place to ensure participant contributions are remitted to the Plan in a timely manner.

Participant contributions for certain payrolls in December 20X2 were not remitted timely. The Department of Labor ("DOL") requires that participant contributions be remitted to the Plan on the earliest date on which they can be reasonably segregated from the company's general assets but in no event later than the 15th business day following the end of the month in which amounts are contributed by employees or withheld from their wages. Failure to remit participant contributions to the Plan in a timely manner results in a prohibited transaction which must be separately reported to the DOL and may result in penalties to the Plan Sponsor.

Recommendation:

We recommend that the Plan Sponsor review the procedures involved in remittance of participant contributions to the Plan and institute the necessary controls to ensure participant contributions are remitted timely. A Form 5330 should be filed for the contributions that were not remitted timely and lost earnings must be remitted to the Plan and allocated to participants.

During our audit, we found that one employee who should have been allowed to make deferrals and receive matching contributions was not allowed to do so. This occurred due to the employee setting a maximum limit on her contributions that had to be manually stopped once the employee reached the maximum in the previous year. For 20X2, her deferral contribution rate was not reset resulting in no deferral contributions in 20X2.

We recommend that the Plan Sponsor develop and execute policies and procedures to review employee contributions at the beginning of each year to ensure that the proper deferrals are being made. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

b. Inaccurate Contribution Percentages

Issue:

We noted that the Plan document provides for contributions from 2% to 10% of qualified compensation. In operation, the Plan is allowing contributions from 1% to 15%.

Recommendation:

We recommend that the Plan's management amend the Plan document to allow for prospective contributions from 1% to 15%.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

c. Inaccurate Deduction/Calculations

Issue:

We noted that contribution deductions were not properly calculated for certain participants receiving manual checks.

Recommendation:

We recommend that the Plan's management consider implementing controls or programming check changes to ensure these types of errors do not occur. If not corrected, these errors, including restoring lost investment earnings, would be considered a plan operational violation.

d. Timing of Contribution Election Changes

Issue:

We noted a few instances where a participant changed contribution election percentages or investment allocation changes twice within a six-month period; however, the Plan document allows two changes a year and only one such change within a six-month period.

Recommendation:

We recommend that the Plan's management establish policies to monitor participant contribution election changes to ensure compliance with the provisions of the Plan document. In addition, the Plan's management should review the Plan document and determine if an amendment to the Plan document or a change in policy is necessary.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

e. Accuracy of Administering Contribution Election Changes

Issue:

We noted several instances where an employee's change in elective contributions was made earlier or later than the calculated effective date allowed by the Plan document.

Recommendation:

We recommend that the Plan's management document the procedures for making elective contributions allowed under the Plan document and review with the personnel responsible for setting the elections up on payroll system.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

. . . .

f. Participant Deferrals

During our audit, we noted that one participant made deferrals that exceeded the Plan's 15% limit per the Plan document.

We recommend that the Plan Sponsor develop and execute policies and procedures to review participant deferral percentages. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

. . . .

During our audit, we noted that one participant made deferrals that exceeded the Internal Revenue Code (IRC) Section 402(g) limits due to a problem in the programming of the payroll system. Refunds were appropriately made prior to April 15, 20X2.

We recommend that the Plan Sponsor develop and execute policies and procedures to ensure that the IRC Section 402(g) limits are not exceeded in the future.

. . . .

Employer Contributions

a. Accuracy of Utilization of Forfeitures of Employer Contributions

Issue:

We noted that forfeitures totaling approximately $20,000 and $18,000 for 20X2 and 20X1 respectively, were not used to reduce employer contributions as allowed under the Plan document.

Recommendation:

We recommend that the Plan's management establish procedures for tracking forfeitures to ensure the Company is not funding amounts needlessly, and that appropriate amounts are offset for the applicable year.

b. Adoption Agreement

Through the year ended December 31, 20X2, no employer contributions have ever been made to the Plan. Because the adoption agreement was completed in a contradictory manner with regard to the discretionary matching provisions, it is questionable whether any employer match is allowed under the Plan.

We recommend that the adoption agreement be amended before any employer contributions are made to the Plan to clarify the contradictory language related to the discretionary match.

c. Other

Our testing of employer contributions noted two issues to be considered by the Administrator for corrective action. The first is that the Management company excluded bonuses from compensation for both employee and employer contributions. The Plan definition of compensation is all W-2 wages, excluding fringe benefits. The second is that the Plan states that participants are eligible for the optional company contribution during years in which they have completed 1,000 hours of credited service. The management and construction companies make contributions monthly with the assistance of ADP. While this facilitates administration, it may allow certain participants to receive contributions for which they are not entitled, if they terminate prior to accomplishing 1,000 hours of service.

In order to not apply employee deferral elections to bonuses, there should be documentation for each employee authorizing such a deviation from a previously signed election. Bonuses should always be included in the calculation of the optional company contribution. Regarding the 1,000 hour requirement for the company optional contribution, the Plan should either be amended to properly reflect the intent of the Company and to maintain administrative ease, or procedures should be implemented to ensure compliance with the Plan document. This could be achieved by tracking the cumulative hours of each participant and applying the contributions monthly, then, for those employees who terminate during the year, consideration of their eligibility for optional contributions must be given and their account balances adjusted accordingly for those ineligible contributions, which should be returned to the employer or used to offset total employer contributions for the year.

The ABC Company holds and controls employer contributions well after the date the funds can be identified and segregated. Additionally, ABC Company pays administrative fees for the plan from the "temporary holding account" which accrues interest on the contributions. This interest is supposed to benefit the employees. However, the interest earned that goes to the employees is reduced by the administrative fees which are the employer's responsibility.

We recommend that you consider opening a separate account for the sole purpose of funding administrative expenses. Before any decision is made to initiate this change, we recommend that you consult with legal counsel to determine the impact of termination.

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d. Employer Matching Contributions

During our audit for the year ended December 31, 20X2, we noted that a 401(k) contribution was not withheld from one employee's paycheck for one pay period. The Plan Sponsor found and corrected this error; however, another error was made in calculating the employer matching contribution.

We recommend that the Plan Sponsor develop and execute policies and procedures to ensure any corrections of employee deferral contributions and employer matching contributions be reviewed by someone other than the individual processing the correction. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

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During our audit for the year ended December 31, 20X2, we noted that there was a problem in the Company's payroll system which caused the matching contributions for several participants to be less than that provided in the plan document. The Company found and corrected this error; however, another error was made in the manual correction that was noted during our participant data testing.

We recommend that the Plan Sponsor develop and execute policies and procedures to review employer contributions and that any corrections be reviewed by someone other than the individual calculating the correction. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

• •

During our testing of contributions, we were unable to test the employer matching contribution for two participants selected as certain locations did not properly utilize the matching function when sending their payroll information to ADP.

We recommend that the Plan Sponsor have all locations utilize the matching function on the ADP payroll register. This will allow the Plan Sponsor to verify that employer matching contributions are correct and will facilitate the reconciliation of the employer matching contributions.

