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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED BENEFIT PENSION PLANS

A Financial Accounting and Reporting Practice Aid

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

EDITED BY
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Defined Benefit Pension Plans

FSP Section 7000
Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Defined benefit pension plans provide a promise to pay to participants specified benefits that are determinable and are based on such factors as age, years of service, and compensation.

.02 Defined benefit pension plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). Contributions may be required from both employers and participants (contributory plans) or from employers only (noncontributory plans).

.03 Traditional defined benefit pension plans provide benefits that are defined in terms of a percentage of final average compensation or career average compensation, or as a flat dollar benefit per year of service. Recently, new types of benefit formulas have become more popular, including—

a. Cash Balance Plans. A cash balance plan is a special form of career average compensation plan. Typically, a cash balance defined benefit pension plan maintains hypothetical “accounts” for participants. The employer credits participants’ “accounts” with a certain number of dollars each plan year, and promises earnings at a specified rate. Interest on the “account” balance is credited at a stated rate, which may be different from the plan’s actual rate of investment return.

b. Pension Equity Plans. A pension equity plan is a defined benefit pension plan that has many of the advantages of the cash balance plan, but the benefit formula is similar to a final pay program rather than a career average cash balance program. Under this arrangement, a participant is credited with “points” based on age, service or both. On termination of employment, a participant’s final average compensation is multiplied by his or her accumulated points to determine a hypothetical account balance. This balance normally may be distributed as a lump sum or converted to an annuity.

.04 The Pension Benefit Guaranty Corporation (PBGC) guarantees participants in most defined benefit pension plans against the loss of certain pension benefits if the plan terminates, and it administers terminated plans in certain circumstances.

AICPA Employee Benefit Plan Audit Quality Center

.05 The AICPA Employee Benefit Plan Audit Quality Center (the Center) is a firm-based, voluntary membership Center created in March 2003 with the goal of promoting quality employee benefit plan audits. Center member firms demonstrate their commitment to ERISA audit quality by joining the Center and agreeing to adhere to its membership requirements. The Center now has over 1,300 members in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Visit the Center Web site at www.aicpa.org/ebpaqc to see a complete list of Center members under Membership and to preview Center benefits.
Regulatory Requirements

.06 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.07 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA. (See FSP section 7000.18-21 for a discussion of the Form 5500.)

Financial Accounting and Reporting Standards

.08 FASB Statement of Financial Accounting Standards (SFAS) 35, Accounting and Reporting by Defined Benefit Pension Plans, as amended by SFAS 110, Reporting by Defined Benefit Pension Plans of Investment Contracts, is a source of established generally accepted accounting principles for defined benefit pension plans. The AICPA Audit and Accounting Guide Employee Benefit Plans (the Guide), also is a source of established generally accepted accounting principles for defined benefit pension plans.

.09 SOP 99-2, Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans, specifies the accounting for and disclosure of 401(h) features of defined benefit pension plans, by both defined benefit pension plans and health and welfare benefit plans. SOP 99-2 has been integrated into Chapters 2, 4 and Appendices D and F of the Guide.

.10 SFAS 149, Amendment of Statement 133 on Derivative Investments and Hedging Activities, amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, SFAS 149 amends SFAS 133 to say the following:

Certain investment contracts. A contract that is accounted for under either paragraph 4 of SFAS 110, Reporting by Defined Benefit Pension Plans of Investment Contracts, or paragraph 12 of SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans, as amended by SFAS 110, is not subject to this Statement. This exception applies only to the party that accounts for the contract under SFAS 35 or SFAS 110.

AICPA Technical Practice Aids

.11 TIS section 6930, Employee Benefit Plans, in the AICPA publication, Technical Practice Aids (product no. 005145), contains helpful guidance in the form of questions and answers relating to employee benefit plan accounting, auditing, and regulatory matters. These nonauthoritative technical practice aids (TPAs) are based on selected practice matters identified by AICPA staff and various other bodies within the AICPA, including the AICPA Employee Benefit Plans Expert Panel.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

.12 On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that
is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FSP FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The FASB FSP addressed when and how an employer that provides postretirement prescription drug coverage should recognize the effects of the Act but did not address the accounting for the subsidy by the health and welfare plan itself. The AICPA staff, helped by industry experts, released two Technical Practice Aids (TPAs) on accounting and disclosures for single employer and multiemployer employee benefit plans related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act).


These TPAs provide accounting and disclosure guidance for both single employer and multiemployer plans relating to the effects of the Medicare Act. These TPAs can also be found in the AICPA publication AICPA Technical Practice Aids.

Accounting and Reporting by Defined Benefit Pension Plans

.14 Defined benefit pension plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year (ERISA requires that this statement be presented in comparative form)
- A statement of changes in net assets available for benefits for the year then ended
- Information regarding the actuarial present value of accumulated plan benefits
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in accumulated plan benefits

.15 Information regarding the actuarial present value of accumulated plan benefits and changes therein may be presented in the financial statements or in the notes. Further, the accumulated benefit information may be presented as of the beginning or end of the plan year. However, an end-of-year benefit information date is considered preferable. If the information is as of the beginning of the year, prior year statements of net assets and changes therein are also required. Otherwise, comparative statements are not required (however, see paragraph .18 below). Exhibit D-7 in Appendix D of the Guide illustrates an appropriate financial statement presentation when beginning-of-year benefit information is selected.

.16 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.17 Insurance contracts, defined in SFAS 60, Accounting and Reporting by Insurance Enterprises, should be presented in the same manner as specified in the annual report filed by a plan with certain governmental agencies pursuant to ERISA, consistent with the requirements of DOL Form 5500. A plan not subject to ERISA should present its insurance contracts as if the plan were subject to the reporting requirements of ERISA.

.18 In addition to the reporting requirements of SFAS 35, as amended, defined benefit pension plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500 Series.
The agencies have released tips to avoid common filing errors and frequently asked questions (FAQs) for small pension plans that use the audit exception to assist filers in complying with their reporting obligations. The tips and FAQs will help plans avoid basic filing errors and explain the conditions that small pension plans must meet to be eligible for a waiver of the annual audit requirement. The FAQs also include model summary annual report language for the required participant notice under the small plan audit exception. This guidance may be found on the EBSA Web site at www.dol.gov/ebsa.

The DOL, IRS, and PBGC have released the 2006 Form 5600 return/reports, schedules, and instructions to be used by employee benefit plans for plan year 2006 filings. The IRS has also released the Form 5500-EZ return and instructions to be used by certain one-participant retirement plans for plan year 2006 filings. The modifications to the Form 5500 for plan year 2006 are described under “Changes to Note” in the 2006 instructions and are summarized in the Audit Risk Alert Employee Benefit Plans Industry Developments—2007 (product no. 022417).

The Form 5500 continues to require that certain supplemental schedules be attached to the annual form 5500 filing. Such schedules include:

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

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 Tips

Reporting of Delinquent Participant Contributions (Schedule H and Schedule I)—Information concerning delinquent participant contributions reported on line 4a is no longer required to be reported again on line 4d (or Schedule G). See the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA Web site at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

Please refer to the Instructions to Form 5500 for schedule requirements. Information copies of the forms, schedules and instructions are available on EBSA’s Web site at www.efast.dol.gov. Filers may also order forms and IRS publications twenty-four hours a day, seven days a week, by calling 800-TAX-FORM (800-829-3676).

Note: This publication was extracted from sections 7000 through 7400 of the AICPA Financial Statement Preparation Manual (FSP).

1 Practice Tip — Historical cost information is not required on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

2 Practice Tip — Participant- or beneficiary-directed transactions are not 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.

FSP §7000.19
FSP Section 7100

Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of defined benefit pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.

- **Auditors' Report Checklist**—For use by auditors in reporting on audited defined benefit pension plan financial statements.

- **Illustrative Financial Statements and Auditor's Reports**—Illustrating a defined benefit pension plan financial statement and auditor's reports.

.02 The checklists and illustrative financial statements have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined benefit pension plans.

This edition of the financial statements and notes checklists and auditor's report checklist have been updated to include certain changes necessary due to the issuance of authoritative pronouncements. Relevant accounting and auditing guidance contained in official pronouncements issued through May 1, 2007 have been considered in the development of this publication. This includes relevant guidance issued up to and including the following:

  - FASB Statement No. 123 (revised 2004), *Share-Based Payment*
  - FASB Interpretation (FASBI) No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of FASB Statement No. 109
  - FASB Staff Positions (FSP) issued through May 1, 2007
  - FASB Emerging Issues Task Force (EITF) consensuses adopted through the March 2007 meeting
  - AICPA Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication With Those Charged With Governance*
  - AICPA Statement of Position (SOP) 06-1, *Reporting Pursuant to the Global Investment Performance Standards*
  - AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
  - AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2007)

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "yes" if the disclosure has been appropriately made, "no" if the disclosure has not been made, or "n/a" if the disclosure is not applicable to the engagement. The auditor should consider the effect of a "no" answer on his/her report. A "no" answer that is material to the financial statements may warrant a departure from an unqualified opinion. (See paragraphs 20–63 of SAS No. 58, Reports on Audited Financial Statements, as amended [AICPA, Professional Standards, vol. 1, AU sec. 508.20–.63].) If a "no" answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined benefit plans are not included in this document. The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

.05 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.
FSP Section 7200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

- **AAG** = AICPA Audit and Accounting Guide Employee Benefit Plans (with conforming changes as of March 1, 2007)
- **AC** = Reference to section number in FASB Accounting Standards—Current Text
- **APB** = Accounting Principles Board Opinion
- **ARB** = Accounting Research Bulletin
- **AU** = Reference to section number in AICPA Professional Standards (vol. 1)
- **CFR** = Code of Federal Regulations
- **DOL** = Department of Labor
- **ERISA** = Employee Retirement Income Security Act of 1974
- **FASBI** = FASB Interpretation
- **FSP** = FASB Staff Position
- **PBGC** = Pension Benefit Guaranty Corporation
- **SAS** = AICPA Statement on Auditing Standards
- **SFAS** = FASB Statement of Financial Accounting Standards
- **SOP** = AICPA Statement of Position

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked “N/A” or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section “Changes in Accounting” and complete that section of the checklist. On the other hand, if the plan did not have a change in accounting principle, do not place a check mark by “Changes in Accounting” and skip that section when completing the checklist.

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FSP §7200.03
Financial Statements and Notes Checklist

• Auditors' Report Checklist

• Illustrative Financial Statements and Auditor's Reports

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

   a. A “Statement of Net Assets Available for Benefits” as of the end of the plan year? ____ ____ ____
      [ERISA requires that this statement be presented in comparative form]

   b. A “Statement of Changes in Net Assets Available for Benefits” for the year then ended? ____ ____ ____

   c. A “Statement of Accumulated Plan Benefits” as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? ____ ____ ____
      [Use of an end-of-year information date is considered preferable.]

      [SFAS 35, pars. 6 and 8 (AC Pe5.105–107); AAG, par. 2.08]

Practice Tip
The information in Questions c and d above can be alternatively disclosed in the notes to the financial statements.

2. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? ____ ____ ____
   [SFAS 35, par. 7 (AC Pe5.106)]

3. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? ____ ____ ____
   [SFAS 35, par. 7 (AC Pe5.106)]

4. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? ____ ____ ____
   [SFAS 35, par. 7 (AC Pe5.106); AAG, par. 2.26]

5. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, and other factors necessary for users and participants to understand the information provided? ____ ____ ____
   [SFAS 35, par. 5 (AC Pe5.104)]

6. Is each financial statement suitably titled? ____ ____ ____
   [Generally Accepted]

7. Does each statement include a reference to the notes, which are an integral part of the financial statements? ____ ____ ____
   [Generally Accepted]
B. Comparative Financial Statements

1. Are comparative statements presented if appropriate?  
   [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]  
   
2. If comparative financial statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance?  
   [ARB 43, Ch. 2A, par. 2 (AC F43.102)]  

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

C. Consolidated Financial Statements

1. If consolidated statements are presented, is the consolidation policy disclosed?  
   [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]  

2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated?  
   [SFAS 94, par. 13 (AC C51.103)]  

3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed?  
   [ARB 51, par. 4 (AC C51.107)]  

Consolidation of Variable Interest Entities

4. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):
   a. The nature, purpose, size, and activities of the variable interest entity?  
   b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity’s obligations?  
   c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary?  
      [FASBI 46(R), par. 23]  

5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:
   a. The nature of its involvement with the variable interest entity and when that involvement began?  
   b. The nature, purpose, size, and activities of the variable interest entity?
Financial Statements and Notes Checklist

6. Are disclosures required by SFAS 140 about a variable interest entity included in the same note to the financial statements as the information required by FASBI 46(R)?
   [FASBI 46(R), par. 25 (AC C54.125)]

7. If an entity does not apply FASBI 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FASBI 46(R), is the following information disclosed:
   a. The number of entities to which this Interpretation is not being applied and the reason why the information required to apply this Interpretation is not available?
   b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise’s involvement with the entity(ies)?
   c. The reporting enterprise’s maximum exposure to loss because of its involvement with the entity(ies)?
   d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.)
   [FASBI 46(R), par. 26 (AC C54.126)]

Statement of Net Assets Available for Benefits

A. General
   1. Is the information in the “Statement of Net Assets Available for Benefits” presented in such reasonable detail as is necessary to identify the plan’s resources that are available for benefits?
   [SFAS 35, par. 9 (AC Pe5.108)]

B. Investments
   1. Are the plan’s investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined?
   [SFAS 35, par. 13 (AC Pe5.112); AAG, par. 2.14]

2. Are the following investments reported as separate line items in the “Statement of Net Assets Available for Benefits:”

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Note: For entities to which FASBI 46(R) has been applied, the guidance in FSP FIN 46(R)-5 should be applied in the first reporting period beginning after March 3, 2005 in accordance with the transition provision of FASBI 46(R). Restatement to the date of the initial application of FASBI 46(R) is permitted but not required. Early application is permitted for periods for which financial statements have not yet been issued. For entities to which FASBI 46(R) has not been applied, the guidance in FSP FIN 46(R)-5 should be applied in accordance with the effective date and transition provisions of FASBI 46(R).
Defined Benefit Pension Plans

- **Practice Tips**
  
  SFAS 110 requires defined benefit pension plans to report investment contracts at fair value. Insurance contracts should continue to be reported at either fair value or at amounts determined by the insurance enterprise (contract value). SFAS 110 does not apply to deposit administration and immediate participation guarantee contracts entered into before March 20, 1992.

  SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*, amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, is not subject to SFAS 133.

- **Practice Tip**
  
  Listing all investments in Schedule H, line 4i—Schedule of Assets (Held at End of Year) required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.

- **C. Assets Held in 401(h) Account**
  
  1. Are the 401(h) net assets shown as a single line item on the face of the statement of net assets available for plan benefits?
   
   [SOP 99-2, par. 8; AAG, par. 2.41]
2. Do the notes to the financial statements disclose the nature of the assets related to the 401(h) account, and the fact that the assets are available only to pay retiree health benefits?  
[SOP 99-2, par. 13; AAG, par. 2.43]

D. Operating Assets

1. For depreciable assets, do the financial statements include disclosure of:
   a. Depreciation expense for each period?  
   b. Balances of major classes of depreciable assets by nature or function?  
   c. Accumulated depreciation, either by major classes of assets or in total?  
   d. The method or methods used in computing depreciation for each major class of depreciable assets?  
   [APB 12, par. 5a–d (AC D40.105a–d)]

2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, paragraphs 25–27, 33, and 42–48?  
   [SFAS 144, pars. 25–27, 33, and 42–48 (ACI08.160 and 161, AC D60.104 and 110, ACT14.102–106, and AC D60.118–121)]

E. Contributions Receivable and Uncollectible Amounts

1. Are the following contributions receivable separately identified:
   a. Receivables from employer(s)?  
   b. Receivables from participants?  
   c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements?  
   [SFAS 35, par. 10 (AC Pe5.109); AAG, par. 2.20]

2. Do contributions receivable include an allowance for uncollectible amounts?  
   [SFAS 35, par. 91 (AC Pe5.109); AAG, pars. 2.20 and 2.21]

F. Cash

1. Is separate disclosure made of restricted cash?  
   [ARB 43, Ch. 3A, par. 6 (AC B05.107)]

2. Are restrictions on cash properly disclosed?  
   [SFAS 5, par. 18 (AC C59.120)]

G. Liabilities

1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses, for example, third-party administrator fees) deducted in arriving at net assets available for plan benefits?  
   [AAG, par. 2.24]

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2 SFAS 144 establishes accounting and reporting for the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The required disclosures of SFAS 144 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined benefit pension plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 144, paragraphs 25–27, 33, and 42–48 for the disclosure requirements.
Practice Tip

Benefit amounts should not be accrued as liabilities.
[AAG, par. 2.24]

2. Consider stating separately:
   a. Due to broker for securities purchased?
   b. Accounts payable?
   c. Accrued expenses?
      [AAG, par. 2.24 and App. D, Exs. D-1, D-5, and D-9]

3. Net assets related to the 401(h) account must be deducted before arriving at the total of net assets available for pension benefits:
   a. In deducting those net assets, are the amounts relating to 401(h) features presented as a separate line item in the liabilities section of the statement of net assets available for pension benefits?
   b. Does the financial statement caption clearly denote that the net assets held in the 401(h) account relate to obligations of the health and welfare plan or arrangement?
      [AAG, par. 2.41; SOP 99-2, par. 8]

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant type of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined?
   [SFAS 35, par. 15 (AC Pe5.114a); AAG, pars. 2.14 and 2.25]

2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:
   a. Investment income (exclusive of changes in fair value)?
   b. Contributions from employer(s), segregated between cash and noncash contributions?
   c. Contributions from participants, including those transmitted by the sponsor?
   d. Contributions from other sources (for example, state subsidies or federal grants)?
   e. Benefits paid to participants?
   f. Payments to insurance companies to purchase contracts that are excluded from plan assets?
   g. Administrative expenses?
   h. Other changes? (For example, transfers of assets to or from other plans, if significant.)
      [SFAS 35, par. 15 (AC Pe5.114); AAG, par. 2.25]
Practice Tip

Dividend income related to contracts with insurance companies that are excluded from plan assets may be netted against Question f above.
[SFAS 35, pars. 28e and 15g, fn. 9 (AC Pe5.127e and .114g, fn. 13)]

B. Contributions

1. Is the nature of noncash contributions described, either parenthetically or in a footnote?
   [SFAS 35, par. 15c, fn. 9 (AC Pe5.114c, fn. 12)]

C. Investment Earnings

1. Does the net appreciation (depreciation) in the fair value of investments (see Question A1 above) include realized gains and losses on investments that were both bought and sold during the year?³
   [SFAS 35, par. 15, fn. 7 (AC Pe5.114, fn. 10)]

2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (for example; interest and dividends) disclosed for each period for which a “Statement of Changes in Net Assets Available for Benefits” is presented?
   [AAG, par. 2.34]

D. 401(h) Account Assets

1. Does the statement of changes in net assets available for plan benefits:
   a. Show only the changes in net assets of the pension plan and not any of the components of the changes in the net assets in the 401(h) account?
   [SOP 99-2, par. 8; AAG, par. 2.41]

   b. Reflect only qualified transfers to the 401(h) account or any unused or unspent amounts (including allocated income), or both, in the 401(h) account at the end of the year that were qualified transfers of excess pension plan assets that should have been but were not transferred back to the defined benefit pension plan?
   [SOP 99-2, par. 8; AAG, par. 2.41]

E. Transfer of Assets to or From Other Plans

1. If there are significant transfers of assets to or from other plans, are they disclosed?
   [AAG, par. 2.25]

Statement of Accumulated Plan Benefits

Practice Tip

The benefit information may be presented in a separate statement, combined with other information in the financial statements, or presented in a note to the financial statements. Regardless of the presentation, the benefit information should all be located in one place.
[AAG, par. 2.29]

³ Gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year-end. [AAG, par. 2.25a]
A. Actuarial Present Value of Accumulated Plan Benefits

1. Is the total actuarial present value of accumulated plan benefits as of the benefit information date segmented into at least the following categories:
   a. Vested benefits of participants currently receiving payments?
   b. Other vested benefits?
   c. Nonvested benefits?
   [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.29]

2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date?
   [SFAS 35, par. 22 (AC Pe5.121)]

3. Does information regarding accumulated plan benefits relate only to pension obligations and not to retiree health benefits, even in situations where separate financial statements are not prepared for the health and welfare benefit plan?
   [SOP 99-2, par. 9; AAG, par. 2.41]

B. Accumulated Contributions of Present Employees

1. If the plan is contributory, is the amount of active employees’ accumulated contributions as of the benefit information date (including interest, if any) disclosed?
   [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.29]

2. If interest has been credited on employees’ contributions, is the rate(s) disclosed?
   [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.29]

Statement of Changes in Accumulated Plan Benefits

Practice Tip

The changes in accumulated plan benefits may be presented in a separate statement or presented in the notes to the financial statements in either reconciliation or narrative format.
[AAG, par. 2.30]

A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits

1. If significant, is information disclosed regarding the effects of certain factors affecting the change in the actuarial present value of accumulated plan benefits from the preceding to the current benefit information date?
   [SFAS 35, par. 25 (AC Pe5.124); AAG, par. 2.30]

2. At a minimum, do disclosures include the significant effects of such factors as:
   a. Plan amendments?
   b. Changes in the nature of the plan (for example, as a result of a spinoff or merger)?
   c. Changes in actuarial assumptions?4

4 Changes in actuarial assumptions are to be viewed as changes in accounting estimates, and therefore previously reported amounts should not be restated. [AAG, par. 2.30]
3. Are the significant effects of other factors identified, such as:
   a. Benefits accumulated? ______ ______ ______
   b. The increase (for interest) as a result of the decrease in the discount period? ______ ______ ______
   c. Benefits paid? [SFAS 35, par. 25 (AC Pe5.124)] ______ ______ ______

4. If any one factor is individually significant, is that factor separately disclosed? ______ ______ ______
   [SFAS 35, par. 25 (AC Pe5.124)]

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Practice Tip

Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than being separately disclosed.
   [SFAS 35, par. 25, fn. 12 (AC Pe5.124, fn. 17)]

---

B. Changes in Actuarial Assumptions

1. For plans that measure the actuarial present value of accumulated plan benefits by insurance company rates pursuant to the approach described in paragraph 21 of SFAS 35 (AC Pe5.120), are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed, if practicable? ______ ______ ______
   [SFAS 35, par. 25, fn. 11 (AC Pe5.124, fn. 16)]

2. If the effects of changes in actuarial assumptions discussed in Question 1 above cannot be separately disclosed, are those effects included in benefits accumulated? ______ ______ ______
   [SFAS 35, par. 25, fn. 12 (AC Pe5.124, fn. 17)]

