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Checklists and illustrative financial statements : Defined contribution pension plans, June 2010

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Defined Contribution Pension Plans

June 2010

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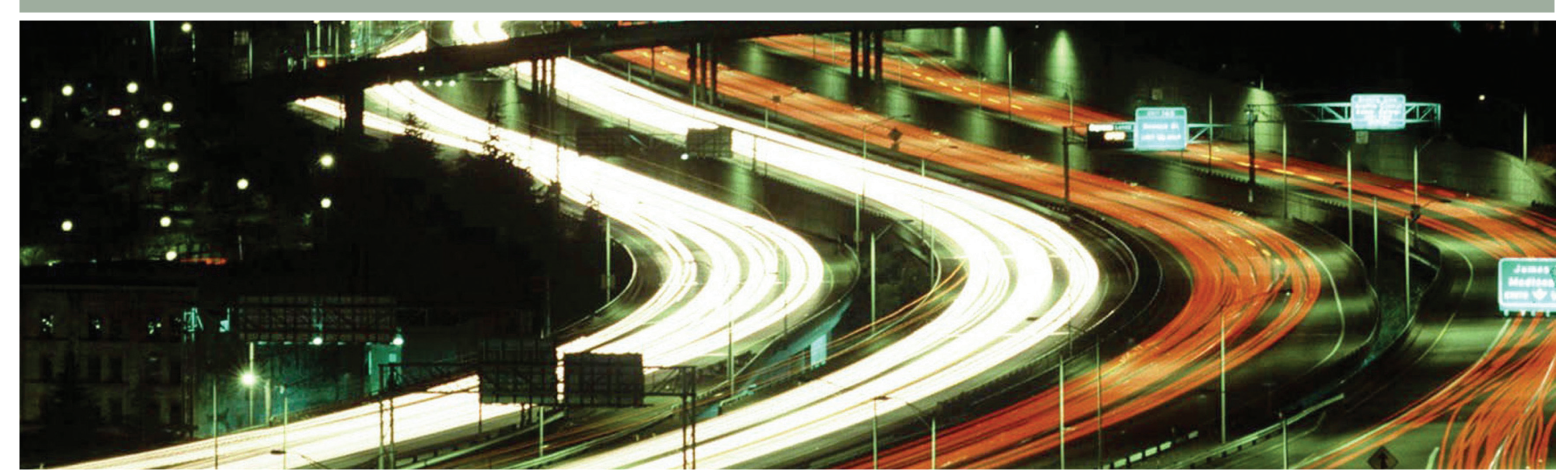
CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Defined Contribution Pension Plans

JUNE 2010



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CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Defined Contribution Pension Plans

JUNE 2010

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

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FSP Section 8000

Checklists and Illustrative Financial Statements for Defined Contribution Pension 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 (both defined benefit and defined contribution). Defined contribution retirement plans require an individual account for each participant and provide benefits that are based on (*a*) amounts contributed to the participant's account by the employer or employee, (*b*) investment experience, and (*c*) any forfeitures allocated to the account, less any administrative expenses charged to the plan. These plans include profit-sharing plans, money purchase pension plans, stock bonus and employee stock ownership plans, thrift or savings plans including 401(k) and 403(b) arrangements, and certain target benefit plans.

.02 Defined contribution retirement plans may be single employer plans or multiemployer plans. In the context of this checklist, reference to defined contribution plans refers to defined contribution pension plans only and does not include health and welfare benefit plans (see the separate publication *Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans* that includes both defined benefit and defined contribution health and welfare benefit plans).

AICPA Employee Benefit Plan Audit Quality Center

.03 The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) is a firm-based, voluntary membership center with the goal of promoting quality employee benefit plan audits. The more than 1,800 firms that have joined the EBPAQC receive valuable Employee Retirement Income Security Act of 1974 (ERISA) audit and firm best practice tools and resources that are not available from any other source. Visit the EBPAQC website at www.aicpa.org/ebpaqc to see a complete list of the more than 1,800 EBPAQC members and to preview benefits. For more information, contact the EBPAQC at ebpaqc@aicpa.org.

Regulatory Requirements

.04 ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the IRS have the authority to issue regulations covering reporting and disclosure requirements and certain administrative responsibilities. (Appendix A of the Audit and Accounting Guide *Employee Benefit Plans* describes which plans are covered by ERISA.)

.05 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. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA. (See paragraphs .21–.24 for a discussion about the Form 5500.)

Financial Accounting Standards Board *Accounting Standards Codification™*

.06 Released on July 1, 2009, the Financial Accounting Standards Board (FASB) *Accounting Standards Codification™* (ASC) is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. generally accepted accounting principles (GAAP) by topically organizing the authoritative literature. FASB ASC 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.

.07 FASB ASC also includes relevant portions of authoritative content issued by the Securities and Exchange Commission (SEC), as well as selected 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 SEC staff guidance. Moreover, FASB ASC does not include governmental accounting standards.

.08 FASB ASC published a notice to constituents (NTC) that explains the scope, structure, and usage of consistent terminology of FASB ASC. Constituents are encouraged to read this NTC because it answers many common questions about FASB ASC. FASB ASC and its related NTC can be accessed at http://asc.fasb.org/home and are also offered by certain third party licensees, including the AICPA. FASB ASC is offered by FASB at no charge in a "Basic View" and for an annual fee in a "Professional View."

.09 In June 2009, FASB issued the last FASB statement referenced in that form: FASB Statement No. 168, *The FASB* Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. This standard establishes FASB ASC as the authoritative source of U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC, and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This standard flattened the historic U.S. GAAP hierarchy to two levels: one that is authoritative (in FASB ASC) and one that is nonauthoritative (not in FASB ASC). Exceptions include all rules and interpretive releases of the SEC under the authority of federal securities laws, which are sources of authoritative U.S. GAAP for SEC registrants, and certain grandfathered guidance having an effective date before March 15, 1992.

.10 New standards are now issued by FASB through Accounting Standards Updates (ASUs) and will serve only to update FASB ASC. FASB does not consider the ASUs authoritative in their own right; new standards become authoritative when they are incorporated into FASB ASC. New standards will be in the form of "ASU No. 20YY-XX," in which "YY" is the last two digits of the year and "XX" is the sequential number for each update. For example, ASU No. 2010-01 is the first update in the calendar year 2010. New standards will include the standard and an appendix of FASB ASC update instructions. ASUs will also provide background information about the standards and provide the basis for conclusions on changes made to FASB ASC.

.11 Any ASUs (or other authoritative accounting guidance issued prior to the release date of FASB ASC) issued but not yet fully effective for all entities or transactions within its scope are reflected as "Pending Content" in FASB ASC. This pending content is shown in text boxes following the paragraphs being amended in FASB ASC and includes links to the transition information. The pending content boxes are meant to provide users with information about how a paragraph will change when new guidance becomes authoritative. When an amended paragraph becomes fully effective, the outdated guidance will be removed, and the amended paragraph will remain without the pending content box. FASB will keep any outdated guidance in the applicable archive section of FASB ASC for historical purposes.

.12 Because not all entities have the same fiscal year-ends, and certain guidance may be effective on different dates for public and nonpublic entities, the pending content will apply to different entities at different times. As such, pending content will remain in place within FASB ASC until the "roll-off date." Generally, the roll-off date is 6 months following the latest fiscal year end for which the original guidance being amended or superseded by the pending content could be applied as specified by the transition guidance. For example, assume an ASU has an effective date for fiscal years beginning after November 15, 2009. The latest possible fiscal year end of an entity still eligible to apply the original guidance being amended or superseded by the pending content would begin November 15, 2009, and end November 14, 2010. Accordingly, the roll-off date would be April 14, 2011. Entities cannot disregard the pending content boxes. Instead, all entities must review the transition guidance to determine if and when the pending content is applicable to them.

.13 Employee benefit plan accounting may be found in the following sections of the FASB ASC:

- FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plans*
- FASB ASC 962, *Plan Accounting—Defined Contribution Pension Plans*
- FASB ASC 965, *Plan Accounting—Health and Welfare Benefit Plans*

AICPA *Technical Practice Aids*

.14 Technical Questions and Answers (TIS) section 6930, *Employee Benefit Plans* (AICPA, *Technical Practice Aids*), contains helpful guidance in the form of questions and answers relating to employee benefit plan accounting, auditing, and regulatory matters. These nonauthoritative TIS sections 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 Disclosures for Master Trusts

.15 In March 2009, the AICPA issued a TPA to provide guidance on the required fair value measurement disclosures to be made when a plan holds investments in a master trust: TIS section 6931.11, "Fair Value Measurement Disclosures for Master Trusts" (AICPA, *Technical Practice Aids*). This TIS section assists with the implementation of FASB ASC 820, *Fair Value Measurements and Disclosures*, for employee benefit plans that have investments in a master trust.

.16 The TPA is available on the AICPA's website at www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx.

Accounting and Reporting by Defined Contribution Retirement Plans

.17 Per FASB ASC 962-205-45-1, the financial statements of a defined contribution plan prepared in accordance with GAAP should be prepared on the accrual basis and include both of 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

Fair Value Measurements and Disclosures

.18 FASB ASC 820 defines *fair value*, provides a framework for measuring fair value, and requires certain disclosures about fair value measurements. See paragraphs 3.12–.22 of the guide that summarize FASB ASC 820 but are not intended as a substitute for reviewing FASB ASC 820 in its entirety. See also the "Fair Value Measurements" section of section 8200, "Financial Statements and Notes Checklist," for required disclosures.

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

.19 In accordance with FASB ASC 962-325-35-5, 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 this checklist if certain criteria are met for that contract, analyzed on an individual basis. See the FASB ASC glossary for such criteria.

.20 FASB ASC 962-205-45-2 states that the statement of net assets available for benefits of the plan should 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. In addition, per FASB ASC 962-205-45-3, the amount representing the difference between net assets reflecting all investments at fair value and net assets available for benefits should 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. In accordance with FASB ASC 962-205-45-6, the statement of changes in net assets available for benefits should 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. See the "Investment and Insurance Contracts" section of section 8200 for required disclosures in connection with fully benefit-responsive investment contracts.

ERISA Reporting Requirements

.21 In addition to the reporting requirements of FASB ASC 962, defined contribution plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500.

.22 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 Employee Benefits Security Administration (EBSA) website at www.dol.gov/ebsa.

.23 The DOL, IRS, and PBGC have released the 2009 Form 5500 return and reports, schedules, and instructions to be used by employee benefit plans for plan year 2009 filings. The modifications to the Form 5500 for plan year 2009 are described under "Changes to Note" in the 2009 instructions and are summarized in the Audit Risk Alert *Employee Benefit Plans Industry Developments—2010* (product no. 0224110).

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

- Schedule H, line 4a—Schedule of Delinquent Participant Contributions
- Schedule H, line 4i—Schedule of Assets (Held at End of Year)[1]
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions[2]

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

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

[2] **Practice Tip**—Participant- or beneficiary-directed transactions are not required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the five percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Nonexempt Transactions

Practice Tip

Reporting of Delinquent Participant Contributions: Information on all delinquent participant contributions should be reported on line 4a of either Schedule H or Schedule I of the Form 5500 and should not be reported on line 4d of Schedule H or I or on Schedule G. Beginning for 2009 plan years, large plans with delinquent participant contributions should attach a schedule clearly labeled "Schedule H Line 4a—Schedule of Delinquent Participant Contributions" using the format provided in the instructions to Form 5500.

Participant loan repayments paid to or withheld by an employer for purposes of transmittal to the plan that were not transmitted to the plan in a timely fashion must be reported either on line 4a in accordance with the reporting requirements that apply to delinquent participant contributions or on line 4d. See DOL Advisory Opinion 2002-2A at www.dol.gov/ebsa. Delinquent forwarding of participant loan repayments is eligible for correction under the Voluntary Fiduciary Correction Program and Prohibited Transaction Exemption 2002-51 on terms similar to those that apply to delinquent participant contributions.

For further guidance, see the instructions to the Form 5500 and the EBSA website FAQs at www.dol.gov/ebsa/faqs/faq_compliance_5500.html. Information copies of the forms, schedules, and instructions are available on EBSA's website 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).

Form 11-K Filings

.25 Some defined contribution plans are required to register and report to the SEC. When securities are registered (typically on Form S-8) to be offered to employees pursuant to any employee benefit plan, the plan is required to file annual reports to the SEC on Form 11-K. Regulation S-X prescribes the form of the statements of financial position and statements of income and changes in plan equity that those plans must file with the SEC. The SEC has amended its rules for Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than Regulation S-X. It is important to note, however, that "limited scope" audits (as permitted by Title 29 U.S. Code of Federal Regulations (CFR) 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure) or financial statements prepared on an "Other Comprehensive Basis of Accounting," such as the modified cash basis, which are generally acceptable under ERISA regulations, are not considered acceptable for SEC filings. In addition, financial statements in accordance with ERISA included in an 11-K filing are due within 180 days after the plan's fiscal year; an 11-K filing which includes financial statements under Regulation S-X are due within 90 days after the plan's fiscal year.

Practice Tips

SEC Requirements

The SEC requires employee stock purchase, savings and similar plans with interests that constitute securities registered under the Securities Act of 1933 to file Form 11-K pursuant to Section 15(d) of the Securities Exchange Act of 1934. Reports on Form 11-K must be filed with the SEC within 90 days after the end of the fiscal year of the plan, provided that plans subject to ERISA file the plan financial statements within 180 days after the plan's fiscal year end.

Applicable Audit Standards

Plans that are required to file Form 11-Ks are deemed to be *issuers* under the Sarbanes-Oxley Act of 2002 and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the Public Company Accounting Oversight Board (PCAOB). These plans may also be subject to ERISA and must submit to the U.S. DOL an audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA's Auditing Standards Board. It is our understanding

(continued)

that the SEC will not accept an audit report that references GAAS, and the DOL will *not* accept an audit report that does not reference GAAS.

Performance and Reporting Requirements

Audits of plans that file Form 11-K must be conducted in accordance with two sets of standards and prepare two separate audit reports; an audit report referencing PCAOB standards for Form 11-K filings with the SEC and a separate audit report referencing GAAS for DOL filings. The PCAOB and SEC staff believe that an opinion issued in accordance with PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, Standards, AU-P app. A), does not allow a reference to GAAS, hence a *dual* standard report is not appropriate and will not be accepted by the SEC.

Any questions regarding performance and reporting requirements of audits of financial statements of Form 11-K filers should be directed to the SEC Division of Corporation Finance, Office of the Chief Accountant at (202) 551-5300.

.26 As a result of the Sarbanes-Oxley Act of 2002, both U.S. and non-U.S. public accounting firms wishing to prepare or issue reports on U.S. public companies, or to play a substantial role in the preparation or issuance of such reports, must be registered with the PCAOB and comply with the standards and rules of the PCAOB. The PCAOB's standards and rules apply to registered public accounting firms and their associated persons in connection with their audits of the financial statements of issuers, as defined in Section 2(a)(7) of the Sarbanes-Oxley Act of 2002, and those firms' auditing and related attestation practices. Plans that are required to file Form 11-Ks are deemed to be *issuers* under the Sarbanes-Oxley Act of 2002 and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the PCAOB. The PCAOB does not intend to suggest that registered public accounting firms and their associated persons must comply with the PCAOB's standards and rules in auditing nonissuers. Auditors who fall within the PCAOB's scope should understand and follow the standards, rules, and other requirements of the PCAOB. All PCAOB standards and rules must be approved by the SEC before taking effect.

Preapproval of Employee Benefit Plan Audits

.27 In December 2005, page 59 in the SEC *Current Accounting and Disclosures Issues* provided guidance regarding the preapproval of audits of employee benefit plans. This section states the following:

> An employee benefit plan may be an affiliate of a registrant as its plan sponsor. The SEC's independence rules related to preapproval surround services provided to the issuer and the issuer's subsidiaries, but not services provided to other affiliates of the issuer that are not subsidiaries. Therefore, the independence rules do not require the audit committee of the plan sponsor to preapprove audits of the employee benefit plans, although the audit committee is encouraged to do so. When employee benefit plans are required to file Form 11-K, those plans are separate issuers under the Securities Exchange Act of 1934; as a result, those issuers are subject to the preapproval requirements. This preapproval can be provided by either the audit committee of the plan sponsor or the appropriate entity overseeing the activities of the employee benefit plan, such as the trustee, plan administrator or responsible party. The SEC rules require that all fees, including fees related to audits of employee benefit plans, paid to the principal auditor be included in the entity's fee disclosures, regardless of whether or not the audit committee of the entity preapproved those fees. As part of the exercise to gather the information for the required fee disclosures, the audit committee should be made aware of all fees paid to the principal auditor, including those related to audits of the employee benefit plans. The entity may elect to separately indicate in their disclosures those fees paid to the principal auditor that were not subject to the preapproval requirements. Registrants and their auditors are reminded that the financial statements included in Form 11-K must be audited by an independent auditor that is registered with the PCAOB and the audit report must refer to the standards of the PCAOB rather than GAAS.

To view the entire document, see the website www.sec.gov/divisions/corpfin/acctdis120105.pdf.

.28 *PCAOB standards and conforming amendments.* For information on auditing standards and related guidance, please refer to the PCAOB website at www.pcaobus.org (audits of issuers only). For a listing of PCAOB auditing standards, PCAOB rules, SEC releases, PCAOB Staff Audit Practice Alerts, and PCAOB conforming amendments adopted since March 2009, please refer to the Audit Risk Alert *Employee Benefit Plans Industry Developments—2010* (product no. 0224110).

403(b) Employee Benefit Plans Covered Under ERISA

.29 Section 403(b) plans are also commonly known as *tax-sheltered annuity plans* (TSA plans). A 403(b) TSA plan is a retirement plan offered by schools, hospitals, churches, charities, and certain other tax-exempt organizations. An individual 403(b) annuity can be obtained only under an employer's TSA plan. Generally, these annuities are funded by elective deferrals made under salary reduction agreements and may include nonelective employer contributions. A 403(b) plan works very similarly to a 401(k) plan.

.30 A 403(b) plan comprises individual investment accounts that include the following types:

- Fixed and variable annuity contracts with insurance companies (403(b)(1) annuities)
- Custodial accounts made up of mutual funds (403(b)(7) accounts)
- A retirement income account set up for church employees (403(b)(9) accounts)

.31 A 403(b) plan generally will be covered under ERISA if there are employer contributions or employer involvement in the plan exceeds the limitations permitted under the DOL's safe harbor regulations (see also DOL Field Assistance Bulletin [FAB] 2010-01, *Annual Reporting and ERISA Coverage for 403(b) Plans*, for specific questions and answers addressing the DOL's safe harbor regulations). Refer to the Audit Risk Alert *Employee Benefit Plans Industry Developments—2010* (product no. 0224110) for additional guidance regarding certain 403(b) plans that are exempt from ERISA.

IRS Regulation Highlights

.32 In July 2007, the IRS issued the first comprehensive regulations for 403(b) plans in 43 years, bringing 403(b) plans closer to the standards set for 401(k) plans. The new IRS regulations clarified several points on employer responsibility and required organizations to have a written plan in place. Additionally, in an effort to ease the administrative burden, the new IRS rules have the effect of encouraging employers to limit the number of investment vendors offered to employees while introducing due diligence expectations that affect the daily plan management. The new rules are effective on or after January 1, 2009, with some notable exceptions.

Filing and Audit Requirements for 403(b) Plans Covered Under ERISA

.33 In addition to the IRS regulations, in November 2007, the DOL issued amended regulations eliminating an exemption granted to 403(b) plans from annual Form 5500 reporting, disclosure and audit requirements under Title I of ERISA. The removal of this exemption subjects ERISA-covered 403(b) plans to the same Form 5500 reporting and audit requirements as 401(k) plans effective with their 2009 Form 5500 filings.

.34 This means that beginning in 2009, employee benefit plans sponsored by charitable organizations and schools under IRC section 403(b) and covered under ERISA will be subject to the same reporting and audit requirements that currently exist for section 401(k) plans. This will involve the completion of the Form 5500 as a small or large pension plan, depending on the number of participants eligible to participate in the plan as of the beginning of the plan year. The DOL anticipates that most small 403(b) plans will be eligible to use the new Form 5500-SF and thus will only have to meet that limited filing obligation. For large 403(b) plans, as defined by ERISA, the 2009 reporting requirements include not only the completion of the entire Form 5500, but also the engagement of an independent qualified public accountant to conduct an independent audit of the plan.

