Checklists and illustrative financial statements for health and welfare benefit plans: a financial accounting and reporting Practice aid, July 2006 edition

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Linda Delahanty
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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR HEALTH AND WELFARE BENEFIT PLANS

A Financial Accounting and Reporting Practice Aid

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Checklists and Illustrative Financial Statements for Health and Welfare Benefit 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.
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FSP Section 10,000
Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Health and welfare benefit plans include plans that provide:

- Medical, dental, visual, psychiatric, or long-term health care; life insurance (offered separately from a pension plan); certain severance benefits; or accidental death or dismemberment benefits.
- Benefits for unemployment, disability, vacations, or holidays.
- Other benefits such as apprenticeships, tuition assistance, day care, dependent care, housing subsidies, or legal services.
- Postemployment benefits such as salary continuation, supplemental unemployment benefits, severance, disability-related job training and counseling.

.02 Defined-benefit health and welfare plans specify a determinable benefit, which may be in the form of a reimbursement to the covered plan participant or a direct payment to providers or third-party insurers for the cost of specified services. Such plans may also include benefits that are payable in a lump sum, such as death benefits. The level of benefits may be defined or limited based on factors such as age, years of service, and salary. Contributions may be determined by the plan’s actuary or be based on actual claims paid or other factors determined by the plan’s sponsor. Even when a plan is funded pursuant to agreements that specify a fixed rate of employer contributions (e.g., a collectively bargained multiemployer plan), such a plan may nevertheless be a defined-benefit health and welfare plan if its substance is to provide a defined benefit.

.03 Defined-contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants’ accounts, rather than the amount of benefits the participants are to receive. The benefits of a plan participant are limited to the amount contributed to the participant’s account, investment experience, expenses, and any forfeitures allocated to the participant’s account. These plans also include flexible spending arrangements.

.04 Plan participants may be active or terminated employees (including retirees), as well as covered dependents and beneficiaries, of a single employer or group of employers. Employer contributions may be voluntary or required under the terms of a collective bargaining agreement negotiated with one or more labor organizations. Plans may require contributions from employers and participants (contributory plans) or from employers only (noncontributory plans). During periods of unemployment, a noncontributory plan may require contributions by participants to maintain their eligibility for benefits. Benefits may be provided through insurance contracts paid for by the plan (an insured plan), from net assets accumulated in a trust established by the plan (a self-funded plan), or both.

.05 A health and welfare plan may process benefit payments directly or it may retain a third-party administrator. In either case, a plan that is fully or partially self-funded is obligated for the related benefits.
AICPA Employee Benefit Plan Audit Quality Center

.06 The AICPA Employee Benefit Plan Audit Quality Center celebrated its two-year anniversary in March 2006. Created with the goal of promoting quality employee benefit plan audits, this firm-based, voluntary membership Center now has over 1,080 member firms from around the country. Center member firms demonstrate their commitment to ERISA audit quality by joining the Center and agreeing to adhere to its membership requirements. 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

.07 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 DOL and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.08 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 10,000.34–.37 for a discussion of the Form 5500.)

Financial Accounting and Reporting Standards

.09 The AICPA Statement of Position (SOP) 92-6, Accounting and Reporting by Health and Welfare Benefit Plans, as amended by SOP 99-3, Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters, SOP 01-2, Accounting and Reporting by Health and Welfare Benefit Plans, and FSP AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies, establishes generally accepted accounting principles (GAAP) for health and welfare benefit plans. The AICPA Audit and Accounting Guide Employee Benefit Plans (the Guide) provides guidance on auditing and reporting on the financial statements of employee benefit plans. Plans should follow the accounting and disclosure requirements set forth in Chapter 4 of the Guide.

.10 SOP 01-2 amends Chapter 4 of the Guide, and SOP 92-6. SOP 01-2—

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

FSP §10,000.06
SFAS 112, *Employers' Accounting for Postemployment Benefits*, establishes standards of financial accounting and reporting by employers for certain postemployment benefits provided to former or inactive employees after employment but before retirement. Benefits provided may include salary continuation, supplemental unemployment benefits, severance, disability-related job training and counseling, and continuation of health care and life insurance. While SFAS 112 does not apply to health and welfare benefit plans, SOP 01-2 adopted certain measurement concepts of SFAS 112. Also, terminology used in discussing postemployment benefits in SOP 01-2 is intended to follow that in SFAS 112.

SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined- Contribution Pension Plans*, as amended by SOP 99-3, specifies the accounting and reporting for health and welfare plans for investment contracts. FSP AAG INV-1 and SOP 94-4-1 amends SOP 94-4 with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts. See FSP section 10,000.25–.33 for further guidance.

SFAS 35,1 *Accounting and Reporting by Defined Benefit Pension Plans*, does not apply to health and welfare benefit plans. However, the methods of valuing plan investments and the requirements for financial statement disclosures are generally the same as those specified in SFAS 35.

SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, establishes standards of financial accounting and reporting by employers for health and welfare benefits expected to be provided to a participant during retirement. While SFAS 106 does not apply to health and welfare benefit plans, the Guide adopted certain of its measurement concepts. Also, terminology used in discussing postretirement benefits in the Guide follows the usage and definitions provided in SFAS 106.

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.


a. Eliminates the previous requirement for a defined contribution plan to present plan investments by general type for participant-directed investments in the statement of net assets available for benefits.

b. Eliminates the requirement for a defined contribution plan to disclose participant-directed investment programs and eliminates the requirement to disclose the total number of units and the net asset value per unit during the period, and at the end of the period, by defined contribution pension plans that assign units to participants.

c. Requires a defined contribution plan to identify nonparticipant-directed investments that represent 5 percent or more of net assets available for benefits.

d. Eliminates the requirement for defined contribution plans, including both health and welfare benefit plans and pension plans, to disclose benefit-responsive investment contracts by investment fund option.

SOP 99-3 has been integrated into Chapters 3, 4, and Appendix E of the Guide.

1 The FASB has a project to amend SFAS 87, *Employers' Accounting for Pensions*, and SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Be alert to developments on this project at the FASB Web site at www.fasb.org.
.17 FSP AAG INV-1 and SOP 94-4-1 amends SOP 94-4 with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts. See FSP section 10,000.25–.33 for further guidance. FSP AAG INV-1 and SOP 94-4-1 has been integrated into Chapters 3 and 4 of the Guide.

**AICPA Technical Practice Aids**

.18 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**

.19 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 D1. 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).


.20 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 *Technical Practice Aids*.


Inquiry—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 D1. 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*. That FSP addresses the issue of whether an employer that provides postretirement prescription drug coverage should recognize the effects of the Act on its accumulated postretirement benefit obligation (APBO) and net

FSP §10,000.17
postretirement benefit costs and, if so, when and how to account for those effects. FSP FAS 106-2 says that the APBO and net periodic postretirement benefit costs should reflect the effects of the Act. The FSP does not address accounting for the subsidy by health and welfare benefit plans.

For a single-employer health and welfare benefit plan, should the effects of the plan sponsor’s (employer’s) Medicare prescription drug subsidy (Medicare subsidy) be taken into consideration when calculating the health and welfare plan’s postretirement benefit obligation?

Reply—No, the effects of the employer’s Medicare subsidy should not be reflected in the plan’s obligations. The primary objective of the financial statements of a health and welfare benefit plan is to provide financial information that is useful in assessing the plan’s present and future ability to pay its benefit obligations when due. The Medicare subsidy amount is paid to the plan sponsor and does not flow into the plan. The plan sponsor is not required to use the subsidy amount to fund the postretirement benefits and may use the subsidy for any valid business purpose. As a result, the Medicare subsidy does not reduce the amount of benefits that need to be covered by plan assets and future employer contributions. Therefore, the APBO, without reduction for the Medicare subsidy, is a more meaningful measure of the benefits. Further, the information necessary to calculate the gross measure should be readily available for sponsors who are subject to income taxes, because those plan sponsors should maintain gross and net measures of the APBO in order to properly account for income taxes under FASB Statement No. 109, Accounting for Income Taxes.

Disclosures

The plan should disclose the following:

a. The existence of the Act

b. The fact that the APBO and the changes in the benefit obligation do not reflect any amount associated with the Medicare subsidy because the plan is not directly entitled to the Medicare subsidy

c. Until the plan sponsor (employer) is able to determine whether benefits provided by its plan are actuarially equivalent to Medicare Part D.1, that employer is not able to determine whether the benefits provided by its plan are actuarially equivalent to Medicare Part D.1. If the plan sponsor (employer) has included the effects of the Medicare subsidy in measuring its APBO and changes in benefit obligation, the plan should disclose the fact that the amount of the APBO differs from that disclosed by the plan sponsor (employer) because the plan sponsor’s amounts are net of the Medicare subsidy.


Inquiry—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.1. 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. That FSP addresses the issue of whether an employer that provides postretirement prescription drug coverage should recognize the effects of the Act on its APBO and net postretirement benefit costs and, if so, when and how to account for those effects. FSP FAS 106-2 says that the APBO and net periodic postretirement benefit costs should reflect the effects of the Act. The FSP does not address accounting for the subsidy by multiemployer health and welfare benefit plans or by the sponsors or participating employers of those plans.
For multiemployer health and welfare benefit plans, should the effects of the Medicare prescription drug subsidy (Medicare subsidy) be taken into consideration when calculating the health and welfare plan's postretirement benefit obligation?

Reply—Yes, the multiemployer plan’s benefit obligations should be reduced by the effects of the Medicare subsidy because the multiemployer plan trust receives the subsidy amount directly and not the individual employers. Because the primary objective of the financial statements of a health and welfare benefit plan is to provide financial information that is useful in assessing the plan’s present and future ability to pay its benefit obligations when due, and because the Medicare subsidy amount flows into the multiemployer plan trust, the APBO net of the Medicare subsidy is a more meaningful measure of those benefits.

Disclosures

Until the multiemployer plan is able to determine whether benefits provided by its plan are at least actuarially equivalent to Medicare Part D.1, the plan should disclose the following in the notes to its financial statements:

a. The existence of the Act

b. The fact that measures of the APBO and changes in the benefit obligation do not reflect any amount associated with the subsidy because the plan is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

If the multiemployer plan has included the effects of the Medicare subsidy in measuring its APBO and changes in the benefit obligation, the plan should disclose the following:

a. The existence of the Act

b. The reduction in the APBO for the subsidy related to benefits attributed to past service

c. The effect of the subsidy on the changes in the benefit obligation for the current period

d. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures

e. The gross benefit payments (paid and expected, respectively) including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively)

.21 Illustrative Disclosure for the Medicare Prescription Drug Act. The following is an illustrative disclosure for employee benefit plans where the plan sponsor has included the effects of the Medicare subsidy in measuring its APBO and changes in benefit obligation:

Note X: Medicare Subsidy

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers sponsoring postretirement health care plans that provide prescription drug benefits was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans providing a benefit that is at least actuarially equivalent to Medicare Part D.1 Under the Act, the Medicare subsidy amount is received directly by the plan sponsor and not the related plan. Further, the plan sponsor is not required to use the subsidy amount to fund postretirement benefits and may use the subsidy for any valid business purpose.2 The accumulated postretirement benefit obligation as of December 31, 2004 and 2003 and the changes in the accumulated benefit obligation for the years then ended do not reflect any amount associated with the Medicare subsidy as the Plan is not directly entitled to the Medicare subsidy. The Plan’s accumulated postretirement benefit
obligation as of December 31, 2004, differs from that disclosed by the Company by $315 million, as the Company’s accumulated postretirement benefit obligation as of December 31, 2004 has been presented net of the Medicare subsidy.

1 For multiemployer plans where the plan has included the effects of the subsidy in measuring its APBO and changes in benefit obligation, the remainder of the paragraph would be replaced with the following:

Under the Act, for multiemployer plans, any Medicare subsidy is received directly by the Plan trust and not the individual employers participating in the Plan. The Plan’s accumulated postretirement benefit obligation has been reported net of $XXX and $YYY as of December 31, 20X5 and 20X4, respectively, for the Medicare subsidy related to benefits attributed to past service. The Medicare subsidy reduced the increase in the Plan’s benefit obligation by $XX and $YY for the years ended December 31, 20X5 and 20X4, respectively.