C. Benefits Paid and Other

1. Are amounts paid by the plan to an insurance company pursuant to a contract that is excluded from plan assets (including the purchase of annuities with amounts allocated from existing investments with the insurance company) included in benefits paid? ______ ______ ______
   [SFAS 35, par. 25 (AC Pe5.124)]

2. In presenting the changes in the actuarial present value of accumulated plan benefits, if only the minimum required disclosure is presented and a “statement format” is used, is an additional “other” category used to reconcile the beginning and ending amounts?5 ______ ______ ______
   [SFAS 35, pars. 25 and 26 (AC Pe5.124 and .125); AAG, par. 2.30]

---

Summary of Significant Accounting Policies

A. Accounting Policies

1. Is a description of all significant accounting policies of the pension plan presented as either a separate “summary of significant accounting policies” preceding the notes to the financial statements or as the initial note? ______ ______ ______
   [APB 22, par. 15 (AC A10.108)]

---

5 If the minimum required disclosure is presented in other than a statement format, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should be presented. [SFAS 35, par. 25 (AC Pe5.124)]
2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there:

   a. Is a selection from existing acceptable alternatives? __ ___ ___

   b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry? __ ___ ___

   c. Are unusual or innovative applications of GAAP? __ ___ ___
[APB 22, par. 12 (AC A10.105)]

3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? __ ___ ___
[APB 22, par. 14 (AC A10.107)]

4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? __ ___ ___
[SOP 94-6, par. 11; FSP SOP 94-6-1, par. 10]

5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? __ ___ ___
[SFAS 35, par. 27a (AC Pe5.126a); AAG, par. 2.31]

6. Does the disclosure of significant accounting policies include a description of the method and significant assumptions (for example, assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits, including any significant changes in the method or assumptions during the year? __ ___ ___
[SFAS 35, par. 27b (AC Pe5.126b); AAG, par. 2.31]

7. If administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits are reflected by appropriately adjusting the assumed rates of return, is the adjustment of the assumed rates of return disclosed separately? __ ___ ___
[SFAS 35, par. 20c (AC Pe5.119c)]

B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:

   a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term? __ ___ ___

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Financial Statements and Notes Checklist

b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?  

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c. Does the disclosure describe the factors that cause the estimate to be sensitive to change?  

[SOP 94-6, pars. 13 and 14; FSP SOP 94-6-1, pars. 10 and 11; AAG, par. 2.46]

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Other Financial Statement Disclosures

A. Changes in Accounting

Note: APB 20, Accounting Changes, has been superseded by SFAS 154, Accounting Changes and Error Corrections. If SFAS 154 has been adopted, the questions below that are based on APB 20 do not apply and readers should refer to section A1.

1. For changes in accounting principles, does disclosure in the period of change include:
   a. Nature of the change?
   b. Justification for the change, including a clear explanation of why the newly adopted accounting principle is preferable?
   c. Effect on net additions (deductions) to the plan’s net assets?  

[APB 20, pars. 17 and 19 (AC A06.113 and .115)]

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2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed?

[APB 20, pars. 19–22 and 25 (AC A06.115–.118)]

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3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:
   a. Are all financial statements of prior periods presented restated?  

[APB 20, par. 27 (AC A06.123)]

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   b. Is the effect on net assets available for benefits for all prior periods presented shown?  

[APB 20, par. 28 (AC A06.124)]

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4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?
   a. Nature of the error in previously issued financial statements?
   b. Effect of its correction on the changes (1) in the actuarial present value of accumulated plan benefits and (2) in the net assets available for benefits?  

[APB 20, par. 37 (AC A35.105)]

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5. For changes in accounting estimates:
   a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed?  

[APB 20, par. 33 (AC A06.132)]

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FSP §7200.03
**Defined Benefit Pension Plans**

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<td>b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]</td>
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6. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and are the nature of the change and the reason for it disclosed? [APB 20, pars. 34 and 35 (AC A35.112 and .113)] |   |   |   |

### A1. Accounting Changes and Error Corrections

**Notes:** If SFAS 154, *Accounting Changes and Error Corrections*, has been adopted, the following section should be completed.

SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after June 1, 2005. SFAS 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the Statement.

#### Change in Accounting Principle

1. Is the following disclosed in the fiscal period in which a change in accounting principle is made:

   a. The nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable? |   |   |   |

   b. The method of applying the change, and:

   (1) A description of the prior-period information that has been retrospectively adjusted, if any? |   |   |   |

   (2) The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted? Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required. |   |   |   |

   (3) The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented? |   |   |   |

   (4) If retrospective application to all prior periods (paragraph 7 of SFAS 154) is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (paragraphs 8 and 9 of SFAS 154)? |   |   |   |
c. If indirect effects of a change in accounting principle are recognized:

(1) A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable?

(2) Unless impracticable, the amount of the total recognized indirect effects of the accounting change and the related per-share amounts, if applicable, that are attributable to each prior period presented?

[SFAS 154, par. 17 (AC A07.117)]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154, par. 17 (AC A07.117)]

2. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, are the disclosures required by Question 1a above provided whenever the financial statements of the period of change are presented?

[SFAS 154, par. 17 (AC A07.117)]

3. In the fiscal year in which a new accounting principle is adopted, does financial information reported for interim periods after the date of adoption include disclosure of the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those post-change interim periods?

[SFAS 154, par. 18 (AC A07.118)]

Change in Accounting Estimate

4. Is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets? Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, if the effect of a change in the estimate is material, is it disclosed?

5. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by Questions 1–3 above made?

6. If a change in estimate does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is a description of that change in estimate disclosed whenever the financial statements of the period of change are presented?

[SFAS 154, par. 22 (AC A07.122)]

Change in the Reporting Entity

7. When there has been a change in the reporting entity, do the financial statements of the period of the change describe the nature of the change and the reason for it?

FSP §7200.03
a. Is the effect of the change on income before extraordinary items, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts disclosed for all periods presented?

[SFAS 154, par. 24 (AC 07.124)]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.

[SFAS 154, par. 24 (AC 07.124)]

8. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is the nature of and reason for the change disclosed whenever the financial statements of the period of change are presented?

[SFAS 154, par. 24 (AC 07.124)]

Note: Paragraphs 51–58 of SFAS 141, Business Combinations, describe the manner of reporting and the disclosures required for a business combination.

[SFAS 154, par. 24 (AC 07.124)]

Correction of an Error in Previously Issued Financial Statements

9. When financial statements are restated to correct an error, does the plan disclose that its previously issued financial statements have been restated, along with a description of the nature of the error? Does the plan also disclose the following:

a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented?

b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented?

10. In addition to Question 9 above, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9, Reporting the Results of Operations?

[SFAS 154, par. 26 (AC 07.126)]

11. In addition, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9, Reporting the Results of Operations?

a. The effects, in total and by class, of the correction on change in net assets for each of the periods presented?

b. For single period financial statements, the effects, in total and by class, of the correction on change in net assets of the preceding year?

[SFAS 154, par. 26 (AC 07.126) and APB 9, par. 26 (AC 35.107)]
Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.
[SFAS 154, par. 26 (AC A07.126)]

B. Commitments and Contingencies (See also Section 'G. Guarantees')

1. Is disclosure made of the nature of estimated loss contingencies accrued when (a) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (b) the amount of loss can be reasonably estimated?
[SFAS 5, par. 9 (AC C59.108)]

2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in Question 1 above disclosed?
[SFAS 5, par. 9 (AC C59.108)]

3. For loss contingencies not accrued because one or both of the conditions in Question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate:
   a. Nature of the contingency?
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?
[SFAS 5, par. 10 (AC C59.109)]

4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization?
[SFAS 5, par. 17 (AC C59.118)]

5. Are the nature and amount of any guarantees (for example, guarantors of indebtedness of others) disclosed even though the possibility of loss may be remote?
[SFAS 5, par. 12 (AC C59.113)]

6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts?
[SFAS 5, pars. 18 and 19 (AC C59.120)]

C. Current Vulnerability Due to Certain Concentrations

Notes: The guidance in FSP SOP 94-6-1, Terms of Loan Products That May Give Rise to a Concentration of Credit Risk, is effective for interim and annual periods ending after December 19, 2005. An entity shall provide the disclosures required by FASB Statement No. 107 for products that are determined to represent a concentration of credit risk in accordance with the guidance in Question 1 of the FSP for all periods presented.
[FSP SOP 94-6-1, par. 17]

(continued)
Question 2 of the FSP references only existing effective literature; therefore, no effective date or transition guidance is required. 
[FSP SOP 94-6-1, par. 18]

The type and extent of information provided shall be determined by whether the entity is the originator, holder, investor, guarantor, or servicer and also by the significance of the loan product(s) to the reporting entity. 
[FSP SOP 94-6-1, par. 9 (Question 2)]

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the plan vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? 
[SOP 94-6, pars. 21 and 22; FSP SOP 94-6-1, pars. 10-11; AAG, par. 2.47]

2. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the reporting entity's home country that (a) exist at the date of the financial statements and (b) make the reporting entity vulnerable to the risk of a near-term severe impact, where it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:

   a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?  
   [SOP 94-6, par. 24; FSP SOP 94-6-1, pars. 10-11]

3. Are major categories of loans, including unusual risk concentrations disclosed, such as:

   a. Commercial, financial, and agricultural?  
   b. Real estate construction?  
   c. Real estate mortgage?  
   d. Installment loans to individuals?  
   e. Lease financing?  
   f. Foreign?  
   g. Loans in process?  
   h. Other?  
   [FSP SOP 94-6-1, par. 11]
4. Are major concentrations of loan products whose contractual features may increase credit risk disclosed, such as:
   
   a. Negative amortization? [Yes | No | N/A]
   
   b. Loans with a high loan-to-value ratio? [Yes | No | N/A]
   
   c. Multiple loans on the same collateral that when combined, result in a high loan-to-value ratio? [Yes | No | N/A]
   
   d. Option ARMs or similar products that may expose the borrower to future increases in repayments? [Yes | No | N/A]
   
   e. An initial interest rate that is below the market interest rate for the initial period of a loan term and that may increase significantly when that period ends? [Yes | No | N/A]
   
   f. Interest only loans? [Yes | No | N/A]  
   [FSP SOP 94-6-1, pars. 2 and 7; SFAS 107, par. 15A]

5. Are foreign loans, foreign nonaccrual loans, and foreign operations, if any of these foreign activities exceed a material percentage of activities, disclosed? [Yes | No | N/A]  
   [FSP SOP 94-6-1, par. 7; SFAS 107, par. 15A]

D. Description of Pension Plan

1. Do disclosures include a brief, general description of the plan agreement, including its vesting and benefit provisions? [Yes | No | N/A]  
   [SFAS 35, par. 28a (AC Pe5.127a); AAG, par. 2.31a; SOP 94-6, par. 10; FSP SOP 94-6-1, par. 10]

2. For ERISA plans, does the plan description include the priority order of participants’ claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC? [Yes | No | N/A]  
   [SFAS 35, par. 28c (AC Pe5.127c); AAG, par. 2.32c]

Practice Tip

If material providing this information is otherwise published and made available to participants (for example, employee handbook), the disclosures required by SFAS 35, paragraph 28a and c can be omitted provided that (1) a reference to the other source is made and (2) for paragraph 28c only, disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35, paragraph 28c, fn. 16 (AC Pe5.127c, fn. 21) for appropriate wording.

