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Health and Welfare Benefit Plans – April 2009

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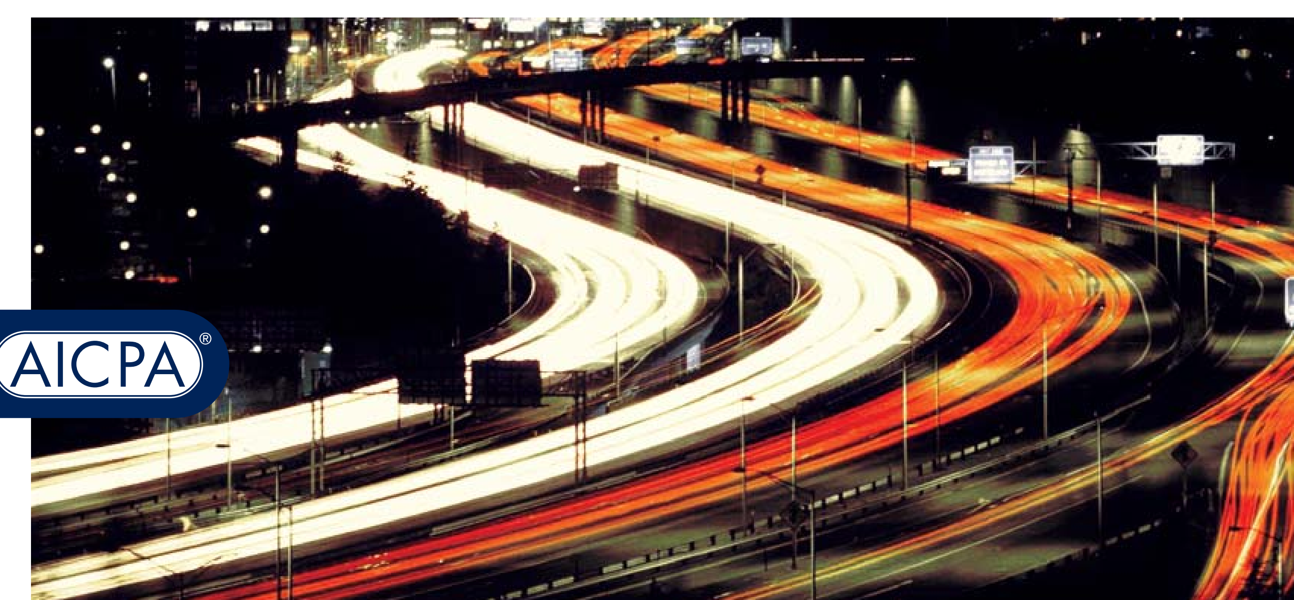
CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Health and Welfare Benefit Plans

April 2009



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CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Health and Welfare Benefit Plans

APRIL 2009

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans

Acknowledgments

The AICPA gratefully appreciates the invaluable assistance JulieAnn Verrekia, CPA, provided in updating and maintaining the guidance in this checklist.

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 (for example, 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 a plan participant will receive 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 (EBPAQC), a firm-based, voluntary membership center with the goal of promoting quality employee benefit plan audits, celebrated its fifth anniversary in March 2009. An indicator of the EBPAQC's success comes from the Department of Labor (DOL), which is finding through its audit quality monitoring program a demonstrable difference between the quality of audits performed by EBPAQC firms and those audits performed by nonmembers. Reviews performed by the DOL's Employee Benefits Security Administration (EBSA) continue to show fewer audit deficiencies in audits performed by EBPAQC member firms. In addition, where deficiencies are noted, they tend to be less severe for EBPAQC member firms. Visit the EBPAQC Web site at www.aicpa.org/ebpaqc to see a complete list of the more than 1,700 EBPAQC members and to preview benefits. For more information, contact the EBPAQC at ebpaqc@aicpa.org.

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 IRS have the authority to issue regulations covering reporting and disclosure requirements. (Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* describes which plans are covered by ERISA.)

.08 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the Pension Benefit Guaranty Corporation (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 and Titles I and IV of ERISA. (See paragraphs of .46–.49 of this section for a discussion of the Form 5500.)

Financial Accounting and Reporting Standards

.09 AICPA Statement of Position (SOP) 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,530), as amended by SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters* (AICPA, *Technical Practice Aids*, ACC sec. 10,790); SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,830); and Financial Accounting Standards Board (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*, establishes generally accepted accounting principles (GAAP) for health and welfare benefit plans.* The

* In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 identifies the sources of accounting principles that are generally accepted and categorizes them in descending order (a–d). SFAS No. 162 categorizes AICPA Industry Audit Guides as level b GAAP. SFAS No. 162 was effective November 15, 2008. On March 27, 2009, FASB released an exposure draft to replace SFAS No. 162. The comment period ends May 8, 2009, and the effective date of the standard is expected to be July 1, 2009, which coincides with the release of FASB *Accounting Standards Codification*™ (ASC). The proposed statement establishes FASB ASC as the source of authoritative GAAP to be applied by nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC will become nonauthoritative.

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.

.11 FASB Statement of Financial Accounting Standards (SFAS) No. 112, *Employers' Accounting for Postemployment Benefits—an amendment of FASB Statements No. 5 and 43*, 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. Although SFAS No. 112 does not apply to health and welfare benefit plans, SOP 01-2 adopted certain measurement concepts of SFAS No. 112. Also, terminology used in discussing postemployment benefits in SOP 01-2 is intended to follow that in SFAS No. 112.

.12 SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,620), 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 paragraphs .42–.44 of this section for further guidance.

.13 SFAS No. 35,[1] *Accounting and Reporting by Defined Benefit Pension Plans*, as amended, 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 No. 35.

.14 SFAS No. 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. Although SFAS No. 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 No. 106.

Once the proposed statement is effective, the GAAP hierarchy is essentially reduced to 2 levels, 1 that is authoritative and 1 that is not.

Exceptions include rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. The proposed statement is expected to create a new topic, *Generally Accepted Accounting Principles*, in FASB ASC. Readers can monitor the status of the proposed statement at www.fasb.org/draft/index.shtml. For more information about FASB ASC, refer to FASB ASC Web site at http://asc.fasb.org/home, the FASB ASC project status page at www.fasb.org/project/codification&retrieval_project.shtml and to the succeeding discussion about FASB ASC in this section of the checklist.

† See paragraphs .26–.31 for a discussion of the FASB ASC project.

[1] FASB has a project to amend SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 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.

.15 SOP 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,780), 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 and 4 and appendixes D and F of the guide.

.16 SOP 99-3, simplifies disclosures for certain investments and supersedes AICPA Practice Bulletin No. 12, *Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans*. More specifically, SOP 99-3

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 and 4 and appendix F of the guide.

.17 FSP AAG INV-1 and SOP 94-4-1 amends the guidance in SOP 94-4 with respect to the definition of *fully benefit-responsive* and the presentation and disclosure of fully benefit-responsive investment contracts. The FSP also amends SOP 92-6 and paragraph 10(h) of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (see paragraph .18 for a description of SFAS No. 133), to effectively remove the scope exception provided for fully benefit-responsive investment contracts reported at contract value in accordance with SOP 94-4. Appendix B of the FSP shows the amendments to SOP 94-4, SOP 92-6, and SFAS No. 133.

FSP AAG INV-1 and SOP 94-4-1 has been integrated into chapters 3–4 of the guide. See paragraphs .42–.44 of this section for further guidance.

.18 SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

.19 SFAS No. 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*, amends SFAS No. 133 to say that a contract that is accounted for under either paragraph 4 of SFAS No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS No. 35, as amended by SFAS No. 110, is not subject to SFAS No. 133. This exception applies only to the party that accounts for the contract under SFAS No. 35 or SFAS No. 110.

.20 SFAS No. 157, *Fair Value Measurements*, defines *fair value* and establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement amends paragraph 11 of SFAS No. 35 to change the definition of fair value.

.21 SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. The statement requires qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements.

FASB Interpretation No. 48

.22 FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. See FASB Interpretation No. 48 for further guidance.

.23 For public enterprises (including nonpublic consolidated entities of public enterprises that apply GAAP), this interpretation is effective for fiscal years beginning after December 15, 2006. For nonpublic enterprises (as defined in paragraph 289 of SFAS No. 109), except for nonpublic consolidated entities of public enterprises that apply U.S. GAAP, this interpretation is effective for annual financial statements for fiscal years beginning after December 15, 2008. See FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, for further guidance on the effective date. Earlier adoption is permitted as of the beginning of an enterprise's fiscal year. When applied, the standard will require assessment of uncertainty of income tax positions for all open years.

.24 *Considerations for Employee Benefit Plans.* Because benefit plans are generally exempt from income taxes, few issues exist that may trigger the application of FASB Interpretation No. 48. The main concern for all plans is the retention of the plan's tax-exempt status. For retirement plans, the existence of the IRS's Employee Plans Compliance Resolution System under Revenue Procedure 2008-50 is generally assumed to meet the conditions of an administrative practice or precedent as defined in FASB Interpretation No. 48, which can be relied upon to retain the plan's exempt status for all but the most egregious of violations. Note that no such relief program exists for welfare benefit plans.

.25 Notwithstanding this general relief for the plan's tax qualified status, a plan may be faced with issues under FASB Interpretation 48. These potential issues include, but are not limited to, the following:

- Uncertain tax positions taken by pass-through entities in which the plan has invested that generate material unrelated business income tax (UBIT) to the trust
- The determination of whether a pass-through entity generates unrelated business income to the plan
- The assumptions used in determining the reserves for a welfare benefit plan that is subject to UBIT due to excess asset accumulations
- The assumptions used by an employee stock ownership plan of an S corporation to demonstrate satisfaction with the "broadly held" rules of Internal Revenue Code Section 409(p) and the associated exemption from tax on the pass-through income
- The continuation of a welfare benefit plan's tax exempt status
- Where UBIT is material, all aspects of SFAS No. 109, including an analysis of any book or tax differences, is required

FASB Accounting Standards Codification™

.26 FASB *Accounting Standards Codification*™ (ASC), which was released on January 15, 2008, for a 1-year verification period, disassembled and reassembled thousands of nongovernmental accounting pronouncements (including those of FASB, the Emerging Issues Task Force, and the AICPA) to organize them under approximately 90 topics. FASB ASC also includes relevant portions of authoritative content issued by the Securities and Exchange Commission (SEC) and select SEC staff interpretations and administrative guidance issued by the SEC; however, FASB ASC is not the official source of SEC guidance and does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. FASB ASC is not intended to change U.S. GAAP or any requirements of the SEC. Rather, it is part of FASB's efforts to reduce the complexity of accounting standards and also to facilitate international convergence. Moreover, FASB ASC does not include governmental accounting standards.

.27 FASB ASC features a notice to constituents, which explains the scope, structure and usage of consistent terminology of FASB ASC. Users are encouraged to read this notice. Refer to FASB ASC Web site at http://asc.fasb.org, or by linking to the Web site from the FASB Web site at www.fasb.org.

.28 FASB is expected to release FASB ASC on July 1, 2009, at which time it will become the source of authoritative U.S. accounting and reporting standards, in addition to guidance issued by the SEC, for nongovernmental entities. FASB ASC will supersede all then-existing non-SEC accounting and reporting standards for nongovernmental entities. Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC will become nonauthoritative. After the release of FASB ASC, FASB will no longer consider new standards authoritative in their own right. Instead, new standards will serve only to update FASB ASC and provide the historical basis for conclusions of a new standard.*

.29 Due to the fact that a majority of the users of this checklist will be using it to assist with the issuance of employee benefit plan financial statements for the 2008 plan year, references to authoritative accounting pronouncements in this checklist use traditional references (for example, SFAS No. 157). Users should be cautioned that any correspondence prepared or financial statements issued after FASB ASC becomes authoritative and effective would use FASB ASC style referencing.

.30 Plan accounting may be found in the following sections of the codification:

- Section 960, *Defined Benefit Pension Plans*
- Section 962, *Defined Contribution Pension Plans*
- Section 965, *Health and Welfare Benefit Plans*

.31 Constituents are encouraged to use FASB's online codification research system free of charge and provide feedback to FASB on the codification. The codification research system includes general information on how to use the online research system and special features such as cross reference reports, which show where current standards reside in the codification. Readers are encouraged to register and access the codification at www.fasb.org/project/codification&retrieval_project.shtml.

AICPA *Technical Practice Aids*

.32 Technical Questions and Answers (TIS) section 6930, *Employee Benefit Plans* (AICPA, *Technical Practice Aids*) (product no. 005148), contains helpful guidance in the form of questions and answers relating to employee benefit plan accounting, auditing, and regulatory matters. These nonauthoritative technical practice

* In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 identifies the sources of accounting principles that are generally accepted and categorizes them in descending order (a–d). SFAS No. 162 categorizes AICPA Industry Audit Guides as level b GAAP. SFAS No. 162 was effective November 15, 2008. On March 27, 2009, FASB released an exposure draft to replace SFAS No. 162. The comment period ends May 8, 2009, and the effective date of the standard is expected to be July 1, 2009, which coincides with the release of FASB *Accounting Standards Codification™* (ASC). The proposed statement establishes FASB ASC as the source of authoritative GAAP to be applied by nongovernmental entities, in addition to guidance issued by the Securities and Exchange Commission (SEC). Once effective, all other nongrandfathered, non-SEC accounting literature not included in FASB ASC will become nonauthoritative.

Once the proposed statement is effective, the GAAP hierarchy is essentially reduced to 2 levels, 1 that is authoritative and 1 that is not. Exceptions include rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992. The proposed statement is expected to create a new topic, *Generally Accepted Accounting Principles*, in FASB ASC. Readers can monitor the status of the proposed statement at www.fasb.org/draft/index.shtml. For more information about FASB ASC, refer to FASB ASC Web site at http://asc.fasb.org/home, the FASB ASC project status page at www.fasb.org/project/codification&retrieval_project.shtml and to the succeeding discussion about FASB ASC in this section of the checklist.

aids 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.

Fair Value Measurement and Disclosures for Master Trusts

.33 The AICPA has recently issued TIS section 6931.11, "Fair Value Measurement Disclosures for Master Trusts" (AICPA, *Technical Practice Aids*), to provide guidance on the required fair value measurement disclosures to be made when a plan holds investments in a master trust. This section assists with the implementation of SFAS No. 157 for employee benefits plans that have investments in a master trust.