.35 On July 20, 2009, the DOL issued FAB No. 2009-02, *Annual Reporting Requirements for 403(b) Plans*, to provide certain transition relief for administrators of 403(b) plans that make good faith efforts to transition for the 2009 plan year to ERISA's generally applicable annual reporting requirements. DOL FAB No. 2009-02 was intended to address concerns over the DOL's enforcement of incomplete filings, which would be subject to rejection due to the inability to identify all participant accounts to be included in plan assets. In February 2010, the DOL issued FAB 2010-01, which supplements DOL FAB 2009-02 and addresses questions the DOL received concerning the scope of FAB 2009-02 and the safe harbor regulations at 29 CFR 2510.3-2(f). DOL FAB 2010-01 addresses, among other things, the plan administrator's responsibility to determine whether the conditions of DOL FAB 2009-02 have been satisfied with respect to excluded contracts from the plan's annual report. The full text of DOL FAB No. 2009-02 and DOL FAB No. 2010-01 are available at www.dol.gov/ebsa/regs/fab2009-2.html and www.dol.gov/ebsa/regs/fab2010-1.html, respectively.

Help Desk—For further guidance related to 403(b) plans, visit the EBPAQC 403(b) Plan Resource Center on the EBPAQC website www.aicpa.org/EBPAQC (under the "Resources" tab), which has helpful resources and links to additional information to help practitioners with the new requirements.

Also, refer to the Audit Risk Alert *Employee Benefit Plans Industry Developments—2010* (product no. 0224110) for additional information regarding financial statements and disclosures for 403(b) plans as well as information intended to help the auditor make his or her determination of the form of report to be issued for 403(b) plans.

FSP Section 8100
Instructions

General

.01 This publication includes the following sections:

- **Financial Statements and Notes Checklist—**For use by preparers of defined contribution pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditor's Report Checklist—**For use by auditors in reporting on audited defined contribution pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports—**Illustrating full sets of defined contribution pension plan financial statements, notes, and auditor's reports.

.02 The checklists and illustrative financial statements have been developed by the AICPA Accounting and Auditing Publications staff to serve as nonauthoritative practice aids for use by preparers of financial statements of defined contribution pension plans and by practitioners who audit them. The auditor's report checklists address those requirements most likely to be encountered when reporting on financial statements of a defined contribution pension plan prepared in conformity with U.S. generally accepted accounting principles (GAAP). They do not include reporting requirements relating to other matters such as internal control or agreed-upon procedures. The financial statement and notes checklist includes disclosure considerations applicable to defined contribution pension plans in preparing financial statements in conformity with U.S. GAAP.

.03 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive U.S. GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with U.S. GAAP are not included in the checklist.

.04 The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of U.S. GAAP, generally accepted auditing standards, and other relevant technical guidance.

.05 In some cases, this checklist uses the term *Common Practice* or provides additional practice tips to describe a disclosure item. In such cases, although no authoritative guidance supports such a disclosure for defined contribution pension plans, it may have become a common practice that such disclosures are made. Entities should evaluate whether such items warrant disclosure in their financial statements.

.06 In the context of this checklist, reference to defined contribution plans refers to defined contribution pension plans only and does not include health and welfare benefit plans (see the separate publication *Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans* that includes both defined benefit and defined contribution 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 June 30, 2010, have been considered in the development of this publication. This includes relevant guidance issued up to and including the following:

- Financial Accounting Standards Board Accounting Standards Updates issued through June 30, 2010
- Statement on Auditing Standards No. 120, *Required Supplementary Information* (AICPA, *Professional Standards*, vol. 1, AU sec. 558)
- 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, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .93–.97)
- Public Company Accounting Oversight Board Auditing Standard No. 7, *Engagement Quality Review* (AICPA, *PCAOB Standards and Related Rules*, Standards, AU-P sec. 162)
- Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2010)

Any guidance issued subsequent to June 30, 2010, has not been included in this checklist; therefore, if your entity has a fiscal year-end after June 30, 2010, you need to consider the applicability of such guidance. In determining the applicability of newly issued guidance, its effective date should also be considered.

Instructions

.07 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative guidance. The checklists provide spaces for checking off or initialing each question or point to show that it has been addressed. Carefully review the topics listed and consider whether they represent potential disclosure items for the defined contribution pension plan for which you are preparing or auditing. Users should check or initial "Yes" if the disclosure is required and has been appropriately made, "No" if the disclosure is required but has not been made, or "N/A" (not applicable) if the disclosure is not applicable to the plan. It is important that the effect of any "No" response be considered on the auditor's or accountant's report. For audited financial statements, a "No" response that is material to the financial statements may warrant a departure from an unqualified opinion as discussed in paragraphs .20–.64 of AU section 508. If a "No" response is indicated, the authors recommend that a notation be made to explain why the disclosure was not made. The right margin may be used for other remarks or comments as appropriate, including

a. for each disclosure for which a "Yes" is indicated, a notation as to where the disclosure is located in the financial statements and a cross-reference to applicable working papers where the support to a disclosure may be found.

b. for items marked as "N/A," the reasons for which they do not apply in the circumstances of the particular report.

c. for each disclosure for which a "No" response is indicated, a notation as to why the disclosure was not made (for example, because the item was not considered to be material to the financial statements).

Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.08 These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

.09 The use of this or any other checklists requires the exercise of individual professional judgment. The checklist is not a substitute for the authoritative guidance. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative guidance when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated, nor do they represent minimum requirements. Guidance deemed remote for defined contribution pension plans is not included in this document. The checklists and illustrative financial statements are tools and in no way represent official positions or guidance of the AICPA. Additionally, users of the checklists and illustrative materials should tailor them as required to meet specific circumstances. As an additional resource, members may call the AICPA Technical Hotline at 1-877-242-7212.

Recognition

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

.11 We hope you find this checklist helpful as you perform your audit engagements. We would greatly appreciate your feedback on this checklist. You may e-mail these comments to dkrupica@aicpa.org or write to

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Note: This publication was extracted from sections 8,000–8,400 of the AICPA *Financial Statement Preparation Manual*.

FSP Section 8200

Financial Statements and Notes Checklist

.01 This checklist contains numerous references to authoritative accounting and auditing guidance. 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, 2010)
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
EBSA =	Employee Benefits Security Administration
ERISA =	Employee Retirement Income Security Act of 1974
FASB ASC =	Reference to a topic, subtopic, section, or paragraph in Financial Accounting Standards Board *Accounting Standards Codification™*
FIN =	FASB Interpretation
FSP =	FASB Staff Position

.02 Checklist Questionnaire:

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

			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		
	A.	Classification of Investments	________
	B.	Investment and Insurance Contracts	________
	C.	Property, Plant, and Equipment	________
	D.	Contributions Receivable and Uncollectible Amounts	________
	E.	Cash	________
	F.	Liabilities	________
III.	Statement of Changes in Net Assets Available for Benefits		
	A.	General	________
	B.	Contributions	________
	C.	Investment Earnings	________

	Place ✓ by Applicable Sections
IV. Summary of Significant Accounting Policies	
A. Accounting Policies	________
B. Certain Significant Estimates	________
V. Other Financial Statement Disclosures	
A. Accounting Changes and Error Corrections	________
B. Commitments and Contingencies	________
C. Current Vulnerability Due to Certain Concentrations	________
D. Description of Defined Contribution Plan	________
E. Description of Plan Amendments	________
F. Financial Instruments	________
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	________
N. Fair Value Measurements	________
O. Other Matters	________
VI. ERISA Reporting Requirements	
A. Form 5500 Report	________
B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA	________
C. Required Financial Statements and Supporting Schedules	________
VII. Securities and Exchange Commission Reporting Requirements	
A. Regulation S-X Rule 6A, Employee Stock Purchase, Savings and Similar Plans	________
B. Rule 6A-03, Statement of Financial Condition	________
C. Rule 6A-04, Statement of Income and Changes in Plan Equity	________
D. Rule 6A-05, Schedules to Be Filed	________
Auditor's Report Checklist	________
Illustrative Financial Statements and Auditor's Reports	________

	Yes	No	N/A

I. General

A. Titles and References[1]

1. To be prepared in accordance with U.S. generally accepted accounting principles (GAAP), are the financial statements prepared on the accrual basis of accounting and include both of the following:

   a. A "Statement of Net Assets Available for Benefits" as of the end of plan year? (ERISA requires that this statement be presented in comparative form.) [AAG 3.10 fn 2] _____ _____ _____

   b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [FASB ASC 962-205-45-1] _____ _____ _____

2. Is each financial statement suitably titled? [Common Practice] _____ _____ _____

3. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Common Practice] _____ _____ _____

4. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, the results of transactions and events that affect the information about those resources, and other factors necessary for users and participants to understand the information provided? [AAG 3.09] _____ _____ _____

B. Comparative Financial Statements

1. Are comparative statements presented, if appropriate?[2] [FASB ASC 205-10-45 par. 1–2] _____ _____ _____

2. If comparative financial statements are presented, are the notes and other disclosures included in the financial statements of the preceding years repeated, or at least referred to, to the extent that they continue to be of significance? [FASB ASC 205-10-45-4] _____ _____ _____

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? [FASB ASC 205-10-45-3] _____ _____ _____

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[1] Some defined contribution plans are required to register and report to the Securities Exchange Commission (SEC). The SEC has amended its rules on Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than in accordance with Regulation S-X. Please refer to the instructions to Form 11-K for additional information.

[2] ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form (footnote 2 in paragraph 3.10 of the AAG).

	Yes	No	N/A

C. Consolidated Financial Statements

Notes: In March 2008, FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*, to establish accounting and reporting standards for the noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary, areas for which limited guidance previously existed. FASB Statement No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement amended authoritative accounting literature to change the term *minority interest* to *noncontrolling interest*. FASB Statement No. 160 does not change the requirements in FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51*.

FASB Statement No. 160 changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling (minority) interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest.

FASB Statement No. 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and clarifies that all of those transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary.

FASB Statement No. 160 requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. Those expanded disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and the noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent. These provisions are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). FASB Statement No. 160 should be applied prospectively as of the beginning of the fiscal year in which the statement is initially adopted. Presentation and disclosure requirements should be applied retrospectively for all periods presented.

This checklist has been updated to include the presentation and disclosure requirements of FASB Statement No. 160.

FASB Statement No. 160 was codified in FASB ASC 810, *Consolidation*. This guidance is labeled as "Pending Content" due to the transition and open effective date information discussed in FASB ASC 810-10-65-1.

Practice Tip

The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent entity, the results of operations and the financial position of a parent entity and subsidiaries essentially as if the group were a single entity with one or more branches or divisions. There is a

(continued)

	Yes	No	N/A

presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the entities in the group directly or indirectly has a controlling financial interest in the other entities.

In some cases parent-entity financial statements may be needed, in addition to consolidated financial statements, to indicate adequately the position of bondholders and other creditors or preferred shareholders of the parent. Consolidating financial statements, in which one column is used for the parent and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting the pertinent information. However, consolidated financial statements are the general purpose financial statements of a parent having one or more subsidiaries; thus, parent-entity financial statements are not a valid substitute for consolidated financial statements.
[FASB ASC 810-10-10-1; "Pending Content" in FASB ASC 810-10-45-11]

1. If consolidated statements are presented, is the consolidation policy disclosed? ____ ____ ____
   [FASB ASC 810-10-50-1; FASB ASC 235-10-50-4]

Practice Tip

With regard to question 2, if a parent deconsolidates a subsidiary or derecognizes a group of assets through a nonreciprocal transfer to owners, such as a spinoff, the accounting guidance in FASB ASC 845-10 applies. ["Pending Content" in FASB ASC 810-10-40-5]

2. Has the entity disclosed all of the following, as a parent, if in the period either a subsidiary has been deconsolidated or a group of assets have been derecognized in accordance with FASB ASC 810-10-40-3A:
   a. The amount of any gain or loss recognized in accordance with FASB ASC 810-10-40-5? ____ ____ ____
   b. The portion of any gain or loss related to the remeasurement of any retained investment in the former subsidiary or group of assets to its fair value? ____ ____ ____
   c. The caption in the income statement in which the gain or loss is recognized unless separately presented on the face of the income statement? ____ ____ ____
   d. A description of the valuation technique(s) used to measure the fair value of any direct or indirect retained investment in the former subsidiary or group of assets? ____ ____ ____
   e. Information that enables users of the parent's financial statements to assess the inputs used to develop the fair value in item (*d*)? ____ ____ ____
   f. The nature of continuing involvement with the subsidiary or entity acquiring the group of assets after it has been deconsolidated or derecognized? ____ ____ ____
   g. Whether the transaction that resulted in the deconsolidation or derecognition was with a related party? ____ ____ ____

	Yes	No	N/A
h. Whether the former subsidiary or entity acquiring a group of assets will be a related party after deconsolidation? ["Pending Content" in FASB ASC 810-10-50-1B]	____	____	____
3. Has the entity disclosed the following, if the entity is a parent with one or more less-than-wholly owned subsidiaries:			
a. Separately, on the face of the consolidated financial statements, both of the following:			
i. The amounts of consolidated net income and consolidated comprehensive income?	____	____	____
ii. The related amounts on each attributable to the parent and the non-controlling interest?	____	____	____
b. Either in the notes or on the face of the consolidated income statement, amounts attributable to the parent for any of the following, if reported in the consolidated financial statements:			
i. Income from continuing operations?	____	____	____
ii. Discontinued operations?	____	____	____
iii. Extraordinary items?	____	____	____
c. Either in the consolidated statement of changes in equity, if presented, or in the notes to consolidated financial statements, a reconciliation at the beginning and the end of the period of the carrying amount of total equity (net assets), equity (net assets) attributable to the parent, and equity (net assets) attributable to the non-controlling interest? (See FASB ASC 810-10-50-1A and FASB ASC 810-10-55-4(G) for example disclosures.)	____	____	____
d. In notes to the consolidated financial statements, a separate schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent? ["Pending Content" in FASB ASC 810-10-50-1A]	____	____	____
4. Has the entity eliminated for presentation material intra-entity transactions and accounts, including any intra-entity profit or loss on assets that remain within the consolidated group? [FASB ASC 810-10-45-1]	____	____	____
5. 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? [FASB ASC 810-10-45-12]	____	____	____

	Yes	No	N/A
6. If a parent company reports a change to (or the elimination of) a previously existing difference between the parent's reporting period and the reporting period of a consolidated entity in the parent's consolidated financial statements as described in FASB ASC 810-10-45-13, has the change been reported as a change in accounting principle in accordance with the provisions of FASB ASC 250, *Accounting Changes and Error Corrections,* excluding retrospective application if it is impracticable to do so? [FASB ASC 810-10-45-13]	____	____	____

Consolidation of Variable Interest Entities

Notes: In June 2009, FASB issued FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. Among other things, FASB Statement No. 167 amends FASB Interpretation No. 46(R) to require an entity to perform an analysis to determine whether the entity's variable interest or interests give it a controlling financial interest in a variable interest entity (VIE) and to provide enhanced disclosures that will provide more transparent information about an entity's involvement in a VIE.

FASB Statement No. 167 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009 (that is, January 1, 2010, for entities with calendar year-ends), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited.

In December 2009, FASB issued Accounting Standards Update (ASU) No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which formally incorporated the provisions of FASB Statement No. 167 into FASB ASC 810.

In January 2010, FASB issued ASU No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*, which clarifies the application of the scope of the decrease in ownership provisions of FASB ASC 810. ASU No. 2010-02 also contains amendments that expand the disclosure requirements about deconsolidation of a subsidiary or derecognition of a group of assets. The amendments are effective beginning in the period that an entity adopts FASB Statement No. 160. If an entity has previously adopted FASB Statement No. 160, the amendments are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in ASU No. 2010-02 should be applied retrospectively to the first period that an entity adopts FASB Statement No. 160.

This checklist has been updated to include the presentation and disclosure requirements of ASU No. 2010-02.

This checklist has not been updated to include the presentation and disclosure requirements of FASB Statement No. 167 or ASU No. 2009-17. This guidance has been codified in FASB ASC 810.

Yes *No* *N/A*

Practice Tips

A VIE may issue voting equity interests, and the entity that holds a majority voting interest also may be the primary beneficiary of the VIE. If so, the disclosures in question 7 are not required.
["Pending Content" in FASB ASC 810-10-50-3]

The primary beneficiary of a VIE that is a business should disclose items required by FASB ASC 805, *Business Combinations*. The primary beneficiary of a VIE that is not a business should disclose the amount of gain or loss recognized on the initial consolidation of the VIE.
["Pending Content" in FASB ASC 810-10-50-3]

7. Does the primary beneficiary of a VIE disclose the following (unless the primary beneficiary also holds a majority voting interest):
   a. The nature, purpose, size, and activities of the VIE? ____ ____ ____
   b. The carrying amount and classification of consolidated assets that are collateral for the VIE's obligations? ____ ____ ____
   c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated VIE have no recourse to the general credit of the primary beneficiary? ____ ____ ____
   ["Pending Content" in FASB ASC 810-10-50-3]
8. Does an enterprise that holds a significant variable interest in a VIE but is not the primary beneficiary disclose
   a. the nature of its involvement with the VIE and when that involvement began? ____ ____ ____
   b. the nature, purpose, size, and activities of the VIE? ____ ____ ____
   c. the enterprise's maximum exposure to loss as a result of its involvement with the VIE? ____ ____ ____
   [FASB ASC 810-10-50-4]
9. Are disclosures required by FASB ASC 860, *Transfers and Servicing*, about a VIE included in the same note to the financial statements as the information required by the "Variable Interest Entities" subsections of FASB ASC 810? (Further, information about VIEs may be reported in the aggregate for similar entities if separate reporting would not add material information.) ____ ____ ____
   [FASB ASC 810-10-50-5]
10. If an entity does not apply the guidance in the "Variable Interest Entities" subsections of FASB ASC 810 to one or more VIEs or potential VIEs because of the condition described in FASB ASC 810-10-15-17(c), is the following information disclosed:
    a. The number of entities to which this guidance is not being applied and the reason why the information required to apply this guidance 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)? ____ ____ ____

	Yes	No	N/A
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.) [FASB ASC 810-10-50-6]	_____	_____	_____

II. Statement of Net Assets Available for Benefits

A. Classification of Investments

	Yes	No	N/A
1. Are participant-directed plan investments shown in the aggregate as a one-line item? [FASB ASC 962-325-45-3]	_____	_____	_____

Practice Tips

Defined contribution plans are not required to present participant-directed plan investments in the statement of net assets by general type.
[FASB ASC 962-325-45-2]

Original cost of investments is not required to be disclosed.
[FASB ASC 962-325-50-2]

For reporting purposes, participant loans should be classified as investments.
[FASB ASC 962-325-45-10]

2. Are nonparticipant directed investments detailed by general type in the "Statement of Net Assets Available for Benefits" or in the notes, as follows:

	Yes	No	N/A
a. Registered investment companies (mutual funds)?	_____	_____	_____
b. Government securities?	_____	_____	_____
c. Common-collective trusts?	_____	_____	_____
d. Pooled separate accounts?	_____	_____	_____
e. Short-term securities?	_____	_____	_____
f. Corporate bonds?	_____	_____	_____
g. Common stocks?	_____	_____	_____
h. Mortgages?	_____	_____	_____
i. Loans to participants?	_____	_____	_____
j. Real estate? [FASB ASC 962-325-45-5]	_____	_____	_____

	Yes	No	N/A
3. Does the presentation of the plan's investments (participant-directed and nonparticipant-directed) indicate whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [FASB ASC 962-325-45-4; FASB ASC 962-325-45-6]	____	____	____
4. For investments (including self-directed and participant directed investments) that represent 5 percent or more of the plan's net assets available for benefits			
a. are they identified in the financial statements or notes thereto?	____	____	____
b. if any of those investments are nonparticipant-directed, are they identified as such? [FASB ASC 962-325-45-7]	____	____	____