E. Description of Pension Plan Amendments

1. Do disclosures include a description of significant plan amendments adopted during the year? [Yes | No | N/A]  
   [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 2.32b]

2. If significant plan amendments were adopted after the date of the accumulated benefit information, and accordingly their effect was not included in the calculation, is this fact stated? [Yes | No | N/A]  
   [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 2.32b]

3. For ERISA plans, do the disclosures include a discussion of the benefit priority and PBGC coverage in the event of plan termination to any recent plan amendments? [Yes | No | N/A]  
   [SFAS 35, par. 28c (AC Pe5.127c); AAG, par. 2.32c]
Defined Benefit Pension Plans

F. Financial Instruments

Practice Tip

SFAS 149, Amendment of Statement 133 on Derivative Investments and Hedging, amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, Reporting by Defined Benefit Pension Plans of Investment Contracts, or paragraph 12 of SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans, as amended, is not subject to SFAS 133. This exception applies only to the party that accounts for the contract under SFAS 35 or SFAS 110.

Derivative Instruments and Hedging Activities

1. If a plan holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?

2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?

3. Does the description also indicate the plan’s risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?

4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?

5. Qualitative disclosures about a plan’s objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan’s overall risk management profile. If appropriate, a plan is encouraged, but not required, to provide such additional qualitative disclosures. Have such disclosures been made?

[SFAS 133, par. 44 (AC D50)]

6. For every reporting period for which a complete set of financial statements is presented, has the plan disclosed the following:

Fair Value Hedges

a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, Foreign Currency Translation, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

(1) The net gain or loss recognized in the investment income during the reporting period representing (a) the amount of
the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of changes in net assets available for benefits?

(2) The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge?

[SFAS 133, par. 45a (AC D50.142)]

Hedges of the Net Investment in a Foreign Operation

b. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period?

[SFAS 133, par. 45c (AC D50.142)]

7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? (Encouraged but not required.)

[SFAS 133, par. 45 (AC D50.142)]

Disclosures About Fair Value of Financial Instruments

8. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended by SFAS 157, been followed for financial instruments of the plan?

[SFAS 107, as amended by SFAS 157, pars. 10–14 (AC F25.115C–115F and 115J); AAG, pars. 2.35–2.36]

Disclosure About Concentrations of Credit Risk of All Financial Instruments

9. Except as indicated in paragraph 15B of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (Group concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)?

[SFAS 107, par. 15A; SFAS 133, par. 531d (AC F25)]

SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans, are subject to the reporting of paragraph 15A).

2. The financial instruments described in paragraphs 8(a), 8(c), and 8(l) of SFAS 107, as amended by SFAS 112, Employers' Accounting for Post-Employment Benefits, SFAS 123, Accounting for Stock-Based Compensation, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.
10. Has the plan made the following disclosures about each significant concentration:

   a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?  
   [SFAS 107, par. 15A, as amended; SFAS 133, par. 531d (AC F25; AAG, par. 2.36)]

   b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?  

   c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?  

   d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk?  

[SFAS 107, par. 15A, as amended; SFAS 133, par. 531d (AC F25; AAG, par. 2.36)]

11. Has the plan disclosed quantitative information about the market risks of financial instruments that is consistent with how it manages or adjusts those risks? (Encouraged but not required.)  

[SFAS 107, par. 15C, as amended; SFAS 133, par. 531d (AC F25.116C)]

G. Guarantees

1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:

   a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?  

   b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?  

   c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?  

   d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the

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7 Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate re-pricing or maturity dates, (d) the duration of the financial instruments, or (e) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

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reasons why the maximum potential amount cannot be estimated disclosed?

e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?

f. The nature of—
   (1) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee?
   (2) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?

g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FASBI 45, par. 13 (AC G80.112)]

2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASBI 45 pursuant to paragraph 7(b) of FASBI 45 (collectively referred to as product warranties), is the following information disclosed:

   a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?

   b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?

   c. Does the tabular reconciliation present—
      (1) The beginning balance of the aggregate product warranty liability?
      (2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?
      (3) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?
      (4) The ending balance of the aggregate product warranty liability? [FASBI 45, par. 14 (AC G80.113)]

3. Are the disclosure requirements in paragraphs 13 and 14 of FIN 45 complied with for intellectual property infringement indemnifications as described in FSP 45-1? [FSP 45-1]

H. Income Tax Status

1. If a favorable letter of determination has not been obtained or maintained, is the federal income tax status of the plan disclosed? [SFAS 35, par. 28f (AC Pe5.127f); AAG, par. 2.32f]
Practice Tip

Note that reports filed in accordance with the requirements of ERISA must include disclosure of “information concerning whether or not a tax ruling or determination letter has been obtained,” which is more than is required by SFAS 35, as amended.

[AAG, par. 2.32f]

I. Uncertainty in Income Tax

Note: In June 2006, FASB 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, was issued. The Interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of the Interpretation is encouraged if the plan has not yet issued financial statements, including interim financial statements, in the period the Interpretation is adopted. Readers should refer to paragraphs 23–24 of the Interpretation for transition requirements. For additional guidance readers may refer to a practice guide developed by the staff of the AICPA Accounting Standards, Audit and Attest Standards, and Tax Teams entitled “Accounting for Uncertain Tax Positions Under FIN 48” to help practitioners implement FASB 48, “Accounting for Uncertain Tax Positions.” FASB 48 interprets SFAS 109, Accounting for Income Taxes.

1. Does a plan disclose its policy on classification of interest and penalties in accordance with paragraph 19 of FIN 48 in the footnotes to the financial statements?
   [FASB 48, par. 20]

2. Does a plan disclose the following at the end of each annual reporting period presented:
   a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum:
      (1) The gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period?
      (2) The gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period?
      (3) The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities?
      (4) Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations?
   b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate?
   c. The total amounts of interest and penalties recognized in the statement of changes in net assets available for benefits operations and the total amounts of interest and penalties recognized in the statement of net assets available for benefits?
   d. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date:

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Financial Statements and Notes Checklist

(1) The nature of the uncertainty?
(2) The nature of the event that could occur in the next 12 months that would cause the change?
(3) An estimate of the range of the reasonably possible change or a statement that an estimate of the range cannot be made?

e. A description of tax years that remain subject to examination by major tax jurisdictions?
   [FASBI 48, par. 21]

3. Has the liability for unrecognized tax benefits (or reduction in amounts refundable) not been combined with deferred tax liabilities or assets?
   [FASBI 48, par. 17]

4. Is a liability that has been recognized as a result of applying FIN 48, not classified as a deferred tax liability unless it arises from a taxable temporary difference?
   [FASBI 48, par. 18]

J. Plan Terminations

1. If a decision is made to terminate the plan or a wasting trust or frozen plan exists, are all relevant circumstances disclosed?
   [AAG, par. 2.50]

2. If a decision is made to terminate the plan before the end of the plan year, have all benefits been determined on a liquidation basis and reported as vested?
   [AAG, pars. 2.51 and 2.53]

3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed?
   [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 2.51]

K. Related-Party Transactions

1. For related-party transactions, do disclosures include:
   a. The nature of the relationships involved?
   b. For each period for which a statement of changes in net assets is presented:
      (1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?
      (2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?
      (3) The dollar amount of transactions?
      (4) The effects of any changes in the method of establishing the terms from that used in the preceding period?
   c. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement?
      [SFAS 57, pars. 2–4 (AC R36.102–.104)]
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, pars. 2–4 (AC R36.102–.104)]

3. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm’s length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]

4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]

5. Are combined financial statements considered for entities under common control? [ARB 51, pars. 22 and 23 (AC C51.121 and .122)]

6. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, par. 2.32h and App. A, par. A.51c]

**Practice Tip**
ERISA defines a party-in-interest to include fiduciaries or employees of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above.
[AAG, par. 11.01 and App. A, par. A.94, fn. 26; ERISA section 3(14)]

**L. Subsequent Events**

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the “Statement of Net Assets Available for Benefits”? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]

2. Are subsequent events that provide evidence about conditions that did not exist at the date of the “Statement of Net Assets Available for Benefits,” but arose subsequent to that date, adequately disclosed? [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560, pars. .05–.07, and .09 (AU 560.05–.07, and .09); AAG, pars. 2.31i and 2.50]

3. Do disclosures include any unusual or infrequent events or transactions occurring after the latest benefit information date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan’s present and future ability to pay benefits? [SFAS 35, par. 28i (AC Pe5.127i)]

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* Also consider the appropriateness of dual dating the auditor’s report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

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4. For those unusual or infrequent events or transactions identified in Question 3 above, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [SFAS 35, par. 28i (AC Pe5.127i)]

M. Transfers and Servicing of Financial Assets and Securitizations

Note: SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, has been amended by SFAS 156, Accounting for Servicing of Financial Assets. If SFAS 156 has been adopted, the questions below that are based on SFAS 140 do not apply and readers should refer to section M1.

1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 140, par. 17a (AC F39.110a)]

2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140, par. 17d (AC F39.110b)]

3. For all servicing assets and servicing liabilities are the following disclosures made:
   a. The amounts of servicing assets or liabilities recognized and amortized during the period?
   b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?
   c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140?
   d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140, par. 17e (AC F35.102a)]

4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:
   a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?
b. The characteristics of securitizations (a description of the transferor’s continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?

No Yes N/A

5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:

a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?

No Yes N/A

c. The key assumptions used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?

No Yes N/A

d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?

No Yes N/A

No Yes N/A

5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:

a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?

No Yes N/A

c. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?

No Yes N/A

c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under b above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?

No Yes N/A

d. For the securitized assets and any other financial assets that it manages together with them:

(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?

No Yes N/A

(2) Delinquencies at the end of the period?

No Yes N/A

(3) Credit losses, net of recoveries, during the period?

No Yes N/A

Disclosure of average balances during the period is encouraged, but not required.

[SFAS 140, par. 17f–g (AC F39.110c–d)]

If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.
Collateral

6.  
   a. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented?  
   [SFAS 140, par. 17a(2) (AC F39.110a)]

   b. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed?  
   [SFAS 140, par. 17a(3) (AC F39.110a)]

   c. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed?  
   [SFAS 140, par. 17(a)(3) (AC F39.110a)]

M. Transfers and Servicing of Financial Assets and Securitizations  
(SFAS 156)

Note: If SFAS 156, Accounting for Servicing of Financial Assets, has been adopted, the following section should be completed.

An entity shall adopt SFAS 156 as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this Statement is the date that an entity adopts the requirements of this Statement.

1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions?  
   [SFAS 140, as amended by SFAS 156, par. 17a]

2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements?  
   [SFAS 140, as amended, par. 17d]

3. For all servicing assets and servicing liabilities are the following disclosures made:
   a. Management's basis for determining its classes of servicing assets and servicing liabilities?  

   b. A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities? (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.)

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c. The amount of contractually specified servicing fees (as defined in the glossary), late fees, and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income?

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4. For servicing assets and servicing liabilities subsequently measured at fair value:

a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in fair value are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:

   (1) The beginning and ending balances?
   (2) Additions (through purchases of servicing assets, assumptions of servicing obligations, and servicing obligations that result from transfers of financial assets)?
   (3) Disposals?
   (4) Changes in fair value during the period resulting from:
       (i) Changes in valuation inputs or assumptions used in the valuation model?
       (ii) Other changes in fair value and a description of those changes?
   (5) Other changes that affect the balance and a description of those changes?

b. A description of the valuation techniques or other methods used to estimate the fair value of servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2) of SFAS 140, as amended by SFAS 156, is also encouraged, but not required, to disclose a description of the valuation techniques, as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)

5. For servicing assets and servicing liabilities subsequently amortized in proportion to and over the period of estimated net servicing income or loss and assessed for impairment or increased obligation:

a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in the carrying amount are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:

   (1) The beginning and ending balances?
   (2) Additions (through purchases or servicing assets, assumption of servicing obligations, and servicing obligations that result from transfers of financial assets)?