.34 TIS section 6931.11 is available on the AICPA's Web site at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/recent_tpas.htm and is also reprinted in the following paragraph.

.35 *Inquiry*—Employee benefit plans often hold investments under master trust arrangements. According to the Department of Labor's Form 5500 instructions, a master trust is a trust for which a regulated financial institution serves as trustee or custodian and in which assets of more than one plan, sponsored by a single employer or by a group of employers under common control, are held.

In a typical master trust arrangement, the plan does not hold units or shares of the master trust but has an undivided interest in the assets of the master trust. However, for participant directed defined contribution plans, the plan typically as a divided interest in the individual assets of the master trust based upon participant direction. The "Additional Financial Statement Disclosures" section in chapters 2 and 3 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* (guide) requires investments in master trusts to be shown as a single line item on the statement of net assets available for benefits; however, the plan does not "purchase" and "dispose" of its interest in the master trust but is allocated an interest once the plan sponsor chooses to transfer the plan's assets into the master trust. The guide also requires the master trust investments to be shown by general type in the footnotes.

For employee benefit plan financial statements, are the disclosure requirements of paragraphs 32–34 of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, required for the plan's total interest in the master trust or the individual investments under the master trust arrangement?

Reply—The disclosures required by paragraphs 32–34 of FASB Statement No. 157 are required for individual investments under a master trust arrangement and are not required for the plan's total interest in the master trust.

According to paragraph 32 of FASB Statement No. 157, for assets that are measured at fair value on a recurring basis in periods subsequent to initial recognition, the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements, and for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on earnings (or changes in net assets) for the period.

Because of the nature of the plan's ownership interest in the master trust—that is, the plan does not hold units or shares of a master trust—FASB Statement No. 157 disclosures should be presented for the underlying master trust investments. Therefore, the plan should disclose separately the following information for each period for each major category of master trust assets and liabilities (quantitative disclosures should be made in tabular format):

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

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

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

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

Consideration should be given to combining, or reconciling, or both, the master trust FASB Statement No. 157 disclosures as described previously with the current master trust disclosures as required in chapters 2 and 3 of the guide.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

.36 The Medicare Prescription Drug, Improvement and Modernization Act of 2003 introduced, for employers that sponsor postretirement health care plans that provide prescription drug benefits, 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, FASB issued FSP FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The 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 2 TIS sections on accounting and disclosures for single employer and multiemployer employee benefit plans related to the act:

- TIS section 6931.05, "Accounting and Disclosure Requirements for Single-Employer Employee Benefit Plans Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (AICPA, *Technical Practice Aids*)
- TIS section 6931.06, "Accounting and Disclosure Requirements for Multiemployer Employee Benefit Plans Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (AICPA, *Technical Practice Aids*)

These TIS sections provide accounting and disclosure guidance for both single employer and multiemployer plans relating to the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Accounting and Reporting by Health and Welfare Benefit Plans

.37 The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP[2] 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

.38 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. The information should be presented in such reasonable detail as is necessary to identify the nature and classification of the obligations.

.39 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 should disclose information regarding benefit obligations in the notes to the financial statements. (See paragraphs 13.20–.23 of the guide for further guidance.)

.40 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.

Fair Value Measurements and Disclosures

.41 As stated previously, SFAS No. 157 defines *fair value*, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Except as provided in the next sentence, SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with earlier application encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. Delayed application of this statement is permitted for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. An entity that has applied the provisions of this statement in interim or annual financial statements before issuance of FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, must continue to apply all the provisions of this statement. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. See paragraphs 4.29–.45 of the guide that summarize SFAS No. 157 but are not intended as a substitute for reading SFAS No. 157. See also the "Fair Value Measurements" section of section 10,200 for required disclosures.

Financial Statement Presentation and Disclosure Requirements for Fully Benefit-Responsive Investment Contracts

.42 Defined-benefit health and welfare benefit plans should report investment contracts at fair value. Defined-contribution plans, including both health and welfare and 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. An investment contract is considered fully benefit responsive for purposes of SOP 94-4, as amended, if certain criteria are met for that contract, analyzed on an individual basis. See paragraph 4.53 of the guide for such criteria.

.43 The statement of net assets available for benefits of the plan shall present amounts for (*a*) total assets, (*b*) total liabilities, (*c*) net assets reflecting all investments at fair value, and (*d*) net assets available for benefits. The amount representing the difference between (*c*) and (*d*) 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 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.

.44 See the "Investment and Insurance Contracts" section of this checklist for required disclosures in connection with fully benefit-responsive investment contracts.

.45 Regardless of whether a plan is subject to ERISA, insurance contracts, as defined by SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, as amended, 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

.46 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.

.47 The agencies have released tips to avoid common filing errors and frequently asked questions (FAQs) for small pension plans that use the audit exception to assist filers in complying with their reporting obligations. The tips and FAQs will help plans avoid basic filing errors and explain the conditions that small pension plans must meet to be eligible for a waiver of the annual audit requirement. The FAQs also include model summary annual report language for the required participant notice under the small plan audit exception. This guidance may be found on the EBSA Web site at www.dol.gov/ebsa.

.48 The DOL, IRS, and PBGC have released the 2008 Form 5500 return/reports, schedules, and instructions to be used by employee benefit plans for plan year 2007 filings. The modifications to the Form 5500 for plan year 2008 are described under "Changes to Note" in the 2008 instructions and are summarized in the Audit Risk Alert *Employee Benefit Plans Industry Developments—2009* (product no. 0224109).

.49 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

Practice Tip

Reporting of Delinquent Participant Contributions. (Schedule H and Schedule I)—Information concerning delinquent participant contributions reported on line 4a is not required to be reported again on line 4d (or Schedule G). See the FAQs 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 24 hours a day, 7 days a week by calling 800-TAX-FORM (800-829-3676).

Note: This publication was extracted from sections 10,000–10,400 of the AICPA *Financial Statement Preparation Manual*.

Note: This publication was extracted from sections 10,000 through 10,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

[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 five percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

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.

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 April 30, 2009, have been considered in the development of this publication. This includes relevant guidance issued up to and including the following:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 164, *Not-for-Profit Entities: Mergers* and *Acquisitions—Including an amendment of FASB Statement No. 142*, and revised FASB statements issued through April 30, 2009, including
  - — FASB Statement No. 141 (revised 2007), *Business Combinations*
- FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*
- FASB Technical Bulletin No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Staff Positions issued through April 30, 2009
- FASB Emerging Issues Task Force consensuses adopted through the April 2009 meeting
- AICPA Statement on Auditing Standards No. 116, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1, AU sec. 722)
- AICPA Statement of Position 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (AICPA, *Technical Practice Aids*, ACC sec. 10,930)
- AICPA Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes* (AICPA, *Technical Practice Aids*, PB sec. 12,150)

- AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2009)

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 or 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 AU section 508, *Reports on Audited Financial Statements* [AICPA, *Professional Standards*, vol. 1]). 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 at 1-877-242-7212.

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, 2009)
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
FASB =	Financial Accounting Standards Board
FIN =	FASB Interpretation Number
FSP =	FASB Staff Position
SAS =	AICPA Statement on Auditing Standards
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	AICPA Statement of Position
TIS =	Technical Questions and Answers in AICPA *Technical Practice Aids*

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections in the following list. 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.

	Place ✓ by ***Applicable Sections***
I. General	
A. Titles and References	______
B. Comparative Financial Statements	______
C. Consolidated Financial Statements	______
II. Statement of Net Assets Available for Benefits	

	Place ✓ by *Applicable Sections*
A. General	______
B. Investments	______
C. Investment and Insurance Contracts	______
D. Assets Held in 401(h) Account	______
E. Contributions Receivable	______
F. Deposits With and Receivables From Insurance Companies and Other Service Providers	______
G. Operating Assets	______
H. Cash	______
I. Liabilities	______
III. Statement of Changes in Net Assets Available for Benefits	
IV. Statement of Plan's Benefit Obligations	
A. Medicare Prescription Drug, Improvement and Modernization Act of 2003	______
V. Postemployment Benefits	______
VI. 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	______
VII. Summary of Significant Accounting Policies	
A. Accounting Policies	______
B. Certain Significant Estimates	______
VIII. Other Financial Statement Disclosures	
A. 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	______
F. Financial Instruments	______
F1. Financial Instruments (With SFAS No. 161 and FSP FAS 133-1 and FIN 45-4)	______
G. Guarantees	______
H. Income Tax Status	______
I. Uncertainty in Income Tax (FASB Interpretation No. 48)	______
J. Plan Terminations	______
K. Related-Party Transactions	______
L. Subsequent Events	______
M. Transfers and Servicing of Financial Assets and Securitizations	______
M1. Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)	______
N. Fair Value Measurements	______
O. Other Matters	______
IX. ERISA Reporting Requirements	
A. Form 5500 Series Report	______

Place ✔ by Applicable Sections

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 ______

Yes *No* *N/A*

I. 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

      i. 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 4.24; SOP 92-6, as amended, par. 20 (ACC 10,530.20)]

      ii. a "Statement of Changes in Net Assets Available for Benefits" for the year then ended? ____ ____ ____
      [AAG 4.24; SOP 92-6, as amended, par. 20 (ACC 10,530.20)]

      iii. information regarding the plan's benefit obligations as of the end of the plan year? ____ ____ ____
      [AAG 4.24; SOP 92-6, as amended, par. 20 (ACC 10,530.20)]

      iv. information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations? ____ ____ ____
      [AAG 4.24; SOP 92-6, as amended, par. 20 (ACC 10,530.20)]

   b. For defined contribution health and welfare benefit plans

      i. 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)? ____ ____ ____

      ii. a "Statement of Changes in Net Assets Available for Benefits" of the plan for the year then ended? ____ ____ ____
      [AAG 4.27; SOP 92-6, as amended, par. 23 (ACC 10,530.23)]

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 4.24; SOP 92-6, as amended, par. 20 (ACC 10,530.20)]

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 4.24; SOP 92-6, as amended, par. 20 (ACC 10,530.20)]

	Yes	No	N/A
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 (VEBA) trust? [AAG 4.14; SOP 92-6, as amended, par. 11 (ACC 10,530.11)]	_____	_____	_____
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

	Yes	No	N/A
1. Are comparative statements presented, if appropriate?[1] [ARB 43 ch. 2A par. 1–2; AAG 4.23 fn 1; AAG 4.26 fn 5; SOP 92-6, as amended, par. 19 fn 3 (ACC 10,530.19 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]	_____	_____	_____
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]	_____	_____	_____

C. Consolidated Financial Statements

	Yes	No	N/A
1. If consolidated statements are presented, is the consolidation policy disclosed? [ARB 51 par. 5; APB 22 par. 13]	_____	_____	_____
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]	_____	_____	_____
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]	_____	_____	_____

Consolidation of Variable Interest Entities

	Yes	No	N/A
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?	_____	_____	_____

[1] ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form.

	Yes	No	N/A
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? [FIN 46(R) par. 23]			
5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose			
a. the nature of its involvement with the variable interest entity and when that involvement began?			
b. the nature, purpose, size, and activities of the variable interest entity?			
c. the enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity? [FIN 46(R) par. 24]			
6. Are disclosures required by SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*, about a variable interest entity included in the same note to the financial statements as the information required by FASB Interpretation No. 46(R)? [FIN 46(R) par. 25]			
7. If an entity does not apply FASB Interpretation No. 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4*g* of FASB Interpretation No. 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.) [FIN 46(R) par. 26]			

II. Statement of Net Assets Available for Benefits

A. General

	Yes	No	N/A
1. Do disclosures include restrictions, if any, on plan assets (for example, legal restrictions on multiple trusts)? [AAG 4.95*p*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]			

	Yes	*No*	*N/A*
B. Investments			
1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or have been otherwise determined? [AAG 4.56; SOP 92-6, as amended, par. 32 (ACC 10,530.32)]	_____	_____	_____
2. Are the following investments reported as separate line items in the "Statements of Net Assets Available for Benefits":			
a. Government securities?	_____	_____	_____
b. Short term securities?	_____	_____	_____
c. Corporate bonds?	_____	_____	_____
d. Common stocks?	_____	_____	_____
e. Mortgages?	_____	_____	_____
f. Real estate?	_____	_____	_____
g. Investment in bank common/collective trust funds?	_____	_____	_____
h. Registered investment companies (for example, mutual funds)?	_____	_____	_____
i. Master trusts?	_____	_____	_____
j. Investment contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts? [Generally Accepted; AAG exhibits F-1 and F-9]	_____	_____	_____
3. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? [AAG 7.50*c*]	_____	_____	_____
4. Are investments that represent five 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 4.95*g*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	_____	_____	_____

Practice Tip

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

	Yes	No	N/A
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 4.95*g*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	____	____	____

C. Investment and Insurance Contracts

Note: 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*, amends SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,620), with respect to the definition of fully benefit-responsive and the presentation and disclosure of fully benefit-responsive investment contracts.

Practice Tip

The AICPA issued TIS sections 6931.08–.10 to provide additional guidance on implementing FSP AAG INV-1 and SOP 94-4-1, which clarify the types of investments covered, financial statement presentation of investments in common collective trust funds and master trusts, and related disclosure requirements.

	Yes	No	N/A
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 4.52]	____	____	____
4. Are insurance contracts, as defined by SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, as amended, 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 4.48]	____	____	____

Yes *No* *N/A*

Note: SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts—an Interpretation of FASB Statement No. 60*, amends paragraph 6 of SFAS No. 60 to clarify that financial guarantee insurance contracts issued by insurance enterprises are included within the scope of SFAS No. 60 as interpreted by SFAS No. 163. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

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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 (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. ____ ____ ____

   c. 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. ____ ____ ____

   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 No. 5, *Accounting for Contingencies*)? ____ ____ ____

	Yes	No	N/A

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 4.95*r*]

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 4.95*s*]

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 4.85; SOP 99-2 par. 11 (ACC 10,780.11); SOP 92-6 par. 55 (ACC 10,530.55)]

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 4.86; SOP 99-2 par. 15 (ACC 10,780.15); SOP 92-6 par. 55–56 (ACC 10,530.55–.56)]

3. Do the notes include a reconciliation of amounts reported in the financial statements to the amounts reported in the Form 5500? ____ ____ ____
[AAG 4.87; SOP 92-6 par. 56 (ACC 10,530.56)]

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 (for example, state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements? ____ ____ ____
[AAG 4.62; SOP 92-6, as amended, par. 33 (ACC 10,530.33)]

2. Do contributions receivable include an allowance for uncollectible amounts? ____ ____ ____
[AAG 4.62; SOP 92-6, as amended, par. 33 (ACC 10,530.33)]

	Yes	No	N/A
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 4.63; SOP 92-6, as amended, par. 34 (ACC 10,530.34)]	_____	_____	_____
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 4.64; SOP 92-6, as amended, par. 35 (ACC 10,530.35)]	_____	_____	_____
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 par. 5a–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 No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraphs 25–27, 33, and 42–48?[2] [SFAS 144 par. 25–27, 33, and 42–48]	_____	_____	_____
H. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43 ch. 3A par. 6]	_____	_____	_____
2. Are restrictions on cash properly disclosed? [SFAS 5 par. 18]	_____	_____	_____

Practice Tip

The AICPA issued Technical Practice Aids (TPA) Technical Questions and Answers (TIS) section 1100.15, "Liquidity Restrictions" (AICPA, *Technical Practice Aids*), to discuss auditing and accounting issues related to withdrawal restrictions placed on short term investments by a money market fund or its trustee.