During our audit, we found that two non-union employees who worked in a primarily union-related department were not receiving the appropriate employer matching contribution.

We recommend that the Plan Sponsor develop and execute policies and procedures to review employer matching contributions. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

We understand that Plan business is carried out during Executive meetings of ABC's Board of Directors. Since the Plan's Trustees have the fiduciary responsibility to act in a prudent manner, we recommend that Plan business be separately identified and recorded in minutes of meetings of the Board of Trustees. In addition to documenting the adoption of plan amendments, these minutes should evidence that the Trustees are reviewing and monitoring investment performance, approving retiree benefits, approving the annual audit of the Plan and other such Plan activity on a periodic basis.

e. Accuracy of Recording Plan Contributions

Issue:

We noted that funds transferred to the trust are not reconciled to the Company's wires and payroll registers each pay period to ensure proper receipt and recording.

Recommendation:

We recommend that the Plan's management implement controls and procedures to ensure all assets are accurately transferred and recorded.

f. Plan Contribution Limits

During our audit, we noted that two participants made deferrals that exceeded the Plan's established limit per the provisions of the Plan Document and one participant received an employer matching contribution that was in excess of the Plan's established limit per the provisions of the Plan Document.

We recommend that the Plan Sponsor develop and execute policies and procedures to ensure that the Plan operates as designed. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

During our audit, we noted that a number of participants received matching contributions that exceeded the Plan's established limit per the provisions of the Plan Document.

We recommend that the Plan Sponsor develop and execute policies and procedures to ensure that the Plan operates as designed. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

During our audit, we noted that one participant received an employer matching contribution that was in excess of the plan specified limits.

We recommend that the Plan Sponsor develop and execute policies and procedures to review employer matching contributions. It is our understanding that the Plan Sponsor has determined that it was ineligible to self-correct under the Internal Revenue Service's Self-Correction Program offered by the Internal Revenue Service (Rev. Proc. 2001-17) and that the Plan Sponsor has self-corrected the excess contribution in accordance with that revenue procedure; however, if that is not the case please let us know if we can assist the Plan Sponsor. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status.

Excess Contribution Deferrals

a. Prevention of Excess Deferral Refunds

Issue:

We noted that excess contributions refunded subsequent to year end totaled approximately $120,000. As such, numerous highly compensated employees were limited in sheltering from tax the entire amount they elected to defer under the existing plan.

Recommendation:

We recommend that the Plan's management establish procedures to determine maximum percentages allowed for contributions by highly compensated employees in order to eliminate the need to refund these excess amounts.

In addition, we recommend that the Plan's management consider implementing a "wrapper" nonqualified deferred compensation plan to which the excess annual deferrals can be contributed. Implementation of this 401(k) wrapper plan will enable select highly compensated employees to shelter the maximum amount permitted by law.

b. Timing of Excess Deferral Refunds

Issue:

A plan must pass certain discrimination tests under the Internal Revenue Code (IRC) Section 401(k) and 401(m). If a plan fails the discrimination tests, any excess deferrals must be returned to the participant within 2½ months after the Plan year end in order to avoid the 10% excise tax on the amount not timely refunded under IRC Section 4979.

We noted that the Plan had aggregate excess annual deferral refunds in excess of $100,000 for the 20X2 Plan year and was unable to obtain the payroll data necessary to calculate the refund within a 2½ month period. As a result, the Company owed an excise tax of more than $10,000 for the 20X2 Plan year.

Recommendation:

We recommend that the Plan's management establish procedures to ensure that the excess annual deferrals be refunded within the 2½ month period to avoid excise tax liabilities.

c. Distribution of Excess Deferrals to Terminated Employees

Issue:

We noted that an employee who had taken a distribution from the Plan during the 20X2 Plan year was found to have required an ADP excess contribution refund for that year, resulting in incorrect recording of the distribution.

Recommendation:

We recommend that the Plan's management establish procedures to ensure that a Form 1099-R (original or amended) is issued showing the correct portion as a Plan distribution and the correct portion as a return of excess ADP deferrals. As the distribution was made in January 20X2, the Form 1099-R is required by January 31, 20X2. Failure to issue a proper Form 1099-R for the ADP excess would be considered a failure to correct the ADP excess for the entire Plan.

d. Coverage Testing Effects on ADP Testing

Issue:

We noted that based on the information provided, the Plan did not pass the 410(b) coverage test for the 20X2 and 20X1 Plan years and accordingly, the ADP testing was not passed for these Plan years.

Recommendation:

We recommend that the Plan's management review the provisions of the 410(b) coverage testing and implement procedures to ensure that the Plan will pass this test for upcoming years.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

Rollovers

During our testing of rollover contributions, we noted six exceptions for participants tested. For each of these participants, the rollover was inadvertently deposited into the Non-Exempt 401(k) Plan of ABC Company instead of The Defined Contribution Plan of ABC Company. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that the rollover funds be moved into the correct plan as soon as reasonably possible. We also recommend that a procedure be instituted that ensures that all rollovers are reviewed to verify that the rollover funds have been deposited into the correct plan.

3. DISTRIBUTIONS

Hardship Withdrawals

During our testing of withdrawals by participants, we noted that although the plan document requires elective deferrals to be suspended for a period of six months following a hardship withdrawal, deferrals were not suspended in all cases when participants took hardship withdrawals. In addition, employer-matching contributions relating to the unallowable participant deferrals were inappropriately made.

We recommend that the plan sponsor develop and execute policies and procedures governing the hardship withdrawal process. We also recommend that the Plan Sponsor consult with an ERISA specialist as soon as possible to determine options for correction. Failure to timely correct the error could potentially result in the loss of the Plan's tax qualified status. Please let us know if we can be of assistance in correcting these matters through one of the Internal Revenue Service programs.

Improper Calculation of Benefits

a. Improper Calculation of Vesting

Issue:

We noted several instances in which the vesting calculated in accordance with the Plan document differed from the vesting paid upon termination.

Recommendation:

We recommend that the Plan's management establish procedures for review of the vesting calculations prior to authorizing the distribution for participants.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

b. Improper Support for Calculation

Issue:

We noted several instances in which a terminated participant's monthly accrued benefit could not be recomputed based on the provisions of the Plan document based on the lack of supporting documentation regarding the hours of service worked during employment.

Recommendation:

We recommend that Plan's management establish procedures to recalculate monthly accrued benefits on a select basis for retirees and benefit files should be reviewed in order to determine that all information necessary to recompute a participant's benefit has been maintained.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

c. Improper Valuation Period

Issue:

We noted several instances in which a terminated participant was paid a distribution based on the account valuation prior to termination rather than based on the account valuation subsequent to the termination as specified by the Plan document. As a result, participants were either overpaid or underpaid.

Recommendation:

We recommend that the Plan's management review the provisions of the Plan document and the operating procedures in effect to decide if an amendment or a change in operating procedure is necessary.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

d. Improper Credited Service

Issue:

We noted inconsistent treatment of periods for which an employee was on sick or annual leave. Further, this extended to inconsistent crediting of unused leave time upon termination. Also, under the Plan, an individual was required to be on medical leave for six months before they qualified for worker's compensation payments and this six month period was not treated consistently.