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.
[AAG 3.46*h*]

	Yes	No	N/A
5. Do the notes to the financial statements include the investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [FASB ASC 962-325-50-6]	____	____	____
6. Do the notes to the financial statements include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits" presented? [FASB ASC 962-325-50-8]	____	____	____
7. Do disclosures include investments pledged to secure debt of the plan as well as a description of the provisions regarding the release of such investments from the pledge and the amounts of investments released from the pledge in the last period? [AAG 3.46*k*; Common Practice]	____	____	____

Practice Tip

A plan provides for participant-directed investment programs if it allows participants to choose among various investment alternatives. The available alternatives are usually pooled fund vehicles, such as registered investment companies or commingled funds of banks, that provide varying kinds of investments—for example, equity funds and fixed income funds. The participant may select among the various available alternatives and periodically change that selection.
[FASB ASC 962-325-05-4]

	Yes	No	N/A
8. If the plan provides for participant-directed and nonparticipant-directed investment programs, is disclosure made, either in the financial statements or accompanying notes, about the net assets and significant components of the changes in net assets relating to the nonparticipant-directed program with such reasonable detail as is necessary to identify the types of investments and changes therein? [FASB ASC 962-325-50-5; FASB ASC 962-325-45-8]	_____	_____	_____

Practice Tip

If a plan offers a program that is both participant and nonparticipant directed, and if the participant-directed and nonparticipant-directed amounts cannot be separately determined, the plan will be deemed to be nonparticipant-directed for purposes of the disclosure in question 8. For example, an employer-sponsored plan offers six investment fund options, one of which is a stock fund that includes only the employer's stock. Employees at their discretion may invest their contributions in any or all of the six options. However, the employer's contribution to the plan (for example, the company match) is automatically invested in the employer's stock fund. The stock fund is considered to be nonparticipant-directed for purposes of this disclosure if the employee and the employer amounts cannot be separately determined.
[FASB ASC 962-325-50-5]

B. Investment and Insurance Contracts

Practice Tip

The AICPA issued Technical Questions and Answers (TIS) sections 6931.08–.10, (AICPA, *Technical Practice Aids*) to provide nonauthoritative guidance on the reporting of fully benefit responsive investment contracts held by defined contribution plans, which clarifies the types of investments, financial statement presentation of such 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? (***Note:*** Defined contribution pension plans should generally report investments [including derivative contracts] at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts. The contract value of a fully benefit-responsive investment contract held by a plan is the amount a participant would receive if he or she were to initiate transactions under the terms of the ongoing plan.) [FASB ASC 962-325-35-5; FASB ASC glossary]	_____	_____	_____
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? [FASB ASC 962-205-45-2]	_____	_____	_____

	Yes	*No*	*N/A*
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? [FASB ASC 962-205-45-3]	____	____	____
4. Are *insurance contracts*, as defined by FASB ASC 944, *Financial Services—Insurance*, presented in the same manner required by ERISA annual reporting requirements of DOL Form 5500 or Form 5500 C/R, that is either at fair value or at amounts determined by the insurance enterprise (contract value)? [FASB ASC 962-325-35-6]	____	____	____

Note: FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts—an Interpretation of FASB Statement No. 60*, amends paragraph 6 of FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, to clarify that financial guarantee insurance contracts issued by insurance enterprises are included within the scope of FASB Statement No. 60 as interpreted by FASB Statement No. 163. FASB Statement No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FASB Statement No. 163 was codified in FASB ASC 944.

	Yes	*No*	*N/A*
5. Are the following disclosed, in the aggregate, for fully benefit-responsive investment contracts:			
a. A description of the nature of those investment contracts, including 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 should 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.	____	____	____

Yes No N/A

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 should 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* used herein is consistent with its use in FASB ASC 450-20-25.) _____ _____ _____

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? _____ _____ _____
[FASB ASC 962-325-50-3]

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? _____ _____ _____
[FASB ASC 962-325-50-4]

7. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? _____ _____ _____
[AAG 7.50*c*; Common Practice]

C. Property, Plant, and Equipment

1. Are plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures or leasehold improvement) reported at cost less accumulated depreciation or amortization? _____ _____ _____
[FASB ASC 962-205-45-5]

2 For depreciable assets, do the financial statements include disclosure of

a. depreciation expense for each period? _____ _____ _____

	Yes	No	N/A
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. a general description of the method or methods used in computing depreciation for each major class of depreciable assets? [FASB ASC 360-10-50-1]	____	____	____
3. 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 the guidance for the presentation and disclosure of the "Impairment or Disposal of Long-Lived Assets" section in FASB ASC 360, *Property, Plant and Equipment*?[3] [FASB ASC 360-10-45; FASB ASC 360-10-50]	____	____	____
D. Contributions Receivable and Uncollectible Amounts			
1. Are the following contributions receivable separately identified:			
a. Receivables from employer(s)?	____	____	____
b. Receivables from participants?	____	____	____
c. Other sources of funding? [FASB ASC 962-310-45-1]	____	____	____
2. Do contributions receivable include those pursuant to formal commitments as well as legal or contractual requirements, if applicable? [FASB ASC 962-310-25-1]	____	____	____
3. Do contributions receivable include an allowance for uncollectible amounts? [FASB ASC 962-310-35-1]	____	____	____
E. Cash			
1. Is separate disclosure made of restricted cash? [FASB ASC 210-10-45-4]	____	____	____
2. Are restrictions on cash properly disclosed? [Common Practice]	____	____	____
3. Are bank overdrafts reclassified to and presented separately in liabilities? [Common Practice]	____	____	____

[3] FASB ASC 360-10-45 and FASB ASC 360-10-50 provide guidance for the presentation and disclosure of the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The specific detailed requirements of FASB ASC 360-10-45 and FASB ASC 360-10-50 have not been included in the checklist due to the determination that many of the presentation and disclosure requirements would not be applicable to defined contribution plans. However, if the plan recognizes an impairment of long-lived assets, please refer to the aforementioned sections of the FASB ASC for the presentation and disclosure requirements.

Yes No N/A

Practice Tip

The AICPA issued 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.

F. Liabilities

1. Are liabilities other than for benefits (such as securities purchased, refund of excess contributions, income taxes payable by the plan, and other expenses-third party administrator fees) deducted in arriving at net assets available for benefits? [FASB ASC 962-205-45-4] _____ _____ _____

Practice Tip

Amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid should not be reflected as liabilities.
[AAG 3.41]

2. Consider stating separately:
   a. Due to broker for securities purchased? _____ _____ _____
   b. Accounts payable? _____ _____ _____
   c. Accrued expenses? _____ _____ _____
   [Common Practice; AAG app. E examples E-1 and E-4]
3. Do disclosures include guarantees by others of debt of the plan? _____ _____ _____
   [FASB ASC 962-205-50-1*h*]

III. Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the change in fair value (or estimated fair value) of each significant type of investment, including participant directed and self-directed investments held in brokerage accounts? (***Note:*** Gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year-end.) _____ _____ _____
   [FASB ASC 962-205-45-7*a*]

Practice Tip

This disclosure is still required for participant-directed brokerage window accounts even though the DOL has issued alternative reporting for such investments for Form 5500 purposes.

2. Does the "Statement of Changes in Net Assets Available for Benefits" present the effects of significant changes in net assets during the year and present, at a minimum, all of the following:

		Yes	No	N/A
a.	Investment income (exclusive of changes in fair value)?	____	____	____
b.	Contributions from employer(s), segregated between cash and noncash contributions with the nature of the noncash contributions described either parenthetically or in a note?	____	____	____
c.	Contributions from participants, including those transmitted by the sponsor?	____	____	____
d.	Contributions from other identified sources (for example, state subsidies or federal grants)?	____	____	____
e.	Benefits paid to participants?	____	____	____
f.	Payments to insurance entities to purchase contracts that are excluded from plan assets?	____	____	____
g.	Administrative expenses?	____	____	____
h.	Other changes in net assets available for benefits? (For example, transfers of assets to or from other plans, or proceeds from demutualizations if significant.) [FASB ASC 962-205-45-7*b*–*h*; FASB ASC 962-205-45-8]	____	____	____

Practice Tip

The list of minimum disclosures is not intended to limit the amount of detail or the manner of presenting the information, and subclassifications or additional classifications may be useful.
[AAG 3.49]

B. Contributions

		Yes	No	N/A
1.	Are noncash contributions recorded at fair value?	____	____	____
2.	Is the nature of *noncash* contributions described, either parenthetically or in a footnote? [FASB ASC 962-205-45-7*c*]	____	____	____

C. Investment Earnings

		Yes	No	N/A
1.	Does the net appreciation (depreciation) in the fair value of investments (see question 1 under the "General" heading) include realized gains and losses on investments that were both bought and sold during the year? [FASB ASC 962-205-45-7*a*]	____	____	____
2.	Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (for example, interest and dividends) disclosed in the notes for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [FASB ASC 962-325-50-7]	____	____	____
3.	Is interest income earned and rebate interest paid as a result of securities lending activity recorded in the "Statement of Changes in Net Assets Available for Benefits?" [FASB ASC 962-325-45-9]	____	____	____

Yes No N/A

IV. Summary of Significant Accounting Policies

A. Accounting Policies

1. Is a description of all significant accounting policies presented as either a separate summary of significant accounting policies preceding the notes to the financial statements or as an initial note? ____ ____ ____
[FASB ASC 235-10-50-6; Common Practice]

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 U.S. GAAP? ____ ____ ____
   [FASB ASC 235-10-50-3]

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? ____ ____ ____
[FASB ASC 235-10-50-5]

4. Is an explanation that the preparation of financial statements in conformity with U.S. GAAP requires the use of management's estimates included? ____ ____ ____
[FASB ASC 275-10-50-4]

5. Does the disclosure of the significant accounting policies include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? ____ ____ ____
[FASB ASC 962-325-50-1]

6. Does the disclosure of the significant accounting policies include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? ____ ____ ____
[FASB ASC 962-205-50-1*f*]

B. Certain Significant Estimates

1. If known information available before the financial statements are issued or are available to be 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 FASB ASC 450, *Contingencies*, 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? _____ _____ _____
[FASB ASC 275-10-50 par. 8–9]

V. 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 (not required for subsequent periods):

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, including all of the following:

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. _____ _____ _____

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 is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (paragraphs 5–7 of FASB ASC 250-10-45)? _____ _____ _____

Yes No N/A

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? ____ ____ ____
[FASB ASC 250-10-50-1]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[FASB ASC 250-10-50-1]

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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? ____ ____ ____
[FASB ASC 250-10-50-1]

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 postchange interim periods? ____ ____ ____
[FASB ASC 250-10-50-3]

Changes in Accounting Estimate

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

5. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by questions 1–3 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? [FASB ASC 250-10-50-4]	____	____	____

Changes 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? [FASB ASC 250-10-50-6]	____	____	____

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[FASB ASC 250-10-50-6]

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? [FASB ASC 250-10-50-6]	____	____	____

Note: Regarding business combinations, FASB ASC 805-10-50, FASB ASC 805-20-50, FASB ASC 805-30-50, and FASB ASC 805-740-50 describe the manner of reporting and the disclosures required for a business combination.

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? [FASB ASC 250-10-50-7]	____	____	____
10. In addition to question 9, does the plan make the following disclosures of prior-period adjustments and restatements (see also FASB ASC 205-10-45 and FASB ASC 205-10-50-1):			

Yes No N/A

a. When financial statements for a single period only are presented, the effects (including applicable income taxes) of such restatement on the balance of retained earnings, or other appropriate component of equity or net assets, at the beginning of the period and on the change in net assets of the immediately preceding period? _____ _____ _____

b. When financial statements for more than one period are presented, the effects (including applicable income taxes) for each of the periods included in the financial statements? _____ _____ _____
[FASB ASC 250-10-50-9]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[FASB ASC 250-10-50-10]

An entity that issues interim financial statements should provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.
[FASB ASC 250-10-50-2]

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? _____ _____ _____
[FASB ASC 450-20-25-2]

2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 1 disclosed? _____ _____ _____
[FASB ASC 450-20-50-1]

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? _____ _____ _____
[FASB ASC 450-20-50 par. 3–4]

	Yes	No	N/A

Practice Tips

Disclosure is preferable to accrual when a reasonable estimate of loss cannot be made. For example, disclosure should be made of any loss contingency that meets the condition in FASB ASC 450-20-25-2(a), question 1, but that is not accrued because the amount of loss cannot be reasonably estimated. Disclosure also should be made of some loss contingencies that do not meet the condition in FASB ASC 450-20-25-2(a), question 1, namely, those contingencies for which there is a reasonable possibility that a loss may have been incurred even though information may not indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.
[FASB ASC 450-20-50-5]

******

Disclosure is not required of a loss contingency involving an unasserted claim or assessment if there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless both of the following conditions are met:

- It is considered probable that a claim will be asserted.
- There is a reasonable possibility that the outcome will be unfavorable.

Further, disclosure of noninsured or underinsured risks is not required; however, disclosure in appropriate circumstances is not discouraged.
[FASB ASC 450-20-50 par. 6–7]

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Disclosure of a loss, or a loss contingency, arising after the date of an entity's financial statements but before those financial statements are issued, as described in paragraphs 6–7 of FASB ASC 450-20-25, may be necessary to keep the financial statements from being misleading if an accrual is not required. If disclosure is deemed necessary, the financial statements should include both of the following:

- The nature of the loss or loss contingency
- An estimate of the amount or range of loss or possible loss or a statement that such an estimate cannot be made

Occasionally, in the case of a loss arising after the date of the financial statements if the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements.
[FASB ASC 450-20-50 par. 9–10]

4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? ____ ____ ____
[FASB ASC 450-30-50-1]

5. Are the nature and amount of guarantees (for example, guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? ____ ____ ____
[FASB ASC 460-10-50 par. 2–3]

	Yes	No	N/A
6. Has the entity disclosed the following items: unused letters of credit, long term leases, assets pledged as securities for loans, pension plans, the existence of cumulative preferred stock dividends in arrears, commitments for plant acquisitions to reduce debts, maintain working capital, or restrict dividends? [FASB ASC 440-10-50-1]	_____	_____	_____
C. Current Vulnerability Due to Certain Concentrations			
1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (*a*) the concentration existed at the date of the financial statements, (*b*) made the plan vulnerable to the risk of a near-term severe impact, and (*c*) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [FASB ASC 275-10-50 par. 16, 18, and 20]	_____	_____	_____
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? [FASB ASC 275-10-50-20]	_____	_____	_____
3. Certain loan products have contractual terms that expose entities to risks and uncertainties that fall into one or more categories, as discussed in FASB ASC 275-10-50-1. If they meet the requirements of FASB ASC 275-10-50-16, are other concentrations disclosed? [FASB ASC 310-10-50-25]	_____	_____	_____

	Yes	No	N/A

D. Description of Defined Contribution Plan

1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, vesting and allocation provisions and the disposition of forfeitures? [FASB ASC 962-205-50-1*a*] _____ _____ _____

Practice Tip

If a plan agreement or a description providing this information is otherwise published and made available, this description may be omitted from the financial statements provided that a reference to the other source is made.
[FASB ASC 962-205-50-1a]

2. Do disclosures include the amount of unallocated assets, as well as the basis used to allocate asset values to participants' accounts if that basis differs from the one used to record assets in the financial statements? [FASB ASC 962-205-50-1*c*] _____ _____ _____

E. Description of Plan Amendments

1. Do disclosures include a description of significant plan amendments adopted during the period, and the effects of such amendments on net assets if significant either individually or in the aggregate? [FASB ASC 962-205-50-1*b*] _____ _____ _____

F. Financial Instruments

Notes: In March 2008, FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, amended FASB Statement 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. FASB Statement No. 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. FASB Statement No. 161 also encourages comparative disclosures at initial adoption.

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 amended FASB Statement No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amended 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*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. This FSP clarified the board's intent that the disclosures required by FASB Statement No. 161 should be provided for any reporting period (annual or quarterly interim) beginning after November 15, 2008. This clarification was effective upon is-

(continued)

Yes No N/A

suance of the FSP. The provisions of this FSP that amended FASB Statement No. 133 and FASB Interpretation No. 45 were effective for reporting periods (annual or interim) ending after November 15, 2008. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption.

In March 2010, FASB issued ASU No. 2010-11, *Derivative and Hedging (Topic 815)—Scope Exception Related to Embedded Credit Derivatives*, to provide amendments to FASB ASC 815, *Derivatives and Hedging*, to clarify the guidance regarding the embedded credit derivative scope exception. ASU No. 2010-11 is effective for reporting periods beginning after June 15, 2010, and early adoption is permitted. This checklist has been updated to include the disclosure and presentation requirements of ASU No. 2010-11.

This guidance is located in FASB ASC 815-10-50.

1. Have the following disclosures been made by the entity with derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66), that enable the users of the financial statements to understand the following:
   a. How and why an entity uses derivative instruments (or such nonderivative instruments)? ____ ____ ____
   b. How derivative instruments (or such nonderivative instruments) and related hedged items are accounted for under FASB ASC 815? ____ ____ ____
   c. How derivative instruments (or such nonderivative instruments) and related hedged items affect the entity's financial position, performance, and cash flows? ____ ____ ____
   [FASB ASC 815-10-50-1]
2. 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 FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66):
   a. Its objectives for holding or issuing those instruments? ____ ____ ____
   b. The context needed to understand those objectives? ____ ____ ____
   c. Its strategies for achieving those objectives? ____ ____ ____
   d. Information that would enable users of its financial statements to understand the volume of its activity in those instruments? (An entity should select the format and the specifics of disclosures relating to its volume of such activity that are most relevant and practicable for its individual facts and circumstances.) ____ ____ ____
   [FASB ASC 815-10-50 par. 1A–1B]

	Yes	No	N/A
3. Is the information described in question 2 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)? [FASB ASC 815-10-50-1B]	____	____	____
4. Does the description of those instruments described in question 2 also distinguished between those used for risk management purposes and those used for other purposes? Derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66) used for risk management purposes include those designated as hedging instruments under FASB ASC 815-20 as well as those used as economic hedges and for other purposes related to the entity's risk exposures. [FASB ASC 815-10-50-1B]	____	____	____
5. For derivative instruments designated as hedging instruments, does the description distinguish between each of the following:			
a. Instruments used for risk management purposes, distinguish between each of the following:			
i. 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?	____	____	____
ii. Instruments used as economic hedges and for other purposes related to the entity's risk exposure?	____	____	____
b. Instruments used for other purposes? [FASB ASC 815-10-50-2]	____	____	____
6. For derivative instruments not designated as hedging instruments under FASB ASC 815-20, does the description indicate the purpose of the derivative activity? [FASB ASC 815-10-50-4]	____	____	____

Practice Tip

The qualitative disclosures required by FASB ASC 815-10-50-4A(a)–(b), question 9, should be presented in tabular format except for the information required for hedged items by FASB ASC 815-10-50-4C(a). Information about hedged items can be presented in a tabular or nontabular format.
[FASB ASC 815-10-50-4E]

	Yes	No	N/A
7. 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 or the location and amount of gains and losses, as applicable, of derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66) reported in the financial statements? [FASB ASC 815-10-50-4A]	____	____	____
8. Do the disclosures required by FASB ASC 815-10-50-4A(a), as discussed in question 7, provide the following:			
a. The fair value of derivative instruments on a gross basis, even when the derivative instruments are subject to master netting arrangements and qualify for net presentation in the statement of net assets available for benefits in accordance with FASB ASC 210-20 (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 in accordance with FASB ASC 815-20 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? [FASB ASC 815-10-50-4B]	____	____	____
9. Are the gains and losses disclosed pursuant to FASB ASC 815-10-50-4A(b) presented separately for all of the following types of contracts:			
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?	____	____	____

	Yes	No	N/A
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 any of the following: (i) the amount of the hedges' ineffectiveness and (ii) the amount, if any, excluded from the assessment of hedge effectiveness?	_____	_____	_____
e. Derivative instruments not designated or qualifying as hedging instruments under FASB ASC 815-20? [FASB ASC 815-10-50-4C]	_____	_____	_____
10. Do the disclosures in 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)? [FASB ASC 815-10-50-4D]	_____	_____	_____
11. Do the disclosures in question 9 identify the line item(s) in the statement of changes in net assets available for benefits in which the gains and losses for the categories of derivative instruments are included? [FASB ASC 815-10-50-4D]	_____	_____	_____