(To the extent that similar information is not provided on the face of the financial statements, the following disclosures should also be provided.)

The Plan made benefit payments, including prescription drug benefits, of $ZZ million and $QQ million and received a Medicare subsidy of $Z million and $Q million for the years ended December 31, 20X5 and 20X4, respectively. The amount of expected benefit payments was $WW million and $VV million, and the amount of expected Medicare subsidy was $W million and $V million for the years ended December 31, 20X5 and 20X4, respectively.

For multiemployer plans where the plan is unable to determine whether benefits provided by the plan are at least actuarially equivalent to Medicare Part D.1, the remainder of the paragraph should note that under the Act, for multiemployer plans, any Medicare subsidy is received directly by the Plan trust and not the individual employers participating in the plan. The Plan has not determined whether the benefits provided by the Plan are actuarially equivalent to Medicare Part D.1 under the Act. Multiemployer plans would also note that the plan’s accumulated postretirement benefit obligation and the changes in the benefit obligation do not reflect any amount associated with the Medicare subsidy.

2 If the plan sponsor has not determined whether the benefits provided under the plan are actuarially equivalent to Medicare Part D.1, then the remainder of the paragraph would note that currently, [the plan sponsor] has not determined whether the benefits provided by the Plan are actuarially equivalent to Medicare Part D.1.

Accounting and Reporting by Health and Welfare Benefit Plans

.22 The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP 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.
- A statement of changes in net assets available for benefits for the year then ended.
- Information regarding the plan’s benefit obligations as of the end of the plan year.
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan’s benefit obligations.

.23 SOP 92-6, as amended by SOP 01-2, requires information about the benefit obligations to be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location.

.24 The financial statements of a defined-contribution health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits of the plan as of the end of the plan year.
- A statement of changes in net assets available for benefits of the plan for the year then ended.

2 Financial statements prepared on an “Other Comprehensive Basis of Accounting” (OCBOA) should disclose information regarding benefit obligations in the notes to the financial statements. (See the Guide, pars. 13.20–13.23, for further guidance.)
.25 Because a defined-contribution plan's obligation to provide benefits is limited to the amounts accumulated in an individual's account, information regarding benefit obligations is not applicable.

**Accounting for Fully Benefit-Responsive Investment Contracts When FASB Staff Position AAG INV-1 and SOP 94-4-1 Has Not Been Early Adopted**

*Note: Paragraphs .26 and .27 below should be followed when FASB Staff Position (FSP) AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans,* has not been early adopted. If FSP AAG INV-1 and SOP 94-4-1 has been early adopted then see paragraphs .28 through .33 for guidance.

.26 Plan investments should be reported at their fair value except a defined-contribution health and welfare plan should report investment contracts with fully benefit-responsive features (as defined in SOP 94-4, as amended) at contract value. Assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.27 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, is not subject to SFAS 133. This exception applies only to the party that accounts for the contract under SFAS 35 or SFAS 110.

**Accounting for Fully Benefit-Responsive Investment Contracts When FASB Staff Position AAG INV-1 and SOP 94-4-1 Has Been Early Adopted**

*Note: Paragraphs .28-.33 should be followed when FSP AAG INV-1 and SOP 94-4-1 has been early adopted.* This FSP amends SOP 94-4 with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts.

.28 Assets available for benefits of defined-contribution pension plans should be measured and reported at values that are meaningful to financial statement users, including plan participants. The contract value of a fully benefit-responsive investment contract held by a plan is the amount a participant would receive if he or she were to initiate transactions under the terms of the ongoing plan.

.29 Defined-contribution pension plans should report all investments (including derivative contracts) at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts. The statement of net assets available for benefits of the plan shall present amounts for (1) total assets, (2) total liabilities, (3) net assets reflecting all investments at fair value, and (4) net assets available for benefits. The amount representing the difference between (3) and (4) shall be presented on the face of the statement of net assets available for benefits as a single amount, calculated as the sum of the amounts

* The financial statement presentation and disclosure guidance in paragraphs 8-11 of FSP AAG INV-1 and SOP 94-4-1 is effective for financial statements for plan years ending after December 15, 2006. The revised definition of fully benefit-responsive in paragraph 7 of the FSP shall be effective for all investment contracts as of the last day of the annual period ending after December 15, 2006. Earlier application is permitted for fiscal years in which annual financial statements have not been issued. If comparative financial statements are presented, the guidance in the FSP shall be applied retroactively to all prior periods presented. If an investment contract is considered fully benefit-responsive under the revised definition as of the last day of the annual period ending after December 15, 2006, that contract shall be considered fully benefit-responsive for all periods presented, provided that contract would have been considered fully benefit-responsive in accordance with the then existing provisions of the SOP.

FSP §10,000.25
necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value. The statement of changes in net assets available for benefits shall be prepared on a basis that reflects income credited to participants in the plan and net appreciation or depreciation in the fair value of only those investment contracts that are not deemed to be fully benefit-responsive.

.30 An investment contract is considered fully benefit-responsive, if all of the following criteria are met for that contract, analyzed on an individual basis:

a. The investment contract is effected directly between the plan and the issuer and prohibits the plan from assigning or selling the contract or its proceeds to another party without the consent of the issuer.

b. Either (1) the repayment of principal and interest credited to participants in the plan is a financial obligation of the issuer of the investment contract or (2) prospective interest crediting rate adjustments are provided to participants in the plan on a designated pool of investments held by the plan or the contract issuer, whereby a financially responsible third party, through a contract generally referred to as a wrapper, must provide assurance that the adjustments to the interest crediting rate will not result in a future interest crediting rate that is less than zero. If an event has occurred such that realization of full contract value for a particular investment contract is no longer probable (for example, a significant decline in creditworthiness of the contract issuer or wrapper provider), the investment contract shall no longer be considered fully benefit-responsive.

c. The terms of the investment contract require all permitted participant-initiated transactions with the plan to occur at contract value with no conditions, limits, or restrictions. Permitted participant-initiated transactions are those transactions allowed by the plan, such as withdrawals for benefits, loans, or transfers to other funds within the plan.

d. An event that limits the ability of the plan to transact at contract value with the issuer (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives) and that also limits the ability of the plan to transact at contract value with the participants in the plan must be probable of not occurring.

e. The plan itself must allow participants reasonable access to their funds.

.31 If access to funds is substantially restricted by plan provisions, investment contracts held by those plans may not be considered to be fully benefit-responsive. For example, if plan participants are allowed access at contract value to all or a portion of their account balances only upon termination of their participation in the plan, it would not be considered reasonable access and, therefore, investment contracts held by that plan would generally not be deemed to be fully benefit-responsive. However, in plans with a single investment fund that allow reasonable access to assets by inactive participants, restrictions on access to assets by active participants consistent with the objective of the plan (for example, retirement or health and welfare benefits) will not affect the benefit responsiveness of the investment contracts held by those single-fund plans. Also, if a plan limits participants’ access to their account balances to certain specified times during the plan year (for example, semiannually or quarterly) to control the administrative costs of the plan, that limitation generally would not affect the benefit responsiveness of the investment contracts held by that plan. In addition, administrative provisions that place short-term restrictions (for example, three or six months) on transfers to competing fixed-rate investment options to limit arbitrage among those investment options (equity wash provisions) would not affect a contract’s benefit responsiveness.

.32 If a plan holds multiple contracts, each contract should be evaluated individually for benefit responsiveness. If a plan invests in pooled funds that hold investment contracts, each contract in the pooled fund should be evaluated individually for benefit responsiveness. However, if the pooled fund places any
restrictions on access to funds for the payment of benefits, the underlying investment contracts would not be considered fully benefit-responsive. Contracts that provide for prospective interest adjustments may still be fully benefit-responsive provided that the terms of the contracts specify that the crediting interest rate cannot be less than zero.

.33 Whether or not a plan is subject to ERISA, insurance contracts, as defined by SFAS 60, *Accounting and Reporting by Insurance Enterprises*, are to be included in plan assets in the manner required by ERISA’s annual reporting requirements and are to be reported in a manner consistent with the requirements of DOL Form 5500.

**ERISA Reporting Requirements**

.34 In addition to the reporting requirements of SOP 92-6, as amended (and chapter 4 of the Guide, as appropriate), health and welfare benefit plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500 Series.

.35 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 in Appendixes H and I of the Audit Risk Alert *Employee Benefit Plans Industry Developments—2006* (product no. 022416) and on the EBSA Web site at www.dol.gov/ebsa.

.36 The DOL, IRS, and PBGC have released the 2005 Form 5500 return/reports, schedules, and instructions to be used by employee benefit plans for plan year 2005 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 2005 filings. The modifications to the Form 5500 for plan year 2005 are described under “Changes to Note” in the 2005 instructions and are summarized in the Audit Risk Alert *Employee Benefit Plans Industry Developments—2006* (product no. 022416).

.37 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)\(^3\)
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions\(^4\)

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

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\(^3\) **Practice Tip** — Historical cost information is not required on Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

\(^4\) **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.
Practice Tip

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 10,000 through 10,400 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 10,100

Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of health and welfare benefit 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 health and welfare benefit plan financial statements.

- **Illustrative Financial Statements and Auditor’s Reports**—Illustrating full sets of health and welfare benefit plan financial statements.

.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 health and welfare benefit plans.

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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, 2006 have been considered in the development of this publication. This includes relevant guidance issued up to and including the following:


- FASB Interpretation (FASBI) No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*


- FASB Staff Positions (FSP) issued through May 1, 2006

- FASB Emerging Issues Task Force (EITF) consensuses adopted through the March 2006 EITF meeting

- AICPA Statement on Auditing Standards (SAS) No. 103, *Audit Documentation*

- AICPA Statement of Position (SOP) 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*

- 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, 2006)

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 work papers 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 health and welfare 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 1-888-777-7077.
FSP Section 10,200
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, 2006)
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
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 health and welfare benefit 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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<th>Applicable Sections</th>
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- General
  A. Titles and References
  B. Comparative Financial Statements
  C. Consolidated Financial Statements

- Statement of Net Assets Available for Benefits
  A. General
  B. Investments
  C. Investment and Insurance Contracts (When FSP AAG INV-1 and SOP 94-4-1 Has NOT Been Early Adopted)

FSP §10,200.03
<table>
<thead>
<tr>
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<th>Investment and Insurance Contracts (When FSP AAG INV-1 and SOP 94-4-1 Has Been Early Adopted)</th>
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<td>D.</td>
<td>Assets Held in 401(h) Account</td>
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<td>E.</td>
<td>Contributions Receivable</td>
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<td>F.</td>
<td>Deposits With and Receivables From Insurance Companies and Other Service Providers</td>
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<td>G.</td>
<td>Operating Assets</td>
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<td>H.</td>
<td>Cash</td>
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<td>Liabilities</td>
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- Statement of Changes in Net Assets Available for Benefits
- Statement of Plan’s Benefit Obligations
- Postemployment Benefits
- Statement of Changes in Plan’s Benefit Obligations
  - A. General
  - B. Claims Paid Through 401(h) Account
  - C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations
- Summary of Significant Accounting Policies
  - A. Accounting Policies
  - B. Certain Significant Estimates
- Other Financial Statement Disclosures
  - A. Changes in Accounting
    - A1. Accounting Changes and Error Corrections
  - B. Commitments and Contingencies
  - C. Current Vulnerabilities Due to Certain Concentrations
  - D. Description of Health and Welfare Benefit Plans
  - E. Description of Plan Amendments
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  - G. Guarantees
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    - L1. Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)
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- ERISA Reporting Requirements
  - A. Form 5500 Series Report
  - B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA
  - C. Required Financial Statements and Supporting Schedules

- 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. For Defined Benefit Health and Welfare Benefit Plans:

      (1) 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.]
      [AAG, par. 4.25; SOP 92-6, as amended, par. 20]

      (2) A “Statement of Changes in Net Assets Available for Benefits” for the year then ended?
      [AAG, par. 4.25; SOP 92-6, as amended, par. 20]

      (3) Information regarding the plan’s benefit obligations as of the end of the plan year?
      [AAG, par. 4.25; SOP 92-6, as amended, par. 20]

      (4) Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan’s benefit obligations?
      [AAG, par. 4.25; SOP 92-6, as amended, par. 20]

   b. For Defined Contribution Health and Welfare Benefit Plans:

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

      (2) A “Statement of Changes in Net Assets Available for Benefits” of the plan for the year then ended?
      [AAG, par. 4.28; SOP 92-6, as amended, par. 23]

2. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements? (Regardless of the format selected, do the plan financial statements present the benefit obligations information in its entirety in the same location?)
   [AAG, par. 4.25; SOP 92-6, as amended, par. 20]

3. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in such reasonable detail as is necessary to identify the nature and classification of the obligations?
   [AAG, par. 4.25; SOP 92-6, as amended, par. 20]

4. For ERISA plans, are separate reports prepared for each plan where assets of more than one plan are held in a Voluntary Employees’ Beneficiary Association trust (VEBA)?
   [AAG, par. 4.15; SOP 92-6, as amended, par. 11]

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

6. 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?\(^1\)
   [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102); AAG, par. 4.24, fn. 1; SOP 92-6, as amended, par. 19, fn. 3]

2. If comparative 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**

*Important:* FASBI 46 (revised December 2003), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51,* contains different effective dates based on the nature of the entity applying its provisions. Also, FASBI 46(R) contains scope exceptions that should be considered in determining whether its provisions apply to a particular entity. Financial statement preparers and auditors should familiarize themselves with the effective date guidance and scope exceptions contained in FASBI 46(R), which can be obtained on the FASB Web site at www.fasb.org. Note that FASBI 46(R) replaces the original FASBI 46 that was issued in January 2003.

