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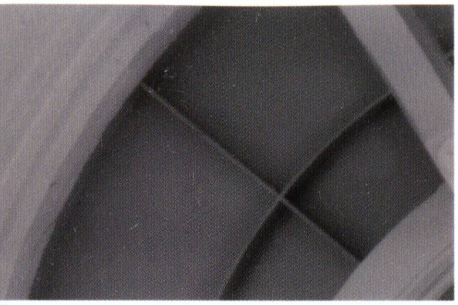
# Checklists and illustrative financial statements for defined contribution pension plans, March 31, 2013

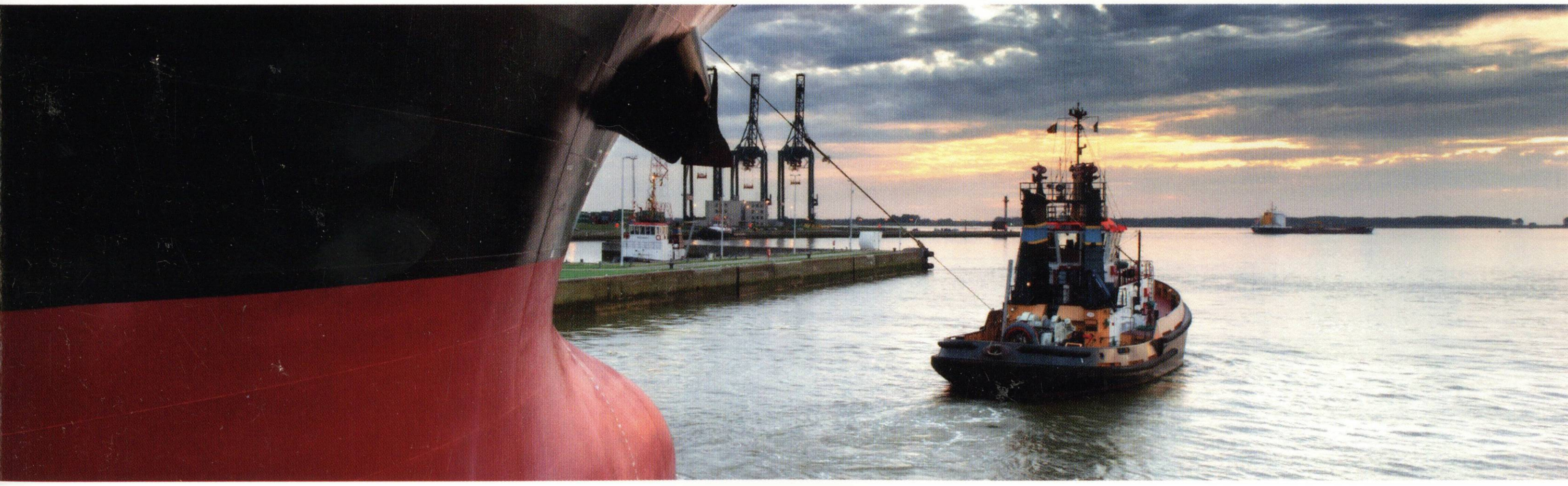
American Institute of Certified Public Accountants (AICPA)



CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

# Defined Benefit Pension Plans

MARCH 31, 2013



AICPA

CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

# Defined Benefit Pension Plans

March 31, 2013

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AICPA®

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# Part 1
# *Introduction*

## General

**.01** This publication includes the following parts:

- **Part 2, "Financial Statements and Notes Checklist."** For use by preparers of defined benefit pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Part 3, "Auditor's Report Checklist."** For use by auditors in reporting on audited defined benefit pension plan financial statements.
- **Part 4, "Illustrative Financial Statements and Auditor's Reports."** Illustrating full sets of defined benefit 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 benefit 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 benefit 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 benefit pension plans in preparing financial statements in conformity with GAAP.

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

**.04** 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 benefit 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. Often this term is associated with guidance that has been supported by the Financial Reporting Executive Committee (the designated senior committee of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting) on the accounting, reporting, or disclosure treatment of transactions or events that are not set forth in Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC).

**.05** The AICPA Accounting and Auditing Publications staff has included guidance from FASB ASC as it existed on March 31, 2013. Questions are derived primarily from the content of the "Presentation" (section 45) and "Disclosure" (section 50) sections of FASB ASC. The AICPA Accounting and Auditing Publications staff has included presentation and disclosure items deemed most likely to be encountered when reporting on the financial statements of a defined contribution pension plan prepared in conformity with GAAP. Thus, not all paragraphs of the "Presentation" and "Disclosure" sections of FASB ASC have been included. Users should evaluate whether circumstances exist for which the relevant presentation and disclosure guidance is not provided in these checklists and illustrative financial statements and refer directly to FASB ASC as appropriate. These checklists and illustrative financial statements note significant areas for which "Presentation" and "Disclosure" paragraphs were deemed too specific for this general publication and, where noted, users are urged to consult FASB ASC as necessary.

**.06** 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 GAAP, generally accepted auditing standards (GAAS), and other relevant technical guidance.

**.07** To address concerns over the clarity, length, and complexity of its standards, the AICPA Auditing Standards Board (ASB) has made a significant effort to clarify the Statements on Auditing Standards (SASs). The ASB established clarity drafting conventions and undertook to redraft all of its SASs in accordance with those conventions.

**.08** In addition, as the ASB redrafted standards for clarity, it also converged the standards with the International Standards on Auditing (ISA), issued by the International Auditing and Assurance Standards Board. As part of redrafting the standards, they now specify more clearly the objectives of the auditor and the requirements which the auditor has to comply with when conducting an audit in accordance with GAAS.

**.09** As part of the clarity project, current AU section numbers have been renumbered based on equivalent ISAs. Guidance is located in "AU-C" section numbers instead of "AU" section numbers. "AU-C" is a temporary identifier to avoid confusion with references to existing "AU" sections, which will remain in *Professional Standards* through 2013. The "AU-C" identifier will revert to "AU" in 2014, by which time substantially all engagements for which the extant standards were still effective are expected to be completed. Note that AU-C section numbers for clarified SASs with no equivalent ISAs have been assigned new numbers. The ASB believes that this recodification structure will aid firms and practitioners that use both ISAs and GAAS.

**.10** This AICPA checklist has been fully conformed to reflect the new standards resulting from the Clarity Project. This year's edition of the checklist fully incorporates the clarified auditing standards into all content, so that auditors can further their understanding of the clarified auditing standards, as well as begin updating their audit methodologies, resources, and tools. Additionally, this approach gives auditors the opportunity to review and understand the changes made by their third-party audit methodology and resource providers, if applicable. The clarified auditing standards are effective for audits of financial statements for periods ending on or after December 15, 2012 (calendar year 2012 audits).

**.11** Relevant financial statement reporting and disclosure guidance issued through March 31, 2013, has been considered in the development of this edition of the checklist. This includes relevant guidance issued up to and including the following:

- FASB Accounting Standards Updates (ASUs) issued through March 31, 2013
- SAS No. 127, *Omnibus Statement on Auditing Standards—2013* (AICPA, *Professional Standards*)
- Interpretation Nos. 1–3 of AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, AU-C sec. 9265 par. .01–.10)
- Public Company Accounting Oversight Board Auditing Standard No. 16, *Communications with Audit Committees* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards)
- AICPA Audit and Accounting Guide *Employee Benefit Plans* (as of January 1, 2013)

Any guidance issued subsequent to March 31, 2013, has not been included in this checklist; therefore, if your entity has a fiscal year-end after March 31, 2013, you need to consider the applicability of such guidance. In determining the applicability of newly issued guidance, its effective date should also be considered.

**.12** In October 2012, FASB issued ASU No. 2012-04, *Technical Corrections and Improvements*. ASU No. 2012-04 contains amendments that affect a wide variety of topics in FASB ASC. The amendments are presented in two sections: "Technical Corrections and Improvements" and "Conforming Amendments Related to Fair Value." The majority of the amendments are not expected to change practice and, therefore, do not have transition guidance. Those amendments were effective upon issuance for both public and nonpublic entities. For public entities, the amendments that are subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to transition guidance will be effective for fiscal periods beginning after December 15, 2013. Readers are encouraged to consult the complete text of ASU No. 2012-04 for complete guidance. This checklist has been updated, as applicable, to include the reporting and disclosure requirements of ASU No. 2012-04.

## Instructions

**.13** The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative guidance.

**.14** The checklists provide spaces for checking off or initialing each question or point to show that it has been considered. Carefully review the topics listed and consider whether they represent potential disclosure items for the defined benefit pension plan for which you are preparing or auditing financial statements. Users should check or initial

- "Yes" if the disclosure is required and has been made appropriately.
- "No" if the disclosure is required but has not been made.
- "N/A" (not applicable) if the disclosure is not applicable to the plan.

**.15** It is important that the effect of a "No" response be considered on the auditor or accountant's report. For audited financial statements, a "No" response that is material to the financial statements may warrant a departure from an unmodified opinion as discussed in AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*). If a "No" response is indicated, the Accounting and Auditing Publications staff recommends that a notation be made to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements).

**.16** Users may find it helpful to use the right margin for certain other remarks or comments as appropriate, including the following:

*a.* For each disclosure for which a "Yes" is indicated, a notation regarding 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 regarding why the disclosure was not made (for example, because the item was not considered to be material to the financial statements).

**.17** These checklists and illustrative financial statements 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.

**.18** 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 may not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Guidance deemed remote for defined benefit plans is not included in this document. Additionally, users of the checklists and illustrative financial statements are encouraged to tailor them as required to meet specific circumstances of each particular engagement. As an additional resource, users may call the AICPA Technical Hotline at 877.242.7212.