Practice Tip

If the disclosure option in question 12 is elected, a footnote in the required tables referencing the use of alternative disclosures for trading activities should be included.
[FASB ASC 815-10-50-4F]

	Yes	No	N/A
12. If the plan's policy is to include derivative instruments that are not designated or qualifying as hedging instruments under FASB ASC 815-20 in its trading activities, and the plan elects to exclude those derivative instruments from the disclosures pursuant to question 9, has it disclosed the following:			
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? [FASB ASC 815-10-50-4F]	_____	_____	_____

	Yes	No	N/A

13. 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 FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66) 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 (or such nonderivative instruments) that are in a net liability position at the end of the reporting period? _____ _____ _____

    b. The aggregate fair value amounts of derivative instruments (or such nonderivative 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 end of the reporting period and (i) the aggregate fair value of additional assets that would be required to be posted as collateral, (i) the aggregate fair value of assets needed to settle the instrument immediately, or both (i) and (ii), if the credit-risk-related contingent features were triggered at the end of the reporting period? _____ _____ _____
    [FASB ASC 815-10-50-4H]

14. If the disclosures related to derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66) are presented in more than a single footnote, does each derivative note cross-reference the other notes in which derivative-related information is disclosed? _____ _____ _____
    [FASB ASC 815-10-50-4I]

Credit Derivatives

15. If the plan is a seller of credit derivatives (as defined in FASB ASC 815-10-50-4J), does it disclose the following information even if the likelihood of the seller's having to make any payments under the credit derivative is remote: (***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 all of the following:

        i. The approximate term of the credit derivative? _____ _____ _____

        ii. The reason(s) for entering into the credit derivative? _____ _____ _____

	Yes	No	N/A
iii. The events or circumstances that would require the seller to perform under the credit derivative?	____	____	____
iv. 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?	____	____	____
v. If the entity uses internal groupings for the purposes of item (iv), how those groupings are determined and used for managing risk?	____	____	____
b. The maximum potential amount of future payments (undiscounted) the seller could be required to make under the credit derivative which should not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative?	____	____	____
c. The fact that the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, if applicable, is disclosed?	____	____	____
d. If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, are the reasons why it cannot estimate the maximum potential amount disclosed?	____	____	____
e. Is the fair value of the credit derivative as of the date of the statement of financial position disclosed?	____	____	____
f. 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?	____	____	____
g. 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?	____	____	____

	Yes	No	N/A
h. In its estimate of potential recoveries, does the seller of credit protection consider the effect of any purchased credit protection with identical underlying(s)? (***Note:*** The disclosures required by question 15(*a*)–(*g*) do not apply to an embedded derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another, as described in FASB ASC 815-15-15-9 ["Pending Content" in FASB ASC 815-10-50-4K].) [FASB ASC 815-10-50-4J; "Pending Content" in FASB ASC 815-10-50-4K]	_____	_____	_____
16. With respect to hybrid instruments that have embedded credit derivatives, does the seller of the embedded credit derivative disclose the information required by FASB ASC 815-10-50-4K , question 15, for the entire hybrid instrument, not just the embedded credit derivatives? [FASB ASC 815-10-50-4L]	_____	_____	_____
17. Does the seller of a credit derivative disclose the information required by FASB ASC 815-10-50-4K, question 15, for groups of similar credit derivatives by			
a. major types of contracts (for example, single-name credit default swaps, traded indexes, other portfolio products, and swaptions)?	_____	_____	_____
b. for each major type, by additional subgroups for major types of referenced or underlying asset classes (for example, corporate debt, sovereign debt, and structured finance)? [Common Practice; FASB ASC 815-10-50-4L]	_____	_____	_____
Fair Value Hedges			
18. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under FASB ASC 830-20 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 (i) the amount of the hedges' ineffectiveness and (ii) 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? [FASB ASC 815-25-50-1]	_____	_____	_____

	Yes	*No*	*N/A*
Cash Flow Hedges			
19. Have the disclosure requirements of FASB ASC 815-30-45-1 and paragraphs 1–2 of FASB ASC 815-30-50 been followed for derivative instruments that have been designated as cash flow hedging instruments that are reported in comprehensive income pursuant to FASB ASC 815-20-25-65 and FASB ASC 815-30-35-3? [FASB ASC 815-30-45-1; FASB ASC 815-30-50 par. 1–2]	____	____	____
Certain Contracts on Debt and Equity Securities			
20. Has the plan disclosed its accounting policy for the premium paid (time value) to acquire an option that is classified as held to maturity or available for sale? [FASB ASC 815-10-50-9]	____	____	____
21. 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, an entity is encouraged, but not required, to present a more complete picture of its activities by disclosing that information. Have such disclosures been made (for every annual and interim reporting period for which a statement of financial position and statement of financial performance are presented)? [FASB ASC 815-35-50-2; FASB ASC 815-10-50-4A]	____	____	____
22. The qualitative disclosures about the plan's objective and strategies for using derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to FASB ASC 815-20-25-58 and FASB ASC 815-20-25-66) may be more meaningful if they are described in the context of the plan's overall risk exposures relating to interest rate risk, foreign exchange risk, commodity price risk, credit risk, equity price risk even if the plan does not manage some of those exposures by using derivative instruments. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? [Common Practice; FASB ASC 815-10-50-5]	____	____	____
Disclosures About Fair Value of Financial Instruments			
23. Have the disclosure requirements of FASB ASC 825, *Financial Instruments*, been followed for financial instruments of the plan? [FASB ASC 825-10-50]	____	____	____

Practice Tip

The disclosure requirements of FASB ASC 825-10-50-21 do not apply to the following financial instruments, whether written or held: the financial instruments described in FASB ASC 825-10-50-8(a), (c), (e), and (f), except for reinsurance receivables and prepaid reinsurance premiums.

(continued)

Yes No N/A

Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of FASB ASC 715, *Compensation—Retirement Benefits* (financial instruments of a pension plan, other than the obligations for pension benefits, if subject to the accounting and reporting requirements of FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plans*, are subject to the requirements of paragraphs 20–21 of FASB ASC 825-10-50).
[FASB ASC 825-10-50-22]

Disclosures About Fair Value of Financial Instruments

24. Except as indicated in FASB ASC 825-10-50-22, 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)? _____ _____ _____
[FASB ASC 825-10-50-20]

25. 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? _____ _____ _____
    [FASB ASC 825-10-50-21]

26. Has the plan disclosed quantitative information[4] about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? _____ _____ _____
[Common Practice; FASB ASC 825-10-50-23]

[4] 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

(continued)

	Yes	No	N/A

Unconditional Purchase Obligations

27. If the entity has unconditional purchase obligations which are subject to the requirements of FASB ASC 440, *Commitments*, and FASB ASC 815, are the disclosures required by both topics complied with, including FASB ASC 440-10-50-4? [FASB ASC 815-10-50-6] _____ _____ _____

Offsetting

28. Is the plan's policy for offsetting or not offsetting in accordance with FASB ASC 815-10-45-6 disclosed? [FASB ASC 815-10-50-7] _____ _____ _____

Practice Tip

A reporting entity should make an accounting policy decision to offset fair value amounts pursuant to FASB ASC 815-10-45-5. The reporting entity's choice to offset or not must be applied consistently. A reporting entity should not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. A reporting entity that makes an accounting policy decision to offset fair value amounts recognized for derivative instruments pursuant to FASB ASC 815-10-45-5 but determines that the amount recognized for the right to reclaim cash collateral or the obligation to return cash collateral is not a fair value amount should continue to offset the derivative instruments.
[FASB ASC 815-10-45-6]

29. Has the plan disclosed the amounts recognized at the end of each reporting period for the right to reclaim cash collateral or the obligation to return cash collateral as follows:
    a. If the plan has made an accounting policy decision to offset fair value amounts it should separately disclose amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral that have been offset against net derivative positions in accordance with FASB ASC 815-10-45-5? _____ _____ _____

Practice Tip

A reporting entity may offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. Solely as it relates to the right to reclaim cash collateral or the obligation to return cash collateral, fair value amounts include amounts that approximate fair value.
[FASB ASC 815-10-45-5]

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. [FASB ASC 825-10-50]

	Yes	No	N/A
b. Has the entity separately disclosed amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting arrangements that have not been offset against net derivative instrument positions?	_____	_____	_____
c. If the entity has made an accounting policy decision to not offset fair value amounts, have they separately disclosed the amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting arrangements? [FASB ASC 815-10-50-8]	_____	_____	_____

Certain Hybrid Financial Instruments

	Yes	No	N/A
30. If the plan measures hybrid instruments (financial instruments containing embedded derivatives) at fair value in accordance with the election and under the practicability exception in FASB ASC 815-15-30-1 on earnings (or other performance indicators for entities that do not report earnings), is the aggregate fair value of those instruments reported separately on the face of the statement of net assets available for benefits from the aggregate carrying amounts of assets and liabilities subsequently measured using another measurement attribute? [FASB ASC 815-15-45-1]	_____	_____	_____
31. For those hybrid financial instruments measured at fair value under the election and under the practicability exception in FASB ASC 815-15-30-1 on earnings (or other performance indicators for entities that do not report earnings), has the plan disclosed the information in paragraphs 28–32 of FASB ASC 825-10-50? [FASB ASC 815-15-50-1]	_____	_____	_____
32. Has the plan provided information that will allow users to understand the effect of changes in the fair value of hybrid financial instruments measured at fair value under the election and under the practicability exception in FASB ASC 815-15-30-1 on earnings (or other performance indicators for entities that do not report earnings)? [FASB ASC 815-15-50-2]	_____	_____	_____
33. For those embedded conversion options previously accounted for as a derivative instrument under FASB ASC 815-15 (embedded derivatives) that no longer meet the separation criteria, has a description of the principal changes causing the embedded conversion option to no longer require bifurcation and the amount of the liability for the conversion option which has been reclassified to stockholders' equity been disclosed? [FASB ASC 815-15-50-3]	_____	_____	_____

	Yes	No	N/A

G. Guarantees

Note: In September 2008, FASB issued FSP FAS 133-1 and FIN 45-4. This FSP amends disclosures related to the credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. It amends FASB Statement No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FASB Interpretation No. 45 to require additional disclosure about the current status of the payment or performance risk of the guarantee.

The FSP is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Early application is encouraged. This FSP encourages but does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In years after initial adoption, it requires comparative disclosures only for periods subsequent to initial adoption.

This checklist has been updated to include the presentation and disclosure requirements of FSP FAS 133-1 and FIN 45-4.

FSP FAS 133-1 and FIN 45-4 has been codified in FASB ASC 815 and FASB ASC 460, *Guarantees*.

1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:
   - *a.* The nature of the guarantee, including the approximate term, how the guarantee arose, 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 FASB ASC 450-20-30, regardless of whether the guarantee is freestanding or embedded in another contract? ____ ____ ____

	Yes	No	N/A
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?	____	____	____
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? [FASB ASC 460-10-50-4]	____	____	____
2. For product warranties and other guarantee contracts required to be disclosed by FASB ASC 460-10-15-9, is the following information disclosed:			
a. The information required to be disclosed by question 1, except that a guarantor is not required to disclose the maximum potential amount of future payments in question 1?	____	____	____
b. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?	____	____	____
c. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	____	____	____
d. 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? [FASB ASC 460-10-50-8]	____	____	____

	Yes	No	N/A
3. Are the disclosure requirements in paragraphs 30–34 of FASB ASC 460-10-55 complied with for intellectual property infringement indemnifications, as described in FASB ASC 460? [FASB ASC 460-10-55 par. 30–34]	_____	_____	_____
4. Are the disclosure requirements in paragraphs 4–6 of FASB ASC 460-10-50 applied to all minimum revenue guarantees in financial statements of interim or annual periods? [FASB ASC 460-10-50 par. 4–6]	_____	_____	_____

H. Income Tax Status

	Yes	No	N/A
1. If a favorable determination letter is not obtained or maintained, is the federal income tax status of the plan disclosed? [FASB ASC 962-205-50-1*g*]	_____	_____	_____

Practice Tip

Note that reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether a tax ruling or determination letter has been obtained," which is more than is required by FASB ASC 960.
[FASB ASC 962-205-50-1*g*]

I. Uncertainty in Income Tax

Note: In June 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, was issued and was effective for public entities for fiscal years beginning after December 15, 2006. In December 2008, FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which was also codified in FASB ASC 740-10. FSP FIN 48-3 delayed the effective date of FASB ASC 740-10 for certain nonpublic entities, including employee benefit plans, to fiscal years beginning after December 15, 2008. FASB Interpretation No. 48 and FSP FIN 48-3 were codified in FASB ASC 740-10.

In September 2009, FASB issued ASU No. 2009-06, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. The amendments apply only to nonpublic entities, including employee benefit plans, as defined in FASB ASC 740-10-20.

The amendments to FASB ASC in ASU No. 2009-006 provide implementation guidance, through examples, on how to apply the standards for uncertainty in income taxes. In addition, ASU No. 2009-06 eliminates, for nonpublic entities, the disclosures required by both FASB ASC 740-10-50-15(a) (which requires a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of the periods presented) and FASB ASC 740-10-50-15(b) (which requires the disclosure of the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate).

For plans that are currently applying the guidance for accounting for uncertainty in income taxes, this guidance and the disclosure amendments are effective for financial statements issued for interim and annual periods ending after September 15, 2009 (that is, December 31,

(continued)

	Yes	No	N/A

2009, for plans with calendar year-ends). For those plans that have deferred the application of accounting for uncertainty in income taxes in accordance with FASB ASC 740-10-65-1(e), the guidance and disclosure amendments are effective upon adoption of those standards.

This checklist has been updated to include the presentation and disclosure requirements for accounting for uncertainty in income taxes and ASU No. 2009-06.

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 FIN 48" to help practitioners implement FASB Interpretation No. 48, which interprets FASB Statement No. 109, *Accounting for Income Taxes*. Also see the sections "Unrelated Business Income Tax" and "Accounting for Uncertainty in Income Taxes" of the AICPA Audit Risk Alert *Employee Benefit Plans Industry Developments—2010* (product no. 0224110) for further discussion.

1. Does a plan disclose its policy on classification of interest and penalties in accordance with the alternatives permitted in FASB ASC 740-10-45-25 in the footnotes to the financial statements? ____ ____ ____
   [FASB ASC 740-10-50-19]

2. Does a plan disclose the following at the end of each annual reporting period presented:

   a. **(Audits of issuers [11-K filings with the Securities and Exchange Commission (SEC) only])** 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? ____ ____ ____

      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. **(Audits of issuers [11-K filings with the SEC only])** The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate? ____ ____ ____

	Yes	No	N/A

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? ____ ____ ____
[FASB ASC 740-10-45-11; "Pending Content" in FASB ASC 740-10-50-15]

3. Has a liability (or a reduction in the amount refundable) been created for an unrecognized tax benefit because it represents a future obligation to the taxing authority for a tax position that was not recognized under the requirements of FASB ASC 740-10? ____ ____ ____
["Pending Content" in FASB ASC 740-10-25-16]

4. Is a liability that has been recognized for an unrecognized tax benefit not classified as a deferred tax liability unless it arises from a taxable temporary difference? ____ ____ ____
[FASB ASC 740-10-45-12; FASB ASC 740-10-25-17]

J. Plan Terminations

1. If the decision has been made to terminate a plan, or when a *wasting trust* (that is, a plan under which participants no longer accrue benefits but that will remain in existence as long as necessary to pay already accrued benefits) exists, are all relevant circumstances disclosed? ____ ____ ____
[FASB ASC 962-40-50-1]

2. If the decision to terminate a plan is made before the end of the plan year, are the plan's year-end financial statements prepared on the liquidation basis of accounting as described in FASB ASC 962-40-35-1? ____ ____ ____
[FASB ASC 962-40-25-1]

3. Have the plan's financial statements for periods ending after the termination decision been prepared on the liquidation basis of accounting? ____ ____ ____
[FASB ASC 962-40-25-2]

K. Related-Party Transactions

1. For related-party transactions, do disclosures include

a. the nature of the relationship(s) involved? ____ ____ ____

	Yes	No	N/A
b. for each period for which a statement of changes in net assets is presented			
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? [FASB ASC 850-10-50-1]	_____	_____	_____
2. Have notes or accounts receivable from officers, employees, or affiliated entities been shown separately and have not been included under a general heading (such as notes receivable or accounts receivable)? [FASB ASC 850-10-50-2]	_____	_____	_____
3. 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 been obtained if the plans were autonomous? [FASB ASC 850-10-50-6]	_____	_____	_____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [FASB ASC 840-10-50-1]	_____	_____	_____
5. 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? [FASB ASC 850-10-50-5]	_____	_____	_____

Practice Tips

In some cases, aggregation of similar transactions by type of related party may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed.
[FASB ASC 850-10-50-3]

(continued)

Yes	No	N/A

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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 previously described.
[AAG 11.01 and A.93 fn 25; ERISA sec. 3(14)]

L. Subsequent Events

Notes: In May 2009, FASB issued Statement No. 165, *Subsequent Events*, to establish principles and requirements for subsequent events. In particular, this statement sets forth

a. the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.

b. the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.

c. the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

This statement should be applied to the accounting for and disclosure of subsequent events not addressed in other applicable U.S. GAAP.

This statement moved the type I and type II subsequent event guidance from GAAS into U.S. GAAP and added disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

This statement is effective for interim or annual financial periods ending after June 15, 2009 (that is, December 31, 2009, for plans with calendar year-ends), and should be applied prospectively.

FASB Statement No. 165 was codified in FASB ASC 855, *Subsequent Events*.

FASB ASC 855 was amended in February 2010 by ASU No. 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements*. The guidance in ASU No. 2010-09 is effective immediately for all financial statements that have not yet been issued or have not yet become available to be issued.

As a result of ASU No. 2010-09, SEC registrants will not disclose the date through which management evaluated subsequent events in the financial statements. SEC registrants continue to have responsibilities for evaluating subsequent events as previously required. Plans that file their financial statements with the SEC using Form 11-K should evaluate subsequent events through the date the financial statements are issued. These plans will not be required to disclose the date through which management has evaluated subsequent events in the financial statements.

ASU No. 2010-09 also changes the criteria for determining whether an entity would evaluate subsequent events through the date that finan-

(continued)

	Yes	No	N/A

cial statements are issued or when they are available to be issued. SEC registrants will evaluate subsequent events through the date that the financial statements are issued, and all other entities will evaluate subsequent events through the date that financial statements are available to be issued. All plans that do not file with the SEC should evaluate subsequent events through the date that the financial statements are available to be issued.

This checklist has been updated to include the presentation and disclosure requirements of FASB ASC 855.

1. If the plan does not file a Form 11-K with the SEC, has the plan disclosed (in both originally issued financial statements and any reissued financial state-ments) the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued? _____ _____ _____
   [FASB ASC 855-10-50-1; FASB ASC 855-10-50-4]

2. For nonrecognized subsequent events that are of such a nature that they must be disclosed to keep the financial statements from being misleading, has the entity disclosed
   a. the nature of the event? _____ _____ _____
   b. an estimate of its financial effect, or a statement that such an estimate cannot be made? _____ _____ _____
   [FASB ASC 855-10-50-2]

M. Transfers and Servicing of Financial Assets and Securitizations

Note: In June 2009, FASB issued FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*. FASB Statement No. 166 is effective as of the beginning of reporting periods that begin after November 15, 2009 (that is, January 1, 2010, for plans with calendar year-ends). Earlier application is prohibited.

Among other guidance relating to transfer of financial assets, FASB Statement No. 166 (*a*) clarifies that the objective of paragraph 9 of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*, is to determine whether a transferor has surrendered control over transferred financial assets; (*b*) defines the term *participating interest* to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale; and (*c*) requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale. In addition, FASB Statement No. 166 requires enhanced disclosures to provide financial statements to users with greater transparency about the transfers of financial assets and the transferor's continuing involvement with transferred financial assets.