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 (ACC54.123)]

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\(^1\) ERISA requires that the “Statement of Net Assets Available for Benefits” be presented in comparative form.
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?
   c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity?
   [FASBI 46(R), par. 24 (AC C54.124)]

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).

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. Do disclosures include restrictions, if any, on plan assets (e.g., legal restrictions on multiple trusts)?
   [AAG, par. 4.80p; SOP 92-6, as amended, par. 64]

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

FSP §10,200.03
measured by quoted prices in an active market or have been otherwise determined?  
[AAG, par. 4.42; SOP 92-6, as amended, par. 32]

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2. Are the following investments reported as separate line items in the "Statements of Net Assets Available for Benefits":

a. Government securities?  
[Generally Accepted; App. F, Exs. F-1 and F-9]

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b. Short-term securities?  

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c. Corporate bonds?  

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d. Common stocks?  

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e. Mortgages?  

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f. Real estate?  

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g. Investments in bank common/collective trust funds?  

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h. Registered investment companies (e.g., mutual funds)?  

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i. Master trusts?  

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j. Investment contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts?  

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3. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed?  
[AAG, par. 7.50c]

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4. Are investments that represent 5 percent or more of the net assets available for benefits as of the end of the year separately identified in the financial statements or notes thereto?  
[AAG, par. 4.80g; SOP 92-6, as amended, par. 64]

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5. Has consideration been given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (for example, surrender charges and market value adjustments)?  
[AAG, par. 4.80g; SOP 92-6, as amended, par. 64]

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C. Investment and Insurance Contracts (When FSP AAG INV-1 and SOP 94-4-1 Has NOT Been Early Adopted)

Practice Tip

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. This exception applies only to the party that accounts for the contract under SFAS 35 or SFAS 110.

Note: The following section should be completed when FASB Staff Position (FSP) AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA (continued)

FSP §10,200.03
Investment Company Guide and Defined- Contribution Health and Welfare and Pension Plans,\(^1\) has not been early adopted. If FSP AAG INV-1 and SOP 94-4-1 has been early adopted then see section C.1.

1. Are fully benefit-responsive investment contracts reported at contract value, which may or may not be equal to fair value, and all other investment contracts at fair value?  
[SOP 94-4, par. 4; AAG, par. 4.35]

2. If plan management is aware that an event has occurred that may affect the value of the fully benefit-responsive contract, pursuant to SFAS 5, Accounting for Contingencies, is the event disclosed or is the investment reported at less than contract value?  
[AAG par. 4.35]

**Practice Tip**

A fully benefit-responsive investment contract provides a liquidity guarantee by a financially responsible third party of principal and previously accrued interest for transactions initiated by plan participants exercising their rights under the terms of the ongoing plan.  
[SOP 94-4, par. 10]

3. Are insurance contracts, as defined by SFAS 60, Accounting and Reporting by Insurance Enterprises, presented in the same manner required by ERISA annual reporting requirements of DOL Form 5500, that is either at fair value or at amounts determined by the insurance enterprise (contract value)?

4. If fully benefit-responsive investment contracts are held by a defined-contribution health and welfare plan, is the following information disclosed in the aggregate:

   a. The average yield for each period for which a statement of net assets available for benefits is presented?

   b. The crediting interest rate as of the date of each statement of net assets available for benefits presented?

   c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit worthiness of the contract issuer or third party guarantor)?

   d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107, as amended?  
[AAG, par. 4.80r]

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\(^1\) The financial statement presentation and disclosure guidance in paragraphs 8-11 of FSP AAG INV-1 and SOP 94-4-1 is effective for financial statements for plan years ending after December 15, 2006. The revised definition of fully benefit-responsive in paragraph 7 of the FSP shall be effective for all investment contracts as of the last day of the annual period ending after December 15, 2006. Earlier application is permitted for fiscal years in which annual financial statements have not been issued. If comparative financial statements are presented, the guidance in the FSP shall be applied retroactively to all prior periods presented. If an investment contract is considered fully benefit-responsive under the revised definition as of the last day of the annual period ending after December 15, 2006, that contract shall be considered fully benefit-responsive for all periods presented, provided that contract would have been considered fully benefit-responsive in accordance with the then existing provisions of the SOP.

**FSP §10,200.03**
Note: This disclosure is optional when the plan is a nonpublic entity, its total assets are less than $100 million at the financial statement date, and the plan has no instruments (in whole or in part) that are accounted for as derivative instruments under SFAS 133 during the reporting period. [SFAS 126, par. 2; SFAS 133, par. 537]

e. A general description of the basis and frequency of determining crediting interest-rate resets and any minimum crediting interest rate under the terms of the contracts and any limitations on related liquidity guarantees (for example, plant closings, layoffs, plan termination, and mergers)?
[AAG, par. 4.80s]

f. For ERISA-covered plans in which a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500 but is reported in the financial statements at contract value and the contract value does not approximate fair value, a statement explaining the differences between amounts reported in the financial statements and DOL Form 5500?
[AAG, par. 4.80r; SOP 92-6, as amended, par. 64]

C1. Investment and Insurance Contracts (When FSP AAG INV-1 and SOP 94-4-1 Has Been Early Adopted)

Note: This section should be completed when FSP AAG INV-1 and SOP 94-4-1 has been early adopted. This FSP amends SOP 94-4 with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts.

1. Are fully benefit-responsive investment contracts reported at fair value?

2. Does the statement of net assets available for benefits present amounts for:
   a. Total assets?
   b. Total liabilities?
   c. Net assets reflecting all investments at fair value?
   d. Net assets available for benefits?

3. Is the amount representing the difference between net assets reflecting all investments at fair value and net assets available for benefits, presented on the face of the statement of net assets available for benefits as a single amount? Is this amount calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value?
[AAG, par. 4.38]

* The financial statement presentation and disclosure guidance in paragraphs 8-11 of FSP AAG INV-1 and SOP 94-4-1 is effective for financial statements for plan years ending after December 15, 2006. The revised definition of fully benefit-responsive in paragraph 7 of the FSP shall be effective for all investment contracts as of the last day of the annual period ending after December 15, 2006. Earlier application is permitted for fiscal years in which annual financial statements have not been issued. If comparative financial statements are presented, the guidance in the FSP shall be applied retroactively to all prior periods presented. If an investment contract is considered fully benefit-responsive under the revised definition as of the last day of the annual period ending after December 15, 2006, that contract shall be considered fully benefit-responsive for all periods presented, provided that contract would have been considered fully benefit-responsive in accordance with the then existing provisions of the SOP.
4. Are insurance contracts, as defined by SFAS 60, Accounting and Reporting by Insurance Enterprises, presented in the same manner required by ERISA annual reporting requirements of DOL Form 5500, that is either at fair value or at amounts determined by the insurance enterprise (contract value)?

[AAG, par. 4.31]

5. Are the following disclosed, in the aggregate, for fully benefit-responsive investment contracts, as defined in FSP AAG INV-1 and SOP 94-4-1:

a. A description of the nature of those investment contracts, how they operate, and the methodology for calculating the interest crediting rate, including the key factors that could influence future average interest crediting rates, the basis for and frequency of determining interest crediting rate resets, and any minimum interest crediting rate under the terms of the contracts? This disclosure should explain the relationship between future interest crediting rates and the amount reported on the statement of net assets available for benefits representing the adjustment for the portion of net assets attributable to fully benefit-responsive investment contracts from fair value to contract value.

b. The average yield earned by the plan for all fully benefit-responsive investment contracts with an adjustment to reflect the actual interest rate credited to participants in the plan for each period for which a statement of net assets available for benefits is presented? This average yield shall be calculated by dividing the annualized earnings credited to participants in the plan for all fully benefit-responsive investment contracts in the plan (irrespective of the actual earnings of those investments) by the fair value of all fully benefit-responsive investment contracts in the plan.

c. The average yield earned by the plan for all fully benefit-responsive investment contracts (which may differ from the interest rate credited to participants in the plan) for each period for which a statement of net assets available for benefits is presented? This average yield shall be calculated by dividing the annualized earnings of all fully benefit-responsive investment contracts in the plan (irrespective of the interest rate credited to participants in the plan) by the fair value of all fully benefit-responsive investment contracts in the plan.

d. A description of the events that limit the ability of the plan to transact at contract value with the issuer (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives), including a statement as to whether the occurrence of those events that would limit the plan's ability to transact at contract value with participants in the plan is probable or not probable? [The term probable is used in this Statement consistent with its use in SFAS 5, Accounting for Contingencies.]

e. A description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the plan and settle at an amount different from contract value?

[AAG, par. 4.80f]
6. For ERISA-covered plans, if a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500, but is reported in the financial statements at contract value, and the contract value does not approximate fair value, the DOL's rules and regulations require that a statement explaining the differences between amounts reported in the financial statements and DOL Form 5500 be added to the financial statements?

[AAG, par. 4.80(u)]

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D. Assets Held in 401(h) Account

1. Are the 401(h) assets and liabilities shown either as a single line item on the face of the statements of net assets available for plan benefits, or included in individual asset and liability line items with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items?

[AAG, par. 4.70; SOP 99-2, par. 11; SOP 92-6, par. 55]

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2. Do the notes to the financial statements disclose:

   a. The fact that retiree health benefits are funded partially through a 401(h) account of the defined benefit pension plan (if applicable)?

   b. The fact that the assets in the 401(h) account are available only to pay retiree health benefits?

   c. The significant components of net assets and changes in net assets of the 401(h) account?

   [AAG, pars. 4.71 and 4.72; SOP 99-2, par. 15; SOP 92-6, pars. 55 and 56]

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3. Do the notes include a reconciliation of amounts reported in the financial statements to the amounts reported in the Form 5500?

[AAG, par. 4.72; SOP 92-6, par. 56]

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E. Contributions Receivable

1. Are the following contributions receivable separately identified and accrued as of the date of the financial statements:

   a. Receivables from employer(s)?

   b. Receivables from participants?

   c. Other sources of funding (i.e., state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements?

   [AAG, par. 4.47; SOP 92-6, as amended, par. 33]

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2. Do contributions receivable include an allowance for uncollectible amounts?

[AAG, par. 4.47; SOP 92-6, as amended, par. 33]

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F. Deposits With and Receivables From Insurance Companies and Other Service Providers

1. Premium deposits and premium stabilization reserves should be reported as assets of the plan until such time as they are used to pay premiums. Is the nature of this type of deposit or reserve disclosed?