## Recognition

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

**.20** 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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## Description

**.21** Defined benefit pension plans (DB plans) are employee benefit plans that promise to pay to the plan participants, upon retirement, a specific benefit determined by a formula as defined in the plan document. The benefit formula may include such factors as a participant's age and years of service with the employer and the amount of compensation the participant earned while serving as an active employee of the plan sponsor.

**.22** The Employee Retirement Income Security Act of 1974 (ERISA) requires the assets of a DB plan to be segregated from the general assets of the employer and secured for the benefit of participants. Generally, this is satisfied by holding the assets in trust by a bank or by a qualified insurance entity. The specific benefit that is payable to a participant is generally not determined until the participant ceases employment with the plan sponsor through retirement, termination, disability, or death.

**.23** A plan's obligation to pay future benefits is estimated as the present value of future benefit payments attributable under the plan's provisions to employee service up to the measurement date. The obligation is known as the *actuarial present value of accumulated plan benefits* and is determined based upon the benefit formula defined in the plan document (or collective bargaining agreement), the plan's demographics, mortality statistics, the plan's expected turnover rates, the expected retirement age for plan participants, and the interest or discount rate. The actuarial model is described in FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plans*, and considers only employee service rendered to date and not future service. The model also uses current compensation levels and does not assume future compensation changes.

**.24** Traditional DB plans provide benefits that are defined in terms of a percentage of average compensation (final, career or other average compensation) or as a flat dollar benefit per year of service or fixed monthly benefit. Other types of benefit formulas include the following:

*a.* *Cash balance plans.* A cash balance plan is a special form of career average compensation plan. Typically, a cash balance DB plan maintains hypothetical "accounts" for participants. The employer credits participants' "accounts" with a certain number of dollars each plan year and promises earnings at a specified rate. Interest on the "account" balance is credited at a stated rate, which may be and is often different from the plan's actual rate of investment return.

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

**.25** The Pension Benefit Guaranty Corporation (PBGC) guarantees participants in most DB plans certain minimum pension benefits if the plan terminates, and it administers terminated plans in certain circumstances.

## AICPA Employee Benefit Plan Audit Quality Center

**.26** The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) is a firm-based, voluntary membership center of more than 2,200 firms with the goal of promoting quality employee benefit plan audits.

EBPAQC member firms receive valuable 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/InterestAreas/EBPAQC to see a list of EBPAQC member firms and to preview EBPAQC benefits. For more information, contact the EBPAQC at ebpaqc@aicpa.org.

## Financial Accounting and Reporting

**.27** FASB ASC 960 provides standards of financial accounting and reporting for financial statements of DB plans. Other FASB ASC topics may also apply to DB plans.

**.28** 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, "ERISA and Related Regulations," of the AICPA Audit and Accounting Guide *Employee Benefit Plans*, 2013 edition, describes which plans are covered by ERISA and pertinent provisions of ERISA and related reporting and disclosure regulations issued by the DOL.

**.29** Employee benefit plans that are subject to ERISA are required to report certain information annually to federal government agencies (for example, the DOL, the IRS, and the PBGC) and to provide summarized information to plan participants. For many plans, the information is reported to the DOL on the Form 5500 that includes financial statements prepared in accordance with GAAP[1] and certain supplemental schedules. (See paragraphs .40–.45 for a discussion of Form 5500.)

## AICPA *Technical Practice Aids*

**.30** 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.

**.31** The AICPA recently issued TIS sections 8800.24–.39 (AICPA, *Technical Practice Aids*) to provide nonauthoritative guidance regarding the implementation of AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (AICPA, *Professional Standards*). The TIS sections have been included in TIS section 8800, *Audits of Group Financial Statements and Work of Others* (AICPA, *Technical Practice Aids*). TIS section 8800.37, “Employee Benefit Plan Using Investee Results to Calculate Fair Value,” and TIS section 8800.38, “Using Net Asset Value to Calculate Fair Value,” include issues relating to the calculation of fair value of employee benefit plan investments.

**.32** For a listing of all recently issued questions and answers, see the website at www.aicpa.org/InterestAreas/FRC/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx.

## Accounting and Reporting by DB Pension Plans

**.33** In accordance with FASB ASC 960-205-10-1, the primary objective of a pension plan’s financial statements is to provide financial information that is useful in assessing the plan’s present and future ability to pay benefits when they are due. In that regard, both of the following are recognized:

*a.* Information in addition to that contained in a plan’s financial statements is needed in assessing the plan’s present and future ability to pay benefits when due.

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[1] For employee benefit plans, the applicable financial reporting framework is typically accounting principles generally accepted in the United States of America or certain *special purpose frameworks* (for example, modified cash basis), as defined in AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*), and as permitted by the Employee Retirement Income Security Act of 1974 and Department of Labor regulations. See paragraphs 2.03–.04 and 11.27 of the AICPA Audit and Accounting Guide *Employee Benefit Plans*(updated as of January 1, 2013), for further discussion about the use of special purpose frameworks in employee benefit plan financial statements.

*b.* Financial statements for several plan years can provide information more useful in assessing the plan's future ability to pay benefits than the financial statements for a single plan year.

**.34** In accordance with FASB ASC 960-205-10-3, to accomplish its primary objective, a plan's financial statements should provide information about all of the following: (*a*) plan resources and how the stewardship responsibility for those resources has been discharged, (*b*) the accumulated plan benefits of the participants, (*c*) the results of transactions and events that affect the information regarding those resources and benefits, and (*d*) other factors necessary for users to understand the information provided.

**.35** Per FASB ASC 960-30-25-1, the financial statements of a DB plan prepared in accordance with U.S. GAAP should be prepared on the accrual basis of accounting. In accordance with FASB ASC 960-205-45-1, the financial statements of a DB plan should include the following:

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

**.36** According to FASB ASC 230-10-15-4, a statement of cash flows is not required to be provided by a DB plan that presents financial information in accordance with the provisions of FASB ASC 960. Employee benefit plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid or obtains financing for investments).

**.37** Accumulated plan benefits are to be presented as of the present value of future benefits attributable under the plan's provisions to service rendered to the date of the actuarial valuation. The actuarial present value of accumulated plan benefits may be presented as of beginning or end of the plan year; under FASB ASC 960-205-45-4, however, an end-of-year benefit information date is considered preferable. The following table summarizes the minimum financial statement presentation requirements when the plan uses a beginning of the year benefit information date versus the end of the year benefit information date.

| **Minimum Presentation Requirements** | | |
|---|---|---|
| ***Financial Statements*** | ***Beginning of Year Benefit Information Date*** | ***End of Year Benefit Information Date*** |
| Statement of net assets available for benefits | Comparative | Comparative |
| Statement of changes in net assets available for benefits | Comparative | Single |
| Accumulated plan benefits (in the notes or in separate financial statements) | Single | Comparative |
| Changes in accumulated plan benefits (in the notes or in separate financial statements) | Single | Single |

When using the beginning of the year benefit information date, if the plan sponsor chooses to present more than the minimum presentation requirements, then it would also need to present the comparable presentation for each financial statement. For example, if the plan sponsor chooses to present comparative statements of accumulated plan benefits, then it would also need to present three years of the statement of net assets available for benefits. See FASB ASC 960-205-45-4 for appropriate guidance.

**.38** According to FASB ASC 960-325-35-1, plan investments should be presented at their fair value at the reporting date. (See paragraph .39 for special provisions concerning the valuation of investment contracts.) FASB ASC 960-360-35-1 states that plan assets used in plan operations should be presented at cost less accumulated depreciation or amortization. The FASB ASC glossary defines *fair value* of plan investments as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Plan investments should be measured by quoted prices in an active market when available.

**.39** Whether or not the plan is subject to ERISA, FASB ASC 960-325-35-3 states that *insurance contracts* (as defined in the FASB ASC glossary) should be presented in the same manner as specified in the annual report filed by a plan with certain governmental agencies pursuant to ERISA. This is consistent with the requirements of Form 5500. The current Form 5500 permits unallocated insurance contracts to be reported at either current value or as determined on Schedule A, "Insurance Information," that is contract value. This is an exception to the general requirement of FASB ASC 960 that plan investments be presented at fair value.

## ERISA Reporting Requirements

**.40** ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, IRS, and PBGC. The annual report to be filed for employee benefit plans generally is Form 5500. The Form 5500 is a joint-agency form developed by the IRS, DOL, and PBGC that may be used to satisfy the annual reporting requirements of the Internal Revenue Code and Titles I and IV of ERISA.

**.41** In general, the Form 5500 reporting requirements vary depending on whether Form 5500 is being filed for a large plan, a small plan, or a direct filing entity (DFE) and on the particular type of plan or DFE involved. Plans with 100 or more participants as of the beginning of the plan year must complete the Form 5500 following the requirements for a large plan. Plans with fewer than 100 participants should follow the requirements for a small plan. (There are three approaches to small plan filings. The first is Form 5500 with all attachments but replacing Schedule H, "Financial Information," with Schedule I, "Small Plan Information." The second is Form 5500-SF, which is limited to small plans whose investments are limited to those with a readily determinable market value and do not include any employer securities. The final choice is Form 5500-EZ, which is generally limited to plans covering owners only.) DOL regulations permit plans that have 80–120 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. This privilege is limited to small plans that filed Form 5500 with Schedule I and not filers of the other two forms. The Form 5500 and Form 5500-SF are filed with the Employee Benefits Security Administration (EBSA) in accordance with the instructions to the form.

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

**.43** The DOL, IRS, and PBGC released the 2012 Form 5500 return and reports, schedules, and instructions to be used by employee benefit plans for plan year 2012 filings. The modifications to the Form 5500 for plan year 2012 are described under "Changes to Note" in the 2012 instructions.