In December 2009, FASB issued ASU No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*, which formally incorporated the provisions of FASB Statement No. 166 into FASB ASC 860. ASU No. 2009-16 represents a revision to the provisions

(continued)

	Yes	No	N/A

of former FASB Statement No. 140 and will require more information about transfers of financial assets, including securitization transactions and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures.

This checklist has not been updated to include the presentation and disclosure requirements of FASB Statement No. 166 and ASU No. 2009-16.

Readers can refer to the full texts of these statements on the FASB website at www.fasb.org.

1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? ____ ____ ____
[FASB ASC 860-30-50-1A]

2. If the plan has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of net assets available for benefits pursuant to FASB ASC 860-30-25-5(a), is the carrying amount and classification of those assets as of the date of the latest statement of net assets available for benefits presented? ____ ____ ____
[FASB ASC 860-30-50-1A]

3. If the plan 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 net assets available for benefits) of that collateral and of the portion of that collateral that it has sold or repledged disclosed? ____ ____ ____
[FASB ASC 860-30-50-1A]

4. If the plan sets aside assets solely for the purpose of satisfying scheduled payments of a specific obligation, is disclosure made of the nature of restrictions placed on those assets? ____ ____ ____
[FASB ASC 860-30-50-2]

5. 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? ____ ____ ____
[FASB ASC 860-10-50-1]

6. 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? ____ ____ ____

	Yes	No	N/A
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? [FASB ASC 860-50-50-2]	_____	_____	_____
7. 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			
(1) changes in valuation inputs or assumptions used in the valuation model?	_____	_____	_____
(2) other changes in fair value and a description of those changes?	_____	_____	_____
v. 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 should 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 FASB ASC 860-50-50-2(b), 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.) [FASB ASC 860-50-50-3]	____	____	____
8. 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?	____	____	____

Yes No N/A

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 should 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 is also encouraged, but not required, to disclose a description of the valuation techniques as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.) _____ _____ _____

d. the risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with FASB ASC 860-50-35-9? _____ _____ _____

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? _____ _____ _____
[FASB ASC 860-50-50-4]

9. 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 and 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? _____ _____ _____

	Yes	No	N/A
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)? [FASB ASC 860-20-50-3]	____	____	____
10. If the entity has interests that continue to be held by the transferor in financial assets that it has securitized or servicing assets or servicing liabilities relating to assets that it has securitized, at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	____	____	____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported under (*b*) 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			

	Yes	No	N/A
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? [FASB ASC 860-20-50-4]	_____	_____	_____
11. **(Audits of issuers [11-K filings with the SEC only])** For plans that file a Form 11-K, are the required public entity disclosure requirements in accordance with FASB ASC 860 presented? [FASB ASC 860-10-50 par. 2–7]	_____	_____	_____

N. Fair Value Measurements

Notes: In September 2006, FASB issued FASB Statement No. 157, which was codified in FASB ASC 820, *Fair Value Measurements and Disclosures*, which was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In February 2008, FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of FASB Statement 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 recurring basis. FSP FAS 157-2 defers the effective date of FASB Statement No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008 (that is, January 1, 2009, for plans with calendar year-ends).

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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 has been codified in FASB ASC 820 and provides additional guidance for estimating fair value when there has been a significant decrease in the volume and level of activity for the asset or liability and also provides guidance on identifying the circumstances that indicate a transaction is not orderly.

FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 (that is, December 31, 2009, for plans with calendar year-ends), and should be applied prospectively. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. FSP FAS 157-4 supersedes FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active*.

This checklist has been updated to include the presentation and disclosure requirements of FSP FAS 157-4.

(continued)

Yes No N/A

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In September 2009, FASB issued ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2009-12 provides guidance on using the net asset value (NAV) per share provided by investees to estimate the fair value of an alternative investment. ASU No. 2009-12 provides amendments to FASB ASC 820, *Fair Value Measurements and Disclosures*, for the fair value measurement of investments in certain entities that calculate NAV per share and requires disclosures by major category of investments about the attributes of those investments.

The amendments in this ASU are effective for interim and annual periods ending after December 15, 2009 (that is, December 31, 2009, for plans with calendar year-ends). Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. (If an entity elects to early adopt ASU No. 2009-12, the entity is permitted to defer the adoption of the disclosure provisions of FASB 820-10-50-6A until periods ending after December 15, 2009.

This checklist has been updated to include the presentation and disclosure requirements of ASU No. 2009-12.

This guidance is labeled as "Pending Content" due to the transition and open effective date information discussed in FASB ASC 820-10-65-6.

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In January 2010, FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 amends the disclosure requirements of FASB ASC 820 to require new disclosures regarding (*a*) transfers in and out of levels 1 and 2 and (*b*) activity in level 3 fair value measurements. ASU No. 2010-06 also provides amendments to FASB ASC 820 that clarify existing disclosures regarding (*a*) level of disaggregation for each class of assets and liabilities and (*b*) disclosures about inputs and valuation techniques for fair value measurements that fall in either levels 2 or 3.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 (that is January 1, 2010, for plans with calendar year-ends), except for the disclosures regarding the rollforward of activity in level 3 fair value measurements that are effective for fiscal years beginning after December 15, 2010 (that is, January 1, 2011, for plans with calendar year-ends) and for interim periods within those fiscal years.

This checklist has not been updated to include the presentation and disclosure requirements of ASU No. 2010-06.

This guidance is located in FASB ASC 820-10-50 and FASB ASC 820-10-55 and is labeled as “Pending Content” due to the transition and open effective date information contained in FASB ASC 820-10-65-7.

Yes No N/A

Practice Tips

With regard to question 1, for equity and debt securities, *major category* is defined as major security type as described in FASB ASC 320-10-50-1B, even if the equity securities or debt securities are not within the scope of FASB ASC 320, *Investments—Debt and Equity Securities*.
["Pending Content" in FASB ASC 820-10-50-2]

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), has the reporting entity disclosed 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, has the reporting entity disclosed 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:[5]

      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)? ____ ____ ____

      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)? ____ ____ ____

[5] For derivative assets and liabilities, the reconciliation disclosure required by "Pending Content" in FASB ASC 820-10-50-2(c).

	Yes	*No*	*N/A*
d. The amount of the total gains or losses for the period in item (*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. 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?	____	____	____
[FASB ASC 820-10-50 par. 1 and 3; "Pending Content" in FASB ASC 820-10-50-2]			
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), has the reporting entity disclosed information that enables users of its financial statements to assess the inputs used to develop those measurements? To meet that objective, has the reporting entity disclosed 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. The inputs and valuation technique(s) used to measure fair value and a discussion of changes, if any, in valuation techniques and related inputs used to measure similar assets or liabilities in prior periods?	____	____	____
["Pending Content" in FASB ASC 820-10-50-5]			
3. For investments that are within the scope of paragraphs 4–5 of FASB ASC 820-10-15 and that are measured at fair value (on a recurring or nonrecurring basis), has the plan disclosed information that enables the users of its financial statements to understand the nature and risks of the investments and whether the investments are probable of being sold at amounts different from NAV (or its equivalent)?	____	____	____
4. To meet the disclosure requirements in question 3, to the extent applicable, has the plan disclosed all of the following information for each major category of investment:			

	Yes	No	N/A
a. The fair value (as determined by applying paragraphs 59–62 of FASB ASC 820-10-35) of the investments in the major category and a description of the significant investment strategies of the investee(s) in the major category?	_____	_____	_____
b. For each major category of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees?	_____	_____	_____
c. The amount of the reporting entity's unfunded commitments related to investments in the major category?	_____	_____	_____
d. A general description of the terms and conditions upon which the investor may redeem investments in the major category (for example, quarterly redemption with 60 days' notice)?	_____	_____	_____
e. The circumstances in which an otherwise redeemable investment in the major category (or a portion thereof) might not be redeemable (for example, investment subject to a lockup or gate)? Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, has the reporting entity disclosed its estimate of when the restriction from redemption might lapse? If an estimate cannot be made, has the reporting entity disclosed that fact and how long the restriction has been in effect?	_____	_____	_____
f. Any other significant restriction on the ability to sell investments in the major category at the measurement date?	_____	_____	_____
g. If a reporting entity has determined that it is probable that it will sell an investment(s) for an amount different from NAV per share (or its equivalent) as described in FASB ASC 820-10-35-62, has the reporting entity disclosed the total fair value of all investments that meet the criteria in FASB ASC 820-10-35-62 and any remaining actions required to complete the sale?	_____	_____	_____
h. If a group of investments would otherwise meet the criteria in FASB ASC 820-10-35-62 but the individual investments to be sold have not been identified (so the investments continue to qualify for the practical expedient in FASB ASC 820-10-35-59), has the reporting entity disclosed its plans to sell any remaining actions required to complete the sale(s)?	_____	_____	_____

["Pending Content" in FASB ASC 820-10-50-6A]

	Yes	No	N/A

5. For a liability having the characteristics set forth in FASB ASC 820-10-25-1, has the entity disclosed the existence of the third-party credit enhancement on its issued liability? (***Note:*** "Pending Content" in FASB ASC 820-10-35-18A states that, for the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit enhancement.) ____ ____ ____
["Pending Content" in FASB ASC 820-10-50-4A]

6. Are the quantitative disclosures required by FASB ASC 820-10-50 presented using a tabular format? ____ ____ ____
[FASB ASC 820-10-50-8]

7. Is the fair value information disclosed under FASB ASC 820-10-50 and the fair value information disclosed as required by other FASB ASC topics (for example, FASB ASC 825-10-50) combined in the periods in which those disclosures are required, if practicable? ***(Common Practice)*** ____ ____ ____
[FASB ASC 820-10-50-9]

8. Is information about other similar measurements (for example, inventories measured at market value under FASB ASC 330, *Inventory*) disclosed, if practicable? ***(Common Practice)*** ____ ____ ____
[FASB ASC 820-10-50-9]

9. As of each date for which a statement of financial position is presented, do the entities disclose the following about items measured at fair value under the option in FASB ASC 825, *Financial Instruments*:

   a. Management's reasons for electing a fair value option for each eligible item or group of similar eligible items? ____ ____ ____

   b. If the fair value option is elected for some but not all eligible items within a group of similar eligible items

      i. a description of those similar items and the reasons for partial election? ____ ____ ____

      ii. information to enable users to understand how the group of similar items relates to individual line items on the statement of financial position? ____ ____ ____

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

      i. information to enable users to understand how each line item in the statement of financial position relates to major categories of assets and liabilities presented in accordance with FASB ASC 820 fair value disclosure requirements? ____ ____ ____

      ii. the aggregate carrying amount of items included in each line item in the statement of financial position that are not eligible for the fair value option, if any? ____ ____ ____

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

	Yes	No	N/A
i. loans and long-term receivables (other than securities subject to FASB ASC 320) that have contractual principal amounts and for which the fair value option has been elected?	_____	_____	_____
ii. long-term debt instruments that have contractual principal amounts and for which the fair value option has been elected?	_____	_____	_____
e. For loans held as assets for which the fair value option has been elected			
i. the aggregate fair value of loans that are 90 days or more past due?	_____	_____	_____
ii. if the entity's policy is to recognize interest income separately from other changes in fair value, the aggregate fair value of loans in nonaccrual status?	_____	_____	_____
iii. the difference between the aggregate fair value and the aggregate unpaid principal balance for loans that are 90 days or more past due, in nonaccrual status, or both?	_____	_____	_____
f. For information required by FASB ASC 323-10-50-3 (equity method and joint venture investments) for investments that would have been accounted for under the equity method if the entity had not chosen to apply the fair value option? [FASB ASC 825-10-50-28]	_____	_____	_____
10. For each period for which an income statement is presented, do entities disclose the following about items for which the fair value option has been elected:			
a. For each line item in the statement of financial position, the amounts of gains and losses from fair value changes included in earnings during the period and in which line in the income statement those gains and losses are reported? (The statement does not preclude an entity from meeting this requirement by disclosing amounts of gains and losses that include amounts of gains and losses for other items measured at fair value, such as items required to be measured at fair value.)	_____	_____	_____
b. A description of how interest and dividends are measured and where they are reported in the income statement? (The statement does not address the methods used for recognizing and measuring the amount of dividend income, interest income, and interest expense for items for which the fair value option has been elected.)	_____	_____	_____
c. For loans and other receivables held as assets:			
i. the estimated amount of gains or losses included in earnings during the period attributable to changes in instrument-specific credit risk?	_____	_____	_____

	Yes	No	N/A

ii. how the gains or losses attributable to changes in instrument-specific credit risk were determined? ____ ____ ____

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

i. the estimated amount of gains and losses from fair value changes included in earnings that are attributable to changes in the instrument specific credit risk? ____ ____ ____

ii. qualitative information about the reasons for those changes? ____ ____ ____

iii. how the gains and losses attributable to changes in instrument-specific credit risk were determined? ____ ____ ____
[FASB ASC 825-10-50-30]

Note: The disclosure requirements in paragraphs 28–30 of FASB ASC 825-10-50 do not eliminate disclosure requirements included in other FASB ASC topics, including other disclosure requirements relating to fair value measurement. Entities are encouraged but are not required to present the required disclosures in combination with related fair value information required to be disclosed.
[FASB ASC 825-10-50-27]

Other Required Disclosures

11. In annual periods only, does an entity disclose the methods and significant assumptions used to estimate the fair value of items for which the fair value option has been elected? ____ ____ ____
[FASB ASC 825-10-50-31]

12. If an entity elects the fair value option at a remeasurement event, has it disclosed the following in financial statements for the period of the election:

a. Qualitative information about the nature of the event? ____ ____ ____

b. Quantitative information by line item in the statement of financial position indicating which line items in the income statement include the effect on earnings of initially electing the fair value option for an item? ____ ____ ____
[FASB ASC 825-10-50-32]

O. Other Matters

1. Do disclosures include the basis for determining contributions by employers? ____ ____ ____

a. For a contributory plan, does the disclosure state the method of determining the participants' contributions? ____ ____ ____

b. For plans subject to the minimum funding requirements of ERISA, such as money purchase pension plans, is disclosure made of whether those requirements have been met? ____ ____ ____

	Yes	No	N/A
c. If a minimum funding waiver has been granted by the IRS, or if a request for waiver is pending before the IRS, is that fact disclosed? [FASB ASC 962-205-50-1*d*]	____	____	____
2. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [FASB ASC 962-205-50-1*e*]	____	____	____
3. Do disclosures include the amount and disposition of forfeited nonvested accounts, specifically, identification of those amounts that will be used to reduce future employer contributions, expenses , or reallocated to participant accounts, in accordance with plan documents? [FASB ASC 962-205-50-1*j*]	____	____	____
4. Do disclosures include amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid? [FASB ASC 962-205-50-1*i*]	____	____	____

Practice Tip

These amounts should not be reported as a liability on the statement of net assets available for benefits, in financial statements prepared in conformity with U.S. GAAP. A footnote to reconcile the audited financial statements to the Form 5500 may be necessary to comply with ERISA.
[FASB ASC 962-205-50-1*i*]

	Yes	No	N/A

VI. ERISA Reporting Requirements

A. Form 5500 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 U.S. 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 EBSA in accordance with the instructions to the form. (See paragraphs .21–.24 of FSP section 8000 for a discussion about the Form 5500.)

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

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

	Yes	No	N/A
a. a description of accounting principles and variances from U.S. 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 (including policy with respect to prior service cost) and any changes in such policies during the year?	____	____	____
d. a description of material lease commitments, and other commitments and contingent liabilities?	____	____	____
e. a description of any agreements and transactions with persons known to be parties-in-interest?	____	____	____
f. a general description of priorities in the event of plan termination?	____	____	____
g. whether a tax ruling or determination letter has been obtained?	____	____	____
h. Any other information required for a fair presentation?	____	____	____

Yes No N/A

i. An explanation of any differences between the information contained in the separate financial statements and the net assets, liabilities, income, expense, and changes in net assets as required to be reported on Form 5500? ____ ____ ____
[AAG A.50*a* and A.51*c*]

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 current 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. 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.

Nonstandardized Schedules

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.) ____ ____ ____

(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

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Practice Tip

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

	Yes	No	N/A
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?	_____	_____	_____

(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.

	Yes	No	N/A
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?	_____	_____	_____

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

Note: Beginning for 2009 plan years, large plans with delinquent participant contributions should attach a schedule clearly labeled "Schedule H Line 4a—Schedule of Delinquent Participant Contributions" using the following format. Information on all delinquent participant contributions should be reported on line 4a of either Schedule H or Schedule I of the Form 5500, and should not be reported on line 4d of Schedule H or I or on Schedule G.

	Yes	No	N/A
d. The Schedule H, line 4a—Schedule of Delinquent Participant Contributions?	_____	_____	_____

Yes *No* *N/A*

Participant Contributions Transferred Late to Plan	Total That Constitute Nonexempt Prohibited Transactions			Total Fully Corrected Under Voluntary Fiduciary Correction Program (VFCP) and Prohibited Transaction Exemption 2002-51
Check Here If Late Particpant Loan Repayments Are Included	Contributions Not Corrected	Contributions Corrected Outside the VFCP	Contributions Pending Correction in VFCP	

Practice Tip

Participant loan repayments paid to or withheld by an employer for purposes of transmittal to the plan that were not transmitted to the plan in a timely fashion must be reported either on line 4a of either Schedule H or I of the Form 5500 in accordance with the reporting requirements that apply to delinquent participant contributions or on line 4d of Schedule H or I of Form 5500.

For further guidance regarding the reporting of delinquent participant contributions see the instructions to the Form 5500 and the EBSA website frequently asked questions at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

e. Are the following schedules reported on the Schedule G, *Financial Transactions Schedules*, 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 A.51*b* and exhibit A-1]

Practice Tip

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year.
[AAG A.51 fn 18]

	Yes	No	N/A

VII. Securities and Exchange Commission Reporting Requirements

Note: The SEC requires employee stock purchase, savings, and similar plans with interests that constitute securities registered under the Securities Act of 1933 to file Form 11-k pursuant to Section 15(d) of the Securities Exchange Act of 1934. When Form 11-k is filed separately, it must be filed with the SEC within 90 days after the end of the plan's fiscal year-end. For those plans that do NOT file financial statements and schedules prepared in accordance with ERISA, Regulation S-X, Rule 6A contains special rules applicable to employee stock purchase, savings and similar plans. Note that such financial statements should be prepared in accordance with the special rules in Regulation S-X, Rule 6A in addition to the general rules in Regulation S-X, Section 210.1-01 to 210.4-10. Where the requirements of a special rule differ from those prescribed in a general rule, the requirements of the special rule should be met. This checklist contains the special rules where they differ from or are in addition to the financial reporting requirements of ERISA. For further guidance, See FASB ASC 962-205-S99.