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(3) Disposals?  
(4) Amortization?  
(5) Application of valuation allowance to adjust carrying value of servicing assets?  
(6) Other-than-temporary impairments?  
(7) Other changes that affect the balance and a description of those changes?

b. For each class of servicing assets and servicing liabilities, the fair value of recognized servicing assets and servicing liabilities at the beginning and end of the period if it is practicable to estimate the value?

c. A description of the valuation techniques or other methods used to estimate fair value of the servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2) of SFAS 140, as amended by SFAS 156, is also encouraged, but not required, to disclose a description of the valuation techniques as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)

d. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140, as amended by SFAS 156?

e. The activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented?

6. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:

a. Its accounting policies for initially measuring the interests that continue to be held by the transferor, if any, and servicing assets or servicing liabilities, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?

b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on interests that continue to be held by the transferor) and the gain or loss from sale of financial assets in securitizations?
c. The key assumptions* used in measuring the fair value of interests that continue to be held by the transferor and servicing assets or servicing liabilities, if any, at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?

Yes  No  N/A

7. If the entity has interests that continue to be held by the transferor in financial assets that it has securitized or servicing assets or servicing liabilities relating to assets that it has securitized, at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:

a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?

b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?

Yes  No  N/A

c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported under b above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?

Yes  No  N/A

d. For the securitized assets and any other financial assets that it manages together with them:

(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?

(2) Delinquencies at the end of the period?

(3) Credit losses, net of recoveries, during the period? (Disclosure of average balances during the period is encouraged, but not required.)

If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

FSP §7200.03
N. Fair Value Measurements

Notes: In September 2006, the Financial Accounting Standards Board issued SFAS 157, *Fair Value Measurements*, which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.

The Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied. Certain exceptions apply. Readers should refer to the Statement for those exceptions.

1. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:
   a. The fair value measurements at the reporting date,
   b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3),
   c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
      (1) Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities),
      (2) Purchases, sales, issuances, and settlements (net),
      (3) Transfers in or out, or both, of Level 3 (for example, transfers due to changes in the observability of significant inputs).
   d. The amount of the total gains or losses for the period in subparagraph (c)(1) above included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities),
   e. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, during the period.

[SFAS 157, par. 32]

---

9 For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32(c) may be presented net.
2. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:

   a. The fair value measurements recorded during the period and the reasons for the measurements,

   b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3),

   c. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs,

   d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets and/or liabilities in prior periods.

      [SFAS 157, par. 33]

3. Are the quantitative disclosures required by SFAS 157 presented using a tabular format? (See Appendix A of SFAS 157 for implementation guidance and examples.)

      [SFAS 157, par. 34]

4. Is the fair value information disclosed under SFAS 157 and the fair value information disclosed under other accounting pronouncements (for example, SFAS 107, Disclosures about Fair Value of Financial Instruments) combined in the periods in which those disclosures are required, if practicable? (Encouraged, but not required.)

      [SFAS 157, par. 35]

5. Is information about other similar measurements (for example, inventories measured at market value under ARB 43, Chapter 4) disclosed, if practicable? (Encouraged, but not required.)

      [SFAS 157, par. 35]

   Transition Guidance

6. At the date this Statement is initially applied to the financial instruments in paragraph 37(a)–(c), is the difference between the carrying amounts and the fair values of those instruments recognized as a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately?

      [SFAS 157, par. 38]

   Note: The disclosure requirements of SFAS 154 for a change in accounting principle do not apply.
7. Are the disclosure requirements of this Statement (paragraphs 32–35), including those disclosures that are required in annual periods only, applied in the first interim period of the fiscal year in which this Statement is initially applied?  

[SFAS 157, par. 39]

Notes: The disclosure requirements of this Statement need not be applied for financial statements for periods presented prior to initial application of this Statement.

In February 2007 the Financial Accounting Standards Board issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*, which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157.

No entity is permitted to apply this Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption.

This Statement permits application to eligible items existing at the effective date (or early adoption date). Readers should refer to the complete Statement for more detailed information regarding early adoption and effective date.

Notes: The disclosures described in paragraphs 18–22 of SFAS 159 are required for items measured at fair value under the option in SFAS 159 and the option in paragraph 16 of SFAS 133 (as amended by SFAS 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*). Those disclosures are not required for securities classified as trading securities under SFAS 115, life settlement contracts measured at fair value pursuant to FASB Staff Position FTB 85-4-1, “ Accounting for Life Settlement Contracts by Third-Party Investors,” or servicing rights measured at fair value pursuant to SFAS 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. Entities shall provide the disclosures required by paragraphs 18–22 of SFAS 159 in both interim and annual financial statements. Entities are encouraged but are not required to present the disclosures required by SFAS 159 in combination with related fair value information required to be disclosed by other Statements (for example, SFAS 107 and SFAS 157). Appendix B of SFAS 159 provides illustrative fair value disclosures.

Required Disclosures as of Each Date for Which an Interim or Annual Statement of Financial Position Is Presented

8. As of each date for which a statement of financial position is presented, do the entities disclose the following:

a. Management’s reasons for electing a fair value option for each eligible item or group of similar eligible items?
b. If the fair value option is elected for some but not all eligible items within a group of similar eligible items:

(1) A description of those similar items and the reasons for partial election? ___
(2) Information to enable users to understand how the group of similar items relates to individual line items on the statement of financial position? __

c. For each line item in the statement of financial position that includes an item or items for which the fair value option has been elected:

(1) Information to enable users to understand how each line item in the statement of financial position relates to major categories of assets and liabilities presented in accordance with SFAS 157's fair value disclosure requirements? __
(2) The aggregate carrying amount of items included in each line item in the statement of financial position that are not eligible for the fair value option, if any? __

d. The difference between the aggregate fair value and the aggregate unpaid principal balance of:

(1) Loans and long-term receivables (other than securities subject to SFAS 115) that have contractual principal amounts and for which the fair value option has been elected? __
(2) Long-term debt instruments that have contractual principal amounts and for which the fair value option has been elected? __

e. For loans held as assets for which the fair value option has been elected:

(1) The aggregate fair value of loans that are 90 days or more past due? __
(2) If the entity's policy is to recognize interest income separately from other changes in fair value, the aggregate fair value of loans in nonaccrual status? __
(3) The difference between the aggregate fair value and the aggregate unpaid principal balance for loans that are 90 days or more past due, in nonaccrual status, or both? __

f. For investments that would have been accounted for under the equity method if the entity had not chosen to apply the fair value option 4, the information required by paragraph 20 of APB 18, The Equity Method of Accounting for Investments in Common Stock (excluding the disclosures in paragraphs 20(a)(3), 20(b), and 20(e) of that Opinion)? __

Required Disclosures for Each Period for Which an Interim or Annual Income Statement Is Presented

9. For each period for which an income statement is presented, do entities disclose the following about items for which the fair value option has been elected:

a. For each line item in the statement of financial position, the amounts of gains and losses from fair value changes included in earnings during the period and in which line in the income statement those gains and losses are reported? (The Statement does not
preclude an entity from meeting this requirement by disclosing amounts of gains and losses that include amounts of gains and losses for other items measured at fair value, such as items required to be measured at fair value.)

b. A description of how interest and dividends are measured and where they are reported in the income statement? (The Statement does not address the methods used for recognizing and measuring the amount of dividend income, interest income, and interest expense for items for which the fair value option has been elected.)

c. For loans and other receivables held as assets:

   (1) The estimated amount of gains or losses included in earnings during the period attributable to changes in instrument-specific credit risk?

   (2) How the gains or losses attributable to changes in instrument-specific credit risk were determined?

d. For liabilities with fair values that have been significantly affected during the reporting period by changes in the instrument-specific credit risk:

   (1) The estimated amount of gains and losses from fair value changes included in earnings that are attributable to changes in the instrument specific credit risk?

   (2) Qualitative information about the reasons for those changes?

   (3) How the gains and losses attributable to changes in instrument-specific credit risk were determined?

   [SFAS 159, paragraph 19]

Note: The disclosure requirements in paragraphs 18 and 19 of SFAS 159 do not eliminate disclosure requirements included in other GAAP pronouncements, including other disclosure requirements relating to fair value measurement.

[SFAS 159, par. 20]

Other Required Disclosures

10. In annual periods only, does an entity disclose the methods and significant assumptions used to estimate the fair value of items for which the fair value option has been elected?

   [SFAS 159, par. 21]

11. If an entity elects the fair value option at the time one of the events in paragraphs 9(d) and 9(e) of SFAS 159 occurs, does the entity disclose the following in financial statements for the period of the election:

   a. Qualitative information about the nature of the event?

   b. Quantitative information by line item in the statement of financial position indicating which line items in the income statement include the effect on earnings of initially electing the fair value option for an item?

   [SFAS 159, par. 22]
O. Other Matters

1. Do disclosures include the funding policy of the pension plan and any changes in such policy during the plan year?  
   [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.32d]
   a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed?  
   [SFAS 35, par. 28d, fn. 17 (AC Pe5.127d, fn. 22)]
   b. For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions?  
   [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.32d]
   c. For ERISA plans, do disclosures include whether the minimum funding requirements of ERISA are met?  
   [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.32d]
   d. If a minimum funding waiver has been granted by the IRS or if a request for a waiver is pending before the IRS, is this fact disclosed?  
   [SFAS 35, par. 28d (AC Pe5.127d)]
   e. Does the plan include a brief description of how contributions are determined pursuant to the actuarial cost method?  
   [SFAS 35, par. 262 (AC Pe5.127d)] (optional)
   f. Did the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information?  
   [SFAS 35, par. 263 (AC Pe5.127d)] (optional)

2. Do disclosures include the policy regarding the purchase of insurance contracts that are excluded from plan assets and the income from those contracts?  
   [SFAS 35, par. 28e (AC Pe5.127e); AAG, par. 2.32e]

3. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organization(s)?  
   [See also section K, Related-Party Transactions, regarding parties-in-interest]  
   [SFAS 35, par. 28h (AC Pe5.127h); AAG, par. 2.32h]

ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards?  
   [AAG, par. 13.20 and App. A, par. A.23]
Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category ("large plan" or "small plan") as was filed for the previous year. The Form 5500 is filed with the EBSA in Lawrence, Kansas, in accordance with the instructions to the form. (See FSP section 7000.18-.21 for a discussion about the Form 5500.)

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Sec. 2520.103-1(a)(2), do the disclosures in the financial statements include:

   a. A description of accounting principles and variances from GAAP? [ ] [ ] [ ]

   b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits? [ ] [ ] [ ]

   c. The funding policy and changes in the funding policy from the prior year? [ ] [ ] [ ]

   d. A description of material lease commitments, and other commitments and contingent liabilities? [ ] [ ] [ ]

   e. A description of any agreements and transactions with persons known to be parties-in-interest? [ ] [ ] [ ]

   f. A general description of priorities in the event of plan termination? [ ] [ ] [ ]

   g. Whether a tax ruling or determination letter has been obtained? [ ] [ ] [ ]

   h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? [ ] [ ] [ ]

   [AAG, App. A, pars. A.50a and A.51c]

Practice Tip

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan, and GAAP requires them to be deducted before arriving at the total of net assets available for pension benefits, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. The reconciliation should be accompanied by a discussion of the 401(h) account, explaining clearly that the assets in the 401(h) account are not available to pay pension benefits. Additionally, any assets held for investment purposes in the 401(h) account should be shown on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) and Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan.