[2] SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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 No. 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 No. 144 paragraphs 25–27, 33, and 42–48 for the disclosure requirements.

	Yes	No	N/A

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 4.68; SOP 92-6, as amended, par. 38 (ACC 10,530.38)]
2. Consider stating separately
   a. due to broker for securities purchased? ____ ____ ____
   b. accounts payable? ____ ____ ____
   c. accrued expenses? ____ ____ ____
   [AAG 4.68 and exhibits 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? ____ ____ ____
   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 2.59 and 4.85; SOP 99-2 par. 8 (ACC 10,780.08); SOP 92-6 par. 55 (ACC 10,530.55)]

III. 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 (for example, 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. 4.69 fn 11; SOP 92-6, as amended, par. 39 fn 13 (ACC 10,530.39 fn 13)]

	Yes	No	N/A
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 4.69; SOP 92-6, as amended, par. 39 (ACC 10,530.39)]	_____	_____	_____
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 4.85; SOP 99-2 par. 11 (ACC 10,780.11); SOP 92-6 par. 55 (ACC 10,530.55)]	_____	_____	_____
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 4.85; SOP 99-2 par. 11 (ACC 10,780.11); SOP 92-6 par. 56 (ACC 10,530.56)]	_____	_____	_____

IV. 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 4.24]

	Yes	No	N/A
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 incurred but not reported (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

Yes No N/A

future service by active participants (for example, vacation benefits) during the term of their employment should not be included.
[AAG 4.71 and fn 14; SOP 01-2 par. 21 and fn † (ACC 10,830. 21 and fn †); SOP 92-6, as amended, par. 41 and fn 16 (ACC 10,530.14 and fn 16)]

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

c. Postretirement benefits for the following groups of participants:

i. Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR? _____ _____ _____

ii. Other plan participants fully eligible for benefits? _____ _____ _____

iii. Plan participants not yet fully eligible for benefits? _____ _____ _____
[AAG 4.71 and fn 17; SOP 01-2 par. 21 (ACC 10,830.21); SOP 92-6, as amended, par. 41 (ACC 10,530.41)]

2. Are benefit obligations reported as of the end of the plan year? _____ _____ _____
[AAG 4.71 and fn 17; SOP 01-2 par. 21 (ACC 10,830.21); SOP 92-6, as amended, par. 41 (ACC 10,530.41)]

Practice Tip

The effect of plan amendments should be included in the computation of the expected and accumulated postretirement benefit obligations (APBO) once they have been contractually agreed to, even if some provisions take effect only in future periods.
[AAG 4.71; SOP 01-2 par. 21 (ACC 10,830.21); SOP 92-6, as amended, par. 41 (ACC 10,530.41)]

3. To the extent they exist, are the amounts of benefit obligations in each of the 3 major classifications listed in question 1*c* 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 4.72; SOP 01-2 par. 21 (ACC 10,830.21); SOP 92-6, as amended, par. 42 (ACC 10,530.42)]

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 4.84; SOP 92-6, as amended, par. 54 (ACC 10,530.54)]

Yes No N/A

5. Is consideration given to separately disclosing each significant benefit (for example, medical and death) for each classification listed in question 4, as appropriate? ____ ____ ____
[AAG 4.84; SOP 92-6, as amended, par. 54 (ACC 10,530.54)]

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 in the preceding list 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 4.77; SOP 92-6, as amended, par. 47 (ACC 10,530.47)]

7. Are 401(h) obligations reported in the health and welfare benefit plan's statement of benefit obligations as required by SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,530), as amended? ____ ____ ____
[AAG 4.85; SOP 99-2 par. 11 (ACC 10,780.11); SOP 92-6, as amended, par. 55 (ACC 10,530.55)]

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.1, 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.1? ____ ____ ____

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? ____ ____ ____
[TIS 6931.05]

Multiemployer Employee Health and Welfare Benefit Plans

1. Are the following disclosures made when a multiemployer heath 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? ____ ____ ____

	Yes	No	N/A
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? [TIS 6931.06]	____	____	____

V. 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 4.89–.91 for guidance on accounting for and reporting of postemployment benefits.
[AAG 4.89–.91; SOP 92-6, as amended, par. 58–60 (ACC 10,530.58–.60)]

	Yes	No	N/A
1. If an obligation for postemployment benefits is not recognized in accordance with AAG paragraphs 4.89–.90 only because the amount cannot be reasonably estimated, do the financial statements disclose that fact? [AAG 4.91]	____	____	____
2. Is disclosure made of the weighted-average assumed discount rate used to measure the plan's obligation for postemployment benefits? [AAG 4.95*t*; SOP 01-2 par. 29 (ACC 10,830.29); SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	____	____	____

VI. 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 4.92; SOP 92-6, as amended, par. 61 (ACC 10,530.61)]

	Yes	No	N/A

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 4.92; SOP 92-6, as amended, par. 61 (ACC 10,530.61)]

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 4.85; SOP 99-2 par. 11 (ACC 10,780.11); SOP 92-6 par. 55 (ACC 10,530.55)]

C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations

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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 4.93; SOP 92-6, as amended, par. 59 (ACC 10,530.59)]

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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)?[3] _____ _____ _____
   [AAG 4.93; SOP 92-6, as amended, par. 62 (ACC 10,530.62)]
2. Are significant effects of other factors identified, for example, benefits accumulated,[4] the effects of the time value of money (for interest), and benefits paid? _____ _____ _____
   [AAG 4.93; SOP 92-6, as amended, par. 62 (ACC 10,530.62)]

Practice Tip

Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations.

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[3] Changes in actuarial assumptions are to be considered as changes in accounting estimates and therefore previously reported amounts should not be restated (AAG paragraph 4.93 and SOP 92-6, as amended, paragraph 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 paragraph 4.93 footnote 23 and SOP 92-6, as amended, paragraph 62 footnote 23).

	Yes	No	N/A
[AAG 4.24 fn 2 and 13.20–.22; SOP 92-6 par. 5 (ACC 10,530.05)]			

VII. 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]
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]
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]
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 (ACC 10,640.11); FSP SOP 94-6-1 par. 10]
5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumption(s) used to determine the fair value of investments and the reported value of insurance contracts? _____ _____ _____
   [AAG 4.94; SOP 92-6, as amended, par. 63 (ACC 10,530.63)]
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 4.94; SOP 92-6, as amended, par. 63 (ACC 10,530.63)]
7. Are any significant changes in assumptions between financial statement dates described? _____ _____ _____
   [AAG 4.94; SOP 92-6, as amended, par. 63 (ACC 10,530.63)]
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. 4.71 fn 13; SOP 01-2 par. 21 (ACC 10,830.21); SOP 92-6, as amended, par. 41 fn 15 (ACC 10,530.41 fn 15)]

	Yes	No	N/A
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 4.95*q*]	____	____	____

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

	Yes	No	N/A
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 No. 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 par. 13–14 (ACC 10,640.13–.14); FSP SOP 94-6-1 par. 10–11; AAG 4.101]	____	____	____

VIII. Other Financial Statement Disclosures

A. Accounting Changes and Error Corrections

Change in Accounting Principle

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

	Yes	No	N/A
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			
i. a description of the prior-period information that has been retrospectively adjusted, if any?	____	____	____
ii. 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.	____	____	____

	Yes	No	N/A
iii. 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?	____	____	____
iv. if retrospective application to all prior periods (paragraph 7 of SFAS No. 154) is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (paragraphs 8–9 of SFAS No. 154)?	____	____	____
c. If indirect effects of a change in accounting principle are recognized			
i. 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?	____	____	____
ii. 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]	____	____	____

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154 par. 17]

	Yes	No	N/A
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 1*a* provided whenever the financial statements of the period of change are presented? [SFAS 154 par. 17]	____	____	____
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]	____	____	____

Change in Accounting Estimate

	Yes	No	N/A
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 made?	____	____	____

	Yes	No	N/A
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]	____	____	____

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]	____	____	____

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154 par. 24]

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]	____	____	____

Note: Paragraphs 51–58 of SFAS 141, *Business Combinations*, as amended, describe the manner of reporting and the disclosures required for a business combination.
[SFAS 154 par. 24]

Correction of an Error in Previously Issued Financial Statements

9. When financial statements are restated to correct an error, does the plan disclose that its previously issued financial statements have been restated, along with a description of the nature of the error? Does the plan also disclose the following:	____	____	____
a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented?	____	____	____
b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented?	____	____	____
10. In addition to question 9, 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]	____	____	____

Yes No N/A

11. In addition, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9? _____ _____ _____
    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; APB 9 par. 26]

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]

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]
2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 1 disclosed? _____ _____ _____
   [SFAS 5 par. 9]
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]
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? _____ _____ _____
   [SFAS 5 par. 17]
5. Are the nature and amount of any guarantees (for example, guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? _____ _____ _____
   [SFAS 5 par. 12]
6. Is there adequate disclosure of commitments, including material lease commitments and other commitments? _____ _____ _____
   [SFAS 5 par. 18–19; AAG 4.95*k*; SOP 92-6, as amended, par. 64 (ACC 10,530.64]

Yes | No | N/A

C. Current Vulnerabilities Due to Certain Concentrations

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

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

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

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 par. 21–22 (ACC 10,640.21–.22); FSP SOP 94-6-1 par. 10–11; AAG 4.102]

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? ____ ____ ____

   b. For operations located outside the reporting entity's home country, the carrying amounts of net assets and the geographic areas in which they are located? ____ ____ ____
   [SOP 94-6 par. 24 (ACC 10,640.24; FSP SOP 94-6-1 par. 10–11]

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

   a. commercial, financial, and agricultural? ____ ____ ____

	Yes	No	N/A
b. real estate construction?			
c. real estate mortgage?			
d. installment loans to individuals?			
e. lease financing?			
f. foreign?			
g. loans in process?			
h. other? [FSP SOP 94-6-1 par. 11]			
4. Are major concentrations of loan products whose contractual features may increase credit risk disclosed, such as			
a. negative amortization?			
b. loans with a high loan-to-value ratio?			
c. multiple loans on the same collateral that when combined, result in a high loan-to-value ratio?			
d. option adjustable rate mortgages or similar products that may expose the borrower to future increases in repayments?			
e. an initial interest rate that is below the market interest rate for the initial period of a loan term and that may increase significantly when that period ends?			
f. interest-only loans? [FSP SOP 94-6-1 par. 2 and 7; SFAS 107 par. 15(a)]			
5. Are foreign loans, foreign nonaccrual loans, and foreign operations, if any of these foreign activities exceed a material percentage of activities, disclosed? [FSP SOP 94-6-1 par. 7; SFAS 107 par. 15(a)]			

D. Description of Health and Welfare Benefit Plans

	Yes	No	N/A
1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vesting, and benefit provisions? [AAG 4.95*a*; SOP 92-6, as amended, par. 64 (ACC 10,530.64); SOP 94-6 par. 10 (ACC 10,640.10); FSP SOP 94-6-1 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 4.95 fn 27; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

	Yes	No	N/A
2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable? [AAG 4.95*o*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]			

	Yes	No	N/A

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 (for example, a plan spin-off or merger with another plan) and changes in actuarial assumptions? [AAG 4.95*b*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)] _____ _____ _____

F. Financial Instruments

Notes: SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by requiring enhanced disclosures about a plan's derivative and hedging activities in order to improve the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 also encourages comparative disclosures at initial adoption.

SFAS No. 133, as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, says that a contract that is accounted for under either paragraph 4 of SFAS No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB Statement No. 35*, or paragraph 12 of SFAS No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended, is not subject to SFAS No. 133. This exception applies only to the party that accounts for the contract under SFAS No. 35 or SFAS No. 110.

In September 2008, FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This FSP amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45 to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP clarifies the board's intent that the disclosures required by SFAS No. 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. This clarification was effective upon issuance of the FSP. The provisions of this FSP that amend SFAS No. 133 and FASB Interpretation No. 45 shall be effective for reporting periods (annual or interim) ending after November 15, 2008. This FSP encourages that the amendments to SFAS No. 133 and FASB Interpretation No. 45 be applied in periods earlier than the effective date to facilitate comparisons at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption.

Plans that have not adopted SFAS No. 161 and FSP FAS 133-1 and FIN 45-4 should complete this section (section F). Plans that have adopted SFAS No. 161 and FSP FAS 133-1 and FIN 45-4 should complete section F1, "Financial Instruments (With SFAS No. 161 and FSP FAS 133-1 and FIN 45-4)."

Yes No N/A

Derivative Instruments and Hedging Activities

1. If a plan holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives? ____ ____ ____
2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives? ____ ____ ____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged? ____ ____ ____
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity? ____ ____ ____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is ***encouraged, but not required,*** to provide such additional qualitative disclosures. Have such disclosures been made? ____ ____ ____
[SFAS 133 par. 44]
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 No. 52, *Foreign Currency Translation*, that have been designated and have qualified as fair value hedging instruments and for the related hedged items

      i. 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? ____ ____ ____

      ii. 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]

Yes No N/A

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 No. 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]

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]

Disclosures About Fair Value of Financial Instruments

8. Have the disclosure requirements of paragraphs 10–14 of SFAS No. 107, as amended, been followed for financial instruments of the plan? _____ _____ _____
[SFAS 107, as amended by SFAS 157, par. 10–14; AAG 4.98–.99]

Disclosure About Concentrations of Credit Risk of All Financial Instruments

9. Except as indicated in paragraph 15b[5] of SFAS No. 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, as amended by SFAS 161[6]; SFAS 133, par. 531d]

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? _____ _____ _____

[5] SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, 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, *Employers' Accounting for Pensions*, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15a).
2. The financial instruments described in paragraphs 8a, 8c, and 8f of SFAS No. 107, as amended (except for reinsurance receivables and prepaid reinsurance premiums).