[AAG, par. 4.48; SOP 92-6, as amended, par. 34]

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FSP §10,200.03
2. If the policy year does not coincide with the plan’s fiscal year and it is probable that a refund is due and the amount cannot be reasonably estimated, is this fact disclosed?

[AAG, par. 4.49; SOP 92-6, as amended, par. 35]

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G. 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, pars. 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 (AC 108.160 and 161, AC D60.104 and 110, AC I14.102–106, and AC D60.118–121)]

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H. 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)]

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I. Liabilities

1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses) deducted in arriving at net assets available for benefits?

[AAG, par. 4.53; SOP 92-6, as amended, par. 38]

2. Consider stating separately:
   a. Due to broker for securities purchased?
   b. Accounts payable?
   c. Accrued expenses?

[AAG, par. 4.53 and App. F, Exs. F-1, F-9, and F-14)]

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?

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 health and welfare benefit plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 144, pars. 25–27, 33, and 42–48 for the disclosure requirements.
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, pars. 2.40 and 4.70; SOP 99-2, par. 8; SOP 92-6, par. 55]

Statement of Changes in Net Assets Available for Benefits

1. Is the statement of changes in net assets available for benefits presented in enough detail to identify the significant changes during the year including, as applicable:
   a. Contributions from employers, segregated between cash and noncash contributions (a noncash contribution should be reported at fair value at the date of the contribution; the nature of noncash contributions should be described either parenthetically or in a note)?
   b. Contributions from participants, including those collected and remitted by the sponsor?
   c. Contributions from other identified sources (e.g., state subsidies or federal grants)?
   d. The net appreciation or depreciation in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined?

Practice Tip

Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period. Ordinarily, information regarding the net appreciation or depreciation in the fair value of investments is found in the notes to the financial statements.
[AAG, par. 4.54, fn. 10; SOP 92-6, as amended, par. 39, fn. 13]

e. Investment income, excluding the net appreciation or depreciation?
   f. Income taxes paid or payable, if applicable?
   g. Payments of claims, excluding payments made by an insurance company pursuant to contracts that are excluded from plan assets?
   h. Payments of premiums to insurance companies to purchase contracts that are excluded from plan assets?
   i. Operating and administrative expenses?
   j. Other changes (such as transfers of assets to or from other plans), if significant?
   [AAG, par. 4.54; SOP 92-6, as amended, par. 39]

2. If the 401(h) account assets and liabilities are shown as a single line item in the statement of net assets, are the changes in net assets also shown as a single line item on the health and welfare benefit plan’s statement of changes in net assets?
[AAG, par. 4.70; SOP 99-2, par. 11; SOP 92-6, par. 55]

3. If the 401(h) account assets and liabilities are included in individual asset and liability line items in the statement of net assets, are the changes in individual 401(h) amounts included in the changes in the individual line items in the statement of changes in net assets, with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items?
[AAG, par. 4.70; SOP 99-2, par. 11; SOP 92-6, par. 56]
Statement of Plan’s Benefit Obligations

Practice Tip
Information about the benefit obligations should be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. (Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location.)
[AAG, par. 4.25]

1. Do benefit obligations for single-employer, multiple-employer, and multiemployer defined-benefit health and welfare benefit plans include the actuarial present value, as applicable, of the following:
   a. Claims payable, claims IBNR, and premiums due to insurance companies?
      __  __  __

Practice Tip
Claims IBNR may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, the claims IBNR for retirees are included in the postretirement benefit obligation. Aggregating claims payable and claims IBNR is often appropriate if adequate time has passed to provide sufficient data on costs incurred and the actuarially determined expected cost of long-term medical claims is insignificant. Benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment should not be included.
[AAG, par. 4.56 and fn. 13; SOP 01-2, par. 21 and fn. 1; SOP 92-6, as amended, par. 41 and fn. 16]

   b. Accumulated eligibility credits and postemployment benefits, net amounts currently payable?
      __  __  __

   c. Postretirement benefits for the following groups of participants:
      (1) Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR?
          __  __  __

      (2) Other plan participants fully eligible for benefits?
          __  __  __

      (3) Plan participants not yet fully eligible for benefits?
          __  __  __
          [AAG, par. 4.56; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41]

2. Are benefit obligations reported as of the end of the plan year?
   __  __  __
   [AAG, par. 4.56; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41]

Practice Tip
The effect of plan amendments should be included in the computation of the expected and accumulated postretirement benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods.
[AAG, par. 4.56; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41]

3. To the extent they exist, are the amounts of benefit obligations in each of the three major classifications listed in Question 1c above shown as separate line items in the financial statements or notes to the financial statements?
   __  __  __
   a. Regardless of the format selected, do the plan financial statements present the benefit obligations information in its entirety in the same location?
      __  __  __
b. For negotiated plans, are benefit obligations due during a plan’s contract period disclosed? *(Optional.)*
   [AAG, par. 4.57; SOP 01-2, par. 21; SOP 92-6, as amended, par. 42]

4. Does the postretirement benefit obligation information include the following classifications:
   a. Obligations related to retired plan participants, including their beneficiaries and covered dependents?
   b. Obligations related to active or terminated participants who are fully eligible to receive benefits?
   c. Obligations related to other plan participants not yet fully eligible for benefits?
   [AAG, par. 4.69; SOP 92-6, as amended, par. 54]

5. Is consideration given to separately disclosing each significant benefit (e.g., medical and death) for each classification listed in Question 4 above, as appropriate?
   [AAG, par. 4.69; SOP 92-6, as amended, par. 54]

6. Premium deficits should be included in benefit obligations if (a) it is probable that the deficit will be applied against the amounts of future premiums or future experience-rating refunds and (b) the amount can be reasonably estimated. If no obligation is included for a premium deficit because either or both of the conditions listed above are not met, or if an exposure to loss exists in excess of the amount accrued, is disclosure of the premium deficit made if it is reasonably possible that a loss or an additional loss has been incurred?
   [AAG, par. 4.62; SOP 92-6, as amended, par. 47]

7. Are 401(h) obligations reported in the health and welfare benefit plan’s statement of benefit obligations as required by SOP 92-6, as amended?
   [AAG, par. 4.70; SOP 99-2, par. 11; SOP 92-6, as amended, par. 55]

A. Medicare Prescription Drug, Improvement and Modernization Act of 2003

*Single-employer health and welfare benefit plans*

1. Are the following disclosures made by a single-employer health and welfare benefit plan, whose effects of the plan sponsor’s (employer’s) Medicare prescription drug subsidy (Medicare subsidy) are not included in calculating the health and welfare plan’s postretirement benefit obligation:
   a. The existence of the Act?
   b. The fact that the APBO and the changes in the benefit obligation do not reflect any amount associated with the Medicare subsidy because the plan is not directly entitled to the Medicare subsidy?

2. Until the plan sponsor (employer) is able to determine whether benefits provided by its plan are actuarially equivalent to Medicare Part D, is disclosure made that the employer is not able to determine whether the benefits provided by its plan are actuarially equivalent to Medicare Part D?

3. If the plan sponsor (employer) has included the effects of the Medicare subsidy in measuring its APBO and changes in benefit obligation, is disclosure made of the fact that the amount of the APBO differs from
that disclosed by the plan sponsor (employer) because the plan sponsor's amounts are net of the Medicare subsidy?

Multiemployer Employee Health and Welfare Benefit Plans

1. Are the following disclosures made when a multiemployer health and welfare benefit plan has included the effects of the Medicare subsidy in measuring its APBO and changes in the benefit obligation:
   a. The existence of the Act?
   b. The reduction in the APBO for the subsidy related to benefits attributed to past service?
   c. The effect of the subsidy on the changes in the benefit obligation for the current period?
   d. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures?
   e. The gross benefit payments (paid and expected, respectively) including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively)?

2. Until the multiemployer plan is able to determine whether benefits provided by its plan are at least actuarially equivalent to Medicare Part D.1, are the following disclosures made:
   a. The existence of the Act?
   b. The fact that measures of the APBO and changes in the benefit obligation do not reflect any amount associated with the subsidy because the plan is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act?

Postemployment Benefits

Practice Tip

Plans that provide postemployment benefits should recognize a benefit obligation for current participants, based on amounts expected to be paid in subsequent years, if all the conditions listed in SOP 92-6, paragraph 58, as amended, are met. See SOP 92-6, paragraphs 58-60, as amended, and AAG, paragraphs 4.74-4.76 for guidance on accounting for and reporting of postemployment benefits.

[AAG, pars. 4.74–4.76; SOP 92-6, pars. 58–60, as amended]

1. If an obligation for postemployment benefits is not recognized in accordance with AAG paragraphs 4.74 and 4.75 only because the amount cannot be reasonably estimated, do the financial statements disclose that fact?
   [AAG, par. 4.74; SOP 01-2, par. 23; SOP 92-6, as amended, par. 60]

2. Is disclosure made of the weighted-average assumed discount rate used to measure the plan's obligation for postemployment benefits?
   [AAG, par. 4.80u; SOP 01-2, par. 29; SOP 92-6, as amended, par. 64]
Statement of Changes in Plan’s Benefit Obligations

Practice Tip
Like the benefit obligation information, the changes in each of the three major classifications of benefit obligations should be presented in the body of the financial statements or in the notes to the financial statements; the information may be presented in either a reconciliation or narrative format.

[AAG, par. 4.77; SOP 92-6, as amended, par. 61]

A. General

1. Are changes in benefit obligations presented in the following categories:
   a. Claims payable, claims IBNR, and premiums due to insurance companies?
   b. Accumulated eligibility credits and postemployment benefits, net of amounts currently payable?
   c. Postretirement benefits for retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR; other plan participants fully eligible for benefits; and plan participants not yet fully eligible for benefits?

   [AAG, par. 4.77; SOP 92-6, as amended, par. 61]

B. Claims Paid Through 401(h) Account

1. Does the health and welfare benefit plan’s statement of changes in benefit obligations include claims paid through the 401(h) account?

   [AAG, par. 4.70; SOP 99-2, par. 11; SOP 92-6, par. 55]

C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations

Practice Tip
If only the minimum disclosure is presented, presentation in a statement format will necessitate an additional unidentified “other” category to reconcile the initial and ultimate amounts.

[AAG, par. 4.78; SOP 92-6, as amended, par. 59]

1. Is information provided with respect to the significant effects of:
   a. Plan amendments?
   b. Changes in the nature of the plan (mergers or spinoffs)?
   c. Changes in actuarial assumptions (health care cost-trend rate or interest rate)?

   [AAG, par. 4.78; SOP 92-6, as amended, par. 62]

2. Are significant effects of other factors identified, for example, benefits accumulated, the effects of the time value of money (for interest), and benefits paid?

   [AAG, par. 4.78; SOP 92-6, as amended, par. 62]

3 Changes in actuarial assumptions are to be considered as changes in accounting estimates and therefore previously reported amounts should not be restated. [AAG, par. 4.78, SOP 92-6, as amended, par. 62]

4 Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than separately disclosed. If the effects of changes in actuarial assumptions cannot be separately determined, those effects should be included in benefits accumulated and described accordingly. [AAG, par. 4.78, fn. 20; SOP 92-6, as amended, par. 62, fn. 23]
Practice Tip

Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations.
[AAG, pars. 4.25, fn. 2, and 13.20–22; SOP 92-6, par. 5]

Summary of Significant Accounting Policies

A. Accounting Policies

1. Is a description of all significant accounting policies of the 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)]

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]

5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumption(s) used to determine the fair value of investments and the reported value of insurance contracts? [AAG, par. 4.79; SOP 92-6, as amended, par. 63]

6. Does the disclosure of significant accounting policies include a description of the method and significant actuarial assumptions used to determine the plan’s benefit obligations? [AAG, par. 4.79; SOP 92-6, as amended, par. 63]

7. Are any significant changes in assumptions between financial statement dates described? [AAG, par. 4.79; SOP 92-6, as amended, par. 63]

8. If administrative expenses expected to be paid by the plan (but not those paid directly by the plan’s participating employer(s)) that are associated with providing the plan’s benefits are reflected by reducing the discount rate(s) used in measuring the benefit obligation, is the resulting reduction in the discount rate(s) disclosed? [AAG, par. 4.56, fn. 12; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41, fn. 15]

FSP §10,200.03
9. For defined-contribution health and welfare plans, does the disclosure of significant accounting policies include the accounting policy for, and the amount and disposition of, forfeited nonvested accounts? (Specifically, identification of whether those amounts will be used to reduce future employer contributions, employer expenses, or will be allocated to participants accounts.) [AAG, par. 4.80g]

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?
   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?
   c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14; AAG, par. 4.85]

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 the 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)]

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)]

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)]
Financial Statements and Notes Checklist

b. Is the effect on net assets available for benefits for all prior periods presented shown?
   [APB 20, par. 28 (AC A06.124)]

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 in the net assets available for benefits and plan benefit obligations?
      [APB 20, par. 37 (AC A35.105)]

5. For changes in accounting estimates:
   a. If a change in 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)]
   b. If a change in 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)]

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)]

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

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)]

\[\text{Change in Accounting Estimate}\]

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?  