Recommendation:

We recommend that the Plan's management develop written standards for calculating and crediting these periods of service and train the appropriate personnel in the application of these new written guidelines. We recommend that these calculations be retained in participant files. Should an employee challenge the calculation of breaks in service, the Plan should have adequate support for the calculation.

Improper or Missing Benefit Approval

a. Lack of Authorization

Issue:

We noted several instances where the benefit request form supporting a distribution greater than $5,000 a participant was not signed by the employer, or the employee.

Recommendation:

We recommend that the Plan's management establish procedures for review of the benefit request forms before releasing distribution checks to ensure that all required signatures have been obtained.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

b. Lack of Spousal Consent

[*Termination Benefits*]

Issue:

We noted a number of instances where the spouse did not consent to the form of benefit, such consent was not timely, or not witnessed. Of the three consent issues, lack of witness was by far the most prevalent. We also noticed instances where the witnessing occurred after the fact.

As a related issue, the Plan offers, as the standard form of benefit, a joint and 50% survivor annuity. Yet some locations provide a joint and 100% survivor annuity. In almost every case of a 100% annuity, the spouse did not consent to the distribution.

Recommendation:

We recommend that the Plan's management establish written procedures to ensure that correct spousal consent is obtained on all distributions, except lump-sum distributions, which by definition may be exempted from consent if they are under $5,000.

[*Hardship Benefits*]

Issue:

We noted that spousal consent is not required on distributions for hardship withdrawals. Spousal consent is required per the Plan document for termination distributions and loan withdrawals.

Recommendation:

We recommend that the Plan's management and counsel consider whether the Plan document implies that spousal consent is required on hardship withdrawals.

Improper Payment of Benefits

a. Improper Timing of Payment

Issue:

We noted a number of occasions where a participant requested his benefit, and the lump-sum was correctly computed as of a specified future date. However, the lump-sum was not actually paid until several months later, and with the time value of money if the participant was under age 65, this resulted in underpayment of the lump-sum.

We noted that the timing of the cash-out was inconsistent. The cash-out varied from 2 months to 26 months after termination.

Recommendation:

We recommend that the Plan's management establish defined cash-out periods each year, say June 1 and December 1, and a mandatory deadline by which the application must be submitted. For example, to receive a December 1 lump-sum, the Plan administrator must have received all information and paperwork not later than the preceding October 15. Any applications received after October 15 will be processed for the next June 1.

b. Duplication of Payments

Issue:

We noted that on several occasions an individual was approved for a second lump-sum payout, having already received a first payment. According to the trustee, both participants received the second payment.

Recommendation:

We recommend that the Plan's management establish procedures in conjunction with the trustee to cross-check all lump-sum distributions, using social security number, name, and location codes.

c. Untimely Cessation of Benefits at Death

Issue:

We noted that the trustee's reconciliation report contains a section entitled "Pensioners Removed," whereby the trustee either stops future payments or removes the deceased pensioner and sets up the beneficiary. Under normal circumstances, two to three months elapse between date of death and removal from the records.

We noted, however, a number of occasions where the removal did not occur until more than six months later, and a few longer than a year.

Recommendation:

We recommend that the Plan's management develop procedures to test, on a monthly basis, a list of pension checks which did not clear the account within 45–60 days of issuance, and contact those participants or their beneficiaries to determine if the participant has died.

Lack of Review/Reconciliation of Benefits

a. Lack of Reconciliation

Issue:

We noted several instances in which the distribution recorded per the trust statement did not agree with the distribution amount recorded in the individual participant account statement.

Recommendation:

We recommend that the Plan's management establish procedures for reconciling the distributions per the trust to the distributions recorded per the participants' accounts routinely (monthly) in order to detect and resolve errors on a timely basis.

b. Lack of Review

[*Check Endorsements*]

Issue:

We noted that benefit check endorsements are not compared with signatures in applicable participant records.

Recommendation:

We recommend that the Plan's management establish procedures to periodically test a sample of benefit check endorsements to signatures in applicable participant records.

c. Calculations by Third Parties

Issue:

We noted that retirement payments are calculated by an external third party and not by the Plan administrator. During our testing we noted that one monthly retirement payment to a participant used the incorrect number of months of service in a benefit calculation.

Recommendation:

We recommend that the Plan's management implement control procedures to periodically review all data used for benefit calculations and recalculate the actual benefit amount, on a selected basis.

d. Payment From Improper Trust

Issue:

We noted during fiscal 20XX certain benefits were inadvertently paid from the Salaried VEBA and should have been deducted from the Hourly VEBA.

Recommendation:

We recommend that the Plan's management establish controls to ensure that funds are distributed correctly among the VEBA trusts. In addition, to avoid a financial reporting issue, the error should be corrected prior to the fiscal 20XX Plan year end.

Taxability of Distributions

a. Failure to Withhold on Amounts Greater Than $200

Issue:

We noted several instances in which distributions greater than $200 did not withhold the mandatory 20% taxes.

Recommendations:

We recommend that the Plan's management review current tax legislation and the operating procedures in effect periodically to ensure that the Plans are operating in compliance with the applicable laws in effect. Establish procedures to ensure that all participants complete the mandatory withholding acknowledgement form.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

b. Improper Tax Withholding on Foreign Citizens

Issue:

We noted that U.S. income taxes were incorrectly withheld on distributions under the Plan; however, under general guidelines which we understand are met, non-U.S. citizens are not subject to U.S. withholding requirements. As income taxes were incorrectly withheld, the Form 1099Rs are improper.

Recommendation:

We recommend that the Plan's management review current tax legislation and the operating procedures in effect periodically to ensure that the Plan is operating in compliance with the applicable laws in effect.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

c. Improper Tax Withholding on Minimum Required Distributions

Issue:

We noted that withholding on minimum required distributions is done at 20% rather than the specified rate for annuities under the Plan (which allows an election out of withholding).

Recommendation:

We recommend that the Plan's management review current tax legislation and the operating procedures in effect periodically to ensure that the Plan is operating in compliance with the applicable laws in effect.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

Miscellaneous Distributions

a. Nonverification of Disability Status for Benefits

Issue:

Per review of the Plan document, we noted that employees becoming "permanently and totally disabled" for a period of a minimum of six months, after 20XX, and having completed a minimum of ten years of vesting service are eligible for monthly pension benefits equal to the employee's accrued benefit. The Company has the option of requiring additional proof of the continued disability once every six months.

Additional disability proof is not requested on a periodic basis. Therefore, since approximately XX former employees are claimed to be permanently and totally disabled, there is the potential that the Company is unnecessarily distributing pension benefits to these individuals.

Recommendation:

We recommend that the Plan's management establish procedures to periodically obtain proof from these individuals to verify the continuance of their disability.

Qualified Domestic Relations Order (QDRO)

a. Improper QDRO Execution

Issue:

We noted that a distribution made under a divorce decree was not executed in accordance with all the specifications of the qualified domestic relations order (QDRO).