A. Regulation S-X Rule 6A, Employee Stock Purchase, Savings and Similar Plans

1. If the participating employees have an option as to the manner in which their deposits and contributions may be invested, do the financial statements or notes include a description of each investment program and the number of employees under each investment program? _____ _____ _____
2. Do the financial statements or notes disclose the number of units and the NAV per unit, where appropriate? _____ _____ _____
3. If the plan is not subject to federal income taxes, is there disclosure in the notes to the financial statements stating that fact and indicating briefly the principal assumptions on which the plan relied in not making provision for such taxes? _____ _____ _____
4. Do the financial statements and notes thereto, state the federal income tax status of the employee with respect to the plan? _____ _____ _____
5. Does the statement of financial condition reflect all investments at value, showing cost parenthetically? (***Note:*** For purposes of this rule, the term *value* should mean (i) market value for those securities having readily available market quotations and (ii) fair value as determined in good faith by the trustee(s) for the plan (or by the person or persons who exercise similar responsibilities) with respect to other securities and assets.) _____ _____ _____

B. Rule 6A-03, Statement of Financial Condition

1. Are plan assets stated including the following:
   a. Investments in securities of participating employers stating separately each class of securities for investments in securities in participating employer(s)? _____ _____ _____

	Yes	No	N/A
b. United States government bonds and other obligations (including only direct obligations of the United States government)?	_____	_____	_____
c. Other securities, stating separately marketable securities and other securities?	_____	_____	_____
d. Investments, other than securities stating separately each major class?	_____	_____	_____
e. Dividends and interest receivable?	_____	_____	_____
f. Cash?	_____	_____	_____
g. Other assets stating separately total amounts due from participating employers or any of their directors, officers and principal holders of equity securities; total amounts due from trustees or managers of the plan; and any other significant amounts?	_____	_____	_____
2. Are the plan's liabilities and plan equity stated including the following:			
a. Total amounts payable to participating employers?	_____	_____	_____
b. Total amounts payable to participating employees?	_____	_____	_____
c. Any other significant amounts?	_____	_____	_____
d. Reserves and other credits, stating separately each significant item and describe each such item by using an appropriate caption or footnote referred to in the caption?	_____	_____	_____
e. Plan equity at close of period?	_____	_____	_____
C. Rule 6A-04, Statement of Income and Changes in Plan Equity			
1. Does the net investment income of the plan in the statement of income and changes in plan equity include the following:			
a. Income from cash dividends?	_____	_____	_____
b. Interest income?	_____	_____	_____
c. Income from other sources?	_____	_____	_____
d. Expenses stating separately any significant amounts?	_____	_____	_____
e. Net investment income?	_____	_____	_____
2. Is income from investments in or indebtedness of participating employers segregated under the appropriate subcaption?	_____	_____	_____
3. Are realized gains and losses on investments disclosed in the statement of income and changes in plan equity stating separately the net of gains or losses arising from transactions in investments in securities of the participating employer or employers, other investments in securities, and other investments?	_____	_____	_____
4. Is the amount of the increase or decrease in the unrealized appreciation or depreciation of investments during the period disclosed?	_____	_____	_____

Yes No N/A

5. Do the footnotes to the financial statements disclose the amount of unrealized appreciation or depreciation of investments at the beginning of the period of report, at the end of the period of report, and the increase or decrease during the period? _____ _____ _____

6. For contributions and deposits, is the following disclosed in the financial statements or notes thereto:

   a. The total amounts deposited by participating employees? _____ _____ _____

   b. The total amounts contributed by the participating employer(s)? _____ _____ _____

7. If employees of more than one employer participate in the plan, are contributions and deposits stated in tabular form in a footnote or otherwise including the amount contributed by each employer and the deposits of the employees of each such employer? _____ _____ _____

8. Are withdrawals, lapses, and forfeitures disclosed, stating separately

   a. the balances of employees accounts withdrawn, lapsed or forfeited during the period? _____ _____ _____

   b. amounts disbursed in settlement of such accounts? _____ _____ _____

   c. dispositions of balances remaining after settlement specified in item (*b*)? _____ _____ _____

9. Does the statement of income and changes in plan equity disclose

   a. plan equity at the beginning of the period? _____ _____ _____

   b. plan equity at the end of the period? _____ _____ _____

D. Rule 6A-05, Schedules to Be Filed

Schedule I—Investments

1. Is Schedule I—Investments in the form prescribed by Section 210.12-12 in support of the required plan assets disclosures contained in question 1(*a*)–(*c*) filed as of the most recent audited statement of financial condition and any subsequent unaudited statement of financial condition being filed? (***Note:*** Schedule I—Investments is required unless substantially all of the information is given in the statement of financial condition by footnote or otherwise.) _____ _____ _____

Schedule II—Allocation of Plan Assets and Liabilities to Investment Programs

2. Has the plan submitted Schedule II—Allocation of Plan Assets and Liabilities to Investment Programs if the plan provides for separate investment programs with separate funds, and if the allocation of assets and liabilities to the several funds is not shown in the statement of financial condition in columnar form or by the submission of separate statements for each fund? _____ _____ _____

	Yes	No	N/A
3. If the plan is submitting Schedule II, does it show the allocation of each caption of each statements of financial condition filed to the applicable fund?	____	____	____
Schedule III—Allocation of Plan Income and Changes in Plan Equity to Investment Programs			
4. If the plan provides for separate investment programs with separate funds, and if the allocation of income and changes in plan equity to the several funds is not shown in the statement of income and changes in plan equity in columnar form, has the plan submitted Schedule III—Allocation of Plan Income and Changes in Plan Equity to Investment Programs	____	____	____
5. If the plan is submitting Schedule III, does it show the allocation of each caption of each statement of income and changes in plan equity files to the applicable fund?	____	____	____

FSP Section 8300
Auditor's 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, 2010)
AR =	Reference to section number in AICPA *Professional Standards* (vol. 2)
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
AU-P =	Reference to section number in AICPA *PCAOB Standards and Related Rules*
CFR =	Code of Federal Regulations
DOL =	Department of Labor
PCAOB =	Public Company Accounting Oversight Board
SAS =	AICPA Statement on Auditing Standards

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

Practice Tip—11-K Filers

As noted in the practice tips in paragraph .25 of section 8000, plans that are required to file Form 11-Ks are deemed to be *issuers* under the Sarbanes-Oxley Act and must submit to the SEC an audit in accordance with the auditing and related professional practice standards promulgated by the PCAOB. These plans may also be subject to Employee Retirement Income Security Act (ERISA) and must submit to the DOL an audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA's Auditing Standards Board (ASB). It is our understanding that the SEC will not accept an audit report that references GAAS, and the DOL will not accept an audit report that does *not* reference GAAS.

Audits of plans that file Form 11-K must be conducted in accordance with two sets of standards and prepare two separate audit reports; an audit report referencing PCAOB standards for Form 11-K filings with the SEC and a separate audit report referencing GAAS for DOL filings. The PCAOB and SEC staff believe that an opinion issued in accordance with PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, Standards, AU-P app. A), does not allow a reference to GAAS, hence a *dual* standard report is not appropriate and will not be accepted by the SEC.

Any questions regarding performance and reporting requirements of audits of financial statements of Form 11-K filers should be directed to the SEC Division of Corporation Finance, Office of the Chief Accountant at (202) 942-2960.

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* (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 GAAS

(continued)

audit and an audit conducted in accordance with the standards of the PCAOB. Interpretation No. 18, "Reference to PCAOB Standards in an Audit Report on a Nonissuer," of AU section 508 (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? [Common Practice]	____	____	____
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? [Common Practice]	____	____	____
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 [11-K filings with the SEC only])** A statement that the audit was conducted in accordance with the standards of the PCAOB (United States)? [PCAOB Auditing Standard No. 1 par. 3 (AU-P app. A 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*]	____	____	____

	Yes	No	N/A
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*]	___	___	___
i. When the auditor reports on financial statements presented in conformity with accounting principles generally accepted in the United States of America, an opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with generally accepted accounting principles (GAAP)? 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*]	___	___	___

Note: In May 2008, the 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 (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 (IFRSs), the auditor would refer, in the auditor's report, to the IFRSs rather than U.S. GAAP.

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

	Yes	No	N/A
j. When the auditor reports on financial statements presented in conformity with the IFRSs, an opinion as to 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 the IFRSs as issued by the IASB? [AU 9508.93–.97]	___	___	___

		Yes	No	N/A
k.	When the auditor reports on financial statements presented both in conformity with the IFRSs and a jurisdictional variant of the IFRSs, an opinion as to 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 the IFRSs as issued by the IASB and with the IFRSs as endorsed by [*insert name of endorsing country or economic union*]? [AU 9508.93–.97]			
l.	When the auditor reports on financial statements presented in conformity with a jurisdictional variation of the IFRSs such that the entity's financial statements do not contain an explicit and unreserved statement of compliance with the IFRSs 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 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*; AU 530.05]			

Practice Tip

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*, 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, "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 (AU sec. 9508 par. .56–.59), which provides that, when the audit of a nonissuer is conducted both in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and in accordance with the International Standards on Auditing (ISAs), the auditor may so indicate in the auditor's report.

To determine whether an audit was conducted in accordance with the ISAs, it is necessary to consider the text of the ISAs in their entirety, including the basic

(continued)

[1] If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered [AU 530.05].

	Yes	No	N/A
principles and essential procedures together with the related guidance included in the ISAs.			
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 the ISAs 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 ISAs as allowed? (***Note:*** Not required—Interpretation No. 14 of AU section 508 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 (SSARSs) indicating the lack of independence (nonpublic companies only)? [AU 504.05 and .09–.10; AR 100.23 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 ERISA 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?	____	____	____

	Yes	No	N/A
b. Does the opinion paragraph include a reference to the report of the other auditor? [AU 508.11*a*, .12, and .13]	_____	_____	_____
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 there is substantial doubt 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 there is substantial doubt 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*, for an example.
[AU 341.13]

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 3 par. 15 (AU-P 339.15)]	_____	_____	_____
14. **For audits 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 530.01 and .05; PCAOB Auditing Standard 5 par. 89 (AU-P 320.89)]	_____	_____	_____

Yes *No* *N/A*

Practice Tips

Changes in Accounting Estimates

Paragraph .15 of AU section 420, *Consistency of Application of Generally Accepted Accounting Principles*, 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 section 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*, 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 issuers only [11-K filings with the SEC only]. Certain circumstances, although not affecting 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-P section 508, *Reports on Audited Financial Statements*.

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-P section 508.

******

In January 2008, the PCAOB adopted Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* (AU-P sec. 420), 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 an entity's financial statements and align the auditor's responsibilities with FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*.

One significant difference in terminology between SFAS No. 154 and Auditing Standard No. 6 (AU-P sec. 420) is the use of the term *error* in the FASB standard whereas the PCAOB standard uses the term *misstatement* and specifically states that the meaning is the same for purposes of the PCAOB auditing standards. Auditing Standard No. 6 (AU-P sec. 420) 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 (AU-P sec. 420) contains numerous amendments to AU-P section 508 and other interim PCAOB auditing standards. The SEC approved Auditing Standard No. 6 (AU-P sec. 420) 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 (AU-P sec. 420) is applicable to issuers' financial statements, answer questions 16–17; otherwise, skip questions 16–17. For more information and for the full text of the

(continued)

Yes No N/A

auditing standard, refer to the PCAOB website at www.pcaob.org. Also refer to the SEC website 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.

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 effected 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 (AU-P sec. 420 par. .07):

    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 6 par. 4–8 and 11 (AU-P 420.04–.08 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 entity's disclosure of the correction of the misstatement? ____ ____ ____
    [PCAOB Auditing Standard 6 par. 5 and 9–11 (AU-P 420.05 and .09–.11)]

18. In an updated report on the individual financial statements 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 there for, 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]

	Yes	No	N/A
20. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if			
a. the auditor wishes to clarify that an audit performed in accordance with GAAS does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Sarbanes-Oxley Act is applicable? [AU 9508.85–.88]	____	____	____

Note: Common Practice—Interpretation No. 17 of AU section 508 provides an example report.

	Yes	No	N/A
b. the audit is conducted in accordance with both GAAS and the PCAOB's auditing standards as illustrated by Interpretation No. 18 of AU section 508? [AU 9508.89–.92]	____	____	____

Note: Common Practice—Interpretation No. 18 of AU section 508 provides an example report.

	Yes	No	N/A
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 U.S. 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 558A.08]	____	____	____
24. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if there is a material change between periods in accounting principles or in the method of their application? [AU 508.16–.18]	____	____	____
25. If the audit also was conducted in accordance with the ISAs, 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 550A.04]	____	____	____

	Yes	No	N/A

Note: In February 2010, the AICPA issued SAS No. 118, *Other Information in Documents Containing Audited Financial Statements* (AU sec. 550). SAS No. 118 supersedes the requirements and guidance in AU section 550A, *Other Information in Documents Containing Audited Financial Statements*, and, along with SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AU sec. 551), supersedes the requirements and guidance in AU section 551A, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. SAS No. 118 addresses the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. Question 27 should be answered for audits of financial statements for periods beginning SAS No. 118 is effective for audits of financial statements for periods beginning on or after December 15, 2010 (that is, January 1, 2011, for plans with calendar year-ends). Early application is permitted.

This checklist has been updated to include the reporting requirements of SAS No. 118.

27. Although the auditor is not required to reference the other information in the auditor's report on the financial statements, has the auditor included an explanatory paragraph disclaiming an opinion on the other information **(*Common Practice*)**? ____ ____ ____
    [AU 550.A2]

Practice Tip

Other information is financial and nonfinancial information (other than the financial statements and the auditor's report thereon) that is included in a document containing audited financial statements and the auditor's report thereon, excluding required supplementary information.
[AU 550.05 fn 1]

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]

	Yes	No	N/A

Practice Tip

DOL Regulations 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?	_____	_____	_____
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 Tip

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 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; Interpretation No. 1, "Auditing Interests in Trusts Held by a Third-Party Trustee and Reported at Fair Value," of AU section 328, *Auditing Fair Value Measurements and Disclosures* (AU sec. 9328 par. .01–.04); and Interpretation No. 1, "Auditing Investments in Securities Where a Readily Determinable Fair Value Does Not Exist," of AU section 332, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (AU sec. 9332 par. .01–.04).

(continued)

Yes No N/A

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

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

Consult the AU Topical Index in 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.

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? _____ _____ _____
    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 two-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*, 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:

		Yes	*No*	*N/A*
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 U.S. GAAP, are they described in the report? [AU 508.62–63]	_____	_____	_____

Practice Tip

Question 35 does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR 2520.103-8. In these situations, see question 39 and AAG paragraph 13.26.

			Yes	No	N/A
36.	If the financial statements are materially affected by a departure from U.S. 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 U.S. GAAP departure:				
	a.	Are all of the substantive reasons that have led to the conclusion that there is a departure from U.S. GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
	b.	Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of* and a reference to the explanatory paragraph?	_____	_____	_____
	c.	Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [AU 508.37 and .38]	_____	_____	_____
38.	If an adverse opinion is to be expressed because of a U.S. 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?	_____	_____	_____

[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 508.46–.49]

	Yes	No	N/A
c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with U.S. GAAP? [AU 508.58–.59]	____	____	____
39. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR 2520.103-8, is a disclaimer of opinion expressed? [AAG 13.26–.30]	____	____	____

Practice Tip

If the auditor is unable to obtain sufficient appropriate audit evidence regarding other noninvestment related information or investment information not covered by the certification, then the form of the limited scope report permitted pursuant to DOL Regulations 29 CFR 2520.103-8 may not be appropriate. Also, it likely will not be appropriate for the auditor to opine on the form and content of the supplemental schedules as presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA. See AU section 508 for reporting guidance.

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

	Yes	No	N/A
40. If the plan presents supplementary information in the financial statements, does the auditor's report			
a. state that the audit is conducted for the purpose of forming an opinion on the financial statements as a whole?	____	____	____
b. state that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements?	____	____	____
c. include either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the financial statements 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 financial statements)?	____	____	____

Note: In February 2010, the AICPA issued SAS No. 119, which supersedes AU section 551A. This SAS addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. The following additional questions should be answered for audits of financial statements for periods beginning on or after December 15, 2010 (that is, January 1, 2011, for plans with calendar year-ends). Early application is permitted.

Practice Tip

Supplementary information is defined as information presented outside the basic financial statements, excluding required supplementary information that is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. Such information may be presented in a document containing the audited financial statements or separate from the financial statements. [AU 551.04]. For example, the supplemental schedules required by ERISA to be attached to the Form 5500 are considered supplementary information.

	Yes	No	N/A
d. report on the supplementary information in an explanatory paragraph?	_____	_____	_____
e. state that the supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with U.S. GAAS?	_____	_____	_____
f. state that the supplementary information is the responsibility of the plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements?	_____	_____	_____
g. state that in the auditor's opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole? [AU 551.09; AAG 13.10]	_____	_____	_____
41. If the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, does the auditor's report on the supplementary information state that because of the significance of the matter disclosed in the auditor's report, it is inappropriate to and the auditor does not express an opinion on the supplementary information? [AU 551.11]	_____	_____	_____
42. If the auditor concludes that the supplementary information is materially misstated in relation to the financial statement as a whole, the auditor should discuss the matter with management and propose appropriate revision of the supplementary information. If management does not revise the supplementary information, has the auditor modified the auditor's opinion on the supplementary information and described the misstatement in the auditor's report? [AU 551.13]	_____	_____	_____

Note: Also, in February 2010, the AICPA issued SAS No. 120, *Required Supplementary Information* (AU sec. 558), which supersedes AU section 558A, *Required Supplementary Information*. SAS No. 120 addresses the auditor's responsibilities with respect to information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Questions 43–45 relate to SAS No. 120 and should be answered for audits of financial statements for periods beginning on or after December 15, 2010 (that is, January 1, 2011, for plans with calendar year-ends). Early application is permitted.

	Yes	No	N/A

Practice Tip

Required supplementary information is information that a designated accounting standard setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standard setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established.
[AU 558.04]

43. If the financial statements include required supplementary information, does the auditor's report contain an explanatory paragraph that includes language for the circumstances described in paragraph .07 of AU section 558, as applicable? _____ _____ _____
[AU 558.07]

44. If some or all of the required supplementary information is presented, does the explanatory paragraph described in question 43 include the elements contained in paragraph .08 of AU section 558? _____ _____ _____
[AU 558.08]

45. If all of the required supplementary information is omitted, does the explanatory paragraph include the elements contained in paragraph .09 of AU section 558? _____ _____ _____
[AU 558.09]

Note: Auditors are required to communicate control deficiencies identified during an audit that are significant deficiencies or material weaknesses as defined by SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (AU sec. 325), 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. In May 2006, the ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. The statement superseded 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 ASB issued SAS No. 115. SAS No. 115 supersedes SAS No. 112 of the same title 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.

This checklist has been updated to reflect the guidance in SAS No. 115.

46. Is the reporting form, content, and timing of AU section 325 paragraphs .17–.26 followed when communicating matters related to an organization's internal control over financial reporting identified in an audit of financial statements? _____ _____ _____
[AU 325.22–.29]

47. Auditor's report requirements under DOL regulations:
    a. Is the auditor's report dated and manually signed? _____ _____ _____
    b. Does it indicate the city and state where issued? _____ _____ _____

		Yes	*No*	*N/A*
c.	Does it identify the statements and schedules covered? [AAG A.50 fn 15]	_____	_____	_____
d.	Does it disclose any omitted auditing procedures deemed necessary by the accountant and the reasons for their omission?	_____	_____	_____
e.	State clearly the auditor's opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
f.	State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG A.50*a*; 29 CFR 2520]	_____	_____	_____
g.	State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements? [29 CFR 2520.103-1(iv)]	_____	_____	_____
	i. Are the exceptions, if any, further identified as (1) those that are the result of DOL regulations, and (2) all others? [AAG A.50*a*; 29 CFR 2520.103-1(iv)]	_____	_____	_____

Practice Tips

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 U.S. GAAP. A common example of the use of a basis other than U.S. GAAP is financial statements prepared on the modified cash basis of accounting for filing with the DOL. Reporting on financial statements prepared in conformity with an other comprehensive basis of accounting (OCBOA) is addressed in AU section 623, *Special Reports*. See questions 36–45 of section 6200 in *Checklists and Illustrative Financial Statements for Corporations* for the reporting requirements on OCBOA financial statements.
[AAG 13.21]

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 8400

Illustrative Financial Statements and Auditor's Reports

.01 This section illustrates certain applications of the requirements of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 962, *Plan Accounting—Defined Contribution Pension Plans*, that are applicable for the annual financial statements of hypothetical defined contribution plans with participant-directed and nonparticipant-directed investments. Such illustrative plans include

- the XYZ Company 401(k) Plan,
- the XYZ Company Profit-Sharing Plan, and
- the Sponsor Company Employee Stock Ownership Plan.

It does not illustrate other requirements of FASB ASC 962 as well as other FASB ASC topics that might be applicable in circumstances other than those assumed in these examples. The formats presented and the wording of the accompanying notes are illustrative and are not necessarily the only possible presentations. In addition, the illustrative financial statements in this section have been amended to conform to FASB ASC 820, *Fair Value Measurements and Disclosures*.[*] Note that FASB ASC 820 disclosures are limited to the financial instruments contained within these specific examples. It is recommended that users consult all the illustrative financial statements within appendixes D–F of the guide for FASB ASC 820 examples for differing types of financial instruments. The illustrative financial statements in this section are reproduced from the AICPA Audit and Accounting Guide *Employee Benefit Plans* (the guide) with conforming changes as of May 1, 2010.