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 A07.124)]  

*Note:* Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.  
[SFAS 154, par. 24 (AC A07.124)]  

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 A07.124)]  

*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 A07.124)]  

*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?  

FSP §10,200.03
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 A07.126)]

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 A07.126) and APB 9, par. 26 (AC A35.107)]

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 the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]

5. Are the nature and amount of any guarantees (e.g., guarantees 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, including material lease commitments and other commitments? [SFAS 5, pars. 18 and 19 (AC C59.120); AAG, par. 4.80k; SOP 92-6, as amended, par. 64]
C. Current Vulnerabilities Due to Certain Concentrations

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; AAG, par. 4.86]

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]

D. Description of Health and Welfare Benefit Plans

1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vested, and benefit provisions? [AAG, par. 4.80a; SOP 92-6, as amended, par. 64; SOP 94-6, par. 10]

   Practice Tip

   If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted provided that a reference to the other source is made. [AAG, par. 4.80; SOP 92-6, as amended, par. 64]

2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable? [AAG, par. 4.80a; SOP 92-6, as amended, par. 64]

E. Description of Plan Amendments

1. If applicable, do disclosures include a description of significant plan amendments adopted during the period, as well as significant changes in the nature of the plan (e.g., a plan spin-off or merger with another plan) and changes in actuarial assumptions? [AAG, par. 4.80b; SOP 92-6, as amended, par. 64]
F. Financial Instruments

Practice Tip
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, 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 non-derivative 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 non-derivative instruments) designated as fair value hedging instruments, derivative instruments (and non-derivative 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)]

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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)]

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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 non-financial 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)]

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Disclosures About Fair Value of Financial Instruments

8. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended, been followed for financial instruments of the plan?  
[SFAS 107, pars. 10–14 (AC F25.115–115F and 115); AAG, pars. 4.82–4.83]

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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)]

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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?  

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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

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5 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 (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(f) of SFAS 107, as amended by SFAS 112, Employers' Accounting for Postemployment Benefits, SFAS 123, Accounting for Stock-Based Compensation, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

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FSP §10200.03
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?  

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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?

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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. 4.83; SOP 92-6, par. 68]

11. Has the plan disclosed quantitative information about the market risks of financial instruments that is consistent with the way 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?

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

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

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   d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?

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   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?

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6 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.
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? and

(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)?

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

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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?

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(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?

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(4) The ending balance of the aggregate product warranty liability? [FASBI 45, par. 14 (AC G80.113)]

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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]

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H. Income Tax Status

1. Do disclosures include the federal income tax status of the plan? [AAG, par. 4.80e; SOP 92-6, as amended, par. 64]

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Practice Tip

There is no determination letter program for health and welfare plans; however, a 501(c)(9) VEBA trust must obtain a determination letter to be exempt from taxation.
I. Plan Terminations
1. If a decision is made to terminate the plan or a wasting trust exists, are all relevant circumstances disclosed?  
   [AAG, par. 4.89; SOP 92-6, as amended, par. 69]
2. If a decision is made to terminate the plan before the end of the year, have all benefits been determined on a liquidation basis?  
   [AAG, par. 4.89; SOP 92-6, as amended, par. 69]
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. 4.89]

J. 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, App. A, par. A.51c]

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**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 sec. 3(14)]

**K. 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)]

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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 (e.g., a decision to terminate the plan after the year end but before the year-end financial statements have been issued)?
[SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05-.07 and .09 (AU 560.05-.07 and .09); AAG, par. 4.89; SOP 92-6, as amended, par. 69]

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3. Do disclosures include any unusual or infrequent events or transactions occurring after the financial statement 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?
[AAG, par. 4.80]; SOP 92-6, as amended, par. 64]

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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?
[AAG, par. 4.80]; SOP 92-6, as amended, par. 64]

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**L. 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 L1.*

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)]

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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7 Also consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

FSP §10,200.03
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?

   c. The key assumptions\(^1\) 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)?

   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)?

\(^1\) If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.
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?

   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)?

   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?

   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.

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

Collateral

6. 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)]

7. 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)]

8. 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)]

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2 Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.
L1. Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)

Notes: 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.)
   
   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?

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 FASB 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)?
   (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 assumptions¹ 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)?

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 that continue to be held by the transferor)?

¹ If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.
Financial Statements and Notes Checklist

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)?

   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?

   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?

      [SFAS 140, as amended by SFAS 156, par. 17e–i]

   __Yes__  __No__  __N/A__

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

M. Other Matters

1. Do the plan’s financial statements provide information about plan resources and the manner in which the stewardship responsibility for those resources has been discharged?
   [AAG, par. 4.24; SOP 92-6, as amended, pars. 19 and 22]

2. Do disclosures include the funding policy of the plan and any changes in such policy during the plan year?
   [AAG, par. 4.80c; SOP 92-6, as amended, par. 64]

   a. If the benefit obligations exceed the net assets of the plan, is the method of funding this deficit, as provided for in the plan agreement or collective bargaining agreement, disclosed?
   [AAG, par. 4.80c; SOP 92-6, as amended, par. 64]

   b. For a contributory plan, does the disclosure on funding policy state the method of determining participants’ contributions?
   [AAG, par. 4.80c; SOP 92-6, as amended, par. 64]

   __Yes__  __No__  __N/A__

FSP §10,200.03
c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed?
   [AAG, par. 4.80d, fn. 24; SOP 92-6, as amended, par. 64, fn. 27]

3. Is a description included of the portion of the plan’s estimated cost of providing postretirement benefits funded by retiree contributions for each year for which a year-end statement of net assets available for benefits is presented?
   [AAG, par. 4.80c]

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**Practice Tip**

The plan’s estimated cost of postretirement benefits is the plan’s expected claims cost for the year. It excludes benefit costs paid by Medicare and costs, such as deductibles and copayments, paid directly to the medical provider by participants. The portion of the plan’s estimated cost that is funded by retiree contributions is determined at the beginning of the year based on the plan sponsor’s cost-sharing policy. In determining that amount, the retirees’ required contribution for the year should be reduced by any amounts intended to recover a shortfall (or increased by amounts intended to compensate for an overcharge) in attaining the desired cost-sharing in prior year(s).

[AAG, par. 4.80c, fn. 24; SOP 92-6, as amended, par. 64, fn. 28]

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a. If the plan terms provide that a shortfall in attaining the intended cost sharing in the prior year(s) is to be recovered by increasing the retiree contribution in the current year, is that incremental contribution separately disclosed?

b. If the plan terms provide that participant contributions in the current year are to be reduced by the amount by which participant contributions in prior year exceeded the amount needed to attain the desired cost-sharing, is the resulting reduction in the current year contribution separately disclosed?

c. Is the information about retiree contributions provided for each significant group of retired participants to the extent their contributions differ?
   [AAG, par. 4.80c; SOP 01-2, par. 25; SOP 92-6, as amended, par. 64]

4. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets?
   [AAG, par. 4.80; SOP 92-6, as amended, par. 64]

5. With respect to contracts with insurance companies that are excluded from plan assets, is consideration given to disclosing the type and extent of insurance coverage, as well as the extent to which risk is transferred (e.g., coverage period and claims reported or claims incurred)?
   [AAG, par. 4.80; SOP 92-6, as amended, par. 64]

6. Do disclosures include:

a. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?
   [AAG, par. 4.80h; SOP 92-6, as amended, par. 64]

b. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the plan administrator, employers, or employee organizations?
   [AAG, par. 4.80i; SOP 92-6, as amended, par. 64]
7. Do disclosures include the assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when the rate is expected to be achieved?  
[AAG, par. 4.80; SOP 92-6, as amended, par. 64]

8. For health and welfare benefit plans providing postretirement health care benefits, is the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation disclosed?  
[AAG, par. 4.80m; SOP 92-6, as amended, par. 64]

9. Do disclosures include any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan’s financial statements?  
[AAG, par. 4.80n; SOP 92-6, as amended, par. 64]

**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]

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**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 10,000.34—37 for a discussion about the Form 5500.)

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

1. If the financial statements are filed under the “alternative method” pursuant to DOL Regulations section CFR 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?  
   __ ___ __

FSP §10,200.03
f. A general description of priorities in the event of plan termination?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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g. Whether a tax ruling or determination letter has been obtained?  

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<th>Yes</th>
<th>No</th>
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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]

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<tr>
<th>Yes</th>
<th>No</th>
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**Practice Tip**

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan and not as assets of the health and welfare benefit plan, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. Additionally, 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.  

[SOP 99-2, par. 16; AAG, par. 4.72; SOP 92-6, par. 57]

---

**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?  

<table>
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<th>Yes</th>
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   b. Separate or combined statements of plan income and expenses and of changes in net assets?  

   [AAG, App. A, par. A.51a]

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<th>Yes</th>
<th>No</th>
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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)? (If filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year.)  

   [AAG, App. A, Exhibit A-1]

<table>
<thead>
<tr>
<th>(a)</th>
<th>(b) Identity of issue, borrower, lessor or similar party</th>
<th>(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value</th>
<th>(d) Cost</th>
<th>(e) Current value</th>
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**FSP §10,200.03**
Financial Statements and Notes Checklist

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.

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?

[AAG, App. A, Exhibit A-1]

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

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>
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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.

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

Practice Tip
Information on delinquent participant contributions reported on Line 4a is no longer also reported on Line 4d or Schedule G. The EBSA has issued frequently asked questions that say the requirement may be satisfied by including an attachment in the Form 5500 report labeled “Line 4a—Schedule of Delinquent Participant Contributions” that sets forth the information on Line 4a regarding total aggregate delinquency for the plan year and the subtotal that constitutes nonexempt prohibited transactions. For further guidance 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.

FSP §10,200.03
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?

(3) Schedule G, Part III—Nonexempt Transactions?

[FAG, App. A, Exhibit A-1]

---

**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.

[FAG, App. A, par. A.51, fn. 20]
FSP Section 10,300
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:

- **AAG** = AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2006)
- **AR** = Reference to section number in AICPA *Professional Standards* (vol. 2)
- **AU** = Reference to section number in AICPA *Professional Standards* (vol. 1)
- **CFR** = Code of Federal Regulations
- **DOL** = Department of Labor
- **SAS** = AICPA Statement on Auditing Standards
- **PCAOB** = Public Company Accounting Oversight Board

.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>
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<tbody>
<tr>
<td>1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor’s report?</td>
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<tr>
<td>[SAS 58, par. 6 (AU 508.06)]</td>
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<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?</td>
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<td>[Generally Accepted]</td>
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<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?</td>
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<tr>
<td>[Generally Accepted]</td>
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<td>4. Is the report appropriately addressed?</td>
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<tr>
<td>[SAS 58, par. 9 (AU 508.09)]</td>
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<td>5. Does the auditor’s report include:</td>
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<tr>
<td>a. A title that includes the word independent?</td>
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<tr>
<td>[SAS 58, par. 8a (AU 508.08a)]</td>
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<tr>
<td>b. A statement that the financial statements identified in the report were audited?</td>
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<td>[SAS 58, par. 8b (AU 508.08b)]</td>
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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)]

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d. (Audits of Non-Public 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, as amended, par. 8d (AU 508.08d)]

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</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]

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<th>Yes</th>
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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)]

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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)]

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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)]

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</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, as amended, par. 8h (AU 508.08h)]

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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?