[SOP 99-2, par. 14; AAG, par. 2.44]

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor’s report:

   a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year? [ ] [ ] [ ]

   FSP §7200.03
b. Separate or combined statements of plan income and expenses and of changes in net assets?
[AAG, App. A, par. A.51a]

2. 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 is standardized in that some of these schedules are required to be reported on Schedule G, Financial Transactions Schedules of Form 5500. Pursuant to DOL regulations, are the following separate schedules included with the financial statements of the plan and covered by the auditor’s report:

Practice Tip
The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

a. The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown here and is it clearly labeled “Schedule H, line 4i—Schedule of Assets (Held at End of Year)”?

(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

Practice Tip
Participant loans may be aggregated and presented with a general description of terms and interest rates. In column (d), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan. Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

b. The Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year) (see 2520.103-11). Is the schedule clearly labeled “Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)” and does it use the following format?

<table>
<thead>
<tr>
<th>(a) Identity of issue, borrower, lessor, or similar party</th>
<th>(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value</th>
<th>(c) Cost of acquisitions</th>
<th>(d) Proceeds of dispositions</th>
</tr>
</thead>
</table>

Practice Tip
In column (c), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

FSP §7200.03
c. The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled “Schedule H, line 4j—Schedule of Reportable Transactions” and does it use the following format? [AAG, App. A, Exhibit A-1]

<table>
<thead>
<tr>
<th>(a) Identity of party involved</th>
<th>(b) Description of asset (include interest rate and maturity in case of a loan)</th>
<th>(c) Purchase price</th>
<th>(d) Selling price</th>
<th>(e) Lease rental</th>
<th>(f) Expense incurred with transaction</th>
<th>(g) Cost of asset</th>
<th>(h) Current value of asset on transaction date</th>
<th>(i) Net gain or (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Practice Tip**

Participant or beneficiary directed transactions under an individual account plan should not be taken into account for purposes of preparing this schedule. The current value of all assets of the plan, including those resulting from participant direction, should be included in determining the 5 percent figure for all other transactions. Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

d. The Schedule H, Line 4a—Schedule of Delinquent Participant Contributions?

**Practice Tip**

Information on delinquent participant contributions should be reported on Line 4a of either Schedule H or Schedule I of the Form 5500. Information on delinquent participant contributions is no longer required to also be reported on Line 4d of Schedule H or Schedule G, rather delinquent participant contributions may be reported on a separate supplemental schedule to be attached to the Form 5500 and reported on by the Independent Qualified Public Accountant (IQPA). For further guidance see the EBSA Web site frequently asked questions at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

e. Are the following schedules reported on Schedule G, Financial Transactions Schedules, of the Form 5500:

1. Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible?
2. Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible?

**Practice Tip**

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year. [AAG, App. A, par. A.51, fn. 19]
FSP Section 7300
Auditors’ Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAG</td>
<td>AICPA Audit and Accounting Guide Employee Benefit Plans (with conforming changes as of March 1, 2007)</td>
</tr>
<tr>
<td>SAS</td>
<td>AICPA Statement on Auditing Standards</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>AR</td>
<td>Reference to section number in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>DOL</td>
<td>Department of Labor</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
</tr>
<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
</tbody>
</table>

.03 The Public Company Accounting Oversight Board (PCAOB) establishes standards for audits of issuers, as that term is defined by the Sarbanes-Oxley Act of 2002 (the Act) or whose audit is prescribed by the rules of the SEC. Other entities are referred to as nonissuers.

.04 Checklist Questionnaire:

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor’s report? [SAS 58, par. 6 (AU 508.06)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor’s report match the titles of the financial statements presented? [Generally Accepted]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor’s report match the dates of the financial statements presented? [Generally Accepted]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]</td>
<td></td>
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</tr>
<tr>
<td>5. Does the auditor’s report include:</td>
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<td></td>
</tr>
<tr>
<td>a. A title that includes the word “independent”? [SAS 58, par. 8a (AU 508.08a)]</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit?
[SAS 58, par. 8c (AU 508.08c)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>


d. (Audits of Nonpublic Companies Only) A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted audited standards)?
[SAS 58, par. 8d, as amended (AU 508.08d)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>


e. (Audits of Public Companies Only—Including 11-K Filings) A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)?
[PCAOB Auditing Standard No. 1, App., par. 3]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

f. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement?
[SAS 58, par. 8e (AU 508.08e)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>


g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation?
[SAS 58, par. 8f (AU 508.08f)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion?
[SAS 58, par. 8g (AU 508.08g)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

i. An opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America?
[SAS 58, par. 8h, as amended (AU 508.08h)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

or

j. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:

1. Does the report include a paragraph that:
   (i) States the basis of presentation and refers to the note to the financial statements that describes the basis?
   (ii) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?
   (iii) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

2. If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
Auditors' Report Checklist

(i) Disclose (in an explanatory paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?

(ii) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)?

k. The manual or printed signature of the auditor's firm?

l. The date (or dual dates) of the audit report?

Practice Tip

DOL regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

Note: If SAS 113, Omnibus Statement on Auditing Standards, has been adopted by nonpublic companies, the phrase "completion of fieldwork" in Question 6 below should be replaced with "the date of the independent auditor's report." The amendments in paragraphs 7–14 of SAS 113 are effective for audits of financial statements for periods ending on or after December 15, 2006, with earlier application permitted.

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the related financial statements, has the need for dual-dating of the report been considered?

7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (nonpublic companies only)?

8. Does the report include appropriate language for the following situations:

a. Only one basic financial statement is presented and there are no scope limitations?

b. Audited and unaudited financial statements are presented in comparative form?

c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations?

1 SAS 103, Audit Documentation, amends SAS 1, sec. 530, Dating of the Independent Auditor's Report, to change the date of the auditor's report from the date of the completion of fieldwork to require that the auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. SAS 103 is effective for audits of financial statements for periods ending on or after December 15, 2006 with earlier application permitted.

* If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]
Practice Tip

The Guide includes additional auditor reports with respect to “change in trustee,” “financial statements of a trust,” and “inadequate procedures to value investments.”
[AAG, pars. 13.31, 13.33, and 13.38]

Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:
   a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?  
   b. Does the opinion paragraph include a reference to the report of the other auditor?  
   [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]

10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule?  
   [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]

11. If there is substantial doubt about the plan’s ability to continue as a going concern:
   a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?  
   b. Is that conclusion expressed through the use of the phrase “substantial doubt about its (the plan’s) ability to continue as a going concern” or similar wording that includes the terms substantial doubt and going concern?  
   [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended, par. 12 (AU 341.12)]

Practice Tips

During the audit of an employee benefit plan, the auditor may become aware that the plan sponsor may not be able to continue as a going concern. Although the employee benefit plan’s going concern assessment is not automatically affected by the plan sponsor’s financial adversities, the auditor should address whether those difficulties pose any imminently potential impact on the plan.  
[AAG, par. 5.71]

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern. See SAS 77 for an example.  
[SAS 59, as amended, par. 13 (AU 341.13)]

12. For auditors of public companies, such as 11-K audits, prior to the report release date, among other matters, has the auditor obtained sufficient evidence to support the representations in the auditor’s reports?  
   [PCAOB AS 3, par. A53]
13. **For auditors of nonpublic companies**, is the report dated no earlier than the date on which the auditor has obtained sufficient competent audit evidence to support the opinion on the financial statements? [SAS 103 (Amendment to AU 530.01 and 530.05)]

14. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:
   a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change? [SAS 58, as amended, pars. 11d and 16 (AU 508.11d and .16)]
   b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 88, par. 8 (AU 420.08)]
   c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? (Note: A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.)

Practice Tip

Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report.

[SAS 1, sec. 420 (AU 9420.64 and .65); AAG, par. 13.25]

15. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:
   a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion? [SAS 58, as amended, pars. 11e and 69 (AU 508.11e and .69)]
   b. Does the explanatory paragraph disclose:
      (1) The date of the auditor's previous report?
      (2) The type of opinion previously expressed?
      (3) The circumstances or events that caused the auditor to express a different opinion?
      (4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements?

16. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:
   a. Does the introductory paragraph of the report indicate:
      (1) That the financial statements of the prior period were audited by another auditor?
      (2) The date of the predecessor auditor's report?
Defined Benefit Pension Plans

(3) The type of report issued by the predecessor auditor?

(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?

b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended, pars. 11e and 74 (AU 508.11e and .74)]

17. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if:

a. The auditor wishes to clarify that an audit performed in accordance with generally accepted auditing standards does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Sarbanes-Oxley Act is applicable? (Note: Not required—Interpretation 17 of SAS 58 provides an example report.) [Interpretation 17 of SAS 58 (AU 9508.85-.88)]

b. The audit is conducted in accordance with both generally accepted auditing standards and the PCAOB's auditing standards? [Interpretation 18 of SAS 58 (AU 9508.89-.92)]

18. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if the prior period's financial statements are audited by a predecessor auditor who has ceased operations? [Interpretation 15 of SAS 58 (AU 9508.60-.75)]

19. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? [SAS 58, par. 11f (AU 508.11f); SAS 100, par. 50 (AU 722.50)]

20. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, as amended, par. 8 (AU 558.08)]

21. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if there is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 16–18, as amended (AU 508.16–18)]

22. If the audit also was conducted in accordance with International Standards on Auditing, in their entirety, does the auditor's report indicate that the audit was also conducted in accordance with another set of auditing standards? [Interpretation 14 of SAS 58 (AU 9508.56-.59)]

FSP §7300.04
23. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor’s report, or both require revision?  
[SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]

24. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor’s report describing clearly the character of the auditor’s work and the degree of responsibility the auditor is taking?  
[SAS 8, par. 7, as amended (AU 550.07); SAS 52, par. 9, as amended (AU 558.09)]

25. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as “with the foregoing (following) explanation”?  
[SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]

26. If the decision has been made to terminate a plan:
   a. Is the auditor’s report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis?  
   [AAG, par. 13.41]
   b. If the financial statements are presented along with the financial statements for a period prior to the adoption of the liquidation basis, does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis?  
   [AAG, par. 13.41; Interpretation 8 of SAS 58 (AU 9508.35)]

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**Practice Tip**

DOL Regulation section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

**Note:** In March 2006, the AICPA’s Auditing Standards Board issued Statement on Auditing Standards No. 104–111 (risk assessment standards), which provide extensive guidance concerning the auditor’s assessment of the risks of material misstatement in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Among other things, the SASs establish standards and provide guidance on evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit. The SASs are effective for audits of financial statements for periods beginning on or after December 15, 2006; earlier application is permitted. The 2008 edition of the AAG will be updated to reflect the risk assessment standards. Please refer to the Preface of the AAG for further information, including where you can find (continued)
Defined Benefit Pension Plans

Yes  No  N/A

Guidance if you plan to early adopt the risk assessment standards. This checklist has been updated to reflect the risk assessment standards.