**.44** All Form 5500 and Form 5500-SF annual returns and any required schedules and attachments must be completed and filed electronically using an ERISA Filing Acceptance System II (EFAST2)-approved third-party software or using IFILE. For more information on completing and filing forms electronically through EFAST2, see the EFAST2 FAQs and publications. This guidance may be found on the EBSA website at www.dol.gov/ebsa.

**.45** The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing using the Form 5500 series and not Form 5500-SF and 5500-EZ. 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)[2]
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions

The following schedules are required to be reported on Schedule G, "Financial Transactions Schedule":

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

[2] **Practice Tip**. Any assets held for investment purposes in a 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. Historical cost information is not required on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments. Also note that participant loans are still considered investments for purposes of the Form 5500 and are required to be included on this schedule.

# Part 2
# *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* (as of January 1, 2013)

AU-C = Reference to clarified section number in AICPA *Professional Standards*

CFR = U.S. *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™*

TIS = Technical Questions and Answers in AICPA *Technical Practice Aids*

**.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 "Accounting Changes and Error Corrections" 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 "Accounting Changes and Error Corrections" 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. | General | ______ |
| | B. | Investments | ______ |
| | C. | Assets Held in 401(h) Account | ______ |
| | D. | Property, Plant, and Equipment | ______ |
| | E. | Contributions Receivable and Uncollectible Amounts | ______ |
| | F. | Cash | ______ |
| | G. | Liabilities | ______ |
| III. | Statement of Changes in Net Assets Available for Benefits | | |
| | A. | General | ______ |
| | B. | Contributions | ______ |
| | C. | Investment Earnings | ______ |

*Place ✓ by Applicable Sections*

| | | | |
|---|---|---|---|
| | D. | 401(h) Account Assets | ______ |
| | E. | Other | ______ |
| IV. | Statement of Accumulated Plan Benefits | | |
| | A. | Actuarial Present Value of Accumulated Plan Benefits | ______ |
| | B. | Accumulated Contributions of Present Employees | ______ |
| V. | Statement of Changes in Accumulated Plan Benefits | | |
| | A. | Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits | ______ |
| | B. | Changes in Actuarial Assumptions | ______ |
| | C. | Benefits Paid and Other | ______ |
| VI. | Summary of Significant Accounting Policies | | |
| | A. | Accounting Policies | ______ |
| | B. | Risks and Uncertainties | ______ |
| VII. | Other Financial Statement Disclosures | | |
| | A. | Description of Pension Plan | ______ |
| | B. | Description of Pension Plan Amendments | ______ |
| | C. | Accounting Changes and Error Corrections | ______ |
| | D. | Commitments and Contingencies | ______ |
| | E. | Derivatives and Hedging | ______ |
| | F. | Fair Value Measurements | ______ |
| | G. | Financial Instruments | ______ |
| | H. | Income Tax Status | ______ |
| | I. | Uncertainty in Income Tax | ______ |
| | J. | Plan Terminations | ______ |
| | K. | Related-Party Transactions | ______ |
| | L. | Leases | ______ |
| | M. | Subsequent Events | ______ |
| | N. | Transfers and Servicing of Financial Assets and Securitizations | ______ |
| | O. | Other Matters | ______ |
| VIII. | 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 (Statutory Method) | ______ |
| | C. | Required Financial Statements and Supporting Schedules | ______ |

# I. General

| | Yes | No | N/A |
|---|---|---|---|
| **A. Titles and References** | | | |
| 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 the following: | | | |
| *a.* A "Statement of Net Assets Available for Benefits" as of the end of the plan year? [ERISA requires that this statement be presented in comparative form.] | _____ | _____ | _____ |
| *b.* A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? | _____ | _____ | _____ |
| *c.* A "Statement of Accumulated Plan Benefits" as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? [Use of an end-of-year information date is considered preferable.] | _____ | _____ | _____ |
| *d.* A "Statement of Changes in Accumulated Plan Benefits as of either the beginning or end of the plan year?" [FASB ASC 960-205-45-1; AAG 6.14] | _____ | _____ | _____ |

**Practice Tip**

The information in items *c–d* can be alternatively disclosed in the notes to the financial statements. See section IV, "Statement of Accumulated Plan Benefits," for more information regarding the presentation of accumulated plan benefits.

| | Yes | No | N/A |
|---|---|---|---|
| 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. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? [FASB ASC 960-205-45-3] | _____ | _____ | _____ |
| 5. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? [FASB ASC 960-205-45-3] | _____ | _____ | _____ |
| 6. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? [FASB ASC 960-205-45-4] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| 7. Do the financial statements include a statement of cash flows 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) *(encouraged but not required)*? [FASB ASC 960-205-45-6] | _____ | _____ | _____ |
| 8. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, and other factors necessary for users and participants to understand the information provided? [FASB ASC 960-205-10-3] | _____ | _____ | _____ |

**B. Comparative Financial Statements**

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

**Practice Tip**

ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. In addition, if the accumulated benefit information is presented as of the beginning of the plan year, prior year statements of net assets and changes therein are required. (Exhibit D-7 in appendix D of the guide illustrates the appropriate financial statement presentation when beginning-of-year benefit information is selected.)

| | | | |
|---|---|---|---|
| 2. Are prior year figures shown for comparative purposes in fact comparable with those shown for the most recent period? 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] | _____ | _____ | _____ |
| 3. If issuing comparative statements notes and other disclosures in the financial statements of the preceding year(s) in the current year, have they been presented to the extent that they continue to be of significance? [FASB ASC 205-10-45-4] | _____ | _____ | _____ |
| 4. Has the entity properly disclosed information (for example, about reclassifications or other reasons) that will explain a change in the manner of or basis for presenting corresponding items for two or more periods (for example, any change in practice that affects comparability of financial statements must be disclosed), if changes have occurred? [FASB ASC 205-10-50-1] | _____ | _____ | _____ |

**C. Consolidated Financial Statements**

**Practice Tip**

The purpose of consolidated financial statements is to present, primarily for the benefit of the owners and creditors of the parent, the results of operations and the financial position of a parent and all its subsidiaries as if the consolidated group were a single economic entity. There is a presumption that consolidated financial statements are more meaningful than separate financial statements and that they are usually necessary for a fair presentation when one of the entities in the consolidated group directly or indirectly has a controlling financial interest in the other entities.

*(continued)*

| | Yes | No | N/A |
|---|---|---|---|

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; FASB ASC 810-10-45-11]

***Consolidation Policy***

1. If consolidated statements are presented, is the consolidation policy disclosed? (***Note***: In most cases this can be made apparent by the headings or other information in the financial statements.) _____ _____ _____
   [FASB ASC 810-10-50-1]

**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.
[FASB ASC 810-10-40-5]

***Parent With a Less-Than-Wholly-Owned Subsidiary***

2. Has the parent properly disclosed all the following regarding one or more less-than-wholly-owned subsidiaries for each reporting period:
   *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 noncontrolling 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? _____ _____ _____

| | Yes | No | N/A |
|---|---|---|---|
| *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 noncontrolling interest? (***Note***: This reconciliation should separately disclose [i] net income, [ii] transactions with owners acting in their capacity as owners, showing separately contributions from and distributions to owners, and [iii] each component of other comprehensive income.) | ____ | ____ | ____ |
| *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? [FASB ASC 810-10-50-1A] | ____ | ____ | ____ |

***Deconsolidation of a Subsidiary***

| | Yes | No | N/A |
|---|---|---|---|
| 3. Has the entity properly disclosed the following as a parent entity if, in the period, either subsidiary has been deconsolidated or a group of assets has 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? | ____ | ____ | ____ |
| *h.* Whether the former subsidiary or entity acquiring a group of assets will be a related party after deconsolidation? [FASB ASC 810-10-50-1B] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| ***A Change in the Difference Between Parent and Subsidiary Fiscal Year-Ends*** | | | |
| 4. Has the entity properly disclosed, pursuant to FASB ASC 250, *Accounting Changes and Error Corrections*, regarding a change in (or elimination of) a previously existing difference between the fiscal year-ends of a parent entity and subsidiary or an investor and an equity method investee? [FASB ASC 810-10-50-2] | ____ | ____ | ____ |
| 5. Has the entity properly presented its consolidated financial statements with intra-entity balances and transactions eliminated, including any intra-entity profit or loss on assets that remain within the consolidated group? [FASB ASC 810-10-45-1] | ____ | ____ | ____ |
| ***Differing Fiscal Year-Ends Between Parent and Subsidiary*** | | | |
| 6. If the financial reporting periods of any subsidiaries are different from that of the parent, has the entity properly presented information regarding intervening events that materially affect financial position or results of operations disclosed? [FASB ASC 810-10-45-12] | ____ | ____ | ____ |
| ***A Change in Fiscal Year-End Lag Between Subsidiary and Parent*** | | | |
| 7. 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, excluding retrospective application if it is impracticable to do so? [FASB ASC 810-10-45-13] | ____ | ____ | ____ |
| ***Consolidation of Variable Interest Entities*** | | | |
| 8. Has the entity properly presented each of the following separately on the income statement: | | | |
| *a.* Assets of a consolidated variable interest entity (VIE) that can be used only to settle obligations of the consolidated VIE? | ____ | ____ | ____ |
| *b.* Liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary? ["Pending Content" in FASB ASC 810-10-45-25] | ____ | ____ | ____ |
| 9. Has the entity properly included disclosures in order to provide financial statement users with an understanding of the following: (***Note***: The entity may need to supplement the disclosures required by this subsection to achieve the following objectives. Further, these disclosures may be made in more than one note, provided a cross-reference is provided.) | | | |

| | | *Yes* | *No* | *N/A* |
|---|---|---|---|---|
| *a.* | The significant judgments and assumptions made by the entity in determining whether it must (i) consolidate a VIE, and (ii) disclose information about its involvement in a VIE? | ____ | ____ | ____ |
| *b.* | The nature of restrictions on the consolidated VIE's assets and on the settlement of its liabilities reported by the entity in its statement of financial position, including the carrying amounts of such assets and liabilities? | ____ | ____ | ____ |
| *c.* | The nature of, and changes in, the risks associated with the reporting entity's involvement with the VIE? | ____ | ____ | ____ |
| *d.* | How the entity's involvement with the VIE affects the reporting entity's financial position, financial performance, and cash flows? ["Pending Content" in FASB ASC 810-10-50-2AA; "Pending Content" in FASB ASC 810-10-50-2AB; "Pending Content" in FASB ASC 810-10-50-2AC] | ____ | ____ | ____ |