.02 FASB ASC 962-325-35-5 states that defined contribution 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. According to paragraphs 2–3 of FASB ASC 962-205-45, the statement of net assets available for benefits of the plan should 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*) should 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. According to FASB ASC 962-205-45-6, the statement of changes in net assets available for benefits should 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.

.03 Although U.S. generally accepted accounting principles (GAAP) do not require comparative financial statements, Employee Retirement Income Security Act (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the requirements of ERISA.

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[*] The illustrative financial statements and footnote disclosures included in this section have been updated to reflect the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC) references. However, FASB's notice to constituents suggests the use of plain English in financial statement footnotes to describe broad FASB ASC topic references. They suggest a reference similar to "as required by the *Derivatives and Hedging Topic* of the FASB *Accounting Standards Codification*." Entities might consider revising their financial statement references to reflect this plain English referencing, rather than the use of specific FASB ASC references. For specific information on FASB ASC and its effect on these illustrative financial statements, please see the preface in AICPA Audit and Accounting Guide *Employee Benefit Plans* and section 8000 of this checklist.

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

.05 This section also includes the following illustrative auditor's reports:

- Unqualified opinion for profit-sharing plan (full scope audit) (paragraph .06)
- Modified opinions on the supplemental schedules because of omitted information or an omitted schedule (paragraphs .07–.10)
- Modified opinions on the supplemental schedules because disclosures of a material prohibited transaction with a party in interest is omitted (paragraphs .11–.14)
- Limited-scope opinions (paragraphs .15–.18)
- Unqualified opinion for a Form 11-K audit (paragraph .19)

Practice Tip—11-K Filers

Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1, *Reference in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, Standards, AU-P app. A), requires that auditor's reports on engagements conducted in accordance with the PCAOB standards include a reference that the engagement was performed in accordance with the standards of the PCAOB. This would replace the previously required references to generally accepted auditing standards. Plans that are required to file Form 11-Ks are deemed to be *issuers* under the Sarbanes-Oxley Act of 2002 and must submit to the Securities and Exchange Commission (SEC) an audit in accordance with the auditing and related professional practice standards promulgated by the PCAOB. These plans may also be subject to ERISA and must submit to the U.S. DOL an audit in accordance with generally accepted auditing standards (GAAS) promulgated by the AICPA's Auditing Standards Board. It is our understanding that the SEC will not accept an audit report that references GAAS, and the DOL will not accept an audit report that does not reference GAAS. *Audits of plans that file Form 11-K must be conducted in accordance with two sets of standards and prepare two separate audit reports; an audit report referencing PCAOB standards for Form 11-K filings with the SEC and a separate audit report referencing GAAS for DOL filings.* The PCAOB and SEC staff believe that an opinion issued in accordance with PCAOB Auditing Standard No. 1 (AU-P app. A) does not allow a reference to GAAS, hence a *dual* standard report is not appropriate and will not be accepted by the SEC.

Any questions regarding performance and reporting requirements of audits of financial statements of Form 11-K filers should be directed to the SEC Division of Corporation Finance, Office of the Chief Accountant at (202) 942-2960.

.06

The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of a profit-sharing plan.

Independent Auditor's Report

[*Addressee*]

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*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 Plan'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 net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2 in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules[†] of [*identify 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*]

(continued)

[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 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 act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

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

See 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), issued in June 2004.

[†] In January 2010, the AICPA issued the clarified Statement on Auditing Standards (SAS), *Supplementary Information in Relation to the Financial Statements as a Whole*, which supersedes AU section 551. This SAS addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

[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.

[*Date*][3]

[AAG 13.06 and 13.10–.11]

[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 (paragraph .01 of AU section 530, *Dating of the Independent Auditor's Report* [AICPA, *Professional Standards*, vol. 1]).

.07

The following are examples of paragraphs added to the auditor's report when the auditor modifies his or her report on the supplemental schedules because of omitted information or an omitted schedule which is required under DOL regulations.

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

Independent Auditor's Report

[*Addressee*]

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify 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.

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2 that accompanies the Plan's financial statements does not disclose the historical cost of certain nonparticipant directed plan assets held by the Plan trustee [or custodian]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

or

The Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions for the year ended December 31, 20X2. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.16]

.08

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

Qualified Opinion—Omitted or Incomplete Schedule or Material Inconsistency

Independent Auditor's Report

[*Addressee*]

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

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2 that accompanies the Plan's financial statements does not disclose that the Plan had loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify 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, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.16]

.09

In the following illustration, Schedule H, line 4i—Schedule of Assets (Held at End of Year) which accompanies the Plan's financial statements does not disclose that the Plan has loans to participants. Because the omitted participant loan information is information that is not certified by the trustee or custodian, a qualified or adverse opinion as to the form and content of the supplemental schedule(s) should be issued on the applicable supplemental schedule(s) because of an omission of participant loan information (see the table in paragraph 13.15 of the guide).

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

Independent Auditor's Report

[*Addressee*]

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

The supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2 that accompanies the Plan's financial statements does not disclose that the Plan has loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.16]

or

.10

In the following illustration, the Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions. Because the Schedule H, line 4j—Schedule of Reportable Transactions is information that is certified by the trustee or custodian, an omission of the schedule would require that an explanatory paragraph be added to the auditor's report (see the table in paragraph 13.15 of the guide).

Independent Auditor's Report

[*Addressee*]

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

The Plan has not presented the supplemental Schedule H, line 4j—Schedule of Reportable Transactions for the year ended December 31, 20X2. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.16]

.11

The following are examples of paragraphs added to the auditor's report on the plan's financial statements when the auditor qualifies his or her opinion on the supplemental schedules because disclosure of a material prohibited transaction with a party in interest is omitted.

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

Independent Auditor's Report

[*Addressee*]

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

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules [*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, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.17]

.12

The following are examples of paragraphs added to the auditor's report on the plan's financial statements when the auditor decides that an adverse opinion should be expressed on the supplemental schedules because disclosure of a material prohibited transaction with a party in interest is omitted.

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

Independent Auditor's Report

[*Addressee*]

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

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify 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, because of the omission of the information discussed in the preceding paragraph are not fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.17]

.13

The following are examples of paragraphs added to the auditor's report on the plan's financial statements when the auditor decides to modify his or her report on the supplemental schedules because disclosure of a prohibited transaction with a party in interest that is not material to the financial statements has been omitted.

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

Independent Auditor's Report

[*Addressee*]

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify 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.

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

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.17]

.14

The following is an example of a qualified opinion issued on the financial statements of a profit-sharing plan, and the related supplemental schedules, when the auditor concludes that the plan has entered into a prohibited transaction with a party in interest that is also considered a related-party transaction and is material to the financial statements, and the transaction has not been properly disclosed in the notes to the financial statements and the required supplemental schedule.

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statement of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X1 and 20X0, and the related statement of changes in net assets available for benefits 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X1 and 20X0, and the changes in net assets available for benefits for the year ended December 31, 20X1 in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify 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, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.18]

.15

The following are illustrations of limited-scope auditor reports.

Independent Auditor's Report

[*Addressee*]

We were engaged to audit the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the 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, 20X2. These financial statements and supplemental schedules are the responsibility of the Plan's management.

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

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

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.26]

.16

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

Limited-Scope Audit in Prior Year

Independent Auditor's Report

[*Addressee*]

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

Except as explained in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the Plan's financial statements as of December 31, 20X1. The form and content of the information included in the 20X1 financial statements, other than that derived from the information certified by the trustee, have been audited by us and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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

Our audit of the Plan's financial statements as of and for the year ended December 31, 20X2, was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify 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 audit of the basic financial statements for the year ended December 31, 20X2, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.28]

.17

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

Limited-Scope Audit in Current Year

Independent Auditor's Report

[*Addressee*]

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

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

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

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

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.29]

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Initial Limited-Scope Audit in Current Year, Prior Year Limited-Scope Audit Performed by Other Auditors. The following illustrates an initial limited-scope audit in the current year with the prior year limited-scope audit performed by other auditors for a profit sharing plan.

Report of Independent Certified Public Accountants

[*Addressee*]

We were engaged to audit the accompanying statement of net assets available for benefits of ABC Company Profit-Sharing Plan (the Plan) as of December 31, 20X2, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2. These financial statements and supplemental schedule are the responsibility of the Plan's management. The financial statements of the plan as of December 31, 20X1 were audited by other auditors. 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 (ERISA), the Plan administrator instructed the other auditors not to perform and they did not perform, any auditing procedures with respect to the information certified by the Trustee. Their report, dated May 20, 20X2, indicated that (*a*) because of the significance of the information that they did not audit, they were unable to, and did not, express an opinion on the financial statements taken as a whole and (*b*) the form and content of the information included in the financial statements other than that derived from the information certified by the Trustee, were presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

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

Because of the significance of the information in the Plan's 20X2 financial statements and supplemental schedule that we did not audit, we are unable to, and do not, express an opinion on the accompanying 20X2 financial statements and supplemental schedule taken as a whole. The form and content of the information included in the 20X2 financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.30]

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Form 11-K Filings. The following illustrates an auditor's opinion for a Form 11-K audit. Plans that are required to file Form 11-K would be considered issuers and accordingly would follow the PCAOB standards. See paragraphs .25–.28 of section 8000 for further guidance. (When reporting on the supplemental schedules, see paragraph 13.11 of the guide for guidance.)

Report of Independent Registered Public Accounting Firm

[*Addressee*]

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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.

[AAG 13.11 and 13.19]

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XYZ Company 401(k) Plan
Statements of Net Assets Available for Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments at fair value (See notes C, D, and E)	$9,192,000	$8,005,000
Receivables:		
Employer contribution	14,000	10,000
Participant contributions	52,000	50,000
Total receivables	66,000	60,000
Total assets	9,258,000	8,065,000
Liabilities:		
Accounts payable	10,000	20,000
Accrued expenses	15,000	—
Total liabilities	25,000	20,000
Net assets reflecting investments at fair value	9,233,000	8,045,000
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(15,000)	(10,000)
Net assets available for benefits	$9,218,000	$8,035,000

See accompanying notes to the financial statements.

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XYZ Company 401(k) Plan
Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31, 20X1
Additions:	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments (see note C)	$ 279,000
Interest	439,000
Dividends	165,000
	883,000
Less investment expenses	(50,000)
	833,000
Contributions:	
Participant	900,000
Employer	699,000
	1,599,000
Total additions	2,432,000
Deductions:	
Deductions from net assets attributed to:	
Benefits paid to participants	1,144,000
Administrative expenses (see note G)	105,000
Total deductions	1,249,000
Net increase	1,183,000
Net assets available for benefits:	
Beginning of year	8,035,000
End of year	$9,218,000

See accompanying notes to the financial statements.

Note: FASB ASC 230-10-15-4 states that a statement of cash flows is not required to be provided by a defined benefit pension plan that presents financial information in accordance with FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plans.* That paragraph also states that other employee benefit plans that present financial information similar to that required by FASB ASC 960 (including the presentation of plan investments at fair value) are not required to provide a statement of cash flows. That paragraph also states that employee benefit plans are encouraged to include a statement of cash flows with their annual financial statements if that statement would provide relevant information about the ability of the plan to meet future obligations (for example, if the plan invests in assets that are not highly liquid or obtains financing for investments. [FASB ASC 962-205-45-9]

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XYZ Company 401(k) Plan
Notes to Financial Statements

A. Description of Plan

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

1. *General.* The plan is a defined contribution plan covering all full-time employees of the company who have one year of service and are age twenty-one or older. The plan is subject to the provisions of ERISA.

2. *Contributions.* Each year, participants may contribute up to 12 percent of pretax annual compensation, as defined in the plan. Participants who have attained age 50 before the end of the plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the plan. The plan currently offers various mutual funds and an insurance investment contract as investment options for participants. The company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the plan. The matching company contribution is invested directly in XYZ Company common stock. Additional profit sharing amounts may be contributed at the option of the company's board of directors and are invested in a portfolio of investments as directed by the company. Contributions are subject to certain limitations.

3. *Participant Accounts.* Each participant's account is credited with the participant's contribution and allocations of (*a*) the company's contribution and (*b*) plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

4. *Vesting.* Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the company's contribution portion of their accounts is based on years of continuous service. A participant is 100 percent vested after 5 years of credited service.

5. *Participant Loans.* Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50 percent of their account balance. The loans are secured by the balance in the participant's account and bear interest at rates that range from 6 percent to 10 percent, which are commensurate with local prevailing rates as determined quarterly by the plan administrator. Principal and interest is paid ratably through monthly payroll deductions.

6. *Payment of Benefits.* On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a 10 year period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

7. *Forfeited Accounts.* At December 31, 20X1 and 20X0 forfeited nonvested accounts totaled $7,500 and $5,000 respectively. These accounts will be used to reduce future employer contributions. Also, in 20X1, employer contributions were reduced by $5,000 from forfeited nonvested accounts.

B. Summary of Accounting Policies

Basis of Accounting

The financial statements of the plan are prepared on the accrual basis of accounting.

Investment contracts held by a defined-contribution plan are required to be reported 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 because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

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 and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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 E 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.

Payment of Benefits

Benefits are recorded when paid.

Operating Expenses

All expenses of maintaining the plan are paid by the company.

Subsequent Events

The plan has evaluated subsequent events through [*insert date*], the date the financial statements were available to be issued.

C. Investments

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

	December 31,	
	20X1	*20X0*
XYZ Company common stock, 400,000 and 390,000 shares, respectively	$ 470,000*	$ 420,000*
ABC Corporation common stock, 390,000 and 380,000 shares, respectively	490,000*	450,000*
Prosperity Investments Common Stock Fund, 226,250 and 200,000 shares, respectively	2,262,500*	2,000,000*
Prosperity Investments Balanced Fund, 140,000 and 210,000 shares, respectively	1,422,000	2,100,000
Guaranteed investment contract with National Insurance Company, at contract value #2012A, matures 12/31/X5 (note F)	1,500,000	650,000

*Nonparticipant-directed

‡ See note E for discussion of fair value measurements.

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

Mutual funds	$ 229,000
Common stocks	30,000
Corporate bonds	30,000
U.S. government securities	(10,000)
	$ 279,000

D. Nonparticipant-Directed Investments

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

	December 31,	
	20X1	*20X0*
Net Assets:		
Common stocks	$ 960,000	$ 870,000
Mutual funds	2,262,500	2,000,000
Corporate bonds	307,500	255,000
U.S. government securities	225,000	120,000
	$3,755,000	$3,245,000

	Year Ended December 31, 20X1
Changes in Net Assets:	
Contributions	$ 699,000
Dividends	165,000
Net appreciation	60,000
Benefits paid to participants	(280,000)
Transfers to participant-directed investments	(134,000)
	$ 510,000

E. Fair Value Measurements

FASB ASC 820 provides the 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 ASC 820 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.

> ***Note:*** Note that information contained herein for fair value disclosures is based upon information for the XYZ Company 401(k) Plan. 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 820-10-35-5, "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.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the plan at year end.

Participant loans: Valued at amortized cost, which approximates fair value.

Guaranteed investment contract: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (See note F).

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 table illustrates certain disclosure requirements of FASB ASC 820. The disclosures illustrated describe the nature and risks of securities as required by FASB ASC 820-10-50 and are included for illustrative purposes and are NOT intended to represent the ONLY way to disclose such information.

In addition, in January 2010, FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 amends the disclosure requirements of FASB ASC 820 including amendments regarding the level of disaggregation for each class of assets and liabilities. The illustrative financial statements in this appendix have not been amended to conform to ASU No. 2010-06. These financial statements will be amended closer to its effective date.

See the FASB website at www.fasb.org for further information regarding the requirements and effective date of ASU No. 2010-06.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
Mutual funds:				
Index funds	$2,262,500	—	—	$2,262,500
Balanced funds	1,422,000	—	—	1,422,000
Growth funds	1,375,000	—	—	1,375,000
Fixed income funds	800,000	—	—	800,000
Other funds	25,000	—	—	25,000
Total mutual funds	5,884,500	—	—	5,884,500
Common stocks:				
Industrials	384,000	—	—	384,000
Telecommunications	240,000	—	—	240,000
Consumer	192,000	—	—	192,000
Other	144,000	—	—	144,000
Total common stocks	960,000	—	—	960,000
Corporate bonds	307,500	—	—	307,500
U.S. government securities	225,000	—	—	225,000
Guaranteed investment contract	—	—	$1,515,000	1,515,000
Participant loans	—	—	300,000	300,000
Total assets at fair value	$7,377,000	—	$1,815,000	$9,192,000

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
Mutual funds:				
Index funds	$2,000,000	—	—	$2,000,000
Balanced funds	2,100,000	—	—	2,100,000
Growth funds	1,150,000	—	—	1,150,000
Fixed Income	400,000	—	—	400,000
Other funds	100,000	—	—	100,000
Total mutual funds	5,750,000	—	—	5,750,000
Common stocks:				
Industrials	348,000	—	—	348,000
Telecommunications	217,500	—	—	217,500
Consumer	174,000	—	—	174,000
Other	130,500	—	—	130,500
Total common stocks	870,000	—	—	870,000
Corporate bonds	255,000	—	—	255,000
U.S. government securities	120,000	—	—	120,000
Guaranteed investment contract	—	—	$660,000	660,000
Participant loans	—	—	350,000	350,000
Total assets at fair value	$6,995,000	—	$1,010,000	$8,005,000

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended December 31, 20X1.

	Level 3 Assets Year Ended December 31, 20X1		
	Guaranteed Investment Contract	*Participant Loans*	*Total*
Balance, beginning of year	$660,000	$350,000	$1,010,000
Realized gains/(losses)	—	—	—
Unrealized gains/(losses) relating to instruments still held at the reporting date	40,000	—	40,000
Purchases, sales, issuances, and settlements (net)	815,000	(50,000)	765,000
Balance, end of year	$1,515,000	$300,000	$1,815,000
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$40,000	—	$40,000

Gains and losses (realized and unrealized) included in changes in net assets for the period above are reported in net appreciation in fair value of investments in the Statement of Changes in Net Assets Available for Benefits.

F. Guaranteed Investment Contract With National Insurance Company

In 20X0, the plan entered into a benefit-responsive guaranteed investment contract with National Insurance Company (National). National maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the plan.

Because the guaranteed investment contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the guaranteed investment contract. The guaranteed investment contract is presented on the face of the statement of net assets available for benefits at fair value with an adjustment to contract value in arriving at net assets available for benefits. Contract value, as reported to the plan by National, represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 20X1 and 20X0 was $1,515,000 and $660,000, respectively. The crediting interest rate is based on a formula agreed upon with the issuer, but it may not be less than 4 percent. Such interest rates are reviewed on a quarterly basis for resetting.

Certain events limit the ability of the plan to transact at contract value with the issuer. Such events include the following: (1) amendments to the plan documents (including complete or partial plan termination or merger with another plan), (2) changes to the plan's prohibition on competing investment options or deletion of equity wash provisions, (3) bankruptcy of the plan sponsor or other plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that cause a significant withdrawal from the plan, or (4) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA. The plan administrator does not believe that any events which would limit the plan's ability to transact at contract value with participants are probable of occurring.

The guaranteed investment contract does not permit the insurance company to terminate the agreement prior to the scheduled maturity date.

Average yields:	*20X1*	*20X0*
Based on actual earnings	4.68%	4.90%
Based on interest rate credited to participants	4.68%	4.90%

G. Related-Party Transactions

Certain plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the plan for the investment management services amounted to $105,000 for the year ended December 31, 20X1.

H. Plan Termination

Although it has not expressed any intent to do so, the company has the right under the plan to discontinue its contributions at any time and to terminate the plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100 percent vested in their employer contributions.

I. Tax Status

The IRS has determined and informed the company by a letter dated August 30, 1986, that the plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the plan has been amended since receiving the determination letter, the plan administrator and the plan's tax counsel believe that the plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

J. Risks and Uncertainties

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

K. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 20X1 and 20X0 to Form 5500:

	20X1	*20X0*
Net assets available for benefits per the financial statements	$9,218,000	$8,035,000
Amounts allocated to withdrawing participants	(50,000)	(35,000)
Net assets available for benefits per the Form 5500	$9,168,000	$8,000,000

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 20X1, to Form 5500:

Benefits paid to participants per the financial statements	$1,144,000
Add: Amounts allocated to withdrawing participants at December 31, 20X1	50,000
Less: Amounts allocated to withdrawing participants at December 21, 20X0	(35,000)
Benefits paid to participants per Form 5500	$1,159,000

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 20X1, but not yet paid as of that date.