[6] The term *financial instruments* includes derivative instruments accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

	Yes	No	N/A
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk?	_____	_____	_____
[SFAS 107 par. 15a, as amended by SFAS 161; SFAS 133 par. 531d; AAG 4.99; SOP 92-6 par. 68 (ACC 10,530.68)]			
11. Has the plan disclosed quantitative information[7] 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, as amended, par. 15C; SFAS 133 par. 531d]			

F1. Financial Instruments (With SFAS No. 161 and FSP FAS 133-1 and FIN 45-4)

Notes: Plans that have adopted SFAS No. 161 and FSP 133-1 and FIN 45-4 should complete this section (section F1). Plans that have not adopted SFAS No. 161 and FSP 133-1 and FIN 45-4 should complete section F, "Financial Instruments."

SFAS No. 161 amends SFAS No. 133 by requiring enhanced disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting.

FSP 133-1 and FIN 45-4 amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45 to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP clarifies the board's intent that the disclosures required by SFAS No. 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. This clarification was effective upon issuance of the FSP. The provisions of this FSP that amend SFAS No. 133 and FASB Interpretation No. 45 shall be effective for reporting periods (annual or interim) ending after

(continued)

[7] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (*a*) more details about current positions and perhaps activity during the period, (*b*) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (*c*) a gap analysis of interest rate repricing 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.

	Yes	No	N/A

November 15, 2008. This FSP encourages that the amendments to SFAS No. 133 and FASB Interpretation No. 45 be applied in periods earlier than the effective date to facilitate comparisons at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption.

1. Does the plan disclose the following information about derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133, as amended)
   a. Its objectives for holding or issuing those instruments? ____ ____ ____
   b. The context needed to understand those objectives? ____ ____ ____
   c. Its strategies for achieving those objectives? ____ ____ ____
2. Is the information about the instruments disclosed in the context of each instrument's primary underlying risk exposure (for example, interest rate, credit, foreign exchange rate, interest rate and foreign exchange rate, or overall price? ____ ____ ____
3. Does the description of those instruments also distinguished between those used for risk management purposes and those used for other purposes?[8] ____ ____ ____
4. For derivative instruments designated as hedging instruments, does the description distinguish between derivatives designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, and derivative instruments designated as hedging instruments of the foreign currency exposure in a net investment in a foreign operation? ____ ____ ____
5. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity? ____ ____ ____
6. Does the plan disclose information that enables users of its financial statements to understand the volume of its derivative activity? ____ ____ ____
7. Did the plan consider providing additional qualitative disclosures about its overall risk exposures relating to interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk, and equity price risk? Those additional qualitative disclosures, if made, should include a discussion of those exposures even though the plan does not manage some of those exposures by using derivative instruments. ____ ____ ____
   [SFAS 133 par. 44, as amended by SFAS 161 par. 3(a)]
8. For every annual and interim reporting period for which a statement of net assets available for benefits and a statement of changes in net assets available for benefits is presented, does the plan disclose the location and fair value amounts of derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133) in a tabular format that provides

[8] ***Note:*** Derivative instruments used for risk management purposes include those designated as hedging instruments as well as those used as economic hedges and for other purposes related to the plan's risk exposure.

Yes No N/A

a. the fair value on a gross basis, even when the derivative instruments are subject to master netting arrangements and qualify for net presentation in accordance with FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts—an interpretation of APB Opinion No. 10 and FASB Statement No. 105* (cash collateral payables and receivables associated with the derivative instruments are not added to or netted against the fair value amounts)? _____ _____ _____

b. fair value amounts presented as separate asset and liability values segregated between derivatives that are designated and qualifying as hedging instruments and those that are not? _____ _____ _____

c. within each of the aforementioned categories, are fair value amounts presented separately by type of derivative contract (such as interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, or other contracts)? _____ _____ _____

d. does the disclosure identify the line item(s) in the statement of net assets available for benefits in which the fair value amounts for these categories of derivative instruments are included? _____ _____ _____

9. Does the plan disclose the location and amount of the gains and losses reported in the statement of changes in net assets available for benefits for derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133) in tabular format? Are the gains and losses presented separately for

a. derivative instruments designated and qualifying as hedging instruments in fair value hedges and related hedged items designated and qualifying in fair value hedges? (***Note:*** The information about hedged items in this step can be presented in tabular or nontabular format.) _____ _____ _____

b. the effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges that was recognized in investment income during the current period? _____ _____ _____

c. the effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges recorded in investment income during the term of the hedging relationship? _____ _____ _____

d. the portion of gain and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges representing (1) the amount of the hedges' ineffectiveness and (2) the amount, if any, excluded from the assessment of hedge effectiveness? _____ _____ _____

e. derivative instruments not designated or qualifying as hedging instruments? _____ _____ _____

	Yes	*No*	*N/A*
10. Do the disclosures in the preceding question 9 present information separately by type of derivative contract (for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts), and do they identify the line items in the statement of changes in net assets available for benefits in which the gains and losses for these categories of derivative instruments are included?	____	____	____
11. If the plan excludes derivative instruments not designated or qualifying as hedging instruments from the disclosures in question 9, has it disclosed the following for those excluded instruments:			
a. The gains and losses on its trading activities (including both derivative and nonderivative instruments) recognized in the statement of changes in net assets available for benefits, separately by major types of items (for example, fixed income or interest rates, foreign exchange, equity, commodity, and credit)?	____	____	____
b. The line items in the statement of changes in net assets available for benefits in which trading activities gains and losses are included?	____	____	____
c. A description of the nature of its trading activities and related risks and how the plan manages those risks?	____	____	____
12. Does the plan disclose the following information about derivative instruments it holds and issues (or nonderivative instruments it holds and issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133) for every annual and interim reporting period for which a statement of net assets available for benefits and a statement of changes in net assets available for benefits is presented?			
a. The existence and nature of credit-risk-related contingent features and the circumstances in which the features could be triggered in derivative instruments that are in a net liability position at the financial statement date?	____	____	____
b. The aggregate fair value amounts of derivative instruments that contain credit-risk related contingent features that are in a net liability position at the end of the reporting period?	____	____	____
c. The aggregate fair value of assets that are already posted as collateral at the financial statement date and (1) the aggregate fair value of additional assets that would be required to be posted as collateral or (2) the aggregate fair value of assets needed to settle the instrument immediately, if the credit-risk-related contingent features were triggered at the financial statement date?	____	____	____
13. If the plan is a seller of credit derivatives (as defined in par 44DD of SFAS No. 133 as amended by FAS FSP 133-1 and FIN 45-4), does it disclose the following information about its credit derivatives and hybrid instruments that have embedded credit derivatives for each statement of net assets available for benefits:			

Yes No N/A

(***Note:*** The term *seller* refers to the party that assumes credit risk, which could be a guarantor in a guarantee type contract, and any party that provides the credit protection in an option type contract, a credit default swap, or any other credit derivative contract. A seller is also sometimes referred to as *a writer of the contract*.)

a. The nature of the credit derivative, including the approximate term of the credit derivative, the reason(s) for entering into the credit derivative, the events or circumstances that would require the seller to perform under the credit derivative, and the current status (that is, as of the date of the statement of net assets available for benefits) of the payment/performance risk of the credit derivative? ____ ____ ____

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

Notes: That maximum potential amount of future payments shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative (which are addressed under (d) that follows)

If the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, that fact shall be disclosed.

If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, the seller shall disclose the reasons why it cannot estimate the maximum potential amount. ____ ____ ____

c. The fair value of the credit derivative as of the date of the statement of financial position? ____ ____ ____

d. The nature of

i. any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative? ____ ____ ____

ii. any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition under the credit derivative, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative? ____ ____ ____

e. Does the plan, as the seller of the credit derivative, indicate, 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 credit derivative? ____ ____ ____

f. In its estimate of potential recoveries, does the seller of credit protection consider the effect of any purchased credit protection with identical underlying(s)? ____ ____ ____

g. With respect to hybrid instruments that have embedded credit derivatives, does the seller of the embedded credit derivative disclose the required information for the entire hybrid instrument, not just the embedded credit derivatives? ____ ____ ____

	Yes	No	N/A
h. For each statement of net assets available for benefits presented, does the seller of a credit derivative disclose the required information for each credit derivative, or each group of similar credit derivatives, even if the likelihood of the seller having to make any payments under the credit derivative is remote?	___	___	___
i. Are the required disclosures for groups of similar credit derivatives			
i. segregated by major types of contracts (for example, single-name credit default swaps, traded indexes, other portfolio products, and swaptions), and, then,	___	___	___
ii. for each major type, by additional subgroups for major types of referenced/underlying asset classes (for example, corporate debt, sovereign debt, and structured finance)? (***Encouraged but not required***)	___	___	___
14. If the information on derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133) is disclosed in more that a single footnote, has the plan cross-referenced from the derivative footnote to other footnotes in which derivative-related information is disclosed?	___	___	___
[SFAS 133 par. 44 c–e, as amended by SFAS 161 par. 3b and FSP FAS 133-1 and FIN 45-4 par. A1]			

Fair Value Hedges

	Yes	No	N/A
15. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS No. 52 that have been designated and have qualified as fair value hedging instruments and for the related hedged items, has the following been disclosed:			
a. The net gain or loss recognized in the investment income during the reporting period representing (1) the amount of the hedges' ineffectiveness and (2) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness?	___	___	___
b. 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, as amended by SFAS 161]			
16. The quantitative disclosures about derivative instruments may be more useful and less likely to be perceived to be out of context or otherwise misunderstood if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? ***(Encouraged but not required.)***	___	___	___
[SFAS 133 par. 45, as amended by SFAS 161]			

	Yes	No	N/A
Disclosures About Fair Value of Financial Instruments			
17. Have the disclosure requirements of paragraphs 10–14 of SFAS No. 107, as amended by SFAS No. 157, *Fair Value Measurements*, been followed for financial instruments of the plan? [SFAS 107, as amended by SFAS 157, par. 10–14; AAG 4.98–.99]	_____	_____	_____
Disclosure About Concentrations of Credit Risk of All Financial Instruments			
18. Except as indicated in paragraph 15b[9] of SFAS No. 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counter-parties (*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, as amended by SFAS 161; SFAS 133 par. 531d]	_____	_____	_____
19. 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?	_____	_____	_____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? [SFAS 107 par. 15a, as amended by SFAF 161;[10] SFAS 133 par. 531d]	_____	_____	_____

[9] SFAS No. 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 No. 87, *Employers' Accounting for Pensions*, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS No. 35, are subject to the reporting of paragraph 15a).
2. The financial instruments described in paragraphs 8a, 8c, and 8f of SFAS No. 107, as amended by SFAS No. 112, SFAS No. 123, and SFAS No. 125, except for reinsurance receivables and prepaid reinsurance premiums.

[10] The term *financial instruments* includes derivative instruments accounted for under SFAS No. 133.

	Yes	No	N/A
20. Has the plan disclosed quantitative information[11] 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]	____	____	____

G. Guarantees

	Yes	No	N/A
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 and the current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the guarantee?	____	____	____
b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?	____	____	____
c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?	____	____	____
d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?	____	____	____
e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS No. 5 paragraph 8 regardless of whether the guarantee is freestanding or embedded in another contract?	____	____	____
f. The nature of			
i. any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee?	____	____	____
ii. 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?	____	____	____

[11] 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 repricing 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.

	Yes	No	N/A
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? [FIN 45 par. 13, as amended by FSP FAS 133-1 and FIN 45-4 par. A2]	____	____	____
2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*, pursuant to paragraph 7b of FASB Interpretation No. 45 (collectively referred to as product warranties), is the following information disclosed:			
a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?	____	____	____
b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	____	____	____
c. Does the tabular reconciliation present			
i. the beginning balance of the aggregate product warranty liability?	____	____	____
ii. the aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?	____	____	____
iii. 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?	____	____	____
iv. the ending balance of the aggregate product warranty liability? [FIN 45 par. 14]	____	____	____
3. Are the disclosure requirements in paragraphs 13–14 of FASB Interpretation No. 45 complied with for intellectual property infringement indemnifications as described in FSP FIN 45-1, *Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45*? [FSP 45-1]	____	____	____
4. Are the disclosure requirements in paragraphs 13–16 of FASB Interpretation No. 45 applied to all minimum revenue guarantees in financial statements of interim or annual periods ending after the beginning of the first fiscal quarter following November 10, 2005, the date that the final FSP was posted to the FASB Web site? (Thus, the disclosure requirements in paragraphs 13–16 should be applied to any minimum revenue guarantees issued prior to the initial application of the FSP, regardless of whether those guarantees were recognized and measured under FASB Interpretation No. 45.) [FSP FIN 45-3 par. 7]	____	____	____

	Yes	No	N/A
H. Income Tax Status			
1. Do disclosures include the federal income tax status of the plan? [AAG 4.95*e*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	____	____	____

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. Uncertainty in Income Tax

Notes: In June 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, was issued. The interpretation was effective for public enterprises for fiscal years beginning after December 15, 2006. In December 2008, FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, was issued that delays the effective date of FASB Interpretation No. 48 for certain nonpublic enterprises, including health and welfare plans, to fiscal years beginning after December 15, 2008. Nonpublic enterprises that have applied the recognition, measurement and disclosure provisions of FASB Interpretation No. 48 in a full set of annual financial statements issued prior to the issuance of FSP FIN 48-3 are not eligible for the deferral.

The questions that follow are for plans that have already adopted FASB Interpretation No. 48.

For additional guidance readers may refer to a practice guide developed by the staff of the AICPA Accounting Standards, Audit and Attest Standards, and Tax Teams titled "Accounting for Uncertain Tax Positions Under FASBI 48" to help practitioners implement FASB Interpretation No. 48, which interprets SFAS No. 109, *Accounting for Income Taxes*. Also see the section "Unrelated Business Income Tax and FASB Interpretation No. 48" of the AICPA Audit Risk Alert *Employee Benefit Plans Industry Developments—2009* (product no. 0224109) for further discussion.