10. Has the entity properly disclosed, if it is the primary beneficiary of a VIE, all of the following: (***Note***: 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, and if the VIE meets the definition of a *business* and the VIE's assets can be used for purposes other than the settlement of the VIE's obligations, the disclosures that follow are not required.)

| | | *Yes* | *No* | *N/A* |
|---|---|---|---|---|
| *a.* | The carrying amounts and classification of the VIE's assets and liabilities in the statement of financial position that are consolidated in accordance with the "Variable Interest Entities" subsections of FASB ASC 810-10, including qualitative information about the relationship(s) between those assets and liabilities? | ____ | ____ | ____ |
| *b.* | Lack of recourse if creditors (or beneficial interest holders) of a consolidated VIE have no recourse to the general credit of the primary beneficiary? | ____ | ____ | ____ |
| *c.* | Terms of arrangements, giving consideration to both explicit arrangements and implicit variable interests that could require the reporting entity to provide financial support to the VIE, including events or circumstances that could expose the reporting entity to a loss? ["Pending Content" in FASB ASC 810-10-50-3] | ____ | ____ | ____ |

11. Has the entity properly disclosed the following, if it holds an interest in a VIE, but is not the VIE's primary beneficiary:

| | | *Yes* | *No* | *N/A* |
|---|---|---|---|---|
| *a.* | The carrying amounts and classification of the assets and liabilities in the reporting entity's statement of financial position that relate to the reporting entity's variable interest in the VIE? | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| *b.* The reporting entity's maximum exposure to loss as a result of its involvement with the VIE, including how the maximum exposure is determined and the significant sources of the reporting entity's exposure to the VIE? | ____ | ____ | ____ |
| *c.* A tabular comparison of the carrying amounts of the assets and liabilities, as required by item *a*, preceding, and the reporting entity's maximum exposure to loss, as required by item *b*, preceding? (***Note***: The reporting entity should provide qualitative and quantitative information to allow financial statement users to understand the differences between the two amounts. That discussion should include, but is not limited to, the terms of arrangements, giving consideration to both explicit arrangements and implicit variable interests, that could require the reporting entity to provide financial support to the VIE, including events or circumstances that could expose the reporting entity to a loss.) | ____ | ____ | ____ |
| *d.* Encouraged, although not required, information about any liquidity arrangements, guarantees, or other commitments by third parties that may affect the fair value or risk of the reporting entity's variable interest in the VIE? | ____ | ____ | ____ |
| *e.* If applicable, significant factors considered and judgments made in determining that the power to direct the activities of a VIE that most significantly impact the VIE's economic performance is shared in accordance with the guidance in FASB ASC 810-10-25-38D? ["Pending Content" in FASB ASC 810-10-50-4] | ____ | ____ | ____ |
| 12. Has the reporting entity properly disclosed the following if it is a primary beneficiary of a VIE or if it holds a variable interest in a VIE but is not the entity's primary beneficiary: (***Note***: A VIE may issue voting equity interests, and the entity that holds a majority voting interest may also be the primary beneficiary of the VIE. If so, and if the VIE meets the definition of a *business* and the VIE's assets can be used for purposes other than the settlement of the VIE's obligation, the disclosures that follow are not required.) | | | |
| *a.* Its methodology for determining whether the reporting entity is the primary beneficiary of a VIE, including, but not limited to, significant judgments and assumptions made? (The entity may meet this disclosure requirement by providing information about the types of involvements a reporting entity considers significant, supplemented with information about how the significant involvements were considered in determining whether the reporting entity is the primary beneficiary.) | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| *b.* If facts and circumstances change such that the conclusion to consolidate a VIE has changed in the most recent financial statements (for example, the VIE was previously consolidated and is not currently consolidated), the primary factors that caused the change and the effect on the reporting entity's financial statements? | ____ | ____ | ____ |
| *c.* Whether the reporting entity has provided financial or other support (explicitly or implicitly) during the periods presented to the VIE that it was not previously contractually required to provide or whether the reporting entity intends to provide that support, including both of the following: | | | |
| i. The type and amount of support, including situations in which the reporting entity assisted the VIE in obtaining another type of support? | ____ | ____ | ____ |
| ii. The primary reason for providing the support? | ____ | ____ | ____ |
| *d.* Qualitative and quantitative information about the reporting entity's involvement (giving consideration to both explicit arrangements and implicit variable interests) with the VIE, including, but not limited to, the nature, purpose, size, and activities of the VIE, including how the VIE is financed? | ____ | ____ | ____ |
| ["Pending Content" in FASB ASC 810-10-50-5A; "Pending Content" in FASB ASC 810-10-50-5B] | | | |
| 13. 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 legal 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 legal entity(ies) and the nature of the enterprise's involvement with the legal entity(ies)? | ____ | ____ | ____ |
| *c.* The reporting entity's maximum exposure to loss because of its involvement with the legal entity(ies)? | ____ | ____ | ____ |
| *d.* The amount of income, expense, purchases, sales, or other measure of activity between the reporting entity and the legal entity(ies) for all periods presented? (***Note***: 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] | | | |

| | Yes | No | N/A |
|---|---|---|---|
| 14. Has the entity properly disclosed, if providing disclosures about VIEs, and if providing separate reporting would not provide more useful information to financial statement users, how similar entities are aggregated? The reporting entity should distinguish between (*a*) VIEs that are consolidated and (*b*) those that are not consolidated because the reporting entity is not the primary beneficiary, but has a variable interest? (***Note***: The entity should consider quantitative and qualitative information about different risk and reward characteristics of each VIE and the significance of each VIE to the entity. Further, disclosures should be presented in a manner that clearly and fully explains to the financial statement users the nature and extent of an entity's involvement with VIEs.) ["Pending Content" in FASB ASC 810-10-50-9] | ____ | ____ | ____ |

## II. Statement of Net Assets Available for Benefits

### A. General

| | Yes | No | N/A |
|---|---|---|---|
| 1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [FASB ASC 960-30-25-1] | ____ | ____ | ____ |

### B. Investments

| | Yes | No | N/A |
|---|---|---|---|
| 1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [FASB ASC 960-325-45-1] | ____ | ____ | ____ |

**Practice Tips**

FinREC recommends that DB plans classify investments in one of two ways on the face of the statement of net assets available for benefits. The employer may choose, but is not required, to use the classification of plan assets as reported in the employer's financial statements under "Pending Content" in FASB ASC 715-20-50-1 or may classify such plan investments as recommended in FASB ASC 962-325-45-5 and 965-325-45-2. FinREC believes that the classification, as set forth in "Pending Content" in FASB ASC 715-20-50-1, is consistent with FASB ASC 820, *Fair Value Measurement* (see section F, "Fair Value Measurements," in this checklist), and would also meet the requirements for disclosing plan investments by type under FASB ASC 960-325-45-1. The examples of classifications, as described in "Pending Content" in FASB ASC 715-20-50-1, provide a greater detail of investments by type than what is currently required under FASB ASC 962-325-45-5 and 965-325-45-2. If the DB plan continues to classify investments in accordance with FASB ASC 962-325-45-5 and 965-325-45-2, then the plan also needs to comply with the fair value disclosure classifications for FASB ASC 820. Regardless of which presentation is elected, FASB ASC 820 disclosures are required. According to "Pending Content" in FASB ASC 715-20-50-5(c)(ii), an employer should disclose separately for pension plans and other postretirement benefit plans the fair value of each class of plan assets as of each date for which a statement of financial position is presented. For additional guidance on determining appropriate classes of plan assets, see "Pending Content" in FASB ASC 820-10-50-2B. Examples of classes of assets could include, but are not limited to, cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange

*(continued)*

| | Yes | No | N/A |
|---|---|---|---|

contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. These examples are not meant to be all inclusive. An employer should consider the overall objectives in "Pending Content" in paragraph 5(c)(1)–(c)(5) of FASB ASC 715-20-50 in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

In accordance with FASB ASC 962-325-45-5 and 965-325-45-2, the presentation of plan investments in the statement of net assets available for benefits detailed by general type may include government securities, short-term securities, corporate bonds, common stocks, mortgages, real estate, investments in bank common or collective trust funds, registered investment companies (for example, mutual funds), and investments in contracts with insurance companies, including separate accounts and immediate participation guarantee contracts. Other general types may include master trusts, deposit administration contracts, and immediate participation guarantee contracts.

The presentation should indicate whether the fair values of the investments have been measured by quoted prices in an active market or are fair values otherwise determined.
[AAG 6.37–.38]

******

FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plans*, requires defined benefit pension plans to report investment contracts at fair value. Per FASB ASC 960-325-35-3, insurance contracts should be presented at either fair value or at amounts determined by the insurance entity (contract value).

******

TIS section 6930.02, "Defined Benefit Plan Measurement of a Life Insurance Policy" (AICPA, *Technical Practice Aids*), provides nonauthoritative guidance on the accounting and fair value measurement of cash value life insurance contracts.