Recommendation:

We recommend that the Plan's management establish procedures to review the calculation of the distribution in accordance with the terms of the QDRO before authorization and release of the distribution.

4. Investments

The plan has not adopted a formal investment policy.

ERISA imposes a fiduciary responsibility requiring a plan, among other things, to manage plan assets solely in the interest of participants and beneficiaries and diversify investments to minimize the risk of large losses. If the plan's fiduciary is determined not to have fulfilled his/her responsibility, the participants would have to be "made whole." This would likely represent costly cash deposits from the plan sponsor and possibly even jeopardize the plan's tax qualification status and/or lead to penalties.

In order to ensure that plan assets are prudently and effectively managed, we recommend that the plan adopt an investment policy that outlines the roles and responsibilities of those individuals and committees involved in the plans' administration and management. Such a policy should also address permitted investments, asset mix and concentration, as well as provide for a method of reviewing, monitoring and taking appropriate action with regard to the plans' overall investment return.

During our review of the Plan's investment activity, we noted that the Administrator does not receive monthly transaction statements from ABC Associates and is instead using DEF Company monthly statements of account to record investment activity. These statements are not as complete and thorough as the manager's statements and do not provide the Administrator with the details necessary to correctly record investment earnings.

We recommend that the Plan Administrator begin receiving monthly investment statements from ABC Associates and record investment activity on a monthly basis. Once investment activity has been recorded, the general ledger should be reconciled to the DEF Company monthly statements of account. This will allow the Plan Administrator to accurately and timely report on the investment valuation and earnings of the Plan.

a. Lack of Investment Policy

Issue:

We noted that the Plan Committee has not adopted a formal investment policy.

Recommendation:

We recommend that Plan's management adopt a formal investment policy in order that there will be a guideline against which to measure investment performance and fiduciary responsibilities.

b. Lack of Investment Appraisals

Issue:

The Internal Revenue Code and Title I of ERISA require that plan assets be stated at fair market value. We noted that the Company did not have a current appraisal performed on the Company stock in the Plan, and that the last valuation was dated 20XX.

Recommendation:

The Plan's management should establish procedures to ensure that an independent appraisal of the Company stock in the Plan is performed annually.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

c. Uninvested Assets

Issue:

We noted that the VEBA Plan document currently states that VEBA cash funds should be invested. The cash is currently held in a non-interest bearing account. During the past year the cash balance has ranged from approximately $200,000 to over $1 million.

Recommendation:

We recommend that Plan's management should consider investing the cash in an interest bearing account to comply with the Plan document and to earn interest income.

d. Lack of Historical Cost Data for Nonparticipant Directed Investments

Issue:

We were unable to obtain from the trustee a detailed report of investment sales with historical cost information. This was not a problem for reporting the gain/(loss) on reportable transactions because there were no transactions over the reportable threshold in the current Plan year. However, this information is a required disclosure by the Department of Labor, and will present a problem in future years.

Recommendation:

We recommend that Plan's management request from the trustee a report showing the historical cost, selling price, quantity, identification, and acquisition date so as to eliminate a potential issue as sales transactions increase and surpass the reportable transaction threshold.

e. Nonverification of Investment Income

Issue:

We noted that investment returns, including dividends and capital gains, are not compared to public sources for interest and dividend values.

Recommendation:

We recommend that Plan's management establish a procedure whereby investment returns are monitored and compared to public sources to ensure the completeness and accuracy of the returns posted by the trustee or asset custodian.

5. Loans

Participant Loans

The plan document does not limit loans to the lesser of $50,000 or the greater of one-half of the nonforfeitable account balance or $10,000.

The IRS requires these limits in order for loans not to be considered deemed distributions. In addition, failure to comply could result in penalties against the plan sponsor, possible reporting of prohibited transactions and, ultimately, loss of qualifying tax status.

Amend the plan document to bring the participant loan provisions in accordance with the Internal Revenue Code. Past transactions should be reviewed and any not in compliance with the statutory limits brought into compliance through an IRS corrections program.

No written procedures exist for the processing and administration of loans.

Plan requirements and control procedures may not be clearly understood. Improper loans could be deemed distributions and, therefore, taxable to the participant. In addition, failure to comply could result in penalties against the plan sponsor, possible reporting of prohibited transactions and, ultimately, loss of qualifying tax status.

Develop and document policies and procedures governing the participant loan process. This document should then be attached and used in conjunction with the plan document.

Term of participant loans is greater than five years.

The IRS requires loan terms be subject to limits. Except for the purchase of a principal residence, loan terms are limited to five years. Improper loans could be deemed distributions and, therefore, taxable to the participant. In addition, failure to comply could result in penalties against the plan sponsor, possible reporting of prohibited transactions and, ultimately, loss of qualifying tax status.

Amend the plan document to bring the participant loan provisions in accordance with the Internal Revenue Code. Past transactions should be reviewed and any not in compliance with the statutory limits brought into compliance through an IRS corrections program.

Loans in default are not administered in accordance with the plan document.

ERISA and the IRS require loans deemed to be in default, as defined by the plan document, to be treated as a distribution and a Form 1099 issued to the participant.

Existing loans should be reviewed and amended, if necessary, and past transactions brought into compliance through an IRS/DOL corrections program.

Improper Execution of Loans

a. Improper Approval for Loans

Issue:

We noted that several loan agreements lacked the signature of the employer, the lender, or the employee.

Recommendation:

We recommend that the Plan's management establish procedures to review the loan agreements before releasing the loan checks to ensure that all appropriate signatures and required supporting documents have been obtained.

b. Improper Interest Rates Utilized

Issue:

We noted one instance in which the interest rate on a loan under the Plan was not adjusted to reflect an increase in the prime rate, as specified in the loan procedures.

Recommendation:

We recommend that the Plan's management establish procedures to ensure that the rates on all new loans are proper and are in accordance with written loan procedures.

c. Untimely Repayment of Loans

Issue:

We noted several instances in which the payroll deductions for Plan participant loans were not started on a timely basis resulting in outstanding loan balances that differed significantly from that scheduled per the loan amortization schedule.

Recommendation:

We recommend that the Plan's management establish procedures to ensure that loan repayment information is set up on the payroll system promptly so that delays in payment do not occur.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

d. Improper Support for Loans

Issue:

We noted that approved principal residence loan agreements did not have a sales contract or other supporting documentation attached, as required by established procedures.

Recommendation:

We recommend that the Plan's management establish a checklist for required supporting documentation to be obtained for principal residence loans to be completed prior to the approval of the loan. Review the loan application form and determine whether or not to require a copy of a sales contract for principal residence loans. Make revisions to the loan application form as necessary.

6. Participant Data Testing

Participant Accounts

Incidences of missing or incomplete participant account information (i.e., enrollment forms, investment change forms, loan authorization forms, etc.) were experienced during the audit.

Maintaining proper documentation regarding participant data can safeguard the plan and the sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the plan sponsor and/or be classified as prohibited transactions.

A procedure should be instituted that ensures all documentation is forwarded and filed into participant files. Also, a record retention policy should be drafted covering all paper and electronic files.