	Yes	No	N/A
1. Does a plan disclose its policy on classification of interest and penalties in accordance with paragraph 19 of FASB Interpretation No. 48 in the footnotes to the financial statements? [FIN 48 par. 20]	____	____	____
2. Does a plan disclose the following at the end of each annual reporting period presented:			
a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum			
i. the gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period?	____	____	____
ii. the gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period?	____	____	____

	Yes	No	N/A
iii. the amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities?	____	____	____
iv. reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations?	____	____	____
b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate?	____	____	____
c. The total amounts of interest and penalties recognized in the statement of changes in net assets available for benefits operations and the total amounts of interest and penalties recognized in the statement of net assets available for benefits?	____	____	____
d. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date			
i. the nature of the uncertainty?	____	____	____
ii. the nature of the event that could occur in the next 12 months that would cause the change?	____	____	____
iii. an estimate of the range of the reasonably possible change or a statement that an estimate of the range cannot be made?	____	____	____
e. A description of tax years that remain subject to examination by major tax jurisdictions? [FIN 48 par. 21]	____	____	____
3. Has the liability for unrecognized tax benefits (or reduction in amounts refundable) **not** been combined with deferred tax liabilities or assets? [FIN 48 par. 17]	____	____	____
4. Is a liability that has been recognized as a result of applying FASB Interpretation No. 48 not classified as a deferred tax liability unless it arises from a taxable temporary difference? [FIN 48 par. 18]	____	____	____
J. Plan Terminations			
1. If a decision is made to terminate the plan or a wasting trust exists, are all relevant circumstances disclosed? [AAG 4.105; SOP 92-6, as amended, par. 69 (ACC 10,530.69)]	____	____	____
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 4.105; SOP 92-6, as amended, par. 69 (ACC 10,530.69)]	____	____	____
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? [AU 560.05; AAG 4.105]	____	____	____
K. Related-Party Transactions			
1. For related-party transactions, do disclosures include			
a. the nature of the relationships involved?	____	____	____
b. for each period for which a statement of changes in net assets is presented			

	Yes	No	N/A
i. a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	____	____	____
ii. other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	____	____	____
iii. the dollar amount of transactions?	____	____	____
iv. 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 par. 2–4]	____	____	____
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 par. 2–4]	____	____	____
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]	____	____	____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13 par. 29]	____	____	____
5. Are combined financial statements considered for entities under common control? [ARB 51 par. 22–23]	____	____	____
6. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG 4.95*h–i* and A.51*c* in app. A]	____	____	____

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 in the preceding questions.
[AAG 11.01 and A.94 fn 26; ERISA sec. 3(14)]

L. Subsequent Events

	Yes	No	N/A
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; AU 560.03–.04 and .07]	____	____	____

	Yes	No	N/A
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 (for example, a decision to terminate the plan after the year end but before the year-end financial statements have been issued)?[12] [SFAS 5 par. 11; AU 560.05–.07 and .09; AAG 4.105; SOP 92-6, as amended, par. 69 (ACC 10,530.69)]	_____	_____	_____
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 4.95*j*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	_____	_____	_____
4. For those unusual or infrequent events or transactions identified in question 3, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [AAG 4.95*j*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	_____	_____	_____

M. Transfers and Servicing of Financial Assets and Securitizations

Note: SFAS No. 140 was amended by SFAS No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. SFAS No. 156 was effective as of the beginning of the first fiscal year beginning after September 15, 2006. If SFAS No. 156 has been adopted, the following questions that are based on SFAS No. 140 do not apply and readers should refer to section M1.

	Yes	No	N/A
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; AAG 4.60]	_____	_____	_____
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]	_____	_____	_____
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 No. 140?	_____	_____	_____

[12] Also consider the appropriateness of dual dating the auditor's report for the subsequent event (AU section 530, *Dating of the Independent Auditor's Report*, paragraph .05).

	Yes	No	N/A
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]	____	____	____
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* 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 special purpose entity (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)?	____	____	____
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)?	____	____	____

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

	Yes	No	N/A
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under the preceding question *b* 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†			
i. 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?	____	____	____
ii. delinquencies at the end of the period?	____	____	____
iii. 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]

Collateral

	Yes	No	N/A
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 No. 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)]	____	____	____
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)]	____	____	____
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. 17a(3)]	____	____	____

M1. Transfers and Servicing of Financial Assets and Securitizations (SFAS No. 156)

Notes: If SFAS No. 156 has been adopted, the following section should be completed.

An entity was required to adopt SFAS No. 156 as of the beginning of its first fiscal year that began after September 15, 2006. Earlier adoption was permitted as of the beginning of an entity's fiscal year, provided the entity had 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.

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

	Yes	No	N/A
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; AAG 4.60]	____	____	____
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:			
i. The beginning and ending balances?	____	____	____
ii. Additions (through purchases of servicing assets, assumptions of servicing obligations, and servicing obligations that result from transfers of financial assets)?	____	____	____
iii. Disposals?	____	____	____
iv. Changes in fair value during the period resulting from changes in valuation inputs or assumptions used in the valuation model?	____	____	____
v. Changes in fair value during the period resulting from other changes in fair value and a description of those changes?	____	____	____
vi. Other changes that affect the balance and a description of those changes?	____	____	____

Yes No N/A

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 17e(2) of SFAS No. 140, as amended by SFAS No. 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:

i. The beginning and ending balances? ____ ____ ____

ii. Additions (through purchases or servicing assets, assumption of servicing obligations, and servicing obligations that result from transfers of financial assets)? ____ ____ ____

iii. Disposals? ____ ____ ____

iv. Amortization? ____ ____ ____

v. Application of valuation allowance to adjust carrying value of servicing assets? ____ ____ ____

vi. Other-than-temporary impairments? ____ ____ ____

vii. 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 17e(2) of SFAS No. 140, as amended by SFAS No. 156, is also encouraged, but not required, to disclose a description of the valu-

	Yes	No	N/A
ation 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 No. 140, as amended by SFAS No. 156?	____	____	____
e. the activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented?	____	____	____
6. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the interests that continue to be held by the transferor, if any, and servicing assets or servicing liabilities, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on interests that continue to be held by the transferor) and the gain or loss from sale of financial assets in securitizations?	____	____	____
c. The key assumptions‡ used in measuring the fair value of interests that continue to be held by the transferor and servicing assets or servicing liabilities, if any, at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	____	____	____
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)?	____	____	____
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:			

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

	Yes	No	N/A
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 the preceding question *b* 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			
i. 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?	___	___	___
ii. delinquencies at the end of the period?	___	___	___
iii. credit losses, net of recoveries, during the period? [SFAS 140, as amended by SFAS 156, par. 17e–i]	___	___	___

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

N. Fair Value Measurements

Notes: In September 2006, the FASB issued SFAS No. 157, which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.

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

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized and disclosed at fair value in the financial statements on a recur-

(continued)

	Yes	No	N/A

ring basis. FSP FAS 157-2 defers the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Because most plans have assets and liabilities that are recognized and disclosed at fair value, this deferral may not be applicable. In the event that a plan holds such nonfinancial assets, it is advisable to consult the text of FSP FAS 157-2, which is available online at www.fasb.org.[‖]

1. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category[#] of assets and liabilities:
   a. The fair value measurements at the reporting date? ____ ____ ____
   b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2), and significant unobservable inputs (level 3)? ____ ____ ____
   c. For fair value measurements using significant unobservable inputs (level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:[13]
      i. Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities)? ____ ____ ____

‖ In April 2009, FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides additional guidance for estimating fair value in accordance with SFAS No. 157. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 also amends SFAS No. 157 to require that a reporting entity

a. disclose in interim and annual periods the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.

b. define major category (see paragraphs 32–33 of SFAS No. 157) for equity securities and debt securities to be major security types as described in paragraph 19 of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (as amended by FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*).

FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. Certain exceptions apply. For specific information, consult the text of FSP FAS 157-4, which is available online at www.fasb.org.

For plans that have adopted FSP FAS 157-4, the term *major category* for equity and debt securities shall be defined as major security type as described in paragraph 19 of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, even if the equity securities or debt securities are not within the scope of SFAS No. 115. See footnote ** for an overview of FSP FAS 157-4 and its effective dates.

13 For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32c may be presented net.

	Yes	No	N/A
ii. Purchases, sales, issuances, and settlements (net)?	_____	_____	_____
iii. Transfers in or out of level 3 (for example, transfers due to changes in the observability of significant inputs)?	_____	_____	_____
d. The amount of the total gains or losses for the period in subparagraph c(i) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities)?	_____	_____	_____
e. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, during the period?** [SFAS 157 par. 32]	_____	_____	_____
2. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:			
a. The fair value measurements recorded during the period and the reasons for the measurements?	_____	_____	_____
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2), and significant unobservable inputs (level 3)?	_____	_____	_____
c. For fair value measurements using significant unobservable inputs (level 3), a description of the inputs and the information used to develop the inputs?	_____	_____	_____
d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets and/or liabilities in prior periods?** [SFAS 157 par. 33]	_____	_____	_____
3. Are the quantitative disclosures required by SFAS No. 57 presented using a tabular format (see appendix A of SFAS No. 157 for implementation guidance and examples)? [SFAS 157 par. 34]	_____	_____	_____

** For plans that have adopted FSP FAS 157-4, this disclosure requirement has been amended as follows: "The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period."

** For plans that have adopted FSP FAS 157-4, this disclosure requirement has been amended as follows: "The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period."

	Yes	No	N/A
4. Is the fair value information disclosed under SFAS No. 157 and the fair value information disclosed under other accounting pronouncements (for example, SFAS No. 107 combined in the periods in which those disclosures are required, if practicable? ***(Encouraged, but not required.)*** [SFAS 157 par. 35]	____	____	____
5. Is information about other similar measurements (for example, inventories measured at market value under ARB 43, *Restatement and Revision of Accounting Research Bulletins*, chapter 4) disclosed, if practicable? ***(Encouraged, but not required.)*** [SFAS 157 par. 35]	____	____	____

Transition Guidance

	Yes	No	N/A
6. At the date this statement is initially applied to the financial instruments in paragraph 37a–c, is the difference between the carrying amounts and the fair values of those instruments recognized as a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately? [SFAS 157 par. 38]	____	____	____

Note: The disclosure requirements of SFAS No. 154 for a change in accounting principle do not apply.

	Yes	No	N/A
7. Are the disclosure requirements of this statement (paragraphs 32–35), including those disclosures that are required in annual periods only, applied in the first interim period of the fiscal year in which this statement is initially applied? [SFAS 157 par. 39]	____	____	____

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

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

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

(continued)

	Yes	No	N/A

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

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

O. 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 4.26; SOP 92-6, as amended, par. 19 and 22 (ACC 10,530.19 and .22)]
2. Do disclosures include the funding policy of the plan and any changes in such policy during the plan year? ____ ____ ____
   [AAG 4.95*c*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]
   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 4.95*c*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]
   b. For a contributory plan, does the disclosure on funding policy state the method of determining participants' contributions? ____ ____ ____
   [AAG 4.95*c*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]
   c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed? ____ ____ ____
   [AAG 4.95*d*; SOP 92-6, as amended, par. 64 fn 27 (ACC 10,530.64 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 4.95*c*]

Yes *No* *N/A*

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 4.95*c* fn 26; SOP 92-6, as amended, par. 64 fn 28 (ACC 10,530. 64 fn 28)]

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 4.95*c*; SOP 01-2 par. 25 (ACC 10,830.25; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

4. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? ____ ____ ____
[AAG 4.95*f*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

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 (for example, coverage period and claims reported or claims incurred)? ____ ____ ____
[AAG 4.95*f*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

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 4.95*h*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

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 4.95*i*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

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 4.95*l*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]

	Yes	No	N/A
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 4.95*m*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	_____	_____	_____
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 4.95*n*; SOP 92-6, as amended, par. 64 (ACC 10,530.64)]	_____	_____	_____

IX. ERISA Reporting Requirements

A. Form 5500 Series Report

	Yes	No	N/A
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, 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 13.20–.21 and A.23]	_____	_____	_____

Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category (*large plan* or *small plan*) as was filed for the previous year. The Form 5500 is filed with the EBSA in Lawrence, Kansas, in accordance with the instructions to the form. See FSP section 10,000.46–.49 for a discussion about the Form 5500.

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

	Yes	No	N/A
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?	_____	_____	_____
f. a general description of priorities in the event of plan termination?	_____	_____	_____
g. whether a tax ruling or determination letter has been obtained?	_____	_____	_____

	Yes	No	N/A
h. an explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG A.50*a* and A.51*c*]	_____	_____	_____

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 (ACC 10,780.16); AAG 4.87; SOP 92-6 par. 57 (ACC 10,530.57)]

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? _____ _____ _____

   b. Separate or combined statements of plan income and expenses and of changes in net assets? _____ _____ _____
   [AAG A.51*a*]

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 exhibit A-1]

(*a*)	(*b*) Identity of issue, borrower, lessor or similar party	(*c*) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(*d*) Cost	(*e*) Current value

Yes No N/A

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 exhibit A-1] _____ _____ _____

(*a*) Identity of issue, borrower, lessor or similar party	(*b*) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(*c*) Cost of acquisitions	(*d*) Proceeds of dispositions

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 exhibit A-1] _____ _____ _____

(*a*) Identity of party involved	(*b*) Description of asset (include interest rate and maturity in case of a loan)	(*c*) Purchase price	(*d*) Selling price	(*e*) Lease rental	(*f*) Expense incurred with transaction	(*g*) Cost of asset	(*h*) Current value of asset on transaction date	(*i*) Net gain or (loss)

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 five 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 not required to be reported on line 4d or Schedule G. The Employee Benefits Security Administration (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. As noted in the preceding questions, in calculating this subtotal, plan administrators

(continued)

	Yes	*No*	*N/A*

and independent qualified public accountants (IQPAs) should understand that all delinquent participant contributions required to be reported on line 4a are nonexempt prohibited transactions unless the delinquency has been corrected under the Voluntary Fiduciary Correction Program and the conditions of PTE 2002-51 have been satisfied. Further, the IQPA's report must include a statement on whether line 4a and the scheduled information are presented fairly in all material respects in relation to the basic financial statements taken as a whole. 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.