2. Are investments that represent 5 percent or more of total net assets available for benefits separately identified in the financial statements or notes thereto? _____ _____ _____
[FASB ASC 960-325-50-2]

**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.

The 5 percent of net assets available for benefits relates to total net assets and is as of the end of the reporting period.
[AAG 6.96*i*]

3. Are investments in master trusts presented as a single line item in the statement of net assets available for benefits? _____ _____ _____
[FASB ASC 960-30-45-11]

4. Do disclosures include 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 960-30-50-1]

**Practice Tip**

TIS section 6931.11, "Fair Value Measurement Disclosures for Master Trusts" (AICPA, *Technical Practice Aids*), provides guidance on the required fair value measurement disclosures to be made when a plan holds investments in a master trust. This TIS section assists with the implementation of FASB ASC 820 for em-
*(continued)*

| | Yes | No | N/A |
|---|---|---|---|

ployee benefits plans that have investments in a master trust. This guidance states that the disclosure requirements of FASB ASC 820 should be made for each major category of master trust assets and liabilities. In addition, consideration should be given to combining or reconciling, or both, the master trust FASB ASC 820 disclosures with the master trust disclosures as required by paragraphs 1–3 of FASB ASC 960-30-50.

5. Do disclosures 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?" ____ ____ ____
[FASB ASC 960-30-50-3]

6. Do the notes to the financial statements disclose investments greater than 5 percent of master trust net assets, as recommended by FinREC (***Note***: Only recommended to disclose when the plan holds an individual interest in the master trust)? ____ ____ ____
[AAG 8.47; Common Practice]

7. To present the investment risk specific to each plan, have the following additional disclosures been made for plan with a specific interest (not an undivided interest) in master trust investments as recommended by FinREC:

   *a.* The plan's percentage interest in each investment type? ____ ____ ____

   *b.* Investments in the master trust which represent greater than 5 percent of the plan's net assets? ____ ____ ____
   [AAG 8.48; Common Practice]

**C. Assets Held in 401(h) Account**

1. Are the 401(h) net assets shown as a single line item on the face of the statement of net assets available for benefits? ____ ____ ____
[FASB ASC 960-30-45-5]

2. Do the notes to the financial statements disclose the nature of the assets related to the 401(h) account, and the fact that the assets are available only to pay retiree health benefits? ____ ____ ____
[FASB ASC 960-205-50-4]

3. Because ERISA requires 401(h) accounts to be reported as assets of the pension plan, do the notes to the financial statements include a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 and is accompanied by a discussion of the 401(h) account that clearly explains that the assets in the 401(h) account are not available to pay pension benefits? ____ ____ ____
[FASB ASC 960-205-50-5]

**D. Property, Plant, and Equipment**

1. For depreciable assets, do the financial statements include disclosure of

   *a.* depreciation expense for each period? ____ ____ ____

   *b.* balances of major classes of depreciable assets by nature or function? ____ ____ ____

| | Yes | No | N/A |
|---|---|---|---|
| *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] | _____ | _____ | _____ |
| 2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with 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*?[1] [FASB ASC 360-10-45; FASB ASC 360-10-50] | _____ | _____ | _____ |
| **E. Contributions Receivable and Uncollectible Amounts** | | | |
| 1. Are the following contributions receivable separately identified: | | | |
| *a.* Receivables from employer(s)? | _____ | _____ | _____ |
| *b.* Receivables from participants? | _____ | _____ | _____ |
| *c.* Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [FASB ASC 960-310-25-1; FASB ASC 960-310-25-2] | _____ | _____ | _____ |
| 2. Do contributions receivable include an allowance for uncollectible amounts? [FASB ASC 960-310-25-3] | _____ | _____ | _____ |

**Practice Tip**

FinREC recommends that the ERISA minimum required contribution determined by the actuary be recorded as a contribution receivable in the plan's financial statements if not paid by year-end. Sometimes a contribution made after year-end that was not the result of a formal commitment at year-end is later recharacterized for funding and tax purposes by the plan sponsor as a contribution attributable to the plan year being reported on. This recharacterization may constitute a nonrecognized (type 2) subsequent event (an event occurring after the reporting date that is indicative of conditions [for example, a formal commitment] that did not exist at the reporting date) and, consequently, would not be recorded as a contribution receivable. [AAG 6.64]

| | Yes | No | N/A |
|---|---|---|---|
| **F. 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] | _____ | _____ | _____ |

[1] 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 benefit pension plans. However, if the plan recognizes an impairment of long-lived assets, please refer to the aforementioned sections of 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.

**G. Liabilities**

1. Are liabilities other than for benefits (such as accrued expenses, amounts owed for securities purchased or other investment-related payables, obligations to return securities lending collateral, derivative related payables, income taxes payable by the plan, and amounts due to the plan sponsor) deducted to arrive at net assets available for plan benefits? ____ ____ ____
[AAG 6.70–.71; Common Practice]

**Practice Tip**

The plan should not reflect as liabilities amounts of persons who have elected to withdraw from the plan but have not yet been paid. Current benefits payable should not be accrued as liabilities because the liability for benefits to be paid by the plan is already reflected in the actuarial present value of accumulated plan benefits. A note to the financial statements to reconcile the audited financial statements to the Form 5500 may be necessary because benefits payable are required to be reported on Schedule H.
[Common Practice; AAG 6.71]

2. Net assets related to the 401(h) account must be deducted before arriving at the total of net assets available for pension benefits:
   *a.* In deducting those net assets, are the amounts relating to 401(h) features presented as a separate line item in the liabilities section of the statement of net assets available for pension benefits? ____ ____ ____
   *b.* Does the financial statement caption clearly denote that the net assets held in the 401(h) account relate to obligations of the health and welfare plan or arrangement? ____ ____ ____
   [FASB ASC 960-30-45 par. 6–8]

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

**A. General**

1. Does the "Statement of Changes in Net Assets Available for Benefits" present changes in net assets available for benefits in enough detail to identify the significant changes during the year? ____ ____ ____
[FASB ASC 960-30-45-1]

| | Yes | No | N/A |
|---|---|---|---|
| 2. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant class of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? [FASB ASC 960-30-45-2] | ____ | ____ | ____ |
| 3. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose the following: | | | |
| *a.* Investment income (exclusive of changes in fair value)? | ____ | ____ | ____ |
| *b.* Contributions from employer(s), segregated between cash and noncash contributions? | ____ | ____ | ____ |
| *c.* Contributions from participants, including those transmitted by the sponsor? | ____ | ____ | ____ |
| *d.* Contributions from other 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 (for example, transfers of assets to or from other plans, if significant)? [FASB ASC 960-30-45-2] | ____ | ____ | ____ |
| 4. Does the "Statement of Changes in Net Assets Available for Benefits" present interest income earned and rebate interest paid as a result of securities lending activity (see section VII.N, "Transfers and Servicing of Financial Assets and Securitizations," of this checklist for additional guidance related to securities lending)? [FASB ASC 960-30-25-2] | ____ | ____ | ____ |

**Practice Tips**

FinREC recommends that the dividends be considered investment income and shown separately from changes in fair value. FinREC recommends that capital gain distributions be considered investment income and shown separately from changes in fair value or included as part of the net change in fair value.
[AAG 6.73*b*]

******

Dividend income related to contracts with insurance companies that are excluded from plan assets may be netted against question 3*f*.
[FASB ASC 960-30-45-2*g*]

**B. Contributions**

| | Yes | No | N/A |
|---|---|---|---|
| 1. Is the nature of noncash contributions described, either parenthetically or in a note? [FASB ASC 960-30-45-2*c*] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|

**C. Investment Earnings**

1. Does the net appreciation (depreciation) in the fair value of investments (see question 1 in section A, "Statement of Changes in Net Assets Available for Benefits") include realized gains and losses on investments that were both bought and sold during the year?[2] ____ ____ ____
[FASB ASC 960-30-45-2*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 for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? ____ ____ ____
[FASB ASC 960-30-50-2]

**D. 401(h) Account Assets**

1. Does the statement of changes in net assets available for plan benefits:

   *a.* Show only the changes in net assets of the pension plan and not any of the components of the changes in the net assets in the 401(h) account? ____ ____ ____

   *b.* Reflect only qualified transfers to the 401(h) account or any unused or unspent amounts (including allocated income), or both, in the 401(h) account at the end of the year that were qualified transfers of excess pension plan assets that should have been but were not transferred back to the defined benefit pension plan? ____ ____ ____
   [FASB ASC 960-30-45 par. 9–10]

**E. Other**

1. Have the following items been presented separately on the statement of changes in net assets available for plan benefits as recommended by FinREC:

   *a.* Other employer contributions (if coming from the employer) or other income, including fee income from securities loaned and from miscellaneous sources, such as reimbursements for lost income or operational defects? ____ ____ ____

   *b.* Income tax expense (for example, unrelated business income tax)? ____ ____ ____

   *c.* Other expenses, such as interest expense on debt or short sales, bank borrowings, margin accounts, and reverse repurchase agreements? ____ ____ ____

   *d.* Transfers of assets to or from other plans? ____ ____ ____
   [AAG 6.74; Common Practice]

[2] Separate disclosure of realized gains and losses on investments sold during the year is neither required nor proscribed. [AAG 6.73*a*]

| | Yes | No | N/A |
|---|---|---|---|
| 2. For plan mergers and spin-offs, has the net assets transferred been recorded as a transfer in or out, as applicable, on the statement of changes in net assets, below the net increase or decrease for the period prior to plan transfer, as recommended by FinREC? [AAG 6.111; Common Practice] | _____ | _____ | _____ |

## IV. Statement of Accumulated Plan Benefits

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**Practice Tip**

Certain flexibility is allowed in presenting the information regarding the actuarial present value of accumulated plan benefits and the year-to-year changes therein. That benefit information may be presented on the face of one or more financial statements or in notes thereto. Regardless of the format selected, each category of information should be presented in its entirety in the same location. If the minimum required disclosure is presented in other than a statement format, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should also be presented.
[FASB ASC 960-20-45-2; FASB ASC 960-20-50-7]