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Profit-Sharing Plan
Statements of Net Assets Available for Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments:		
At fair value (notes C, D, and F)		
U.S. government securities	$ 455,000	$ 425,000
Corporate bonds	3,900,000	3,730,000
Common stocks	2,822,000	1,931,000
Guaranteed investment contract with insurance company (note E)	1,082,000	1,040,000
Certificates of deposit	1,000,000	1,000,000
Total investments	9,259,000	8,126,000
Receivables:		
Employer's contribution	14,000	12,000
Participants' contributions	52,000	47,000
Due from broker for securities sold	403,000	357,000
Accrued interest and dividends	77,000	62,000
	546,000	478,000
Cash	280,000	198,000
Total assets	10,085,000	8,802,000
Liabilities		
Accounts payable	10,000	8,000
Accrued expenses	100,000	150,000
Due to broker for securities purchased	75,000	63,000
Total liabilities	185,000	221,000
Net assets reflecting investments at fair value	9,900,000	8,581,000
Adjustment from fair value to contract value for fully benefit-responsive investment contract	(82,000)	(40,000)
Net assets available for benefits	$9,818,000	$8,541,000

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

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XYZ Company Profit-Sharing Plan
Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31, 20X1
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments (note C)	$ 269,000
Interest	449,000
Dividends	165,000
	883,000
Less investment expenses	(50,000)
Contributions:	
Employer's	1,014,000
Participants'	585,000
	1,599,000
Total additions	2,432,000
Deductions from net assets attributed to:	
Benefits paid to participants	1,050,000
Administrative expenses	105,000
Total deductions	1,155,000
Net increase	1,277,000
Net assets available for plan benefits:	
Beginning of year	8,541,000
End of year	$9,818,000

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

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XYZ Company Profit-Sharing Plan
Notes to Financial Statements

A. Description of Plan

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

1. *General.* The plan is a defined contribution plan covering all full-time employees of the company who have one year of service and are age twenty-one or older. The plan is subject to the provisions of ERISA.

2. *Contributions.* Each year, the company contributes to the plan 10 percent of its current profits before pension and profit-sharing costs and income taxes. Additional amounts may be contributed at the option of the company's board of directors. Participants may contribute up to 10 percent of their annual wages before bonuses and overtime. Contributions are subject to certain limitations.

3. *Participant Accounts.* Each participant's account is credited with the participant's contribution and an allocation of (*a*) the company's contribution, (*b*) plan earnings, and (*c*) forfeitures of terminated participants' nonvested accounts and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

4. *Vesting.* Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the company contributions portion of their accounts plus earnings thereon is based on years of continuous service. A participant is 100 percent vested after 5 years of credited service.

5. *Payment of Benefits.* On termination of service due to death, disability or retirement, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in either a lump-sum amount, or in annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

6. *Forfeited Accounts.* At December 31, 20X1 forfeited nonvested accounts totaled $10,000. These accounts will be reallocated to participants in the same manner as employer contributions.

B. Summary of Accounting Policies

Basis of Accounting

The financial statements of the plan are prepared on the accrual basis of accounting.

Investment contracts held by a defined-contribution plan are required to be reported 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 because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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 D 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.

Payment of Benefits

Benefits are recorded when paid.

Operating Expenses

All expenses of maintaining the plan are paid by the company.

Subsequent Events

The plan has evaluated subsequent events through [*insert date*], the date the financial statements were available to be issued.

C. Investments

Except for its investment contract with an insurance company (note E), the plan's investments are held in a bank-administered trust fund. The following table presents investments. Investments that represent 5 percent or more of the plan's net assets are separately identified.[11]

	December 31,	
	20X1	*20X0*
U.S. government securities	$ 455,000	$ 425,000
Corporate bonds:		
National Auto 7%, face value of $860,000 and $1,000,000, respectively, bonds due 12/31/X5	875,000	1,226,000
Other	3,025,000	2,504,000
Common stocks:		
Bizco Corporation, 100,000 and 90,000 shares, respectively	950,000	685,000
Other	1,872,000	1,246,000
Certificates of deposit	1,000,000	1,000,000
Guaranteed investment contract with National Insurance Company, at contract value (note E)	1,000,000	1,000,000
	$9,177,000	$8,086,000

During 20X1 the plan's investments (including investments bought, sold, and held during the year) appreciated in value by $269,000 as follows:

Net Change in Fair Value

	Year Ended December 31, 20X1
U.S. government securities	$(15,000)
Corporate bonds:	(180,000)
Common stocks	464,000
Net change in fair value	$269,000

[11] See note D for discussion of fair value measurements.

D. Fair Value Measurements

FASB ASC 820 provides the 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 ASC 820 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.

> ***Note:*** Note that information contained herein for fair value disclosures is based upon information for the XYZ Company Profit-Sharing Plan. 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 820-10-35-5, "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: Valued at the closing price reported in the active market in which the individual securities are 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 are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Common stocks: Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Guaranteed investment contract: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (See note E).

Certificates of deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

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 table illustrates certain disclosure requirements of FASB ASC 820. The disclosures illustrated describe the nature and risks of securities as required by FASB ASC 820-10-50 and are included for illustrative purposes and are NOT intended to represent the ONLY way to disclose such information.

In addition, in January 2010, FASB issued ASU No. 2010-06. ASU No. 2010-06 amends the disclosure requirements of FASB ASC 820 including amendments regarding the level of disaggregation for each class of assets and liabilities. The illustrative financial statements in this appendix have not been amended to conform to ASU No. 2010-06. These financial statements will be amended closer to its effective date.

See the FASB website at www.fasb.org for further information regarding the requirements and effective date of ASU No. 2010-06.

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
U. S. government securities	$455,000	—	—	$455,000
Corporate bonds:				
Aaa credit rating	250,000	—	—	250,000
Aa credit rating	—	$3,650,000	—	$3,650,000
Total corporate bonds	250,000	$3,650,000	—	3,900,000
Common stocks	2,447,000	250,000	$125,000	2,822,000
Guaranteed investment contract with insurance company	—	—	1,082,000	1,082,000
Certificates of deposit	—	1,000,000	—	1,000,000
Total assets at fair value	$3,152,000	$4,900,000	$1,207,000	$9,259,000

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$425,000	—	—	$425,000
Corporate bonds:				
Aaa credit rating	176,000	—	—	176,000
Aa credit rating	—	$3,554,000	—	3,554,000
Total corporate bonds	176,000	3,554,000	—	3,730,000
Common stocks	1,666,000	175,000	$90,000	1,931,000
Guaranteed investment contract with insurance company	—	—	1,040,000	
Certificates of deposit	—	1,000,000	—	1,000,000
Total assets at fair value	$2,267,000	$4,729,000	$1,130,000	$8,126,000

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended December 31, 20X1.

	Level 3 Assets Year Ended December 31, 20X1		
	Restricted Common Stock	*Guaranteed Investment Contract*	*Total*
Balance, beginning of year	$90,000	$1,040,000	$1,130,000
Realized gains/(losses)	(25,000)	—	(25,000)
Unrealized gains/(losses) relating to instruments still held at the reporting date	40,000	(50,000)	(10,000)
Purchases, sales, issuances and settlements (net)	20,000	92,000	112,000
Balance, end of year	$125,000	$1,082,000	$1,207,000
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$40,000	$(50,000)	$(10,000)

Gains and losses (realized and unrealized) included in changes in net assets for the period above are reported in net appreciation in fair value of investments in the Statement of Changes in Net Assets Available for Benefits.

E. Guaranteed Investment Contract With National Insurance Company

In 20X0, the plan entered into a benefit-responsive guaranteed investment contract with National Insurance Company (National). National maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the plan.

Because the guaranteed investment contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the guaranteed investment contract. The guaranteed investment contract is presented on the face of the statement of net assets available for benefits at fair value with an adjustment to contract value in arriving at net assets available for benefits. Contract value, as reported to the plan by National, represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 20X1 and 20X0 was $1,082,000 and $1,040,000, respectively. The crediting interest rate is based on a formula agreed upon with the issuer, but it may not be less than 4 percent. Such interest rates are reviewed on a quarterly basis for resetting.

Certain events limit the ability of the plan to transact at contract value with the issuer. Such events include the following: (1) amendments to the plan documents (including complete or partial plan termination or merger with another plan), (2) changes to the plan's prohibition on competing investment options or deletion of equity wash provisions, (3) bankruptcy of the plan sponsor or other plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that cause a significant withdrawal from the plan, or (4) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA. The plan administrator does not believe that any events which would limit the plan's ability to transact at contract value with participants are probable of occurring.

The guaranteed investment contract does not permit the insurance company to terminate the agreement prior to the scheduled maturity date.

Average yields:	*20X1*	*20X0*
Based on actual earnings	4.68%	4.90%
Based on interest rate credited to participants	4.68%	4.90%

F. Certificates of Deposit

Certificates of deposit at December 31, 20X1 and 20X0 consist of amounts on deposit at banks or savings and loan associations, with interest rates ranging from 5.4 percent to 9.1 percent, with maturities of 3 months or less. These deposits include $400,000 and $500,000 which are in excess of federally insured limits at December 31, 20X1 and 20X0, respectively.

G. Plan Termination

Although it has not expressed any intent to do so, the company has the right under the plan to discontinue its contributions at any time and to terminate the plan subject to the provisions of ERISA. In the event of plan termination, participants will become 100 percent vested in their accounts. Any unallocated assets of the plan shall be allocated to participant accounts and distributed in such a manner as the company may determine.

H. Tax Status

The IRS has determined and informed the company by letter dated August 30, 20XX, that the plan and related trust are designed in accordance with applicable sections of the IRC. The plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe that the plan is designed and is currently being operated in compliance with the applicable provisions of the IRC.

I. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 20X1 and 20X0 to Form 5500:

	20X1	*20X0*
Net assets available for benefits per the financial statements	$9,818,000	$8,541,000
Amounts allocated to withdrawing participants	(50,000)	(35,000)
Net assets available for benefits per the Form 5500	$9,768,000	$8,506,000

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 20X1, to Form 5500:

Benefits paid to participants per the financial statements	$1,050,000
Add: Amounts allocated to withdrawing participants at December 31, 20X1	50,000
Less: Amounts allocated to withdrawing participants at December 21, 20X0	(35,000)
Benefits paid to participants per Form 5500	$1,065,000

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 20X1, but not yet paid as of that date.

J. Risks and Uncertainties

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

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Employee Stock Ownership Plan
Statements of Net Assets Available for Benefits[4]

	December 31,					
	20X2			*20X1*		
	Allocated	*Unallocated*	*Total*	*Allocated*	*Unallocated*	*Total*
Assets:						
Investment in Sponsor Company common stock, at fair value	$34,890,000	$57,430,000	$92,320,000	$24,568,000	$47,015,000	$71,583,000
Receivables:						
Employer contributions	—	8,607,000	8,607,000	—	7,062,000	7,062,000
Dividends and interest	570,000	459,000	1,029,000	280,000	3,000	283,000
Cash	156,000	863,000	1,019,000	101,000	448,000	549,000
Total assets	$35,616,000	$67,359,000	$102,975,000	$24,949,000	$54,528,000	$79,477,000
Liabilities:						
Interest payable	—	1,396,000	1,396,000	—	1,033,000	1,033,000
Loan payable	—	73,970,000	73,970,000	—	80,000,000	80,000,000
Total liabilities	—	75,366,000	75,366,000	—	81,033,000	81,033,000
Net assets available (deficit) for plan benefits	$35,616,000	$(8,007,000)	$27,609,000	$24,949,000	$(26,505,000)	$(1,556,000)

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

[4] The columns reflected in the example are appropriate for the presentation of a leveraged employee stock ownership plan (ESOP). For a nonleveraged ESOP, the presentation would reflect only the total column without the segregation between allocated and unallocated.

Allocated and unallocated designations distinguish between assets that belong to plan participants and those that are still available as collateral for the ESOP loan. Under the Employee Retirement Income Security Act of 1974 (ERISA), the lender has access to the securities held by the plan, that represent unallocated employer contributions to service the debt, and any earnings on those amounts. Earnings on temporary cash investments also are available to the lender.

An accrued employer contribution for current or future debt service is, therefore, reflected on the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits in the Unallocated column. In contrast, an employer contribution accrued to fund distributions to terminated participants is reflected in the Allocated column.

This distinction is not reflected in the participant account balances when reporting to the participant under ERISA. Contributions accrued for future debt service are allocated to the accounts of plan participants.

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Sponsor Company Stock Ownership Plan
Statement of Changes in Net Assets Available for Benefits

	December 31, 20X2		
	Allocated	*Unallocated*	*Total*
Investment income:			
Net unrealized appreciation in the fair value of investments	$9,205,000	$15,052,000	$24,257,000
Interest	31,000	58,000	89,000
Dividends	1,380,000	2,184,000	3,564,000
Employer contributions	—	11,524,000	11,524,000
Allocation of 142,000 shares of common stock of Sponsor Company, at fair value	4,637,000	—	4,637,000
	15,253,000	28,818,000	44,071,000
Interest expense	—	5,683,000	5,683,000
Distributions to participants	4,586,000	—	4,586,000
Allocation of 142,000 shares of common stock of Sponsor Company, at fair value	—	4,637,000	4,637,000
Total deductions	4,586,000	10,320,000	14,906,000
Net increase	10,667,000	18,498,000	29,165,000
Net assets (deficit) available for benefits:			
Beginning of year	24,949,000	(26,505,000)	(1,556,000)
End of year	$35,616,000	$(8,007,000)	$27,609,000

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

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Sponsor Company Stock Ownership Plan
Notes to Financial Statements
December 31, 20X2

A. Plan Description and Basis of Presentation

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

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

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

The borrowing is collateralized by the unallocated shares of common stock and is guaranteed by the company. The lender has no rights against shares of common stock once they are allocated under the ESOP. Accordingly, the financial statements of the plan as of December 31, 20X2 and 20X1 and for the years ended December 31, 20X2 present separately the assets and liabilities and changes therein pertaining to

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

b. common stock not yet allocated to employees (unallocated).

Eligibility

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

Payment of Benefits

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

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

Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee is not permitted to vote any allocated share for which instructions have not been given by a participant. The

Trustee is required, however, to vote any unallocated shares on behalf of the collective best interest of plan participants and beneficiaries.

Plan Termination

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

Participant Accounts

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

Vesting

If a participant's employment with the company ends for any reason other than retirement, permanent disability or death, he or she will vest in the balances in his or her account based on total years of service with the company. Participants vest 20 percent per year of service and are 100 percent vested after 5 years of service.

Put Option

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

Diversification

Diversification is offered to participants close to retirement so that they may have the opportunity to move part of the value of their investment in company common stock into investments which are more diversified. Participants who are at least age 55 with at least 10 years of participation in the plan may elect to diversify a portion of their account. Diversification is offered to each eligible participant over a 6 year period. In each of the first 5 years, a participant may diversify up to 25 percent of the number of post-1986 shares allocated to his or her account, less any shares previously diversified. In the sixth year, the percentage changes to 50 percent. Participants who elect to diversify receive a cash distribution.

Participant Accounts and Forfeitures

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

B. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the plan are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The shares of company common stock are valued at estimated fair value. See note F for discussion of fair value measurements.

Dividend income is accrued on the ex-dividend date.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method. Net appreciation includes the plan's gains and losses on investments bought and sold as well as held during the year.

Operating Expenses

All expenses of maintaining the plan are paid by the company.

Subsequent Events

The plan has evaluated subsequent events through [*insert date*], the date the financial statements were available to be issued.

C. Tax Status

The IRS has determined and informed the company by a letter dated June 30, 20XX, that the plan is qualified and the trust established under the plan is tax-exempt, under the appropriate sections of the code. The plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe that the plan is currently designed and being operated in compliance with the applicable requirements of the code. Therefore, they believe that the plan was qualified and the related trust was tax-exempt as of the financial statement date.

D. Administration of Plan Assets

The plan's assets, which consist principally of sponsor company common shares, are held by the Trustee of the plan.

Company contributions are held and managed by the Trustee, which invests cash received, interest, and dividend income and makes distributions to participants. The Trustee also administers the payment of interest and principal on the loan, which is reimbursed to the Trustee through contributions as determined by the company.

Certain administrative functions are performed by officers or employees of the company or its subsidiaries. No such officer or employee receives compensation from the plan. Administrative expenses for the Trustee's fees are paid directly by the company.

E. Investments

The plan's investments, at December 31, are presented in the following table:

	20X2		*20X1*	
	Allocated	*Unallocated*	*Allocated*	*Unallocated*
Sponsor Company common stock:				
Number of shares	1,069,000	1,759,000	1,074,000	2,055,000
Cost	$27,014,000	$74,456,000	$29,910,000	$80,000,000
Fair Value	$34,890,000	$57,430,000	$24,568,000	$47,015,000

F. Fair Value Measurements

FASB ASC 820 provides the 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 ASC 820 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.

> ***Note:*** Note that information contained herein for fair value disclosures is based upon information for the Sponsor Company Stock Ownership Plan. 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 820-10-35-5, "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.

The fair value of the sponsor company common stock held by the plan is valued at fair value based upon an independent appraisal. This appraisal was based upon a combination of the market and income valuation techniques consistent with prior years. The appraiser took into account historical and projected cash flow and net income, return on assets, return on equity, market comparables and estimated fair value of company assets and liabilities.

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 table illustrates certain disclosure requirements of FASB ASC 820. The disclosures illustrated describe the nature and risks of securities as required by FASB ASC 820-10-50 and are included for illustrative purposes and are NOT intended to represent the ONLY way to disclose such information.

In addition, in January 2010, FASB issued ASU No. 2010-06. ASU No. 2010-06 amends the disclosure requirements of FASB ASC 820 including amendments regarding the level of disaggregation for each class of assets and liabilities. The illustrative financial statements in this appendix have not been amended to conform to ASU No. 2010-06. These financial statements will be amended closer to its effective date.

See the FASB website at www.fasb.org for further information regarding the requirements and effective date of ASU No. 2010-06.

	Assets at Fair Value as of December 31			
	20X2		*20X1*	
	Level 3	*Total*	*Level 3*	*Total*
Investment in Sponsor Company common stock	$92,320,000	$92,320,000	$71,583,000	$71,583,000
Total assets at fair value	$92,320,000	$92,320,000	$71,583,000	$71,583,000

	Level 3 Assets Year Ended December 31, 20X2
	Investment in Sponsor Company Common Stock
Balance, beginning of year	$71,583,000
Realized gains/(losses)	5,000,000
Unrealized gains/(losses) relating to assets still held at the reporting date	19,257,000
Purchases, sales, issuances and settlements (net)	(3,520,000)
Balance, end of year	$92,320,000
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$19,257,000

Gains and losses (realized and unrealized) included in changes in net assets for the period above are reported in net appreciation in fair value of investments in the Statement of Changes in Net Assets Available for Benefits.

G. Loan Payable

In 20XX, the plan entered into an $80,000,000 term loan agreement with a bank. The proceeds of the loan were used to purchase company's common stock. Unallocated shares are collateral for the loan. The agreement provides for the loan to be repaid over 10 years. The fair value of the note payable as of December 31, 20X2 and 20X1, was approximately $77,000,000 and $82,000,000, respectively, determined by using interest rates currently available for issuance of debt with similar terms, maturity dates and nonperformance risk. The scheduled amortization of the loan for the next 5 years and thereafter is as follows: 20X3—$6,500,000; 20X4—$7,000,000; 20X5—$7,500,000; 20X6—$8,000,000; 20X7—$8,500,000; and thereafter—$36,470,000. The loan bears interest at the prime rate of the lender. For 20X2 and 20X1 the loan interest rate averaged 7.34 percent and 5.12 percent, respectively.

H. Employer Contributions

The company is obligated to make contributions in cash to the plan which, when aggregated with the plan's dividends and interest earnings, equal the amount necessary to enable the plan to make its regular

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