	Yes	*No*	*N/A*
e. Are the following schedules reported on Schedule G of the Form 5500:			
i. Schedule G Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible?	____	____	____
ii. Schedule G Part II—Schedule of Leases in Default or Classified as Uncollectible?	____	____	____
iii. Schedule G Part III—Nonexempt Transactions? [AAG exhibit A-1]	____	____	____

Practice Tip

Plans filing their annual reports under the statutory method are required to report transactions that exceed three 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 five percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year.
[AAG A.51 fn 19]

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, 2009)
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 PCAOB establishes standards for audits of *issuers*, as that term is defined by the Sarbanes-Oxley Act of 2002 or whose audit is prescribed by the rules of the Securities and Exchange Commission (SEC). Other entities are referred to as *nonissuers*.

Practice Tip

Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85–.88), provides language that may be added to the auditor's standard report on the financial statements of a nonissuer to clarify differences between a generally accepted auditing standards (GAAS) audit and an audit conducted in accordance with the standards of Interpretation No. 18, "References to PCAOB Standards in an Audit Report on a Nonissuer," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. 89–.92), explains how the auditor may report if engaged to also follow PCAOB Auditing Standards in the audit of a nonissuer.

.04 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [AU 508.06]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____

	Yes	No	N/A
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	____	____	____
4. Is the report appropriately addressed? [AU 508.09]	____	____	____
5. Does the independent auditor's report include the following elements:			
a. A title that includes the word "independent?" [AU 508.08*a*]	____	____	____
b. A statement that the financial statements identified in the report were audited? [AU 508.08*b*]	____	____	____
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? [AU 508.08*c*]	____	____	____
d. **(Audits of Nonissuers and for Filings With the DOL Only)** A statement that the audit was conducted in accordance with GAAS 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. GAAS)? [AU 508.08*d*]	____	____	____
e. **(Audits of Issuers Only—Including 11-K Filings)** A statement that the audit was conducted in accordance with the standards of the PCAOB (United States)? [PCAOB Auditing Standard No. 1 par. 3]	____	____	____
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? [AU 508.08*e*]	____	____	____
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? [AU 508.08*f*]	____	____	____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [AU 508.08*g*]	____	____	____

Yes *No* *N/A*

i. When the auditor reports on financial statements presented in conformity with accounting principles generally accepted in the United States of America, an opinion about 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 generally accepted accounting principles? (The opinion should include an identification of the United States of America as the country of origin of those accounting principles.) ____ ____ ____
[AU 508.08*h*]

Notes: In May 2008, the Auditing Standards Board (ASB) issued Interpretation No. 19, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .93–.97), which provides that, when the auditor of a nonissuer reports on financial statements prepared in conformity with International Financial Reporting Standards (IFRS), the auditor would refer, in the auditor's report, to IFRS rather than U.S. GAAP.

When an auditor of a nonissuer reports on financial statements presented in conformity with both IFRS as issued by the International Accounting Standards Board (IASB) and a jurisdictional variation of IFRS, the auditor would refer, in the auditor's report, to both IFRS and IFRS as endorsed by [*insert name of endorsing country or economic union*].

When an auditor of a nonissuer reports on financial statements presented in conformity with a jurisdictional variation of IFRS such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRS as issued by the IASB, paragraphs .14–.15 of AU section 534, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1), and paragraphs .35–.60 of AU section 508 (AICPA, *Professional Standards*, vol. 1) apply to financial statements prepared for more than limited distribution in the United States.

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j. When the auditor reports on financial statements presented in conformity with IFRS, an opinion about whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with IFRS as issued by the IASB? ____ ____ ____
[AU 9508.93–.97]

k. When the auditor reports on financial statements presented both in conformity with IFRS and a jurisdictional variant of IFRS, an opinion about whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with IFRS as issued by the IASB and with IFRS as endorsed by [*insert name of endorsing country or economic union*]? ____ ____ ____
[AU 9508.93–.97]

	Yes	No	N/A
l. When the auditor reports on financial statements presented in conformity with a jurisdictional variation of IFRS such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with IFRS as issued by the IASB, a variation of the standard report that reflects the guidance in paragraphs .14–.15 of AU section 534 and paragraphs .35–.60 of AU section 508 (AICPA, *Professional Standards*, vol. 1) for financial statements prepared for more than limited distribution in the United States? [AU 9508.93–.97]	_____	_____	_____
m. The manual or printed signature of the auditor's firm? [AU 508.08*i*]	_____	_____	_____
n. The date (or dual dates)[1] of the audit report? [AU 508.08*j*]	_____	_____	_____

Practice Tips

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

AU section 530, *Dating of the Independent Auditor's Report* (AICPA, *Professional Standards*, vol. 1), says the auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Such sufficient appropriate audit evidence includes management having asserted responsibility for the final financial statements. In May 2007, the AICPA issued a technical practice aid providing nonauthoritative guidance regarding the effect of obtaining the management representation letter on dating the auditor's report. See Technical Questions and Answers (TIS) section 9100.06, "The Effect of Obtaining the Management Representation Letter on Dating the Auditor's Report" (AICPA, *Technical Practice Aids*), for this and other helpful guidance regarding the auditor's report.

Notes: In May 2008, the ASB issued Interpretation No. 14 (revised 2008), "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and in Accordance With International Standards on Auditing," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .56–.59), which provides that, when the audit of a nonissuer is conducted both in accordance with standards generally accepted in the United States of America and in accordance with the International Standards on Auditing (ISA), the auditor may so indicate in the auditor's report.

To determine whether an audit was conducted in accordance with the ISA, it is necessary to consider the text of the ISA in their entirety, including the basic principles and essential procedures together with the related guidance included in the ISA.

[1] If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered (paragraph .05 of AU section 530, *Dating of the Independent Auditor's Report* [AICPA, *Professional Standards*, vol. 1)].

	Yes	No	N/A
6. If the audit of financial statements to be used in the United States was conducted in accordance with auditing standards generally accepted in the United States of America and ISA as issued by the International Auditing and Assurance Standards Board, in their entirety, has the auditor considered indicating in the auditor's report that the audit was also conducted in accordance with ISA as allowed? (***Note:*** Not required—Interpretation No. 14 of AU section 508 [AICPA, *Professional Standards*, vol. 1] provides an example report.) [AU 9508.57–.59]	_____	_____	_____
7. If a subsequent event disclosed in the financial statements occurs after the date of the independent auditor's report but before the issuance of the related financial statements, has the need for dual-dating of the report been considered? [AU 530.03–.05]	_____	_____	_____
8. If the accountant is not independent, has he or she followed one of the two reporting alternatives available:			
a. Disclaiming the opinion with respect to the financial statements and specifically stating that he or she is not independent?	_____	_____	_____
b. Issuing a compilation report in accordance with Statements on Standards for Accounting and Review Services (SSARS) indicating the lack of independence (nonpublic companies only)? [AU 504.05 and .09–.10; AR 100.21 and .48]	_____	_____	_____
9. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [AU 508.33–.34]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [AU 504.14–.17]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to the Employee Retirement Income Security Act of 1974 and DOL regulations? [AAG 13.08–.18]	_____	_____	_____

Practice Tip

The guide includes additional auditor reports with respect to "change in trustee," "financial statements of a trust established under a plan," and "inadequate procedures to value investments."
[AAG 13.31, .33, and .38]

Explanatory Paragraphs

	Yes	No	N/A
10. If the opinion is based in part on the report of another auditor			
a. does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. does the opinion paragraph include a reference to the report of the other auditor? [AU 508.11*a* and .12–.13]	_____	_____	_____

	Yes	*No*	*N/A*
11. 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? [AU 508.11*b* and .15]	____	____	____
12. If substantial doubt exists about the plan's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited			
a. does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	____	____	____
b. is that conclusion expressed through the use of the phrase "substantial doubt about its (the plan's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [AU 508.11*c*; 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 5.126]

In evaluating whether substantial doubt exists about the plan's ability to continue as a going concern, the auditor's evaluation is based on his or her knowledge of relevant conditions that exist at or have occurred prior to the date of the auditor's report. If, after considering identified conditions and events and management's plans, the auditor concludes that substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time remains, the audit report should include an explanatory paragraph to reflect that conclusion.

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 AU section 311, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1), for an example.
[AU 341.13]

	Yes	*No*	*N/A*
13. **For audits of issuers such as 11-K audits**, prior to the report release date, among other matters, has the auditor obtained sufficient evidence to support the representations in the auditor's reports? [PCAOB Auditing Standard No. 3 par. 15]	____	____	____
14. **For auditors of nonissuers and audits of issuers, such as 11-K audits**, is the report dated no earlier than the date on which the auditor has obtained sufficient competent audit evidence to support the auditor's opinion on the financial statements? [AU 339 (amendment to AU 530.01 and 530.05); PCAOB Auditing Standard No. 5 par. 89]	____	____	____

Yes No N/A

Practice Tips

Changes in Accounting Estimates

Paragraph .15 of AU section 420, *Consistency of Application of Generally Accepted Accounting Principles* (AICPA, *Professional Standards*, vol. 1), clarifies that the change in an accounting estimate that does not include a change in accounting principle does not require an explanatory paragraph in the auditor's report. However, an accounting change of this type having a material effect on the financial statements may require disclosure in a note to the financial statements.

Changes in Classification

Paragraph .17 of AU section 420 clarifies that changes in classification from the prior year's financial statements are usually not of sufficient importance to necessitate disclosure; however, material changes in classification should be indicated and explained in the financial statements or notes.

Error Corrections

Paragraph .16 of AU 420 states that the correction of an error in previously issued financial statements resulting from mathematical mistakes, oversight, or misuse of facts that existed at the time the financial statements were originally prepared does not involve the consistency standard if no element of accounting principles or their application is included. Accordingly, the independent auditor need not recognize the correction in his report. However, if the independent auditor had previously reported on the financial statements containing the error, the auditor has concluded, based on the considerations in paragraph .05 of AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *Professional Standards*, vol. 1), that action should be taken to prevent future reliance on his report, and the issuance of financial statements accompanied by the auditor's report for a subsequent period is imminent, the auditor should disclose the revision in such statements instead of reissuing the earlier statements.

Notes for Audits of Public Companies Only [11-K Filings With the SEC Only]. Certain circumstances that may not affect the auditor's unqualified opinion may require that the auditor add explanatory language to the standard report as described in paragraphs .11–.19 of AU section 508, *Reports on Audited Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended). Other circumstances may require a departure from an unqualified opinion, either in the form of a qualified opinion, an adverse opinion, or a disclaimed opinion as described in paragraphs .20–.63 of AU section 508 (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended).

******

In January, 2008, the PCAOB adopted Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards"), and an accompanying set of amendments to the PCAOB's interim auditing standards. Among other significant provisions, the new standard and related amendments update the auditor's responsibilities to evaluate and report on the consistency of a company's financial statements and align the auditor's responsibilities with Financial Accounting Standards Board (FASB) Statement No. 154, *Accounting Changes and Error Corrections*.

One significant difference in terminology between FASB Statement No. 154 and Auditing Standard No. 6 is the statement's use of the term *error* and the PCAOB standards's use of the term *misstatement*. Auditing Standard No. 6 specifically states that the meaning is the same for purposes of the PCAOB Auditing Standards. Auditing Standard No. 6 also establishes that the auditor's report should indicate whether an adjustment to previously issued financial statements results from a change in accounting principle or the correction of a misstatement.

Auditing Standard No. 6 contains numerous amendments to AU section 508 (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended) and other interim PCAOB Auditing Standards. The SEC approved Auditing Standard No. 6 in its Release No. 34-58555 dated September 16, 2008. The new standard and related amendments are effective November 15, 2008. If Auditing Standard No. 6 is applicable to issuers' financial statements, answer questions 16–17; otherwise, skip questions 16–17. For more information

(continued)

	Yes	No	N/A

and for the full text of the Auditing Standard, refer to the PCAOB Web site at www.pcaob.org. Also refer to the SEC Web site at www.sec.gov.

15. **(Audits of Nonissuers and for Filings With the DOL Only)** If there has been a material change between periods in accounting principles or in the method of their application, including a change from an accounting principle that is not generally accepted to one that is generally accepted and a change in accounting principle that is inseparable from the effect of a change in estimate, that has a material effect on the comparability of the reporting entity's financial statements

    a. does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change? ____ ____ ____

    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? ____ ____ ____
    [AU 508.05–.06 and .12–.13]

    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? ____ ____ ____
    [AU 420.08]

Note: A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.