---

| | Yes | No | N/A |
|---|---|---|---|
| **A. Actuarial Present Value of Accumulated Plan Benefits** | | | |
| 1. Is the total actuarial present value of accumulated plan benefits as of the benefit information date segmented into at least the following categories: | | | |
| *a.* Vested benefits of participants currently receiving payments? | _____ | _____ | _____ |
| *b.* Other vested benefits? | _____ | _____ | _____ |
| *c.* Nonvested benefits? [FASB ASC 960-20-45-3] | _____ | _____ | _____ |
| 2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date? [FASB ASC 960-20-45-3] | _____ | _____ | _____ |
| 3. Does information regarding accumulated plan benefits relate only to pension obligations and not to retiree health benefits, even in situations where separate financial statements are not prepared for the health and welfare benefit plan? [FASB ASC 960-20-45-5] | _____ | _____ | _____ |
| **B. Accumulated Contributions of Present Employees** | | | |
| 1. If the plan is contributory, is the amount of active employees' accumulated contributions as of the benefit information date (including interest, if any) disclosed? [FASB ASC 960-20-50-2] | _____ | _____ | _____ |
| 2. If interest has been credited on employees' contributions, is the rate(s) disclosed? [FASB ASC 960-20-50-2] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|

## V. Statement of Changes in Accumulated Plan Benefits

**Practice Tip**

Information regarding changes in the actuarial present value of accumulated plan benefits may be presented in either of the following ways:

*a.* In a statement that accounts for the change between two benefit information date

*b.* Elsewhere in the financial statements.

[FASB ASC 960-20-45-8]

| | Yes | No | N/A |
|---|---|---|---|
| **A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits** | | | |
| 1. If significant, is information disclosed regarding the effects of certain factors affecting the change in the actuarial present value of accumulated plan benefits from the preceding to the current benefit information date? [FASB ASC 960-20-45-6] | _____ | _____ | _____ |
| 2. At a minimum, do disclosures include the significant effects of such factors as the following: | | | |
| *a.* Plan amendments? | _____ | _____ | _____ |
| *b.* Changes in the nature of the plan (for example, as a result of a spin-off or merger)? | _____ | _____ | _____ |
| *c.* Changes in actuarial assumptions?[3] | _____ | _____ | _____ |
| 3. Are the significant effects of other factors identified, such as the following: | | | |
| *a.* Benefits accumulated? | _____ | _____ | _____ |
| *b.* The increase (for interest) as a result of the decrease in the discount period? | _____ | _____ | _____ |
| *c.* Benefits paid? [FASB ASC 960-20-50 par. 3–4] | _____ | _____ | _____ |
| 4. If any one factor is individually significant, is that factor separately disclosed (*encouraged but not required*)? [FASB ASC 960-20-50-5] | _____ | _____ | _____ |

**Practice Tips**

Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than being separately disclosed.

[FASB ASC 960-20-50-4]

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If an end-of-year benefit information date is used, the present value of accumulated plan benefits will be as of the same date as the net assets available for benefits. In this case, at a minimum, there will be two statements of net assets available for benefits and one statement of changes in net assets available for benefits.

*(continued)*

[3] Changes in actuarial assumptions are to be viewed as changes in accounting estimates, and therefore previously reported amounts should not be restated. [FASB ASC 960-20-35-4]

| | Yes | No | N/A |
|---|---|---|---|

There will be two corresponding statements (or disclosure in the notes to the financial statements) of the present value of accumulated plan benefits and one statement of changes in present value of accumulated plan benefits.
[AAG 6.94]

**B. Changes in Actuarial Assumptions**

1. For plans that measure the actuarial present value of accumulated plan benefits by insurance entity rates pursuant to the approach described in FASB ASC 960-20-35-1A, are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed, if practicable? ____ ____ ____
[FASB ASC 960-20-50-3]

2. If the effects of changes in actuarial assumptions discussed in question 1 cannot be separately disclosed, are those effects included in benefits accumulated? ____ ____ ____
[FASB ASC 960-20-50-4]

**C. Benefits Paid and Other**

1. Are amounts paid by the plan to an insurance entity pursuant to a contract that is excluded from plan assets (including the purchase of annuities with amounts allocated from existing investments with the insurance entity) included in benefits paid? ____ ____ ____
[FASB ASC 960-20-50-6]

2. In presenting the changes in the actuarial present value of accumulated plan benefits, if only the minimum required disclosure is presented and a *statement format* is used, is an additional *other* category used to reconcile the beginning and ending amounts?[4] ____ ____ ____
[FASB ASC 960-20-45-9]

## VI. Summary of Significant Accounting Policies

**A. Accounting Policies**

1. Has a description of all significant accounting policies been included as an integral part of the financial statements as either a separate *summary of significant accounting policies* preceding the notes to the financial statements or as the initial note? ____ ____ ____
[FASB ASC 235-10-50 par. 1 and 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? ____ ____ ____

[4] If the minimum required disclosure is presented in other than a statement format, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should be presented. [FASB ASC 960-20-50-7]

Yes No N/A

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

*c.* are unusual or innovative applications of GAAP? [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. Does the disclosure of the plan's accounting policies include a description of the valuation techniques and inputs used to measure the fair value of investments (as required by FASB ASC 820-10-50) and a description of the methods and significant assumptions used to measure the reported value contracts with insurance entities? [FASB ASC 960-325-50-1] _____ _____ _____

5. Does the disclosure of significant accounting policies include a description of the method and significant assumptions (for example, assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits, including any significant changes in the method or assumptions during the year? [FASB ASC 960-20-50 par. 8–9] _____ _____ _____

6. If administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits are reflected by appropriately adjusting the assumed rates of return, is the adjustment of the assumed rates of return disclosed separately? [FASB ASC 960-20-35-1c; FASB ASC 960-20-50-10] _____ _____ _____

7. Has the estimated effect on the benefit information, or on the difference between the net asset information and the benefit information, of a given variation in the assumptions to which that information is most sensitive (*encouraged but not required*)? [FASB ASC 960-20-50-11] _____ _____ _____

**B. Risks and Uncertainties**

1. Has the entity properly disclosed a description of the major products or services the entity sells or provides and it principal markets, including the locations of those markets? [FASB ASC 275-10-50-2] _____ _____ _____

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

| | Yes | No | N/A |
|---|---|---|---|
| 3. Has the entity properly disclosed if, based on known information available to the entity before the issuance of the financial statements, it is reasonably possible that estimates in the financial statements will change in the *near term* (as defined by the FASB ASC glossary as a period of time not to exceed one year from the date of the financial statements) and the effects will be material, discussion (including an estimate of the effect of the change in condition, situation, or set of circumstances that existed at the date of the financial statements) in the financial statements of these facts and circumstances? [FASB ASC 275-10-50-6] | ____ | ____ | ____ |
| 4. If known information available before the financial statements are issued or 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, | | | |
| *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 450–20, 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 (*encouraged but not required*)? [FASB ASC 275-10-50 par. 8–9] | ____ | ____ | ____ |

**Practice Tip**

Whether an estimate meets the criteria for disclosure under FASB ASC 275, *Risks and Uncertainties*, does not depend on the amount that has been reported in the financial statements, but rather on the materiality of the effect that using a different estimate would have had on the financial statements. Simply because an estimate resulted in the recognition of a small financial statement amount, or no amount, does not mean that disclosure is not required under FASB ASC 275-10.
[FASB ASC 275-10-50-14]

| | Yes | No | N/A |
|---|---|---|---|
| 5. 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*) the concentration 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] | ____ | ____ | ____ |
| 6. 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] | ____ | ____ | ____ |
| 7. 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, are other concentrations disclosed? [FASB ASC 310-10-50-25] | ____ | ____ | ____ |

## VII. Other Financial Statement Disclosures

### A. Description of Pension Plan

| | Yes | No | N/A |
|---|---|---|---|
| 1. Do disclosures include a brief, general description of the plan agreement, including its vesting and benefit provisions? [FASB ASC 960-205-50-1(a)] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|

**Practice Tip**

If material providing this information is otherwise published and made available to participants (for example, employee handbook), the disclosures required by FASB ASC 960-205-50-1(a) can be omitted provided that a reference to the other source is made.
[FASB ASC 960-205-50-1(a)]

2. For ERISA plans, does the plan description include the priority order of participants' claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC? _____ _____ _____
[FASB ASC 960-205-50-1(c)]

**B. Description of Plan Amendments**

1. Do disclosures include a description of significant plan amendments adopted during the year? _____ _____ _____
[FASB ASC 960-205-50-1(b)]

2. If significant plan amendments were adopted after the date of the accumulated benefit information, and accordingly their effect was not included in the calculation, is this fact stated? _____ _____ _____
[FASB ASC 960-205-50-1(b)]

**C. 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 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? _____ _____ _____

| | Yes | No | N/A |
|---|---|---|---|
| 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? | ____ | ____ | ____ |
| *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 par. 1–2] | ____ | ____ | ____ |

**Practice Tip**

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

| | Yes | No | N/A |
|---|---|---|---|
| 2. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, are the disclosures required by question 1*a* provided whenever the financial statements of the period of change are presented? [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] | ____ | ____ | ____ |

***Change in Accounting Estimate***

| | Yes | No | N/A |
|---|---|---|---|
| 4. Is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets? Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, if the effect of a change in the estimate is material, is it disclosed? | ____ | ____ | ____ |
| 5. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by paragraphs 1–3 of FASB ASC 250-10-50 are 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 and 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] | _____ | _____ | _____ |

**Practice Tip**

Per FASB ASC 250-10-50-5, the disclosure provisions for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application when the resulting measurement is fair value in accordance in FASB ASC 820.