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(ii) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?

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(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?

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(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:

(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?

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<th>Practice Tip</th>
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<td>DOL regulations require the auditor’s report to be dated and manually signed and to identify the city and state where issued.</td>
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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 (non-public 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 field work 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.

2 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 "financial statements of a trust" and "inadequate procedures to value investments."

[AAG, pars. 13.33 and 13.38]

### Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:
   - Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?
   - 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:
   - Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?
   - 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. 5.77]

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. 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:
   - Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?
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 58, as amended, pars. 11d and 16 (AU 508.11d and .16)]

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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.)  
[SAS 88, par. 8 (AU 420.08)]

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**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.  
[Interpretation 10 of SAS 1, sec. 420 (AU 9420.64 and .65); AAG, par. 13.25]

13. 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?  

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b. Does the explanatory paragraph disclose:

(1) The date of the auditor's previous report?  

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(2) The type of opinion previously expressed?  

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(3) The circumstances or events that caused the auditor to express a different opinion?  

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(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?  
[SAS 58, as amended, pars. 11e and 69 (AU 508.11e and .69)]

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14. 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?  

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(2) The date of the predecessor auditor's report?  

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

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(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?  

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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)]

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15. 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)]
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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)]
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16. 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)]
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17. 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)]
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18. 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, par. 8 (AU 558.08)]
   [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]
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19. 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)]
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20. 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)]
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21. 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)]
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22. 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)]
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23. 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 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]

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24. 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]

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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.

Departures From Unqualified Opinions

25. 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)]

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26. 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?

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b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of?

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c. Is the situation described and referred to in both the scope and opinion paragraphs?

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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. 22–27 (AU 508.22–.27)]

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FSP §10,300.04
Practice Tips

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter 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, par. 31 (AU 508.31)]

It also includes situations in which the auditor’s only evidence of the existence and/or valuation 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 9328.01–04); Interpretation 1 of AU 332 (AU 9332.01–04)]

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.

27. If an opinion is disclaimer 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)]

28. 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)]

29. 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? ___ ___ ___

---

3 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)]

FSP §10,300.04
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?  

   Yes  No  N/A
   ______  ______  ______

   [SAS 58, as amended, pars. 37 and 38 (AU 508.37 and .38)]

30. 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?  

   ______  ______  ______

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

31. 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]

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**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.

---

32. 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 was 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)?  

   ______  ______  ______

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

   e. State that the supplemental schedules are the responsibility of the plan’s management? (Recommended but not a required disclosure.)  

   ______  ______  ______

   [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.

33. Auditor’s report requirements under DOL regulations:
   a. Is the auditor’s report dated and manually signed?  
      [AAG, App. A, par. A.50a, fn. 16] 
   b. Does it indicate the city and state where issued?  
      [AAG, App. A, par. A.50a, fn. 16] 
   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] 

Practice Tip

SAS 87, Restricting the Use of an Auditor’s Report, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.
FSP Section 10,400
Illustrative Financial Statements and Auditor’s Reports

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

- Health and Welfare Benefit Plan—Unqualified Opinion
- Health and Welfare Benefit Plan—Limited-Scope Audit

.02 This section also illustrates certain applications of the provisions of Chapter 4 of the Audit and Accounting Guide Employee Benefit Plans (the Guide), as amended by SOP 99-2, Accounting and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans, SOP 01-2, Accounting and Reporting by Health and Welfare Benefit Plans, and FASB Staff Position (FSP) AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans, that apply for the annual financial statements of the following hypothetical pension plans:

- Allied Industries Health Care Benefit Plan—a multiemployer defined benefit health and welfare plan that provides an example of financial reporting where retirees contribute a portion of the cost for their medical coverage
- Classic Enterprises Benefit Plan—a single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information
- C&H Company Welfare Benefit Plan—a health and welfare benefit plan that includes retiree health benefits that are funded partially through a 401(h) account in the plan sponsor’s defined benefit pension plan
- ABC Company Supplemental Unemployment Benefit Plan—a multiemployer plan that provides postemployment benefits to covered employees

It does not illustrate other provisions of Chapter 4 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 In December 2005, the FASB issued FSP AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribuition Health and Welfare and Pension Plans. This FSP amended SOP 94-4 with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts. See FSP section 10,000.26-.33 for further guidance. The illustrative financial statements in this section will be amended to conform to this FSP closer to its effective date.

.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.
The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of a Health and Welfare Benefit Plan.

.06

Independent Auditor’s Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of plan benefit obligations of Allied Industries Health Care Benefit Plan as of December 31, 20X1 and 20X0, and the related statement of changes in net assets available for benefits and of changes in plan benefit obligations for the year ended December 31, 20X1. 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, 20X1 and 20X0, and the changes in its financial status for the year ended December 31, 20X1 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. 13.07, 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."


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

Independent Auditor’s Report

We were engaged to audit the financial statements and supplemental schedules of Allied Industries Health Care Benefit Plan as of December 31, 20X1 and 20X0, and for the years then ended, 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 as of and for the years ended December 31, 20X1 and 20X0, that the information provided to the plan administrator by the trustee 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]
The following are illustrative financial statements for a multi-employer health and welfare benefit plan that has adopted SOP 92-6, as amended by SOP 01-2, Accounting and Reporting by Health and Welfare Benefit Plans. These illustrative financial statements display a health and welfare benefit plan where the retirees contribute a portion of the cost for their medical coverage.

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statements of Net Assets Available for Benefits

December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value (see Note 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$5,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>2,000,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Common stock</td>
<td>1,000,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Total investments</td>
<td>8,000,000</td>
<td>6,200,000</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participating employers' contributions</td>
<td>500,000</td>
<td>430,000</td>
</tr>
<tr>
<td>Participants' contributions</td>
<td>100,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Accrued interest and dividends</td>
<td>50,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Total receivables</td>
<td>650,000</td>
<td>550,000</td>
</tr>
<tr>
<td>Cash</td>
<td>140,000</td>
<td>115,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>8,790,000</td>
<td>6,865,000</td>
</tr>
</tbody>
</table>

Liabilities

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to broker for securities purchased</td>
<td>250,000</td>
<td>240,000</td>
</tr>
<tr>
<td>Accounts payable for administrative expenses</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>275,000</td>
<td>265,000</td>
</tr>
<tr>
<td>Net assets available for benefits</td>
<td>$8,515,000</td>
<td>$6,600,000</td>
</tr>
</tbody>
</table>

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

---

3 These financial statements are to be used for guidance purposes only and do not contain all disclosures required by GAAP.
ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 20X1

Additions

Contributions
  Participating employers $15,000,000
  Participants 3,000,000
  Total contributions 18,000,000

Investment income
  Net appreciation in fair value of investments 300,000
  Interest 500,000
  Dividends 50,000
  Total investment income 850,000
  Less investment expenses 15,000
  Net investment income 835,000
  Total additions 18,835,000

Deductions
  Benefits paid to participants
    Health care 16,000,000
    Disability and death 770,000
    Total benefits paid 16,770,000
  Administrative expenses 150,000
  Total deductions 16,920,000
  Net increase during year 1,915,000

Net assets available for benefits
  Beginning of year 6,600,000
  End of year $ 8,515,000

The accompanying notes are an integral part of the financial statements.
## ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

### Statements of Plan’s Benefit Obligations

#### December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th>Amounts currently payable</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims payable, claims incurred but not reported, and premiums due to insurers</td>
<td>$1,200,000</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>Postemployment benefit obligations, net of amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Death and disability benefits for inactive participants</td>
<td>1,350,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Postretirement benefit obligations, net of amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retired participants</td>
<td>2,000,000</td>
<td>1,900,000</td>
</tr>
<tr>
<td>Other participants fully eligible for benefits</td>
<td>4,000,000</td>
<td>3,600,000</td>
</tr>
<tr>
<td>Participants not yet fully eligible for benefits</td>
<td>5,000,000</td>
<td>4,165,000</td>
</tr>
<tr>
<td></td>
<td><strong>11,000,000</strong></td>
<td><strong>9,665,000</strong></td>
</tr>
<tr>
<td>Plan’s total benefit obligations</td>
<td><strong>$13,550,000</strong></td>
<td><strong>$11,715,000</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statement of Changes in Plan’s Benefit Obligations
Year Ended December 31, 20X1

Amounts currently payable

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>Claims reported and approved for payment, including benefits reclassified from benefit obligations</td>
<td>$16,920,000</td>
</tr>
<tr>
<td>Claims paid</td>
<td>$(16,770,000)</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$1,200,000</td>
</tr>
</tbody>
</table>

Postemployment benefit obligations, net of amounts currently payable

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Increase (decrease) in postemployment benefits attributable to:</td>
<td></td>
</tr>
<tr>
<td>Benefits earned</td>
<td>600,000</td>
</tr>
<tr>
<td>Benefits reclassified to amounts currently payable</td>
<td>$(450,000)</td>
</tr>
<tr>
<td>Interest</td>
<td>90,000</td>
</tr>
<tr>
<td>Changes in actuarial assumptions and other actuarial gains and losses</td>
<td>110,000</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>1,350,000</td>
</tr>
</tbody>
</table>

Postretirement benefit obligations, net of amounts currently payable

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>9,665,000</td>
</tr>
<tr>
<td>Increase (decrease) in postretirement benefits attributable to:</td>
<td></td>
</tr>
<tr>
<td>Benefits earned</td>
<td>1,150,000</td>
</tr>
<tr>
<td>Benefits reclassified to amounts currently payable</td>
<td>$(650,000)</td>
</tr>
<tr>
<td>Interest</td>
<td>750,000</td>
</tr>
<tr>
<td>Plan amendment</td>
<td>$(175,000)</td>
</tr>
<tr>
<td>Changes in actuarial assumptions and other actuarial gains and losses</td>
<td>260,000</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>11,000,000</td>
</tr>
</tbody>
</table>

Plan’s total benefit obligations at end of year | $13,550,000 |

The accompanying notes are an integral part of the financial statements.
ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Notes to Financial Statements

Note 1: Description of Plan

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

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

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

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

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

In 20X1 the board of trustees amended the Plan to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 20X2. The amendment will not affect participating employers’ contributions to the Plan in 20X2 under the current collective bargaining agreement.

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

<table>
<thead>
<tr>
<th>Participants Retiring</th>
<th>20X1 Retiree Contribution</th>
<th>20X0 Retiree Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Pre-1990</td>
<td>(1) None</td>
<td>(1) None</td>
</tr>
<tr>
<td>(2) 1990–1994</td>
<td>(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits*</td>
<td>(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits</td>
</tr>
<tr>
<td>(3) 1995–1999</td>
<td>(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month “cap” (approximately 60% of the estimated cost)</td>
<td>(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month “cap” (approximately 50% of the estimated cost)</td>
</tr>
<tr>
<td>(4) 2000 and after</td>
<td>(4) Retirees pay 100% of estimated cost of providing their postretirement benefits</td>
<td>(4) Retirees pay 100% of estimated cost of providing their postretirement benefits</td>
</tr>
</tbody>
</table>

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

FSP §10,400.12
Other. The Plan's board of trustees, as Sponsor, has the right under the Plan to modify the benefits provided to active employees. The Plan may be terminated only by joint agreement between industry and union, subject to the provisions set forth in ERISA.

Note 2: Summary of Accounting Policies

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

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

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

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

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X2; the rate was assumed to decrease gradually to 8.0 percent for 20X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 20X1.

The following were other significant assumptions used in the valuations as of December 31, 20X1 and 20X0.

<table>
<thead>
<tr>
<th>Weighted-average discount rate</th>
<th>8.0%—20X1; 8.25%—20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average retirement age</td>
<td>60</td>
</tr>
<tr>
<td>Mortality</td>
<td>1971 Group Annuity Mortality Table</td>
</tr>
</tbody>
</table>

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.
D. Other Plan Benefits. Plan obligations at December 31 for health claims incurred by active participants but not reported at that date, for accumulated eligibility of participants, and for future disability payments to members considered permanently disabled at December 31 are estimated by the Plan’s actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statement of the Plan’s benefit obligations at present value, based on an 8.0 percent discount rate. Health claims incurred by retired participants, but not reported at year end, are included in the postretirement benefit obligation.