Practice Tip

Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report.
[AU 9420.64–.65; AAG 13.25]

16. **(Audits of Issuers Only [11-K Filings with the SEC Only])** If there has been a change in accounting principle that has a material effect on the financial statements, including a change in the method of applying an accounting principle, a change in estimate affected by a change in accounting principle, and a change in classification that represents a change in accounting principle, and meets the four criteria established in paragraph 7 of PCAOB Auditing Standard No. 6

    a. does the report include an explanatory paragraph, following the opinion paragraph, in the year of the change and in subsequent years until the new accounting principle is applied in all periods presented? ____ ____ ____

    b. does the explanatory paragraph identify the nature of the change and include a reference to the note disclosure describing the change? ____ ____ ____

    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? ____ ____ ____
    [PCAOB Auditing Standard No. 6 par. 4–8 and 11]

	Yes	No	N/A
17. **(Audits of Issuers Only [11-K Filings with the SEC Only])** If there has been a correction of a material misstatement in previously issued financial statements, including a change from an accounting principle that is not generally accepted to one that is generally accepted and a change in classification that represents the correction of a material misstatement, does the auditor's report contain an explanatory paragraph, following the opinion paragraph, that includes			
a. a statement that the previously issued financial statements have been restated for the correction of a misstatement in the respective period?	___	___	___
b. a reference to the company's disclosure of the correction of the misstatement?	___	___	___
[PCAOB Auditing Standard No. 6 par. 5 and 9–11]			
18. In an updated report, on the individual financial statement of one or more prior periods presented on a comparative basis with those of the current period, if 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?	___	___	___
b. does the explanatory paragraph disclose			
i. the date of the auditor's previous report?	___	___	___
ii. the type of opinion previously expressed?	___	___	___
iii. the circumstances or events that caused the auditor to express a different opinion?	___	___	___
iv. 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?	___	___	___
[AU 508.11*e* and .68–.69]			
19. 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			
i. that the financial statements of the prior period were audited by another auditor?	___	___	___
ii. the date of the predecessor auditor's report?	___	___	___
iii. the type of report issued by the predecessor auditor?	___	___	___
iv. if the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	___	___	___
b. if the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement?	___	___	___
[AU 508.11*e* and .72–.74]			
20. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if			

	Yes	No	N/A
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 No. 17 of AU section 508 [AICPA, *Professional Standards*, vol. 1] provides an example report.) [AU 9508.85–.88]	_____	_____	_____
b. the audit is conducted in accordance with both GAAS and the PCAOB's Auditing Standards? (***Note:*** Not required—Interpretation No. 18 of AU section 508 [AICPA, *Professional Standards*, vol. 1] provides an example report.) [AU 9508.89–.92]	_____	_____	_____
21. 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? [AU 9508.60–.75]	_____	_____	_____
22. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an explanatory paragraph stating that fact? [AU 508.11*f*]	_____	_____	_____
23. 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? [AU 508.11*g*; AU 558.08]	_____	_____	_____
24. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if a material change exists between periods in accounting principles or in the method of their application? [AU 508.16–.18]	_____	_____	_____
25. 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? [AU 9508.56–.59]	_____	_____	_____
26. 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? [AU 508.11*h*; AU 550.04]	_____	_____	_____

	Yes	No	N/A
27. 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? [AU 550.07; AU 558.09]	_____	_____	_____
28. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the matter being emphasized disclosed in the financial statements and is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation?" [AU 508.11 and .19; AU 9410.18; AU 9342.03]	_____	_____	_____
29. 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 13.41]	_____	_____	_____
b. if the financial statements are presented along with the financial statements for a period prior to the adoption of the liquidation basis, does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis? [AAG 13.41; AU 9508.35]	_____	_____	_____

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

	Yes	No	N/A
30. 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? [AU 508.22]	_____	_____	_____
31. If a qualified opinion is to be expressed because of a scope limitation			
a. are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*?	_____	_____	_____
c. is the situation described and referred to in both the scope and opinion paragraphs?	_____	_____	_____

	Yes	No	N/A
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? [AU 508.22–.32; AU 318.76]	____	____	____

Practice Tips

Scope limitations can be imposed by the client or by circumstances such as the timing of the auditor's work, the inability to obtain sufficient appropriate audit evidence, or an inadequacy in the accounting records. Sufficient appropriate audit evidence includes, among other things, management having asserted responsibility for the financial statements. As provided in TIS section 9100.06, the auditor will need to have the signed management representation letter in hand prior to releasing the auditor's report because management's refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion.

In circumstances in which the auditor is unable to obtain sufficient appropriate audit evidence to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements, the auditor should consider the need to express a qualified opinion or to disclaim an opinion because of a scope limitation.

It also includes situations in which the auditor's only evidence of the existence or valuation, or both, of (*a*) investments without readily determinable fair value, or (*b*) interests held in trust by a third-party trustee, is receiving confirmation from a third party for those assets.

In circumstances in which the auditor is unable to audit the existence or measurement of interests in investments in securities and interests in trusts, the auditor should consider whether that scope limitation requires the auditor to either qualify his or her opinion or to disclaim an opinion, as discussed in paragraphs .22–.26 of AU section 508 (AICPA, *Professional Standards*, vol. 1).
[AU 9328.01–.04; AU 9332.01–.04]

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

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan's information system, and the service organization's controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation.
[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.

	Yes	No	N/A
32. Is a qualified opinion or disclaimer of opinion expressed if the auditor's understanding of internal control raises doubts about the auditability of an entity's financial statements, such as			
a. concerns about the integrity of an entity's management cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted?	____	____	____

	Yes	No	N/A
b. concerns about the condition and reliability of an entity's records cause the auditor to conclude that it is unlikely that sufficient appropriate audit evidence will be available to support an unqualified opinion on the financial statements? [AU 314.109]	_____	_____	_____
33. If, in the auditor's judgment, the 2-way communication between the auditor and those charged with governance as described in AU section 380, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1), is not adequate and the situation cannot be resolved, thereby prohibiting the auditor from obtaining all the audit evidence required to form an opinion on the financial statements, has the auditor considered the following:			
a. Modifying the audit opinion on the basis of the scope limitation?	_____	_____	_____
b. Obtaining legal advice about the consequences of different courses of action?	_____	_____	_____
c. Communicating with an appropriate third party (for example, a regulator)?	_____	_____	_____
d. Withdrawing from the engagement? [AU 380.63]	_____	_____	_____
34. If, in the auditor's judgment, significant difficulties in dealing with management such as those described in AU section 380 have been encountered, has the auditor considered modifying the audit opinion on the basis of the scope limitation? [AU 380.39]	_____	_____	_____
35. If an opinion is disclaimed because of a scope limitation			
a. are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	_____	_____	_____
b. does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. does the report avoid identifying procedures that were performed?	_____	_____	_____
d. is the scope paragraph omitted?	_____	_____	_____
e. if there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [AU 508.63]	_____	_____	_____
36. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has the auditor issued a qualified opinion or an adverse opinion?[2] [AU 508.35]	_____	_____	_____
37. If a qualified opinion is to be expressed because of a GAAP departure			

[2] The auditor should express a qualified or an adverse opinion if the auditor concludes that (*a*) a matter involving a risk or an uncertainty is not adequately disclosed, (*b*) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (*c*) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated (AU section 508, *Reports on Audited Financial Statements*, paragraphs .46–.49).

	Yes	No	N/A
a. are all of the substantive reasons that have led to the conclusion that a departure from GAAP is disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of* and a reference to the explanatory paragraph?	_____	_____	_____
c. does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [AU 508.37–.38]	_____	_____	_____
38. If an adverse opinion is to be expressed because of a GAAP departure			
a. are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. state that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP? [AU 508.58–.59]	_____	_____	_____
39. If a limited scope audit is performed pursuant to DOL regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG 13.26–.30]	_____	_____	_____

Practice Tip

Consult the AU 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.

	Yes	No	N/A
40. 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)? [AU 551.06]	_____	_____	_____

	Yes	No	N/A
e. states that the supplemental schedules are the responsibility of the plan's management? (***Recommended but not a required disclosure.***) [AAG 13.10]	____	____	____

Practice Tip

Question 40 does not apply to limited-scope audits pursuant to DOL regulations 29 CFR section 2520.103-8. In these situations, see question 39 and AAG paragraph 13.26.

Note: In May 2006, the AICPA's ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325A). The statement supersedes SAS No. 60 of the same name and was effective for audits of financial statements for periods ending on or after December 15, 2006. Then, in October 2008, the AICPA's ASB issued SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325. SAS No. 115 supersedes SAS No. 112 and was issued to eliminate differences within the AICPA's Audit and Attest Standards. SAS No. 115 is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

	Yes	No	N/A
41. Is the reporting form, content, and timing of AU section 325A paragraphs .20–.30 followed when communicating matters related to an organization's internal control over financial reporting identified in an audit of financial statements?[3] [AU 325A.22–.29]	____	____	____
42. Auditor's report requirements under DOL regulations are as follows:			
a. Is the auditor's report dated and manually signed? [AAG A.50*a* fn 16]	____	____	____
b. Does it indicate the city and state where issued? [AAG A.50*a* fn 16]	____	____	____
c. Does it identify the statements and schedules covered? [AAG A.50*a* fn 16]	____	____	____
d. Does it disclose any omitted auditing procedures deemed necessary by the accountant and the reasons for their omission?	____	____	____
e. Does it 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. Does it state clearly the consistency of the application of the accounting principles between the current year and the preceding year or any changes in such principles that have a material effect on the financial statements? [AAG A.50*a*; DOL regulations, sec. 29 CFR 2520]	____	____	____

[3] Auditors are required to communicate control deficiencies identified during an audit that are significant deficiencies or material weaknesses as defined by AU section 325A, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1), including significant deficiencies or material weaknesses that were communicated in previous audits and have not yet been remediated. Those control deficiencies must be communicated in writing to management and those charged with governance.

	Yes	No	N/A
g. Does it 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)]	_____	_____	_____
i. Are the exceptions, if any, further identified as (*a*) those that are the result of DOL regulations and (*b*) all others? [AAG A.50*a*; DOL regulations, sec. 29 CFR 2520]	_____	_____	_____

Practice Tip

Present DOL regulations permit, but do not require, financial statements included in the annual report on Form 5500 to be prepared on a basis of accounting other than GAAP. A common example of the use of a basis other than GAAP is financial statements prepared on the modified cash basis of accounting for filing with DOL. Reporting on financial statements prepared in conformity with an other comprehensive basis of accounting (OCBOA) is addressed in AU section 623, *Special Reports* (AICPA, *Professional Standards*, vol.1). See questions 36–45 in section 6200 of *Checklists and Illustrative Financial Statements for Corporations* for the reporting requirements on OCBOA financial statements.
[AAG 13.21]

Practice Tip

AU section 532, *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) that apply to 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 Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.*

.03 This section also illustrates certain applications of the provisions of Statement of Position (SOP) 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans* (AICPA, *Technical Pracatice Aids*, ACC sec. 10,780), that apply to the annual financial statements of a hypothetical 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. It illustrates the single line approach to presenting information about the 401(h) account permitted by paragraph .11 of the SOP. It does not illustrate other provisions of the SOP that might apply in circumstances other than those assumed in the illustration. It also does not illustrate all disclosures required for a fair presentation in conformity with generally accepted accounting principles (GAAP).

.04 The formats presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. In addition, the illustrative financial statements in this appendix have been amended to conform to FASB Statement No. 157, *Fair Value Measurements*.* Note that FASB State-

* For specific information on Financial Accounting Standards Board *Accounting Standards Codification*™ and its effect on these illustrative financial statements, please see the notice to readers in the Audit and Accounting Guide *Employee Benefit Plans* and section 10,000 of this checklist.

* For specific information on Financial Accounting Standards Board *Accounting Standards Codification*™ and its effect on these illustrative financial statements, please see the notice to readers in the Audit and Accounting Guide *Employee Benefit Plans* and section 10,000 of this checklist.

ment No. 157 disclosures are limited to the financial instruments contained within this specific example. It is recommended that users consult all the illustrative financial statements within appendixes D–F of the guide for examples of differing types of financial instruments.

.05 Although GAAP does not require comparative financial statements, the Employee Retirement Income Security Act of 1974 (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.

.06 ERISA and Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor. See appendix A of the guide for further discussion of the ERISA and DOL requirements.

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.

.07

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 statements 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.*][1] 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.

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[1] This optional language may be added to the auditor's standard report to clarify that an audit performed in accordance with generally accepted auditing standardsGAAS 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 of 2002 is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

> "An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion."

See Interpretation 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85–.88) issued in June 2004.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[2]

[*Signature of Firm*]

[*City and State*]

[*Date*][3]

[AAG 13.07 and .10–.11]

The following is an example of the auditor's report for a health and welfare benefit plan where the plan administrator has limited the scope of the audit under DOL Regulations.

.08

**Illustration of Auditor's Report on Financial Statements—
Limited-Scope Audits Under DOL Regulations**

Independent Auditor's Report

[*Addressee*]

We were engaged to audit the accompanying statements of net assets available for benefits of Allied Industries Health Care Benefit Plan as of December 31, 20X1 and 20X0, the related statement of changes in net assets available for benefits for the year ended December 31, 20X1, and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets Held (At End of Year), and (2) Schedule H, line 4j—Schedule of Reportable Transactions, as of or for the year ended December 31, 20X1. These financial statements and supplemental schedules are the responsibility of the Plan's management.

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

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

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[2] This paragraph on the supplemental schedules required by Employee Retirement Income Security Act of 1974 (ERISA) and Department of Labor regulations may also be shown separately in the auditor-submitted document.

[3] The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, *Professional Standards*, vol. 1, AU sec. 530 par. .01).

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.26]

The following are illustrative financial statements of a health and welfare benefit plan that has assets in an underlying trust and pays all benefits directly from plan assets. The illustration assumes that retirees contribute a portion of the cost for their medical coverage and that the plan provides health benefits and life insurance coverage to both active and retired participants. The illustration also assumes that the plan provides long-term disability benefits and limited coverage during periods of unemployment based on accumulated eligibility credits.

.09

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statements of Net Assets Available for Benefits[4]

December 31, 20X1 and 20X0

	20X1	20X0
Assets		
Investments, at fair value (see notes 4 and 5)		
U.S. government securities	$5,000,000	$4,000,000
Corporate bonds	2,000,000	1,600,000
Common stocks	1,000,000	600,000
Total investments	8,000,000	6,200,000
Receivables		
Participating employers' 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	140,000	115,000
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

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

[4] These financial statements are to be used for guidance purposes only and do not contain all disclosures required by generally accepted accounting principles.

.10

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 20X1

	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.

.11

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statements of Plan's Benefit Obligations

December 31, 20X1 and 20X0

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

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

.12

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statement of Changes in Plan's Benefit Obligations

Year Ended December 31, 20X1

	20X1
Amounts currently payable	
Balance at beginning of year	$ 1,050,000
Claims reported and approved for payment, including benefits reclassified from benefit obligations	16,920,000
Claims paid	(16,770,000)
Balance at end of year	1,200,000
Postemployment benefit obligations, net of amounts currently payable	
Balance at beginning of year	1,000,000
Increase (decrease) in postemployment benefits attributable to:	
Benefits earned	600,000
Benefits reclassified to amounts currently payable	(450,000)
Interest	90,000
Changes in actuarial assumptions and other actuarial gains and losses	110,000
Balance at end of year	1,350,000
Postretirement benefit obligations, net of amounts currently payable	
Balance at beginning of year	9,665,000
Increase (decrease) in postretirement benefits attributable to:	
Benefits earned	1,150,000
Benefits reclassified to amounts currently payable	(650,000)
Interest	750,000
Plan amendment	(175,000)
Changes in actuarial assumptions and other actuarial gains and losses	260,000
Balance at end of year	11,000,000
Plan's total benefit obligations at end of year	$13,550,000

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

.13

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 ERISA, as amended.

Benefits. The plan provides health benefits (medical, hospital, surgical, major medical, and dental), life insurance coverage, long-term disability benefits, and death benefits to full-time participants (with at least 450 hours of work in the industry during a consecutive three-month period) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health benefits (in excess of Medicare coverage) provided they have attained at least age 62 and have 15 years of service with participating employers before retirement.