*Change in the Reporting Entity*

| | Yes | No | N/A |
|---|---|---|---|
| 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? | _____ | _____ | _____ |
| 8. Is the effect of the change in the reporting entity 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] | _____ | _____ | _____ |

**Practice Tip**

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

| | Yes | No | N/A |
|---|---|---|---|
| 9. 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] | _____ | _____ | _____ |

**Practice Tip**

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*

| | Yes | No | N/A |
|---|---|---|---|
| 10. 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? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *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] | ____ | ____ | ____ |
| 11. In addition to question 10, 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): | | | |
| *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] | ____ | ____ | ____ |

**Practice Tips**

Financial statements of subsequent periods need not repeat the disclosures required by FASB ASC 250-10-50-8.
[FASB ASC 250-10-50-10]

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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]

**D. Commitments and Contingencies**

***Commitments***

| | Yes | No | N/A |
|---|---|---|---|
| 1. 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] | ____ | ____ | ____ |
| 2. Has the entity properly disclosed unconditional purchase obligations in accordance with paragraphs 2–6 of FASB ASC 440-10-50? [FASB ASC 440-10-50 par. 2–6] | ____ | ____ | ____ |
| 3. Has the entity properly complied with the disclosure requirements of both: FASB ASC 440, *Commitments*, and FASB ASC 815, *Derivatives and Hedging*, if an unconditional purchase obligation meets the requirements explained in FASB ASC 815-10-50-6? [FASB ASC 440-10-50-7] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|

*Accruals for Loss Contingencies*

4. 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]

5. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 4 disclosed? (***Note***: The terminology used should be descriptive of the nature of the accrual, such as estimated liability or liability of an estimated amount. Further, the term reserve should not be used and is limited to an amount of unidentified or unsegregated assets held or retained for a specific purpose.) ____ ____ ____
[FASB ASC 450-20-50-1]

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**Practice Tip**

FASB ASC 450-20-50-2A notes that the information required in question 6, following, does not apply to loss contingencies arising from an entity's recurring estimation of its allowance for credit losses under the provisions of FASB ASC 310, *Receivables*.

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6. Has the entity properly disclosed the following, if it is at least reasonably possible that the loss estimate will change in the near term and the change would be material to the financial statements:
   *a.* Nature of the contingency? ____ ____ ____
   *b.* An indication that it is at least reasonably possible that a change in the estimate will occur in the near term? ____ ____ ____
   *c.* Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? ____ ____ ____
   [FASB ASC 450-20-50 par. 2 and 4]

7. Has the entity properly disclosed the contingency if there is at least a reasonable possibility that a loss or an additional loss may have been incurred and either of the following conditions exists:
   *a.* An accrual is not made for a loss contingency because any of the conditions in question 4 are not met? ____ ____ ____
   *b.* An exposure to loss exists in excess of the amount accrued pursuant to the provisions of FASB ASC 450-20-30-1? ____ ____ ____
   [FASB ASC 450-20-50-3]

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 4, 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 4, 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]

8. Has the entity properly disclosed a loss or a loss contingency arising after the date of the entity's financial statements (but before those financial statements are issued), if applicable? If such a disclosure is required, have the following been provided:
   *a.* The nature of the loss or loss contingency? _____ _____ _____
   *b.* An estimate of the possible loss or range of loss, or a statement that such an estimate cannot be made? _____ _____ _____
   [FASB ASC 450-20-50-9]

**Practice Tip**

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 450-20-50-10]

*Gain Contingencies*

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

| | Yes | No | N/A |
|---|---|---|---|
| *Guarantees* | | | |
| 10. Has the entity properly recorded an accrual for credit loss on a financial instrument with off-balance sheet risk (including financial guarantees and financial standby letters of credit) separately from a valuation account related to a recognized financial instrument? [FASB ASC 460-10-45-1] | _____ | _____ | _____ |

**Practice Tip**

Per FASB ASC 460-10-50-5, the disclosure requirements of FASB ASC 460-10-50 do not eliminate or affect the disclosure requirements of the following:

- The requirements of the general subsection of FASB ASC 825-10-50
- The requirements of FASB ASC 450-20-50 paragraphs 3–4 that an entity disclose a contingent loss that has a reasonable possibility of occurring
- The requirements of the disclosure subsections of FASB ASC 815
- The requirements of FASB ASC 275-10-50 that an entity disclose information about risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term

| | Yes | No | N/A |
|---|---|---|---|
| 11. Has the entity properly disclosed certain loss contingencies even though the possibility of loss may be remote (for example, guarantees of indebtedness of others, including indirect guarantees of indebtedness of others, obligations of commercial banks under standby letters of credit, guarantees to repurchase receivables that have been sold or otherwise assigned, and other agreements that in substance have the same guarantee characteristic)? [FASB ASC 460-10-50-2] | _____ | _____ | _____ |
| 12. Has the entity properly disclosed the nature and amount of the guarantee disclosing, if estimable, the value of any recovery that could be expected, such as from the guarantor's right to proceed against an outside party? [FASB ASC 460-10-50-3] | _____ | _____ | _____ |
| 13. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote: | | | |
| *a.* The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee and the current status (that is, as of the date of the statement of financial position) of the payment or performance risk of the guarantee? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *b.* The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee, which should not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantee (which are addressed under item *f*)? | ____ | ____ | ____ |
| *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, are 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? | ____ | ____ | ____ |
| *f.* The nature of both | | | |
| 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] | ____ | ____ | ____ |
| 14. Has the entity properly disclosed the requirements in paragraphs 4–6 of FASB ASC 460-10-50 as applied to all minimum revenue guarantees in financial statements of interim or annual periods? [FASB ASC 460-10-50 par. 4–6] | ____ | ____ | ____ |
| 15. 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 FASB ASC 460-10-50-4, except that a guarantor is not required to disclose the maximum potential amount of future payments in FASB ASC 460-10-50-4(b)? | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| *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 of changes in the guarantor's aggregate product liability present the following: | | | |
| 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] | ____ | ____ | ____ |
| 16. 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, *Guarantees*? [FASB ASC 460-10-55 par. 30–34] | ____ | ____ | ____ |

## E. Derivatives and Hedging

***Notes:*** In December 2011, FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which contains amendments to FASB ASC 210 that require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This ASU is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by the amendments in this ASU retrospectively for all comparative periods presented. This checklist has not been updated to include the disclosure and presentation requirements of ASU No. 2011-11 and will be updated closer to its effective date.

| | Yes | No | N/A |
|---|---|---|---|
| 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] | ____ | ____ | ____ |
| 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 in question 2 also distinguish 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] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 5. For derivative instruments designated as hedging instruments, does the description distinguish between each of the following: | | | |
| *a.* Instruments used for risk management purposes, distinguished 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 7, 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 financial position and a statement of financial performance 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 paragraphs 58 and 66 of FASB ASC 815-20-25) 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 financial position 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)? | _____ | _____ | _____ |

| | | Yes | No | N/A |
|---|---|---|---|---|
| *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 financial position 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 recorded in accumulated other comprehensive income during the current period? | ____ | ____ | ____ |
| *c.* | The effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges recorded in accumulated other comprehensive income during the term of the hedging relationship and reclassified into earnings during the current period? | ____ | ____ | ____ |
| *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: (1) the amount of the hedges' ineffectiveness and (2) the amount, if any, excluded from the assessment of hedge effectiveness? | ____ | ____ | ____ |
| *e.* | Derivative instruments not designated or qualifying as hedging instruments under FASB ASC 815-20? [FASB ASC 815-10-50-4C] | ____ | ____ | ____ |
| 10. | Do the disclosures in the preceding question 9 present information separately by type of derivative contract (for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts)? [FASB ASC 815-10-50-4D] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 11. Do the disclosures in the preceding question 9 identify the line item(s) in the statement of financial performance 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 financial performance, 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 financial performance 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] | _____ | _____ | _____ |
| 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 paragraphs 58 and 66 of FASB ASC 815-20-25) for every annual and interim reporting period for which a statement of financial position and a statement of financial performance 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? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *c.* The aggregate fair value of assets that are already posted as collateral at the end of the reporting period and (1) the aggregate fair value of additional assets that would be required to be posted as collateral or (2) the aggregate fair value of assets needed to settle the instrument immediately, or both (1) and (2), 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 paragraphs 58 and 66 in FASB ASC 815-20-25) are presented in more than a single note to the financial statements, 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.)

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**Practice Tip**

Per FASB ASC 815-10-50-4L, for hybrid instruments that have embedded credit derivatives, the seller of the embedded credit derivative should disclose the information required for the entire hybrid instrument, not just the embedded credit derivatives.

---

| | Yes | No | N/A |
|---|---|---|---|
| *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? | _____ | _____ | _____ |
| 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 financial position) of the payment or performance risk of the credit derivative? | _____ | _____ | _____ |
| v. If the entity uses internal groupings for the purposes of item *a*(iv), how those groupings are determined and used for managing risk? | _____ | _____ | _____ |

| | | Yes | No | N/A |
|---|---|---|---|---|
| *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, and | ____ | ____ | ____ |
| | 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? | ____ | ____ | ____ |
| *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)? [FASB ASC 815-10-50-4J–K] | ____ | ____ | ____ |
| | (***Note***: The disclosures required by question 15*a–h* 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.) [FASB ASC 815-10-50-4K] | | | |

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 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) (*encouraged but not required*)? [FASB ASC 815-10-50-4L] | ____ | ____ | ____ |
| 18. 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 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, and 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 (*encouraged but not required*)? [FASB ASC 815-10-50-5] | ____ | ____ | ____ |
| ***Unconditional Purchase Obligations*** | | | |
| 19. Has the entity properly disclosed the information required by FASB ASC 440 and FASB ASC 815 if the entity has unconditional purchase obligations which are subject to the requirements of those topics? [FASB ASC 815-10-50-6] | ____ | ____ | ____ |
| ***Balance Sheet Offsetting*** | | | |
| 20. Has the entity properly disclosed its policy for offsetting or not offsetting in accordance with FASB ASC 815-10-45-6? [FASB ASC 815-10-50-7] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|

**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.[5]
[FASB ASC 815-10-45-6]

21. Has the entity properly 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 entity has made an accounting policy decision to offset fair value amounts, has it separately disclosed 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? _____ _____ _____
    *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, has it 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]

[5] In December 2011, FASB issued Accounting Standards Update (ASU) No. 2011-11, *Balance Sheet Topic (210): Disclosures about Offsetting Assets and Liabilities*. The amendments in ASU No. 2011-11 affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either FASB ASC 210-20-45 or FASB ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements of offsetting in FASB ASC 210-20-50. The amendments in ASU No. 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position.