During our testing of participant data, we noted two exceptions for participants tested. The most recent enrollment form for each of these individuals was missing evidence of authorization by the Plan Administrator. Documentation supporting appropriate authorization of all enrollments should be maintained. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that enrollments not be processed until proper written authorization has been received. We also recommend that a procedure be instituted that ensures all documentation is forwarded and filed into participant files.

During our testing of participant data, we could not obtain written documentation of the authorization of the change in the deferral percentage by one participant selected for testing. Documentation supporting all changes should be maintained as evidence of the appropriate authorization. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that deferral changes not be processed until proper written authorization has been received. We also recommend that a procedure be instituted that ensures all documentation is forwarded and filed into participant files.

During our testing of participant data, we noted one exception related to the maintenance of an employee's status. For the exception noted, the employee had changed her status from full-time to temporary; however, the status change was not documented correctly and was recorded as reduced hour part-time. This impacted her eligibility to participate in the Plan.

We recommend that a procedure be instituted that ensures that all employment status changes be reviewed by someone other than the individual preparing them. Documentation supporting all employment status changes should be maintained as evidence of the appropriate change. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

During our testing of participant data, we could not obtain written documentation of the authorization of a hardship withdrawal by one participant selected for testing from the Tax Sheltered Annuity Plan of ABC Company. Documentation supporting appropriate authorization of all hardship withdrawals should be maintained. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that hardship withdrawals not be processed until proper written authorization has been received. We also recommend that a procedure be instituted that ensures all documentation is forwarded and filed into participant files.

During our testing of benefit payments, we noted that certain demographic information per the recordkeeping system, such as date of birth, date of hire, or date of termination, for five participants selected for testing did not agree with the information in the participants' personnel files.

We recommend that the Plan Sponsor develop and execute policies and procedures to review and approve the participant data after it is entered into the recordkeeping system by someone other than the individual submitting the information to ensure that all required information is accurate and submitted for processing.

During our testing of participant data, we could not obtain written documentation of the authorization of the change in the deferral percentage by one participant selected for testing. Documentation supporting all changes should be maintained as evidence of the appropriate authorization. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that deferral changes not be processed until proper written authorization has been received. We also recommend that a procedure be instituted that ensures all documentation is forwarded and filed into participant files.

During our testing of participant data, we noted two exceptions for participants tested. For one participant selected, the date of hire per the participant recordkeeping system was incorrect. For another participant selected, evidence of authorization of the participant's contribution deferral percentage could not be located. Documentation supporting all enrollments and election changes should be maintained as evidence of the appropriate authorization. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that a procedure be instituted that ensures documentation evidencing authorization of enrollment and deferral rate changes or investment election changes is maintained. Enrollments and election changes should not be processed until proper authorization has been received.

During our testing of participant data, we noted that there were components of participant data that did not match those of the actuary. The date of hire for Joe Smith was incorrectly reported as 4/4/20X0 and the social security number for Tom Jones was incorrect. In addition, it appears that the compensation given to the actuary by the administrator was taken from Box 3 of the W-2, which excludes non-taxable health insurance premiums and includes any taxable portion of the participant's group term life insurance premiums paid by the organization. This is not consistent with the Plan definition of compensation.

We recommend that the administrator and actuary make the correction to the date of hire and the social security number for the participants named above. We also recommend that the administrator use the total earnings as reported on the 12/31 payroll register for compiling participant compensation for reporting to the actuary. While the impact of the year 20X2 incorrect data is not significant to the Plan as a whole, continued reliance on incorrect data may become significant and should not go uncorrected.

Participant Enrollment Forms

During our testing of participant data, we noted twenty-two exceptions for participants tested. Evidence of authorization of the most recent contribution deferral percentages could not be located. Documentation supporting all enrollments and election changes should be maintained as evidence of the appropriate authorization. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that a procedure be instituted that ensures documentation evidencing authorization of enrollment and deferral rate changes or investment election changes is maintained. Enrollments and election changes should not be processed until proper authorization has been received.

During our testing of participant data, we noted four exceptions for participants tested. The most recent enrollment form indicating the contribution deduction percentages could not be located for four participants. Two of the exceptions related to employees of a company which was merged with the Plan Sponsor. Documentation supporting all enrollments and election changes should be maintained as evidence of the appropriate authorization. Maintaining proper documentation regarding participant data can safeguard the Plan and the Plan Sponsor. Transactions construed as a breach of fiduciary duty could result in penalties against the Plan Sponsor and/or be considered prohibited transactions.

We recommend that a procedure be instituted that ensures documentation evidencing authorization of enrollment and deferral rate changes or investment election changes is maintained. Enrollments and election changes should not be processed until proper authorization has been received.

7. Internal Control

Internal Controls

Currently, a formal bank reconciliation is not being prepared for the [*name of bank account*]. Bank reconciliations are an important internal control procedure to ensure that all assets are accounted for and that any errors are detected and corrected on a timely basis.

We recommend that formal bank reconciliations be prepared for this account as long as funds remain in this account and there are receipt and disbursement activities within it.

The Plan Administrator initiates cash receipt and disbursement activity for loan payments and benefit distributions in an account drawn on the brokerage account. No bank reconciliations are prepared for this account. In addition, Plan Administrator personnel summarize the cash receipt and disbursement activity only as it is reflected as cleared in the brokerage money market account's monthly statements. Benefit distributions were properly recorded from those checks that were written; however, cash was not reduced by the amount of the checks that had not cleared by year end. Consequently, the cash balance reported to the administrator was overstated and the balance of unrealized gains and losses was "forced" improperly.

We recommend that bank account reconciliations be prepared monthly in order to maintain the integrity of cash controls and ensure that cash is properly accounted for. We also recommend that all cash receipts and disbursements be recorded on a double-entry accounting method as receipts are deposited and checks are written. All activity should then be summarized monthly and entered into the general ledger as recommended above.

8. Administrative Matters

Regulatory Compliance

During our audit of the plan's records, it came to our attention that the level of documentation normally expected with respect to a retirement plan is not present. Although nothing came to our attention causing us to believe that errors may have occurred, sufficient procedural controls do not seem to be in place. For example, we did not find any documentation by the plan administrator regarding the definition of highly compensated employees, the top heavy test, a test showing compliance with the participation and coverage rules, satisfaction of the maximum contribution or allocation limits, compliance with the nondiscrimination rules for salary deferral arrangements, proper verification of previous employment, verification of signatures on cashed benefit checks, etc. In addition, the trustees do not maintain adequate records of the basis for investment decisions. Further, the trustees do not maintain an up-to-date list of parties in interest/disqualified persons, as those terms are defined by the law. This makes it difficult to ensure that no prohibited transactions occur. Maintaining such a list is required. Finally, the ERISA bond is not up-to-date, is not large enough and/or does not name the plan as the insured. Violation of the bonding law means that the handling of plan assets by nonbonded persons is an illegal act.

We recommend that the Plan sponsor adopt a written set of policies and procedures designed to mitigate the Plan's risk with regard to regulatory compliance. These procedures should outline the various responsibilities applicable to plan administration and those parties that are responsible for executing the procedures.