Departures From Unqualified Opinions

27. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?
[SAS 58, as amended, par. 22 (AU 508.22)]

28. If a qualified opinion is to be expressed because of a scope limitation:
   a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?
   b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of?
   c. Is the situation described and referred to in both the scope and opinion paragraphs?
   d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself?
[SAS 58, as amended, pars. 22–32 (AU 508.22–32); SAS 110, par. 76]

Practice Tips

Scope limitations can be imposed by the client or by circumstances such as the timing of the auditor’s work, the inability to obtain sufficient appropriate audit evidence, or an inadequacy in the accounting records. This question also includes situations in which the auditor is unable to obtain sufficient appropriate audit evidence to support management’s assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements.
[SAS 58, as amended, pars. 22 and 31 (AU 508.22 and 508.31)]

It also includes situations in which the auditor’s only evidence of the existence or valuation, or both, of (a) investments without readily determinable fair value, or (b) interests held in trust by a third-party trustee, is receiving confirmation from a third party for those assets.
[Interpretation 1 of AU 328 (AU 9328); Interpretation 1 of AU 332 (AU 9332)]

Note: For further guidance see the AICPA practice aid Alternative Investments —Audit Considerations (A practice aid for auditors). This practice aid addresses challenges associated with auditing investments for which a readily determinable fair value does not exist (that is, that are not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or the National Association of Securities Dealers Automated Quotations System (NASDAQ)). Alternative investments can present challenges with respect to obtaining sufficient appropriate audit evidence in support of the existence and valuation assertions, because of the lack of a readily determinable fair value for these investments and the limited investment information generally provided by fund managers.

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan’s information system, and the service organization’s controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation.
[SAS 70, as amended, par. 10 (AU 324.10)]

Consult the Topical Index to the AICPA Professional Standards under “Scope of Audit—Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

FSP §7300.04
29. Is a qualified opinion or disclaimer of opinion expressed if the auditor's understanding of internal control raises doubts about the auditability of an entity's financial statements, such as:

   a. Concerns about the integrity of an entity’s management cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted?  
   
   b. Concerns about the condition and reliability of an entity’s records cause the auditor to conclude that it is unlikely that sufficient appropriate audit evidence will be available to support an unqualified opinion on the financial statements?  
   
   [SAS 109, par.109]

30. If an opinion is disclaimed because of a scope limitation:

   a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?  
   
   b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?  
   
   c. Does the report avoid identifying procedures that were performed?  
   
   d. Is the scope paragraph omitted?  
   
   e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report?  
   
   [SAS 58, as amended, par. 63 (AU 508.63)]

31. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion?  

   [SAS 58, as amended, par. 35 (AU 508.35)]

32. If a qualified opinion is to be expressed because of a GAAP departure:

   a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?  
   
   b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of and a reference to the explanatory paragraph?  
   
   c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?  
   
   [SAS 58, as amended, pars. 37 and 38 (AU 508.37 and .38)]  

---

2 The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management’s estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended, pars. 46–49 (AU 508.46–49)]
33. If an adverse opinion is to be expressed because of a GAAP departure:
   a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?  
   b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? 
   c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP?  

[SAS 58, as amended, pars. 58 and 59 (AU 508.58 and .59)]

34. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed?  

[AAG, pars. 13.26–13.30]

Practice Tip
Consult the Topical Index to the AICPA Professional Standards under “Departures From Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

35. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, is it accompanied by a report that:
   a. States that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?  
   b. Specifically identify the accompanying information? 
   c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?  
   d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)?  
   e. State that the supplemental schedules are the responsibility of the plan’s management? (Recommended but not a required disclosure.)  

[SAS 29, par. 6 (AU 551.06)]

[AAG, par. 13.10]

Practice Tip
Question 32 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103-8. In these situations, see Question 31 above and AAG, paragraph 13.26.

Note: In May 2006, the AICPA’s Auditing Standards Board (ASB) issued SAS 112, Communication of Internal Control Related Matters Identified in an Audit. The Statement supersedes SAS 60 of the same name (AU 325) and

FSP §7300.04
is effective for audits of financial statements for periods ending on or after December 15, 2006. Earlier implementation is permitted. Question 33 should be answered if SAS 112 has not been adopted and SAS 60 is still being followed. Question 37 should be answered if SAS 112 has been adopted.

36. Is the reporting form and content of SAS 60, paragraphs 9–19, followed when communicating internal control structure related matters noted in an audit?[^3]

[SAS 60, pars. 9–19 (AU 325.09–19)]

37. Is the reporting form, content, and timing of SAS 112, paragraphs 20–30, followed when communicating matters related to an organization’s internal control over financial reporting identified in an audit of financial statements?[^4]

[SAS 112, pars. 20–30 (AU 325.20–30)]

Practice Tip

See Appendix B of the AICPA Audit Risk Alert Employee Benefit Plans Industry Developments—2007 (product no. 022417) for guidance on evaluating control deficiencies in an employee benefit plan audit (applying SAS 112).

38. Auditor’s report requirements under DOL regulations:
   a. Is the auditor’s report dated and manually signed?
   b. Does it indicate the city and state where issued?
   c. Does it identify the statements and schedules covered?
      [AAG, App. A, par. A.50a, fn. 16]
   d. Does it disclose any omitted auditing procedures deemed necessary by the accountant and the reasons for their omission?
   e. State clearly the auditor’s opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?
   f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements?
      [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]
   g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements?
      [29 CFR 2520.103–1(iv)]
      (1) Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others?
      [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]

[^3] Reportable conditions in internal control must be communicated, preferably in writing, to the audit committee. [SAS 60, par. 1 (AU 325.01)]

[^4] Auditors are required to communicate control deficiencies identified during an audit that are significant deficiencies or material weaknesses as defined by SAS 112, including significant deficiencies or material weaknesses that were communicated in previous audits and have not yet been remediated. Those control deficiencies must be communicated in writing to management and those charged with governance.
<table>
<thead>
<tr>
<th>Practice Tip</th>
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</thead>
<tbody>
<tr>
<td>SAS 87, <em>Restricting the Use of an Auditor's Report</em>, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.</td>
</tr>
</tbody>
</table>

FSP §7300.04
FSP Section 7400

Illustrative Financial Statements and Auditor’s Reports

.01 This section contains illustrations of the following auditor’s reports:

- Defined benefit plan assuming end-of-year benefit information date
- Defined benefit plan assuming beginning-of-year benefit information date
- Defined benefit plan—limited-scope audit

.02 This section also illustrates certain applications of the provisions of Chapter 2 of the Audit and Accounting Guide Employee Benefit Plans (the Guide), and SOP 99-2, Accounting and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans, that apply for the annual financial statements of the hypothetical pension plan, C&H Company Pension Plan. It does not illustrate other provisions of Chapter 2 of the Guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133, as amended.

.03 For illustrations of alternative presentations of the financial statements presented here and for an illustration of financial statements when a beginning-of-year benefit information date is selected, see Appendix D of the Guide, Exhibits D-5–D-8.

.04 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.05 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor.
Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan 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. [Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.] 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 financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status 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 title of schedules and period covered] 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.2

[Signature of Firm]

[City and State]

[Date]3

[AAG, pars. 13.04, 13.10, and 13.11]

1 This optional language may be added to the auditor's standard report to clarify that an audit performed in accordance with GAAS does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

"An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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."

See Auditing Interpretation 17 of SAS 58 (AU 9508.85-.88) issued in June 2004.

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

3 The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, Professional Standards, vol. 1, AU 530.01).
Illustration of Auditors’ Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date

Independent Auditors’ Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 20X1, and the related statement of changes in accumulated plan 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 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. [Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.] 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, information regarding the Plan’s net assets available for benefits as of December 31, 20X2, and changes therein for the year then ended and its financial status as of December 31, 20X1, and changes therein for the year 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 schedules of [identify title of schedules and period covered] 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.

[Signature of Firm]

[City and State]

[Date]

[AAG, pars. 13.05, 13.10, and 13.11]

4 This optional language may be added to the auditor’s standard report to clarify that an audit performed in accordance with GAAS does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

“An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.”


5 This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.
Illustration of Auditors' Report on Financial Statements—Limited-Scope Audits Under DOL Regulations

Independent Auditors' Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 20X1 and 20X0, and for the year ended December 31, 20X1, as listed in the accompanying index. 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, 20X1 and 20X0 and for the year ended December 31, 20X1, 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 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.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.26]
.09 Change in Trustee. The following illustrates an auditor’s report reflecting a change in trustee for a pension plan.

Report of Independent Certified Public Accountants

To the XYZ Pension Plan
and Participants:

We were engaged to audit the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan 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) as of December 31, 20X2, and (2) Schedule H, line 4j—Schedule of Reportable Transactions for the year ended December 31, 20X2. 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 investment information summarized in Note X, which was certified by the ABC Bank and XYZ Trust Company, the trustees 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 XYZ Trust Company held the Plan’s investment assets and executed investment transactions from July 1, 20X2 to December 31, 20X2, and that ABC Bank held the Plan’s investment assets and executed investment transactions as of December 31, 20X1 and for the period January 1, 20X1 to June 30, 20X2. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 20X2 and 20X1, that the information provided to the plan administrator by the trustees 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 investment information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States 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.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.31]

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\(^{6}\) The auditor’s report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, Professional Standards, vol. 1, AU 530.01).
The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

## C&H COMPANY PENSION PLAN

### Statements of Net Assets Available for Benefits

[End-of-year benefit information date]

<table>
<thead>
<tr>
<th></th>
<th>December 31, 20X1</th>
<th>December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value (Notes B, E, F, and G):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan interest in C&amp;H Master Trust</td>
<td>$2,250,000</td>
<td>$1,860,000</td>
</tr>
<tr>
<td>C&amp;H Company common stock</td>
<td>690,000</td>
<td>880,000</td>
</tr>
<tr>
<td>Investment contract with insurance company</td>
<td>1,000,000</td>
<td>890,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>3,500,000</td>
<td>3,670,000</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>350,000</td>
<td>270,000</td>
</tr>
<tr>
<td>Mortgages</td>
<td>480,000</td>
<td>460,000</td>
</tr>
<tr>
<td>Real estate</td>
<td>270,000</td>
<td>240,000</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>8,540,000</td>
<td>8,270,000</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer's contribution</td>
<td>40,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Securities sold</td>
<td>310,000</td>
<td>175,000</td>
</tr>
<tr>
<td>Accrued interest and dividends</td>
<td>77,000</td>
<td>76,000</td>
</tr>
<tr>
<td><strong>Total receivables</strong></td>
<td>427,000</td>
<td>286,000</td>
</tr>
<tr>
<td>Cash</td>
<td>200,000</td>
<td>90,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9,167,000</td>
<td>8,646,000</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to broker for securities purchased</td>
<td>—</td>
<td>400,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>70,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>85,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>155,000</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Net assets available for benefits</strong></td>
<td>$9,012,000</td>
<td>$8,146,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
## C&H COMPANY PENSION PLAN

### Statement of Changes in Net Assets Available for Benefits

[End-of-year benefit information date]

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment income</strong></td>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value of investments (Note E)</td>
<td>$278,000</td>
</tr>
<tr>
<td>Interest</td>
<td>325,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>608,000</td>
</tr>
<tr>
<td>Less investment expenses</td>
<td>39,000</td>
</tr>
<tr>
<td>Plan interest in C&amp;H Master Trust investment income (Note F)</td>
<td>129,000</td>
</tr>
<tr>
<td></td>
<td>698,000</td>
</tr>
<tr>
<td><strong>Contributions (Note C)</strong></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>780,000</td>
</tr>
<tr>
<td>Employees</td>
<td>450,000</td>
</tr>
<tr>
<td></td>
<td>1,230,000</td>
</tr>
<tr>
<td>Total additions</td>
<td>1,928,000</td>
</tr>
<tr>
<td>Benefits paid directly to participants</td>
<td>740,000</td>
</tr>
<tr>
<td>Purchases of annuity contracts (Note G)</td>
<td>257,000</td>
</tr>
<tr>
<td></td>
<td>997,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>65,000</td>
</tr>
<tr>
<td>Total deductions</td>
<td>1,062,000</td>
</tr>
<tr>
<td>Net increase</td>
<td>866,000</td>
</tr>
</tbody>
</table>