Note 3: Benefit Obligations

The Plan’s deficiency of net assets over benefit obligations at December 31, 20X1 and 20X0, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current bargaining agreement. It is expected that the deficiency will be funded through future increases in the collectively bargained contribution rates.

The weighted-average health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point in each year, it would increase the obligation as of December 31, 20X1 and 20X0, by $2,600,000 and $2,500,000, respectively.

Note 4: Investments

The Plan’s investments are held by a bank-administered trust fund. During 20X1 the Plan’s investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Increase</td>
<td>(Decrease)</td>
<td>(Decrease)</td>
</tr>
<tr>
<td>in Value</td>
<td>During Year</td>
<td>Fair Value at</td>
</tr>
<tr>
<td></td>
<td></td>
<td>End of Year</td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$200,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>(25,000)</td>
<td>1,750,000</td>
</tr>
<tr>
<td>Common stocks</td>
<td>100,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>275,000</td>
<td>7,750,000</td>
</tr>
<tr>
<td>Fair value as estimated by Plan’s board of trustees:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>25,000</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>$300,000</td>
<td>$8,000,000</td>
</tr>
</tbody>
</table>

The fair value of individual investments that represent 5.0 percent or more of the Plan’s net assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)</td>
<td>$475,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>ABC Company common stock (2,000 shares)</td>
<td>500,000</td>
<td>450,000</td>
</tr>
<tr>
<td>U.S. Treasury bond, 8.5% due 20X6 ($360,000 face amount)</td>
<td></td>
<td>350,000</td>
</tr>
</tbody>
</table>

Note 5: Other Matters

The trust established under the Plan to hold the Plan’s assets is intended to qualify pursuant to Section 501(c)(9) of the Internal Revenue Code, and, accordingly, the trust’s net investment income

FSP §10,400.12
is exempt from income taxes. The Plan has obtained a favorable tax determination letter from the Internal Revenue Service, and the Plan sponsor believes that the Trust, as amended, continues to qualify and to operate in accordance with applicable provisions of the internal revenue code.

Note 6: Reconciliation of Financial Statements to Form 5500

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

<table>
<thead>
<tr>
<th>December 31,</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets available for benefits per the financial statements</td>
<td>$8,515,000</td>
<td>$6,600,000</td>
</tr>
<tr>
<td>Benefit obligations currently payable (health claims, death and disability benefits)</td>
<td>1,200,000</td>
<td>1,050,000</td>
</tr>
<tr>
<td>Net assets available for benefits per the Form 5500</td>
<td>$7,315,000</td>
<td>$5,550,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits paid to participants per the financial statements</td>
</tr>
<tr>
<td>Add: Amounts currently payable at December 31, 20X1</td>
</tr>
<tr>
<td>Less: Amounts currently payable at December 31, 20X0</td>
</tr>
<tr>
<td>Benefits paid to participant per the Form 5500</td>
</tr>
</tbody>
</table>

Amounts currently payable to or for participants, dependents and beneficiaries are recorded on the Form 5500 for benefits claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.

Note 7: 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.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care 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.
The following are illustrative financial statements for a single-employer health and welfare benefit plan that displays the benefit obligation information on the face of the financial statements along with the net asset information.

CLASSIC ENTERPRISES BENEFIT PLAN

Statements of Benefit Obligations and Net Assets Available for Benefits
December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefit Obligations</strong> (see Note 3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due insurance companies</td>
<td>$1,200,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Postretirement benefit obligations</td>
<td>$11,000,000</td>
<td>$9,665,000</td>
</tr>
<tr>
<td>Total benefit obligations</td>
<td>$12,200,000</td>
<td>$10,665,000</td>
</tr>
</tbody>
</table>

| **Net Assets** |           |            |
| **Assets**     |           |            |
| Investments at fair value (see Note 4) |            |            |
| U.S. government securities | $5,000,000 | $4,000,000 |
| Corporate bonds and debentures | $2,000,000 | $1,600,000 |
| Common stock | $1,000,000 | $600,000 |
| Total investments | $8,000,000 | $6,200,000 |
| Receivables     |           |            |
| Sponsor’s contributions | $500,000  | $430,000  |
| Participants’ contributions | $100,000  | $80,000  |
| Accrued interest and dividends | $50,000  | $40,000  |
| Total receivables | $650,000  | $550,000  |
| Cash            | $75,000    | $60,000    |
| Insurance premium deposits | $65,000  | $55,000  |
| Total assets    | $8,790,000 | $6,865,000 |

| **Liabilities** |           |            |
| Due to broker for securities purchased | $250,000  | $240,000  |
| Accounts payable for administrative expenses | $25,000   | $25,000   |
| Total liabilities | $275,000  | $265,000  |
| Net assets available for benefits | $8,515,000 | $6,600,000 |
| Excess of benefit obligations over net assets available for benefits | $3,685,000 | $4,065,000 |

The accompanying notes are an integral part of the financial statements.
CLASSIC ENTERPRISES BENEFIT PLAN

Statement of Changes in Benefit Obligations and Net Assets Available for Benefits
Year Ended December 31, 20X1

<table>
<thead>
<tr>
<th>Net Increase in Benefit Obligations</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (Decrease) during the year attributable to:</td>
<td></td>
</tr>
<tr>
<td>Benefits earned and other changes</td>
<td>$1,510,000</td>
</tr>
<tr>
<td>Additional amounts payable to insurance company</td>
<td>200,000</td>
</tr>
<tr>
<td>Plan amendment</td>
<td>(175,000)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,535,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Increase in Net Assets Available for Benefits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
</tr>
<tr>
<td>Sponsor</td>
<td>15,000,000</td>
</tr>
<tr>
<td>Participants</td>
<td>3,000,000</td>
</tr>
<tr>
<td><strong>Total contributions</strong></td>
<td><strong>18,000,000</strong></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value of investments</td>
<td>300,000</td>
</tr>
<tr>
<td>Interest</td>
<td>500,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Less investment expenses</strong></td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Net investment income</strong></td>
<td>835,000</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>18,835,000</td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
</tr>
<tr>
<td>Insurance premiums paid for health benefits, net of experience-rating adjustments of $250,000 for 20X0 received on 20X1</td>
<td>16,035,000</td>
</tr>
<tr>
<td>Insurance premiums paid for death benefits</td>
<td>780,000</td>
</tr>
<tr>
<td><strong>Administrative expenses</strong></td>
<td>105,000</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>16,920,000</td>
</tr>
<tr>
<td><strong>Net increase</strong></td>
<td>1,915,000</td>
</tr>
<tr>
<td>Decrease in excess of benefit obligations over net assets available for benefits</td>
<td>(380,000)</td>
</tr>
</tbody>
</table>

**Excess of Benefit Obligations Over Net Assets Available for Benefits**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>4,065,000</td>
</tr>
<tr>
<td>End of year</td>
<td>$3,685,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
CLASSIC ENTERPRISES BENEFIT PLAN

Notes to Financial Statements

Note 1: Description of Plan

The following description of the Classic Enterprises Benefit Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General. The Plan provides health and death benefits covering substantially all active and retired employees of Classic Enterprises (the Sponsor). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Benefits. The Plan provides health benefits (medical, hospital, surgical, major medical, and dental) and death benefits to full-time employees of the Sponsor (with at least 1,000 hours of service each year) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health and death benefits provided they have attained at least age fifty-five and have at least ten years of service with the Sponsor.

Current health claims of active and retired participants and their dependents and beneficiaries are provided under group insurance contracts with ABC Carrier, which are experience rated after the anniversary dates of the policies (generally March 31). Death benefits are covered by a group-term policy with DEF Carrier.

Contributions. The Sponsor's policy is to contribute the maximum amounts allowed as a tax deduction by the Internal Revenue Code. Under present law, the Sponsor is not permitted to deduct amounts for future benefits to current employees and retirees.

Employees and retirees may contribute specified amounts, determined periodically by the Plan's insurance companies, to extend coverage to eligible dependents.

In 20X1 the Plan was amended to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 20X1. The amendment is not expected to significantly affect the Sponsor's contribution to the Plan in 20X2.

Other. Although it has not expressed any intention to do so, the Sponsor has the right under the Plan to modify the benefits provided to active employees, to discontinue its contributions at any time, and to terminate the Plan subject to the provisions set forth in ERISA.

Note 2: Summary of Accounting Policies

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

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

C. Plan Benefits. The postretirement benefit obligation (see note 3) represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered.
to December 31. Postretirement benefits include future benefits expected to be paid to or for (i) currently retired employees and their beneficiaries and dependents and (ii) active employees and their beneficiaries and dependents after retirement from service with the Sponsor. Prior to an active employee’s full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee’s service rendered to the valuation date.

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

For measurement purposes at December 31, 20X1, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X2; the rate was assumed to decrease gradually to 8.0 percent for 20X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 20X0.

The following were other significant assumptions used in the valuations as of December 31, 20X1 and 20X0.

<table>
<thead>
<tr>
<th>Weighted-average discount rate</th>
<th>8.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average retirement age</td>
<td>60</td>
</tr>
<tr>
<td>Mortality</td>
<td>1971 Group Annuity Mortality Table</td>
</tr>
</tbody>
</table>

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

Note 3: Benefit Obligations

Health costs incurred by participants and their beneficiaries and dependents are covered by insurance contracts maintained by the Plan. It is the present intention of the Sponsor and the Plan to continue obtaining insurance coverage for benefits. As stated in note 1, the Sponsor is not permitted under present tax law to deduct amounts for future benefits (beyond one year). Insurance premiums for future years in respect of the Plan’s postretirement benefit obligation will be funded by Sponsor contributions to the Plan in those later years.

The postretirement benefit obligation at December 31, 20X1 and 20X0, principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current retirees</td>
<td>$ 3,900,000</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Other participants fully eligible for benefits</td>
<td>2,100,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Participants not yet fully eligible for benefits</td>
<td>5,000,000</td>
<td>4,165,000</td>
</tr>
<tr>
<td></td>
<td>$11,000,000</td>
<td>$9,665,000</td>
</tr>
</tbody>
</table>

The health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported. If the assumed rates increased by one percentage point in each year, that would increase the obligation as of December 31, 20X1 and 20X0, by $2,600,000 and $2,500,000 respectively.

Note 4: Investments

The Plan’s investments are held by a bank-administered trust fund. During 20X1 the Plan’s investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 as follows:
Health and Welfare Benefit Plans

<table>
<thead>
<tr>
<th>Net Increase (Decrease) in Value During Year</th>
<th>Fair Value at End of Year</th>
<th>Fair Value at End of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td>20X0</td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$200,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>(25,000) Corporate bonds and debentures</td>
<td>(25,000)</td>
<td>1,375,000</td>
</tr>
<tr>
<td>Common stocks</td>
<td>100,000</td>
<td>600,000</td>
</tr>
<tr>
<td></td>
<td>275,000</td>
<td>5,975,000</td>
</tr>
</tbody>
</table>

Fair value as determined by quoted market price:

Fair value as estimated by

Classic Enterprise Benefits Plan Investment Committee:

<table>
<thead>
<tr>
<th>Corporate bonds</th>
<th>25,000</th>
<th>250,000</th>
<th>225,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$300,000</td>
<td>$8,000,000</td>
<td>$6,200,000</td>
</tr>
</tbody>
</table>

The fair value of individual investments that represent 5.0 percent or more of the Plan’s net assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)</td>
<td>$475,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>ABC Company common stock (2,000 shares)</td>
<td>500,000</td>
<td>450,000</td>
</tr>
<tr>
<td>U.S. Treasury bond, 8.5% due 20X6 ($360,000 face amount)</td>
<td>350,000</td>
<td></td>
</tr>
</tbody>
</table>

Note 5: Other Matters

The trust established under the Plan to hold the Plan’s net assets is qualified pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the Trust’s net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service and the Sponsor believes that the Trust, as amended, continues to qualify and to operate as designed.