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

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

In 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:

Participants Retiring	*20X1 Retiree Contribution*	*20X0 Retiree Contribution*
(1) Pre-1990	(1) None	(1) None
(2) 1990–1994	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits[†]	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits
(3) 1995–1999	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 60% of the estimated cost)	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 50% of the estimated cost)
(4) 2000 and after	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits

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

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

NOTE 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. *Investment Valuation and Income Recognition.* Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 5 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the plan's gains and losses on investments bought and sold as well as held during the year.

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.

Weighted-average discount rate	8.0%—20X1; 8.25%—20X0
Average retirement age	60
Mortality	RP 2000 Mortality Table

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

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

NOTE 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 1 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:‡

	20X1		*20X0*
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*	*Fair value at End of Year*
U.S. government securities	$200,000	$5,000,000	$4,000,000
Corporate bonds	—	2,000	1,600,000
Common stocks	100,000	1,000,000	600,000
	$300,000	$8,000,000	$6,200,000

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

	20X1	*20X0*
Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)	$475,000	$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 20X6 ($360,000 face amount)		350,000

NOTE 5: FAIR VALUE MEASUREMENTS

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Inputs to the valuation methodology include

(continued)

‡ See note 5 for discussion of fair value measurements.

	• quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20X1 and 20X0.

USERS' NOTE: Note that information contained herein for fair value disclosures is based upon information for the Illustration of Financial Statements: Health & Welfare (appendix F) as presented in exhibits F-1–F-5. This illustrative disclosure is not representative of all types of investment securities and does not represent the classification for every instance of such investment securities. It should not be assumed that these methodologies are the only appropriate methodologies for these types of assets. As stated in FASB ASC 820-35-5, "The principle (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities." Plan sponsors will have to evaluate the appropriate classification for each type of investments securities based upon the plan's portfolio and actual fair valuation techniques used.

U.S. Government securities and common stock: Valued at the closing price reported in the active market in which the individual security is traded.

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds traded in the over-the-counter market and listed securities for which no sale was reported on the last business day of the plan year 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 have established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 20X1 and 20X0:

PRACTICE TIP: The following illustrations assume that FASB ASC 820 was in effect for both periods presented, December 31, 20X1 and 20X0. In the first year of adoption, the following tables are not required to be comparative. Disclosures in accordance with FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, would be considered sufficient for the prior year.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$5,000,000			$5,000,000
Corporate bonds	1,750,000	250,000		2,000,000
Common stocks	1,000,000			1,000,000
Total assets at fair value	$7,750,000	$ 250,000	$—	$8,000,000

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$4,000,000			$4,000,000
Corporate bonds	1,375,000	225,000		1,600,000
Common stocks	600,000			600,000
Total assets at fair value	$5,975,000	$ 225,000	$—	$6,200,000

NOTE 6: 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 (IRC), and, accordingly, the Trust's net investment income is exempt from income taxes. The Trust has obtained a favorable tax determination letter from the IRS, and the plan sponsor believes that the Trust, as amended, continues to qualify and to operate in accordance with applicable provisions of the IRC.

NOTE 7: 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:

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

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

	Year ended December 31, 20X1
Benefits paid to participants per the financial statements	$16,770,000
Add: Amounts currently payable at December 31, 20X1	1,200,000
Less: Amounts currently payable at December 31, 20X0	(1,050,000)
Benefits paid to participant per the Form 5500	$16,920,000

Amounts currently payable to or for participants, dependents and beneficiaries are recorded on the Form 5500 for benefit 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.

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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. The plan in the following illustration has assets in an underlying trust. The illustration assumes that the plan obtains insurance for current benefits from its assets and that the plan provides health benefits and life insurance coverage to both active and retired participants.

CLASSIC ENTERPRISES BENEFIT PLAN

Statements of Benefit Obligations and Net Assets Available for Benefits

December 31, 20X1 and 20X0

	20X1	*20X0*
Benefit Obligations (see note 3)		
Amounts due insurance companies	$ 1,200,000	$ 1,000,000
Postretirement benefit obligations	11,000,000	9,665,000
Total benefit obligations	12,200,000	10,665,000
Net Assets		
Assets		
Investments at fair value (see note 4 and 5)		
U.S. government securities	5,000,000	4,000,000
Corporate bonds	2,000,000	1,600,000
Common stocks	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.

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CLASSIC ENTERPRISES BENEFIT PLAN

Statement of Changes in Benefit Obligations and Net Assets Available for Benefits

Year Ended December 31, 20X1

	20X1
Net Increase in Benefit Obligations	
Increase (Decrease) during the year attributable to:	
Benefits earned and other changes	$1,510,000
Additional amounts payable to insurance company	200,000
Plan amendment	(175,000)
	1,535,000
Net Increase in Net Assets Available for Benefits	
Additions	
Contributions	
Sponsor	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
	850,000
Less investment expenses	15,000
Net investment income	835,000
Total additions	18,835,000
Deductions	
Insurance premiums paid for health benefits, net of experience-rating adjustments of $250,000 for 20X0 received on 20X1	16,035,000
Insurance premiums paid for death benefits	780,000
	16,815,000
Administrative expenses	105,000
Total deductions	16,920,000
Net increase	1,915,000
Decrease in excess of benefit obligations over net assets available for benefits	(380,000)
Excess of Benefit Obligations Over Net Assets Available for Benefits	
Beginning of year	4,065,000
End of year	$ 3,685,000

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

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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 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 IRC. 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, benefit obligations and changes therein, IBNR, eligibility credits, claims payable, liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

B. *Investment Valuation and Income Recognition.* The plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 5 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the plan's gains and losses on investments bought and sold as well as held during the year.

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 (1) currently retired employees and their beneficiaries and dependents and (2) 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.

Weighted-average discount rate	8.0%
Average retirement age	60
Mortality	1971 Group Annuity Mortality Table

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

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 Ssponsor 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):

	20X1	*20X0*
Current retirees	$3,900,000	$ 3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Participants not yet fully eligible for benefits	5,000,000	4,165,000
	$ 11,000,000	$ 9,665,000

The health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported. If the assumed rates increased by 1 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:‡

‡ See note 5 for discussion of fair value measurements.

	20X1		20X0
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*	*Fair Value at End of Year*
U.S. government securities	$200,000	$5,000,000	$4,000,000
Corporate bonds and debentures	—	2,000,000	1,600,000
Common stocks	100,000	1,000,000	600,000
	$300,000	$8,000,000	$6,200,000

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

	20X1	*20X0*
Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)	$475,000	$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 20X6 ($360,000 face amount)		350,000

NOTE 5: FAIR VALUE MEASUREMENTS

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Inputs to the valuation methodology include • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20X1 and 20X0.

USERS' NOTE: Note that information contained herein for fair value disclosures is based upon information for the Illustration of Financial Statements: Health & Welfare (appendix F) as presented in exhibits F-1–F-5. This illustrative disclosure is not representative of all types of investment securities and does not represent the classification for every instance of such investment securities. It should not be assumed that these methodologies are the only appropriate methodologies for these types of assets. As stated in FASB ASC 820-35-5, "The principle (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities." Plan sponsors will have to evaluate the appropriate classification for each type of investment securities based upon the plan's portfolio and actual fair valuation techniques used.

U.S. Government securities and common stock: Valued at the closing price reported in the active market in which the individual security is traded.

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds traded in the over-the-counter market and listed securities for which no sale was reported on the last business day of the plan year 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 have established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 20X1 and 20X0:

PRACTICE TIP: The following illustrations assume that FASB ASC 820 was in effect for both periods presented, December 31, 20X1 and 20X0. In the first year of adoption, the following tables are not required to be comparative. Disclosures in accordance with FASB Statement No. 35 would be considered sufficient for the prior year.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$5,000,000			$5,000,000
Corporate bonds	1,750,000	250,000		2,000,000
Common stocks	1,000,000			1,000,000
Total assets at fair value	$7,750,000	$ 250,000	$—	$8,000,000

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$4,000,000			$4,000,000
Corporate bonds	1,375,000	225,000		1,600,000
Common stocks	600,000			600,000
Total assets at fair value	$5,975,000	$ 225,000	$—	$6,200,000

NOTE 6: 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 IRC, 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 7: 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:

	December 31,	
	20X1	*20X0*
Net assets available for benefits per the financial statements	$8,515,000	$6,600,000
Amounts due to insurance companies	1,200,000	1,000,000
Net assets available for benefits per the Form 5500	$7,315,000	$5,600,000

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

	Year ended December 31, 20X1
Insurance premiums paid per the financial statements	$16,815,000
Add: Amounts due insurance companies at December 31, 20X1	1,200,000
Less: Amounts due insurance companies at December 31, 20X0	(1,000,000)
Insurance premiums paid to participants per the Form 5500	$17,015,000

NOTE 8: 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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The following are illustrative financial statements for a hypothetical health and welfare benefit plan that is funded in part through a 401(h) feature of a defined benefit pension plan and are from SOP 99-2, *Accounting for and Reporting of Postretirement Medical Benefits (401(h)) Features of Defined Benefit Pension Plans* (AICPA, *Technical Practice Aids*, ACC sec. 10,780). Note that the following illustrative health and welfare benefit plan financial statements are not representative of a complete set of financial statements and notes thereto. The requirements of FASB Statement No. 157, *Fair Value Measurements*, are applicable to the assets and liabilities measured at fair value held in a 401(h) account. Accordingly, health and welfare plan financial statements that include a 401(h) account are required to include the fair measurement disclosure requirements of FASB Statement No. 157 for the underlying assets and liabilities measured at fair value in the 401(h) account.

C&H COMPANY WELFARE BENEFIT PLAN

Statement of Net Assets Available for Plan Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value		
U.S. government securities	$5,000,000	$4,000,000
Corporate bonds	2,000,000	1,600,000
Common stocks	1,000,000	600,000
Total investments	8,000,000	6,200,000
Net assets held in C&H Company defined benefit plan—restricted for 401(h) account (notes A and E)	1,072,000	966,000
Receivables		
Employer contribution	500,000	430,000
Employee contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	650,000	550,000
Cash	110,000	115,000
Total assets	9,832,000	7,831,000
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 plan benefits	$9,557,000	$7,566,000

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

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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.

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C&H COMPANY WELFARE BENEFIT PLAN

Statement of Benefit Obligations

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

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

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C&H COMPANY WELFARE BENEFIT PLAN

Statement of Changes in Benefit Obligations

	For the Year Ended December 31, 20X1
Amounts currently payable to or for participants, beneficiaries, and dependents	
Balance, beginning of year	$ 1,050,000
Claims reported and approved for payment	16,930,000
Claims paid (including disability)	(16,770,000)
Claims paid through 401(h) account (note E)	(10,000)
Balance, end of year	1,200,000
Other obligations for current benefit coverage, at present value of estimated amounts	
Balance, beginning of year	1,000,000
Net change during year:	
Long-term disability benefits	315,000
Other	35,000
Balance, end of year	$ 1,350,000
Total obligations other than postretirement benefit obligations	2,550,000
Postretirement benefit obligations	
Balance, beginning of year	9,665,000
Increase (decrease) during the year attributable to:	
Benefits earned and other changes	1,250,000
Plan amendment	(175,000)
Changes in actuarial assumptions	260,000
Balance, end of year	11,000,000
Total benefit obligations, end of year	$ 13,550,000

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

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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 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.

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

	December 31,	
	20X1	*20X0*
Investments at fair value:		
U.S. government securities	$ 140,000	$ 150,000
Money market fund	900,000	800,000
	1,040,000	950,000
Cash	20,000	10,000
Employer's contribution receivable[5]	20,000	15,000
Accrued interest	7,000	6,000
Total assets	1,087,000	981,000
Accrued administrative expenses	(15,000)	(15,000)
Net assets available	$ 1,072,000	$ 966,000

Changes in Net Assets in 401(h) Account

	For the Year Ended December 31, 20X1
Net appreciation in fair value of investments:	
U.S. government securities	$ 10,800
Interest	80,200
	91,000
Employer contributions	40,000
Health and welfare benefits paid to retirees	(10,000)
Administrative expenses	(15,000)
Net increase in net assets available	$106,000

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

Note H: Reconciliation of Financial Statements to Form 5500[6]

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

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

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

Claims paid per the financial statements	$16,770,000
Add: Amounts payable at December 31, 20X1	1,200,000
Less: Amounts payable at December 31, 20X0	(1,050,000)
Claims paid per Form 5500	$16,920,000

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

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

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The following is an illustration of 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* (AICPA, *Technical Practice Aids*, ACC sec. 10,830).

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

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

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

[6] The reconciliation of amounts reported in plan financial statements to amounts reported in Form 5500 is required by ERISA.

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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

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

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

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

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 on the accrual basis of accounting.

Investment Valuation and Income Recognition. Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 4 for discussion of fair value measurements.

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

Use of Estimates. The preparation of financial statements in conformity with 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 7.5 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
December 31, 20X1 and 20X0

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

Changes in Benefit Obligations
Year Ended December 31, 20X1

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

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

NOTE 4: FAIR VALUE MEASUREMENTS

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Inputs to the valuation methodology include • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20X1 and 20X0.

USERS' NOTE: Note that information contained herein for fair value disclosures is based upon information for the Illustration of Financial Statements: Health & Welfare (appendix F) as presented in exhibits F-14 to F-16. This illustrative disclosure is not representative of all types of investment securities and does not represent the classification for every instance of such investment securities. It should not be assumed that these methodologies are the only appropriate methodologies for these types of assets. As stated in FASB ASC 820-35-5, "The principle (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities." Plan sponsors will have to evaluate the appropriate classification for each type of investment securities based upon the plan's portfolio and actual fair valuation techniques used.

The plan's investments consist of shares of a money market portfolio which is valued using amortized cost which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 20X1 and 20X0:

PRACTICE TIP: The following illustrations assume that FASB ASC 820 was in effect for both periods presented, December 31, 20X1 and 20X0. In the first year of adoption, the following tables are not required to be comparative. Disclosures in accordance with FASB Statement No. 35 would be considered sufficient for the prior year.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
Money market portfolio	$10,605			$10,605
Total assets at fair value	$10,605			**$10,605**

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
Money market portfolio	$80,750			$80,750
Total assets at fair value	$80,750			**$80,750**

NOTE 5: 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 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 6: TRANSACTIONS WITH PARTIES IN INTEREST

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

NOTE 7: 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 8: 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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