### Net assets available for benefits

**Beginning of year** | 8,146,000 |
**End of year** | $9,012,000 |

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

**Note:** Pursuant to SFAS 102, a statement of cash flows is not required for defined benefit pension plans covered by SFAS 35. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid). [SFAS 102, par. 5]
C&H COMPANY PENSION PLAN
Statements of Accumulated Plan Benefits
[End-of-year benefit information date]

<table>
<thead>
<tr>
<th>Actuarial present value of accumulated plan benefits</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X1</td>
</tr>
<tr>
<td>Vested benefits:</td>
<td></td>
</tr>
<tr>
<td>Participants currently receiving payments</td>
<td>$3,040,000</td>
</tr>
<tr>
<td>Other participants</td>
<td>8,120,000</td>
</tr>
<tr>
<td></td>
<td>11,160,000</td>
</tr>
<tr>
<td>Nonvested benefits</td>
<td>2,720,000</td>
</tr>
<tr>
<td>Total actuarial present value of accumulated plan benefits</td>
<td>$13,880,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
C&H COMPANY PENSION PLAN

Statement of Changes in Accumulated Plan Benefits

[End-of-Year benefit information date]

<table>
<thead>
<tr>
<th>Year Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial present value of accumulated plan benefits at beginning of year</td>
</tr>
<tr>
<td>Increase (decrease) during the year attributable to:</td>
</tr>
<tr>
<td>Plan amendment (Note H)</td>
</tr>
<tr>
<td>Change in actuarial assumptions (Note B)</td>
</tr>
<tr>
<td>Benefits accumulated</td>
</tr>
<tr>
<td>Increase for interest due to the decrease in the discount period (Note B)</td>
</tr>
<tr>
<td>Benefits paid</td>
</tr>
<tr>
<td>Net increase</td>
</tr>
<tr>
<td>Actuarial present value of accumulated plan benefits at end of year</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
C&H COMPANY PENSION PLAN

Notes to Financial Statements

A. Description of Plan

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 1.5 percent of their final five-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 five 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.

B. Summary of 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 Regulation. 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 com-
parable 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, 20X1 and 20X0 were (a) life expectancy of participants (the 20X1 Group Annuity Mortality Table was used), (b) retirement age assumptions (the assumed average retirement age was 60), and (c) investment return. The 20X1 and 20X0 valuations included assumed average rates of return of 7 percent and 6.25 percent, respectively, including a reduction of .2 percent 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.
C. Funding Policy

As a condition of participation, employees are required to contribute 3 percent of their salary to the Plan. Present employees' accumulated contributions at December 31, 20X1 and 20X0 were $2,575,000 and $2,325,000, respectively, including interest credited at an interest rate of 5 percent 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 percent for 20X1), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 20X2, the Company's contribution is expected to increase to approximately 6 percent to provide for the increase in benefits attributable to the Plan amendment effective July 1, 20X1 (Note H). The Company's contributions for 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.

D. 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) 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 20X2, 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, 20X1 (Note H) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the Plan were to terminate before July 1, 20X2. After that date, the PBGC would guarantee 20 percent of any benefit improvements that resulted in benefits...
below the ceiling, with an additional 20 percent guaranteed each year the Plan continued beyond July 1, 20X2. If the amount of the benefit increase below the ceiling is also less than $100, $20 of the increase (rather than 20 percent) 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, 20X6.

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.

E. Investments*

The following table presents the fair value of investments. Investments that represent 5 percent or more of the Plan’s net assets are separately identified.

<table>
<thead>
<tr>
<th>Investments at Fair Value as Determined by Quoted Market Price</th>
<th>December 31, 20X1</th>
<th>December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>C&amp;H Company common stock, 25,000 shares</td>
<td>$690,000</td>
<td>$880,000</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>350,000</td>
<td>270,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>3,000,000</td>
<td>3,670,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,040,000</strong></td>
<td><strong>4,820,000</strong></td>
</tr>
</tbody>
</table>

**Investments at Estimated Fair Value**

| Plan interest in C&H Master Trust | 2,250,000 | 1,860,000 |
| Investment contract with National Insurance Company #8041A, 8.0% (Note G) | 1,000,000 | 890,000 |
| Corporate bonds and debentures | 500,000 | — |
| Mortgages | 480,000 | 460,000 |
| Real estate | 270,000 | 240,000 |
| **Total** | 4,500,000 | 3,450,000 |
| **Total** | **8,540,000** | **8,270,000** |

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 $278,000 as follows:

**Net Appreciation (Depreciation) in Fair Value**

<table>
<thead>
<tr>
<th>Investments at Fair Value as Determined by Quoted Market Price</th>
<th>Year Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>C&amp;H Company common stock</td>
<td>$208,000</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>20,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>238,000</strong></td>
</tr>
</tbody>
</table>

* FASB Statement No. 157, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB Statement No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This checklist will be updated to reflect FASB Statement No. 157 closer to its effective date. FASB Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. See the statement for transitional guidance. The disclosure requirements shall apply in the first interim period of the fiscal year in which this statement is initially applied.

FSP §7400.14
Investments at Estimated Fair Value

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment contract with insurance company</td>
<td>40,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Mortgages</td>
<td>100,000</td>
</tr>
<tr>
<td>Real estate</td>
<td>(50,000)</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>$278,000</td>
</tr>
</tbody>
</table>

F. 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, 20X1 and 20X0, the Plan's interest in the net assets of the Master Trust was approximately 9 percent and 11 percent, 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.

<table>
<thead>
<tr>
<th>December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X1</td>
<td>20X0</td>
</tr>
<tr>
<td>Investments at fair value:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>$11,900,000</td>
<td>$ 8,800,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>11,800,000</td>
<td>6,700,000</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>867,000</td>
<td>750,000</td>
</tr>
<tr>
<td></td>
<td>$24,567,000</td>
<td>$16,250,000</td>
</tr>
</tbody>
</table>

Investment income for the Master Trust is as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X1</td>
<td></td>
</tr>
<tr>
<td>Investment income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value of investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>$ 300,000</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>800,000</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>230,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,430,000</td>
<td></td>
</tr>
</tbody>
</table>

G. Contract With Insurance Company

In 19W8, the Company entered into an investment contract with the National Insurance Company under which the Plan deposits a minimum of $100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8 percent. The interest rate is

FSP §7400.14
guaranteed through 20X3 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the Plan’s administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis.

The annuity contracts provide for periodic dividends at National’s discretion on the basis of its experience under the contracts. Such dividends received by the Plan for the year ended December 31, 20X1 were $25,000. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

H. Plan Amendment

Effective July 1, 20X1, the Plan was amended to increase future annual pension benefits from 1.25 percent to 1.5 percent of final five-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, 20X1. The actuarial present value of accumulated plan benefits at December 31, 20X0 does 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.

I. Tax Status

The Internal Revenue Service has determined, and informed the Company by a letter dated June 30, 20XX, that the Plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan’s tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

J. Risks and Uncertainties

The Plan invests in various 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 benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.
Note: Paragraphs.15-.17 illustrate certain applications of the provision of SOP 99-2 that apply for the annual financial statements of a hypothetical defined benefit pension plan that has been amended to include a 401(h) account.

.15

C&H COMPANY PENSION PLAN
Statement of Net Assets Available for Pension Benefits

<table>
<thead>
<tr>
<th>December 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X1</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value (Note A):</td>
<td></td>
</tr>
<tr>
<td>Plan interest in C&amp;H Master Trust</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>C&amp;H Company common stock</td>
<td>600,000</td>
</tr>
<tr>
<td>Investment contract with insurance company</td>
<td>850,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>3,000,000</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>300,000</td>
</tr>
<tr>
<td>Mortgages</td>
<td>480,000</td>
</tr>
<tr>
<td>Money market fund</td>
<td>270,000</td>
</tr>
<tr>
<td>Total investments</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Net assets held in 401(h) account (Note H)</td>
<td>1,072,000</td>
</tr>
<tr>
<td><strong>Receivables:</strong></td>
<td></td>
</tr>
<tr>
<td>Employer's contribution</td>
<td>20,000</td>
</tr>
<tr>
<td>Securities sold</td>
<td>310,000</td>
</tr>
<tr>
<td>Accrued interest and dividends</td>
<td>70,000</td>
</tr>
<tr>
<td>Total receivables</td>
<td>400,000</td>
</tr>
<tr>
<td>Cash</td>
<td>180,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9,152,000</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Due to broker for securities purchased</td>
<td>—</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>70,000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>70,000</td>
</tr>
<tr>
<td>Amounts related to obligation of 401(h) account</td>
<td>1,072,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,212,000</td>
</tr>
<tr>
<td>Net assets available for pension benefits</td>
<td>$7,940,000</td>
</tr>
</tbody>
</table>

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

---

7 Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

FSP §7400.15
C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Pension Benefits

<table>
<thead>
<tr>
<th>For the Year</th>
<th>Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income:</td>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value of investments</td>
<td>$233,000</td>
</tr>
<tr>
<td>Interest</td>
<td>293,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td>530,000</td>
</tr>
<tr>
<td>Less investment expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Plan interest in C&amp;H Master Trust investment income (Note F)</td>
<td>117,000</td>
</tr>
<tr>
<td></td>
<td>617,000</td>
</tr>
<tr>
<td>Contributions (Note C):</td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>740,000</td>
</tr>
<tr>
<td>Employees</td>
<td>450,000</td>
</tr>
<tr>
<td>Total additions</td>
<td>1,190,000</td>
</tr>
<tr>
<td></td>
<td>1,807,000</td>
</tr>
<tr>
<td>Benefits paid directly to participants</td>
<td>740,000</td>
</tr>
<tr>
<td>Purchases of annuity contracts (Note G)</td>
<td>257,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>50,000</td>
</tr>
<tr>
<td>Total deductions</td>
<td>1,047,000</td>
</tr>
<tr>
<td>Net increase</td>
<td>760,000</td>
</tr>
<tr>
<td>Net assets available for pension benefits:</td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>7,180,000</td>
</tr>
<tr>
<td>End of year</td>
<td>$7,940,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
Notes to Financial Statements

A. 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 Plan 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).

H. 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:

<table>
<thead>
<tr>
<th>December 31,</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets available for pension benefits per the financial statements</td>
<td>$7,940,000</td>
<td>$7,180,000</td>
</tr>
<tr>
<td>Net assets held in 401(h) account included as assets in Form 5500</td>
<td>1,072,000</td>
<td>966,000</td>
</tr>
<tr>
<td>Net assets available for benefits per the Form 5500</td>
<td>$9,012,000</td>
<td>$8,146,000</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>For the Year Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts per Financial Statements</td>
</tr>
<tr>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Net appreciation in fair value of investments</td>
</tr>
<tr>
<td>Interest income</td>
</tr>
<tr>
<td>Employer contributions</td>
</tr>
<tr>
<td>Benefits paid to retirees</td>
</tr>
<tr>
<td>Administrative expenses</td>
</tr>
</tbody>
</table>

*The reconciliation of amounts reported in the plan’s financial statements to amounts reported in Form 5500 is required by ERISA.*

FSP §7400.17
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