Administrative Costs

The disclosure rules for benefit plan audits require that we look at the administrative costs of the plan that are paid by the employer. In this investigation, it came to light that the annual costs of this plan exceed the average. (According to the National Chamber of Commerce study of X1 plan activity, the average per participant cost of running a defined contribution qualified plan is $XX. This is for plan recordkeeping and government filings, only, not investment fees.) Your plan's recordkeeping for last year was $XXX per participant. We suggest that you investigate where these fees are being generated. Sometimes this is simply due to a duplication of services. Where separate administrators are used for both plans, each administrator may be doing all of the nondiscrimination testing for both plans. It may be that both the fund manager and the contract administrator are tracking the 401(k) plan limits. It may be that communication between your personnel and the administrator is not going as well as it could. We found nothing wrong, but are simply suggesting that the matter should be reviewed to see if efficiencies and cost savings can be realized.

We recommend that the Plan sponsor review the assignment of responsibilities with respect to meeting regulatory compliance requirements and eliminate duplication of effort if any exists. Additionally, it may be advisable to seek competitive bids for some aspects of plan administration to ensure only reasonable costs are borne by the Plan sponsor or Plan participants as applicable.

Investment Policy Guidelines

We noted during our audit that the Plan did not have written investment policy guidelines or seem to maintain adequate records of the basis for investment decisions. In addition, the Plan does not have procedures to periodically monitor investment performance against expected performance.

We recommend that the Plan develop written investment policy guidelines to establish investment mix, risk, safety, liquidity and targeted investment returns. In addition, the Plan Trustees or their designees should periodically monitor investment performance compared to the established guidelines.

Personnel Files

The Company could not locate numerous personnel files and files we reviewed did not contain important documents. It is the Company's policy to retain a copy of the participants' investment elections and investment allocation changes. This is an important procedure since the only trail for changes made by the participants is the Company's copy and the copy sent to the investment manager.

We recommend that the personnel files be reviewed for completeness and all missing election forms and change requests be replaced. Copies of the original enrollment forms and change requests should be requested from the investment manager.

Segregation of Duties

The payroll function of the Plan Sponsor has an inadequate segregation of duties. The same person inputs new employees and weekly payroll information into the payroll system, transmits the data to the payroll service, receives the checks and the payroll register, and distributes the checks to the supervisors. The same individual who is responsible for entering new employee and pay rate changes into the payroll system should not be authorized to input weekly payroll information into the system or transmit payroll data. In addition, the individuals authorized to input new employees, rate or time worked should not have access to the paychecks upon their receipt from the payroll service.

We recommend that paychecks be delivered to a person other than the payroll clerks, who could then distribute the checks to the supervisors, thus completely segregating the accounting for payroll from the distribution of paychecks. Although the employee currently in charge of payroll gives the payroll register to another employee to review, we recommend that the reviewer initial the report to evidence the verification. In addition, we recommend that someone other than the supervisors distribute the checks to the employees on a periodic basis.

Dual Signatures

Currently, checks written on the Plan's checking account require only one signature. The same individual who signs the checks maintains the records of the Plan.

We recommend that two signatures be required on all disbursements or that another member of the Committee review all bank statements and canceled checks on a monthly basis.

Accuracy of Data Sent From Third-Party Administrator

While performing our tests on a selected sample of participants, we noted several participants with incorrect vesting percentages. Our sample expanded and finally resulted in a review by the Plan Administrator of each employee's vesting percentage. Upon further inquiry of Plan Administrator personnel, we noted that many of the reports sent from the outside third-party administrator were not being reviewed by Plan Administrator personnel.

We suggest that procedures be adopted to ensure that Plan Administrator personnel review all data sent from the third-party administrator on a timely basis. Checklists could be developed to ensure all pertinent data gets reviewed. If certain data is not received or is missing, the Plan Administrator could request copies of the third-party administrator's reports to verify, such as the proper vesting percentages, compensation amounts, birth, hire and termination dates, and number of hours worked.

Accuracy of Employee Data

During our audit, we noted discrepancies between information recorded on the payroll report and personnel files relating to employee data such as date of birth and hire date. Since information recorded on the payroll report is used as a source for updating employee data to be used by the third-party administrator and to determine the eligibility of an employee, failure to keep accurate employee data might result in eligibility status of employees being incorrectly determined. Also, it was noted that incorrect employee data was provided to the third-party Plan administrator resulting in a terminated participant of the Plan still listed as active on the allocation report. Classification errors may result in forfeitures being incorrectly allocated to ineligible participants.

We recommend that in the future, any new or updated employee data being entered into the system be reviewed to make sure it agrees with supporting documents in the personnel files. The accuracy of employee data should also be reviewed before it is sent to the third-party administrator.

Use of Third-Party Administrators

We noted that one of the Plan Trustees performs all administration for the Plan. Compliance with the ERISA regulations is both complex and difficult. Significant and increased complexities in the laws include tests for coverage and discrimination, top heavy rules, highly compensated employees tests and forfeitures tracking for rehired employees.

We recommend the Plan utilize a third-party administrator to perform the various required coverage tests and to perform allocations of contributions, earnings, and forfeitures, maintain participant account balances and prepare participant account statements.

Minutes of Trustees Meetings

There are no formal minutes maintained for actions taken by the Trustees. With the significant number of investment failures within benefit plans, the complexity of investment alternatives, and the complexity of the tax laws covering the qualifications of the Plan and fiduciary responsibilities of the Trustees, it is important that the trustees adequately document the due diligence they exercise over operations of the Plan, including selection of an investment policy and investment alternatives to offer participants who defer their earnings into the Plan's investments, and monitoring investment performance against the Plan's objectives.

The [*trustees*] [*administrative committee*] should meet at least annually to review the investment returns, review soundness of investments, select investment managers, determine investment strategies, approve benefit payments, monitor tax and qualification compliance, and approve Plan amendments.

In addition, the Plan changed trustees during the year from the bank trust department to the group of individuals appointed by the Company's Board of Directors. It is prudent to maintain formal minutes for certain decisions made and actions directed or carried out by the trustees of the Plan, because they have fiduciary responsibility over the Plan. In addition, the trustees and the Company may wish to reduce some of their liability as fiduciaries. Now that the Plan has become participant directed, if the Plan fiduciaries wish to shift to Plan participants the responsibility for investment performance and how funds are invested, as permitted under Section 404(c) of ERISA, certain procedures must be followed. Even if such action is taken, the fiduciary remains responsible for the following:

- Properly selecting and monitoring investment funds
- Timely and accurately carrying out participant directions
- Distributing timely information on investment choices
- Avoiding prohibited transactions and other transactions in violation of Plan terms or which could result in the disqualification of the Plan

For responsibility for asset management to shift to the participants, the Plan must give the participants the opportunity to exercise control on an informed basis over those assets by selecting investments from a broad range of investment alternatives. For the Plan Administrator to escape this responsibility, the participant must be informed that he or she is responsible for these decisions.