Note 6: Reconciliation of Financial Statements to Form 5500

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

<table>
<thead>
<tr>
<th>December 31,</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets available for benefits per the financial statements</td>
<td>$8,515,000</td>
<td>$6,600,000</td>
</tr>
<tr>
<td>Amounts due insurance companies</td>
<td>1,200,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Net assets available for benefits per the Form 5500</td>
<td>$7,315,000</td>
<td>$5,600,000</td>
</tr>
</tbody>
</table>
The following is a reconciliation of insurance premiums paid for participants per the financial statements to Form 5500:

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums paid per the financial statements</td>
<td>$16,815,000</td>
</tr>
<tr>
<td>Add: Amounts due insurance companies at December 31, 20X1</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Less: Amounts due insurance companies at December 31, 20X0</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>Insurance premiums paid for participants per the Form 5500</td>
<td>$17,015,000</td>
</tr>
</tbody>
</table>

Note 7: 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.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care 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.
Paragraphs .16–.20 illustrate certain applications of the provisions of SOP 99-2 that apply for the annual financial statements of a hypothetical health and welfare benefit plan that is funded in part through a 401(h) feature of a defined benefit pension plan.

.16

C&H COMPANY WELFARE BENEFIT PLAN

Statement of Net Assets Available for Plan Benefits

<table>
<thead>
<tr>
<th></th>
<th>December 31,</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</td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Common stock</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Total investments</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Net assets held in C&amp;H Company defined benefit plan—restricted for 401(h) account (Notes A and E)</td>
<td>1,072,000</td>
</tr>
<tr>
<td><strong>Receivables</strong></td>
<td></td>
</tr>
<tr>
<td>Employer contribution</td>
<td>500,000</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>100,000</td>
</tr>
<tr>
<td>Accrued interest and dividends</td>
<td>50,000</td>
</tr>
<tr>
<td>Total receivables</td>
<td>650,000</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td>110,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9,832,000</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Due to broker for securities purchased</td>
<td>250,000</td>
</tr>
<tr>
<td>Accounts payable for administrative expenses</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>275,000</td>
</tr>
<tr>
<td><strong>Net assets available for plan benefits</strong></td>
<td>$9,557,000</td>
</tr>
</tbody>
</table>

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

Statement of Changes in Net Assets Available for Plan Benefits

For the Year Ended
December 31, 20X1

Additions

Contributions
Employer contributions $15,000,000
Employee contributions 3,000,000
Total contributions 18,000,000

Investment income
Net appreciation in fair value of investments 300,000
Interest 500,000
Dividends 50,000
Total investment income 850,000
Less investment expense 15,000
Net investment income 835,000

Net increase in 401(h) account (Note E) 106,000
Total additions 18,941,000

Deductions

Benefits paid directly to participants:
Health care 16,000,000
Disability and death 770,000
Total benefits paid 16,770,000
Administrative expenses 180,000
Total deductions 16,950,000

Net increase during the year 1,991,000

Net assets available for benefits:
Beginning of year 7,566,000
End of year $ 9,557,000

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

Statement of Benefit Obligations

<table>
<thead>
<tr>
<th>Description</th>
<th>For the Year Ended December 31, 20X1</th>
<th>For the Year Ended December 31, 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts currently payable to or for participants, beneficiaries, and dependents</td>
<td>$1,100,000</td>
<td>$975,000</td>
</tr>
<tr>
<td>Health claims payable</td>
<td>100,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Death and disability benefits payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amounts currently payable</td>
<td>$1,200,000</td>
<td>$1,050,000</td>
</tr>
<tr>
<td>Other obligations for current benefit coverage, at present value of estimated amounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims incurred but not reported</td>
<td>425,000</td>
<td>390,000</td>
</tr>
<tr>
<td>Long-term disability benefits</td>
<td>925,000</td>
<td>610,000</td>
</tr>
<tr>
<td>Total other obligations for current benefit coverage</td>
<td>$1,350,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Total obligations other than postretirement benefit obligations</td>
<td>2,550,000</td>
<td>2,050,000</td>
</tr>
<tr>
<td>Postretirement benefit obligations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current retirees</td>
<td>3,900,000</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Other participants fully eligible for benefits</td>
<td>2,100,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Other participants not yet fully eligible for benefits</td>
<td>5,000,000</td>
<td>4,165,000</td>
</tr>
<tr>
<td>Total postretirement benefit obligations</td>
<td>11,000,000</td>
<td>9,665,000</td>
</tr>
<tr>
<td>Total benefit obligations</td>
<td>$13,550,000</td>
<td>$11,715,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
C&H COMPANY WELFARE BENEFIT PLAN
Statement of Changes in Benefit Obligations

For the Year Ended
December 31, 20X1

<table>
<thead>
<tr>
<th>Amounts currently payable to or for participants, beneficiaries, and dependents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$ 1,050,000</td>
</tr>
<tr>
<td>Claims reported and approved for payment</td>
<td>16,930,000</td>
</tr>
<tr>
<td>Claims paid (including disability)</td>
<td>(16,770,000)</td>
</tr>
<tr>
<td>Claims paid through 401(h) account (Note E)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>1,200,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other obligations for current benefit coverage, at present value of estimated amounts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Net change during year:</td>
<td></td>
</tr>
<tr>
<td>Long-term disability benefits</td>
<td>315,000</td>
</tr>
<tr>
<td>Other</td>
<td>35,000</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>1,350,000</td>
</tr>
<tr>
<td>Total obligations other than postretirement benefit obligations</td>
<td>2,550,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Postretirement benefit obligations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>9,665,000</td>
</tr>
<tr>
<td>Increase (decrease) during the year attributable to:</td>
<td></td>
</tr>
<tr>
<td>Benefits earned and other changes</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Plan amendment</td>
<td>(175,000)</td>
</tr>
<tr>
<td>Changes in actuarial assumptions</td>
<td>260,000</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>11,000,000</td>
</tr>
<tr>
<td>Total benefit obligations, end of year</td>
<td>$ 13,550,000</td>
</tr>
</tbody>
</table>

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

Notes to Financial Statements

Note A: 401(h) Account

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

Note E: 401(h) Account

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

<table>
<thead>
<tr>
<th>Net Assets Available for Postretirement Health and Welfare Benefits in 401(h) Account</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X1</td>
</tr>
<tr>
<td>Investments at fair value:</td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$140,000</td>
</tr>
<tr>
<td>Money market fund</td>
<td>900,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,040,000</td>
</tr>
<tr>
<td>Cash</td>
<td>20,000</td>
</tr>
<tr>
<td>Employer’s contribution receivable⁴</td>
<td>20,000</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>7,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,087,000</td>
</tr>
<tr>
<td>Accrued administrative expenses</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Net assets available</td>
<td>$1,072,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Changes in Net Assets in 401(h) Account</th>
<th>For the Year Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net appreciation in fair value of investments:</td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$10,800</td>
</tr>
<tr>
<td>Interest</td>
<td>80,200</td>
</tr>
<tr>
<td>Total</td>
<td>91,000</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>40,000</td>
</tr>
<tr>
<td>Health and welfare benefits paid to retirees</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Net increase in net assets available</td>
<td>$106,000</td>
</tr>
</tbody>
</table>

⁴ A receivable from the employer must meet the requirements of paragraph 10 of SFAS 35, Accounting and Reporting by Defined Pension Plans.

FSP §10,400.20
Note H:  Reconciliation of Financial Statements to Form 5500

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets available for benefits per the financial statements</td>
<td>$ 9,557,000</td>
</tr>
<tr>
<td>Claims payable</td>
<td>(1,200,000)</td>
</tr>
<tr>
<td>Net assets held in defined benefit plan-401(h) account</td>
<td>(1,072,000)</td>
</tr>
<tr>
<td>Net assets available for benefits per Form 5500</td>
<td>$ 7,285,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims paid per the financial statements</td>
<td>$16,770,000</td>
</tr>
<tr>
<td>Add: Amounts payable at December 31, 20X1</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Less: Amounts payable at December 31, 20X0</td>
<td>(1,050,000)</td>
</tr>
<tr>
<td>Claims paid per Form 5500</td>
<td>$16,920,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total additions per financial statements</td>
<td>$18,941,000</td>
</tr>
<tr>
<td>Less: Net increase in 401(h) net assets available</td>
<td>(106,000)</td>
</tr>
<tr>
<td>Net additions per Form 5500</td>
<td>$18,835,000</td>
</tr>
</tbody>
</table>

5 The reconciliation of amounts reported in plan financial statements to amounts reported in Form 5500 is required by ERISA.
Paragraphs .21–23 illustrate the financial statements of a multiemployer health and welfare benefit plan that provides postemployment benefits to covered employees. These illustrative financial statements are from SOP 01-2, Accounting and Reporting by Health and Welfare Benefit Plans.

.21

SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN FOR EMPLOYEES OF ABC COMPANY ESTABLISHED PURSUANT TO AGREEMENT WITH UNITED WORKERS OF AMERICA

Statements of Net Assets Available for Benefits
December 31, 20X1 and 20X0

<table>
<thead>
<tr>
<th>December 31,</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>$10,605</td>
<td>$80,750</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,025</td>
<td>19,400</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>100</td>
<td>125</td>
</tr>
<tr>
<td>Total assets</td>
<td>11,730</td>
<td>100,275</td>
</tr>
<tr>
<td>Liability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued investment trustee fees</td>
<td>265</td>
<td>265</td>
</tr>
<tr>
<td>Net assets available for benefits</td>
<td>$11,465</td>
<td>$100,010</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN FOR EMPLOYEES OF ABC COMPANY ESTABLISHED PURSUANT TO AGREEMENT WITH UNITED WORKERS OF AMERICA

Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 20X1

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$1,366,065</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,960</td>
</tr>
<tr>
<td>Total additions</td>
<td>1,368,025</td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
</tr>
<tr>
<td>Benefit payments</td>
<td>1,455,460</td>
</tr>
<tr>
<td>Investment trustee fees</td>
<td>1,110</td>
</tr>
<tr>
<td>Total deductions</td>
<td>1,456,570</td>
</tr>
<tr>
<td>Net decrease during the year</td>
<td>(88,545)</td>
</tr>
<tr>
<td>Net assets available for benefits</td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>100,010</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 11,465</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN FOR
EMPLOYEES OF ABC COMPANY ESTABLISHED PURSUANT
TO AGREEMENT WITH UNITED WORKERS OF AMERICA

Notes to Financial Statements

Note 1: Description of Plan
In connection with a negotiated contract, the Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America (the Plan) provides for payment of supplemental unemployment benefits to covered employees who have completed two years of continuous service. Payments are made to (a) employees on layoff and (b) certain employees who work less than 32 hours in any week. The following description is provided for general information purposes. The Plan document should be referred to for specific information regarding benefits and other Plan matters.

Note 2: Summary of Accounting Policies
Basis of Accounting. The financial statements of the Plan are prepared under the accrual method of accounting.

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

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

Benefit Obligations. The Plan’s obligation for accumulated eligibility credits is discounted using a weighted-average assumed rate of $71/2 percent.

Note 3: Funding and Operation of the Plan
Funding of the Plan. Contributions funded by ABC Company, the Plan’s sponsor, pursuant to the Plan are invested in assets held in a trust fund (the Fund). General Bank, the trustee of the Fund (the Trustee), invests the Fund’s money as set forth in the Plan document. Investments consist of money market funds and are reported in the accompanying financial statements at fair value. Interest income from investments is recognized when earned.

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

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

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

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

**Benefit Obligations**

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated eligibility credits and total benefit obligations</td>
<td>$1,107,777</td>
<td>$1,095,620</td>
</tr>
</tbody>
</table>

**Changes in Benefit Obligations**

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligations, beginning of year</td>
<td>$1,095,620</td>
</tr>
<tr>
<td>Benefits earned</td>
<td>1,390,330</td>
</tr>
<tr>
<td>Interest</td>
<td>77,287</td>
</tr>
<tr>
<td>Claims paid</td>
<td>(1,455,460)</td>
</tr>
<tr>
<td>Benefit obligations, end of year</td>
<td>$1,107,777</td>
</tr>
</tbody>
</table>

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

**Note 4: Tax Status**

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

**Note 5: Transactions with Parties in Interest**

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

**Note 6: Termination of the Plan**

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

**Note 7: 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.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care 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.
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