We recommend the trustees/Plan Administrator establish procedures for carrying out the above and document the establishment of those procedures in formal minutes. Procedures should include performance and documentation in the minutes of (*a*) an annual review of investment performance of each investment offered in light of the objectives established for that investment option, compared with market benchmarks for each related market sector; (*b*) a periodic review of the operations of the Plan as carried out by the Plan Administrator, third-party administrator and investment manager; and (*c*) review and approval of all benefit distributions. If the Plan is amended to modify or change certain elections on operating the Plan, the Company is already documenting its approval of the Board resolution; documentation of any actions taken or recommendations made by the trustees leading to the modification of such operations should be included.

Plan Fees and Expenses

A participant-directed retirement savings plan, such as a 401(k) plan, is an important tool to help your employees achieve a secure retirement. As part of offering this type of program, you or someone you choose must select the investment options from which your employees will choose, select the service providers for the plan, and monitor the performance of the investments and the provision of services. All of these duties require you to consider the costs to the plan. You or the person you select to carry out these responsibilities must comply with the standards provided under the Employee Retirement Income Security Act of 1974 (ERISA). This federal law protects private-sector pension plans. The law's standards include ensuring that you act prudently and solely in the interest of the plan's participants and beneficiaries. Understanding fees and expenses is important in providing for the services necessary for your plan's operation. This responsibility is ongoing. After careful evaluation during the initial selection, the plan's fees and expenses should be monitored to determine whether they continue to be reasonable. While ERISA does not set a specific level of fees, it does require that fees charged to a plan be "reasonable." Of course, the process of selecting a service provider and investment options should address many factors, including those related to fees and expenses. You must consider the plan's performance over time for each investment option. This selection process and continual monitoring will make it possible for your employees to make sound investment decisions. As part of your evaluation process, here are 10 questions to help focus your consideration of fees and expenses:

1. Have you given each of your prospective service providers complete and identical information with regard to your plan?
2. Do you know what features you want to provide (e.g., loans, number of investment options, types of investments, Internet trading)?
3. Have you decided which fees and expenses you, as plan sponsor, will pay, which your employees will pay, and/or which you will share?
4. Do you know which fees and expenses are charged directly to the plan and which are deducted from investment returns?
5. Do you know what services are covered under the base fee and what services incur an extra charge? Do you know what the fees are for extra or customized services?
6. Do you understand that some investment options have higher fees than others because of the nature of the investment?

7. Does the prospective service arrangement have any restrictions, such as charges for early termination of your relationship with the provider?
8. Does the prospective arrangement assist your employees in making informed investment decisions for their individual accounts (e.g., providing investment education, information on fees, and the like) and how are you charged for this service?
9. Have you considered asking potential providers to present uniform fee information that includes all fees charged?
10. What information will you receive on a regular basis from the prospective provider so that you can monitor the provision of services and the investments that you select and make changes, if necessary?

Fees are just one of several factors you need to consider in your decision making. All services have costs. Compare all services to be provided with the total cost for each prospective provider. Consider obtaining estimates from more than one service provider before making your decision. Cheaper is not necessarily better. Ask each prospective provider to be specific about which services are covered for the estimated fees and which are not. To help in gathering this information and in making equivalent comparisons, you may want to use the same format for each prospective provider. See www.dol.gov/ebsa for an example of a uniform fee disclosure format to assist in your selection and monitoring process. If you need assistance to evaluate the fees you are paying for your service provider, we would be happy to assist you.

9. Other Matters

Float Pool Employees

The Plan does not cover "float pool employees" (who are leased employees) or any other leased employees of ABC Company and its participating employers (collectively, the "Company"). Per discussion with Company personnel, it was noted that some of the leased employees may have been employed by the Company for longer than 12 consecutive months and could have worked more than 1,500 hours. Float pool employees who meet the above criteria should be, but may not have been, included in testing to demonstrate compliance with the Internal Revenue Code ("IRC") requirements for nondiscrimination in coverage (IRC 410(b)). This requirement must be satisfied in order for the Plan to retain its qualified status.

We recommend that any leased employees meeting the above criteria be included in the IRC coverage testing and that the Plan Sponsor take whatever action will be required, based on the results of those tests, prior to December 31, 20X3.

Nondiscrimination Rules

During our audit, we noted that the Plan was originally not in compliance with the Internal Revenue Code ("IRC") requirements for nondiscrimination in benefits (i.e., IRC 401(k) and 401(m)) for 20X2. Refunds were made after March 15, 20X3.

We recommend that the Plan Sponsor file a Form 5330 for late correction of this failure.

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Participation

The Plan Adoption Agreement has handwritten reference to eligibility that excludes part-time [*name of club*] Club employees. The other companies use 1,000 hours as requirement for eligibility, which is appropriate under IRS regulations. Until 20X2 employees of the Club with part-time status who worked at least 1,000 hours were excluded from the Plan. It does not appear that the part-time exclusion, as the Plan is drafted, is proper under IRS regulation. Those part-time employees of the Club who worked more than 1,000 hours have subsequently terminated from the Plan and did not achieve any vesting.

We recommend that the Plan be administered in accordance with the IRS approved prototype plan, not in accordance with handwritten modifications.

....

Plan Administration

As of the date of our report, we could not determine whether the plan sponsor had performed testing for all adopting employers to demonstrate compliance with certain Internal Revenue Code ("IRC") requirements (e.g., nondiscrimination in coverage (IRC 410(b)), top heavy (IRC 416), annual additions (IRC 415(c)), limits on elective deferrals (IRC 402(g)), and nondiscrimination in benefits (IRC 401(k) and 401(m), etc.)). These requirements must be satisfied in order for a plan to retain its qualified status. Additionally, according to the testing we did receive, a number of adopting employers failed certain tests. We were unable to determine whether the appropriate steps were taken to correct those failures.

We recommend that the IRC testing be performed for all adopting employers and that the plan sponsor take whatever action will be required, based on the results of those tests, prior to December 31, 20X2.

....

As of the date of our report, the Plan Sponsor had not performed testing to ensure that fund income was not subject to the tax on unrelated business income in accordance with Internal Revenue Code ("IRC") requirements (i.e., IRC 419A and 511).

We recommend that the IRC testing be performed and that the Plan Sponsor take whatever action will be required, based on the results of those tests, prior to December 31, 20X3.

As of the date of our report, ABC Company (the "Plan Sponsor") had not performed testing to demonstrate compliance with Internal Revenue Code ("IRC") requirements for nondiscrimination in benefits (i.e., 401(m)) for The Tax Sheltered Annuity Plan of ABC Company. These requirements must be satisfied in order for the Plan to retain its 403(b) status.

We recommend that the IRC testing be performed and that the Plan Sponsor take whatever action will be required, based on the results of those tests, prior to December 31, 20X3.

As of the date of our report, the Plan Sponsor had not performed testing to demonstrate compliance with certain Internal Revenue Code ("IRC") requirements (e.g., nondiscrimination in coverage (IRC 410(b)), annual additions (IRC 415(c)), and limits on elective deferrals (IRC 402(g)). These requirements must be satisfied in order for a plan to retain its qualified status.

We recommend that the IRC testing be performed and that the Plan Sponsor take whatever action will be required, based on the results of those tests, prior to December 31, 20X2.

Reconciliations

During our audit, it was noted that the Plan Sponsor does not reconcile the participant deferral contributions per the payroll records and the employer contributions per the company records to the contributions per the trust statements or the monthly benefit payments per the company records to benefit payments per the trust statements.

We recommend that the Plan Sponsor perform the above reconciliations on a periodic basis. By performing these reconciliations on a periodic basis, the Plan Sponsor will be able to identify reconciling items on a timely basis and ensure that all contributions and benefit payments are properly recorded on a timely basis.

Plan Compensation

a. Interpretation of Definition of Eligible Compensation

Issue:

We noted that there is some inconsistency in the application of the terms in the Plan document relating to the definition of eligible wages for the purposes of calculating the employees' contributions and the employer's contribution. One participant in our sample received contributions based on his compensation including severance pay although the severance pay should not have been included based on our reading of the Plan document. We also noted that there was some confusion between the payroll department and the human resources department as to what constituted eligible wages.

Recommendation:

We recommend that the Plan's management establish procedures to ensure that payroll and human resources departments are well-versed in the provisions of the Plan document, as these provisions relate to their functions. We also recommend that the Plan document be modified to clarify the definition of what is included in eligible wages. This will ensure that the contribution calculations are made accurately and are understood by the employees who review their accounts. We recommend that the Plan's management review their calculation of eligible pay and periodically "spot-check" the calculation to ensure the proper amount of earnings is being used.

b. Accuracy of Application of 415(c) Plan Compensation

Issue:

We noted that the 415(c) compensation used in the ADP test was not in accordance with the Plan document.

Recommendation:

The Plan's management should review the definition of 415(c) Plan compensation in the Plan document in conjunction with the calculations of the ADP testing to ensure proper amounts are used in the testing.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

c. Nondeferral of Form 1099 Compensation

Issue:

We noted that one contributing participant of the Plan had Form 1099 compensation which was eligible for deferral and no deferral was made.

Recommendation:

We recommend that the Plan's management review Form 1099s for instances where compensation was eligible for deferral and no deferral was made. The Plan's management should implement policies to ensure that these amounts have deferrals prospectively.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

d. After-Tax Contributions

Issue:

We noted that several participants in the Plan had contributions to after-tax accounts; however, the Plan document does not allow for contributions on an after-tax basis.

Recommendation:

We recommend that the Plan's management review the provisions of the Plan document related to contributions and determine whether to amend the Plan document to allow for such contributions or establish procedures to prevent any further contributions to after-tax accounts.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

Expenses

a. Authorization of Plan Expenses

Issue:

We noted that administrative expenses are deducted from plan earnings without notification or approval from Plan Administrator. We also noted that since fees are deducted from earnings, the Plan Administrator is unaware of the amount of fees actually deducted.

Recommendation:

We recommend that the Plan Administrator establish a process for reviewing and authorizing administrative expenses, prior to payment from Plan assets.

Eligibility

a. No Enrollment Period

Issue:

We noted that there are currently no annual notification procedures for eligible employees under the Plan. Per our review, there were only X participants with account balances out of X eligible participants.

Recommendation:

We recommend that Plan's management establish procedures to give annual notification to all eligible participants and implement employee education programs to increase enrollment.

b. Documentation of Nonparticipation

Issue:

We were unable to determine if employees who were eligible to participate in the Plan who were not contributing to the Plan had elected not to participate or were being improperly excluded from participation.

Recommendation:

We recommend that the Plan's management establish procedures such that upon initial eligibility for participation, those employees that elect not to enroll in the Plan should complete a negative enrollment form.

c. Eligibility of Part-Time Employees

Issue:

During our review of the Plan document, we noted that the Plan documents excluded part-time employees from the definition of eligible employees. The IRS has recently taken a new position that states that it is impermissible to exclude a class of employees from participation; however, it is permissible to make a plan available to only a selected class of employees.

Recommendation:

We recommend that the Plan's management amend the Plan document such that eligible employees are defined under the Plan as those in a full-time position.

....

d. Eligibility of Rehires

Issue:

We noted several participants who had become eligible for the Plan (i.e., achieved the minimum 1,000 hours of service) terminated, and were rehired without incurring a break in service that were improperly excluded from participation upon re-employment. Accordingly, these participants were improperly excluded for purposes of the Plan discrimination testing.

Recommendation:

We recommend that the Plan's management establish procedures to review the eligibility for all rehires to ensure that all eligible employees are properly treated for Plan purposes.

Available Options for Correction:

[***Note:*** *In situations where an issue has been identified and a recommendation made, consider consulting with ERISA counsel regarding available options for correction.*]

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Adopting Employers

In accordance with Section 2.01(11) of the Plan, in order for a company's employees to be covered by the Plan, that company must be either the adopting "Employer" or a "Related Employer" as named in Section 1.02(a) and (b) of the adoption agreement. In the adoption agreement, the adopting Employer is listed as ABC Company and the only named Related Employer is DEF Company. During the course of our audit, it came to our attention that employees of GHI Company began participating in the Plan during 20X2.

We recommend that the Plan Sponsor amend Section 1.02(b) to reflect all of the Related Employers who participate in the Plan and determine if all employers who have participated in the Plan have executed the proper documentation to adopt the Plan.

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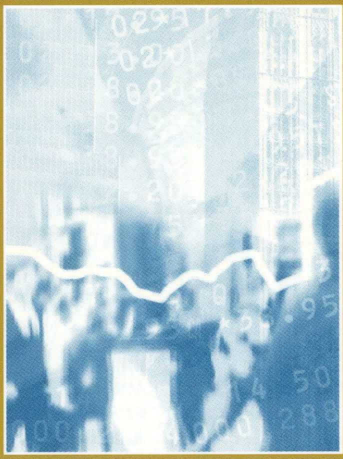
During the course of the audit, we were unable to determine exactly who was covered by the Plan since the adoption agreements, tax testing, and Form 5500 reporting did not match.

We recommend that the Plan Sponsor determine if all employers who have participated in the Plan have executed the proper documentation to adopt the Plan and those who are no longer participating have executed the proper documentation to withdraw from the Plan. If an employer has not properly adopted or withdrawn from the Plan, we recommend that the Plan Sponsor utilize the Employee Plan Compliance Resolution System promulgated in Rev. Proc. 2001-18 to have the applicable employers retroactively adopt the Plan. In lieu of that, the Plan Sponsor should have the applicable employers immediately adopt the Plan so they will be protected in the future.

Demographic Data

During our testing of benefit payments, we were unable to verify certain demographic information per the recordkeeping system, such as date of birth, date of hire, or date of termination, for two participants selected for testing as the information could not be located in the participants' personnel files. Both participants became employees of the Plan Sponsor as a result of a merger.

We recommend that the Plan Sponsor develop and execute policies and procedures to obtain the necessary demographic information for all employees that become participants of the Plan as a result of a merger.



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