In January 2013, FASB issued ASU No. 2013-01, *Balance Sheet Topic (210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, to clarify that the scope of ASU No. 2011-11 applies to derivatives accounted for in accordance with FASB ASC 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with FASB ASC 210-20-45 or FASB ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

The amendments in ASU Nos. 2011-11 and 2013-01 will be effective for annual reporting periods beginning on or after January 1, 2013. An entity should provide the required disclosures retrospectively for all comparative periods presented. This checklist has not been updated to include the presentation and disclosure requirements of ASU Nos. 2011-11 and 2013-01 and will be updated closer to the effective date.

For discussion of the main provisions of these ASUs, readers are encouraged to refer to the full text of the ASUs on the FASB website at www.fasb.org.

| | Yes | No | N/A |
|---|---|---|---|

**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]

*Certain Contracts on Debt and Equity Securities*

22. 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]

*Embedded Derivatives*

23. 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 financial position from the aggregate carrying amounts of assets and liabilities subsequently measured using another measurement attribute? _____ _____ _____
[FASB ASC 815-15-45-1]

24. 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]

25. 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]

26. 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 that has been reclassified to stockholders' equity been disclosed? _____ _____ _____
[FASB ASC 815-15-50-3]

| | Yes | No | N/A |
|---|---|---|---|

*Fair Value Hedges*

27. 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]

*Cash Flow Hedges*

28. 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 815-30-50-1; "Pending Content" in FASB ASC 815-30-50-2]

*Net Investment Hedges*

29. 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) (*encouraged, but not required*)? ____ ____ ____
    [FASB ASC 815-35-50-2; FASB ASC 815-10-50-4A]

*Weather Derivatives*

30. Has the entity properly disclosed information for financial instruments, such as those required in FASB ASC 825-10-50, for weather derivative contracts, which are financial instruments within the scope of FASB ASC 815-45? ____ ____ ____
    [FASB ASC 815-45-50-1]

**F. Fair Value Measurements**

***Notes:*** In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Meas-*
*(continued)*

| | Yes | No | N/A |
|---|---|---|---|

*urement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 amends the disclosure requirements of FASB ASC 820 to reflect the work of FASB and the International Accounting Standards Board to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards (IFRSs). The amendments in ASU No. 2011-04 do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting.

For public entities, the amendments in ASU No. 2011-04 are to be applied prospectively and are effective during interim and annual period beginning after December 15, 2011 (that is January 1, 2012 for calendar year plans). For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011 (that is January 1, 2012 for calendar year plans). Early application by public entities is not permitted. Nonpublic entities may apply the amendments early, but no earlier than for interim periods beginning after December 15, 2011 (that is January 1, 2012 for calendar year plans). This checklist has been updated to include the presentation and disclosure requirements of FASB ASU No. 2011-04.

This guidance is located in FASB ASC 820-10-50 and is labeled as "Pending Content" due to the transition and open effective date information contained in FASB ASC 820-10-65-8.

**Practice Tip**

A reporting entity should present the quantitative disclosures required by FASB ASC 820-10-50 in a tabular format.
["Pending Content" in FASB ASC 820-10-50-8]

1. Has the reporting entity disclosed information that enables users of its financial statements to assess both of the following:
   *a.* For assets and liabilities that are measured at fair value on a recurring or nonrecurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements? _____ _____ _____
   *b.* For recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on earnings (or changes in net assets) or other comprehensive income for the period? _____ _____ _____
   ["Pending Content" in FASB ASC 820-10-50-1]

**Practice Tip**

To meet the objectives in "Pending Content" in FASB ASC 820-10-50-1, a reporting entity should consider all of the following:

- The level of detail necessary to satisfy the disclosure requirements
- How much emphasis to place on each of the various requirements

*(continued)*

| | Yes | No | N/A |
|---|---|---|---|

- How much aggregation or disaggregation to undertake
- Whether users of financial statements need additional information to evaluate the quantitative information disclosed

If the disclosures provided are insufficient to meet the objectives in the preceding paragraph, a reporting entity should disclose additional information necessary to meet those objectives.
["Pending Content" in FASB ASC 820-10-50-1A]

| | | Yes | No | N/A |
|---|---|---|---|---|
| *c.* | For recurring and nonrecurring fair value measurements, the fair value measurement at the end of the reporting period and for nonrecurring fair value measurements, the reasons for the measurement? | ____ | ____ | ____ |
| *d.* | For recurring and nonrecurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (level 1, 2, or 3)? | ____ | ____ | ____ |
| *e.* | For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between level 1 and level 2 of the fair value hierarchy, the reasons for the transfers and the reporting entity's policy for determining when transfers between levels are deemed to have occurred? (Transfers into each level should be disclosed and discussed separately from transfers out of each level.) | ____ | ____ | ____ |
| *f.* | For recurring and nonrecurring fair value measurements categorized within level 2 and level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement? | ____ | ____ | ____ |
| *g.* | If there has been a change in valuation technique (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity should disclose that change and the reason(s) for making it? | ____ | ____ | ____ |
| *h.* | For fair value measurements categorized within level 3 of the fair value hierarchy, a reporting entity should provide quantitative information about the significant unobservable inputs used in the fair value measurement? (A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value. However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.) | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| *i.* For recurring fair value measurements categorized within level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances disclosing separately changes during the period attributable to the following: | | | |
| i. Total gains or losses for the period recognized in earnings (or changes in net assets), and the line item(s) in which those gains or losses are recognized? | ____ | ____ | ____ |
| i(a). Total gains and losses for the period recognized in other comprehensive income, and the line item(s) in other comprehensive income in which those gains and losses are recognized? | ____ | ____ | ____ |
| ii. Purchases, sales, issues, and settlements (each of those types of changes disclosed separately)? | ____ | ____ | ____ |
| iii. The amounts of any transfers in and out of level 3 of the fair value hierarchy, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are deemed to have occurred? (Transfers into level 3 should be disclosed and discussed separately from transfers out of level 3.) | ____ | ____ | ____ |
| *j.* For recurring fair value measurements categorized within level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in question 1*i*(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 held at the end of the reporting period and the line items in the statements of income(or activities) in which those unrealized gains or losses are recognized? | ____ | ____ | ____ |
| *k.* For recurring and nonrecurring fair value measurements categorized within level 3 of the fair value hierarchy, a description of the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period)? | ____ | ____ | ____ |

| | | Yes | No | N/A |
|---|---|---|---|---|
| *l.* | For recurring fair value measurements categorized within level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement? If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a reporting entity should also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. (To comply with this disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs should include, at a minimum, the unobservable inputs disclosed when complying with FASB ASC 820-10-50-2[bbb].) | ____ | ____ | ____ |
| *m.* | For recurring and nonrecurring fair value measurements, if the highest and best use of a nonfinancial asset differs from its current use, a reporting entity should disclose that fact and why the nonfinancial asset is being used in a manner that differs from its highest and best use. ["Pending Content" in FASB ASC 820-10-50-2] | ____ | ____ | ____ |

**Practice Tip**

A reporting entity should determine appropriate classes of assets and liabilities on the basis of the following:

- The nature, characteristics and risks of the asset or liability
- The level of the fair value hierarchy within which the fair value measurement is categorized

The number of classes may need to be greater for fair value measurement categorized within level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair measurements should be provided requires judgment. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, a reporting entity should provide information sufficient to permit reconciliation to the line items presented in the statement of financial position.
["Pending Content" in FASB ASC 820-10-50-2B]

| | | Yes | No | N/A |
|---|---|---|---|---|
| 2. | Has the entity properly disclosed its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with FASB ASC 820-10-50-2(bb) and FASB ASC 820-10-50-2(c)(3) (questions 1*e* and 1*i*(iii), preceding)? ["Pending Content" in FASB ASC 820-10-50-2C] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|

**Practice Tip**

The policy about the timing of recognizing transfers should be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- The date of the event or change in circumstances that caused the transfer
- The beginning of the reporting period
- The end of the reporting period

["Pending Content" in FASB ASC 820-10-50-2C]

3. Has the entity properly disclosed, if applicable, if it has made an accounting policy decision to use the exception in FASB ASC 820-10-35-18D (Application to Financial Assets and Financial Liabilities With Offsetting Positions in Market Risks or Counter-party Credit Risk)? _____ _____ _____
["Pending Content" in FASB ASC 820-10-50-2D]

4. Has the entity properly disclosed for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, the information required by paragraphs 2(b), 2(bbb), and 2(h) of FASB ASC 820-10-50 (questions 1*d*, 1*f–h*, and 1*m*, preceding)? _____ _____ _____
["Pending Content" in FASB ASC 820-10-50-2E]

5. Has the entity properly disclosed both of the following:
   *a.* The fair value disclosures required by "Pending Content" in FASB ASC 820-10-50-2(a)–(bb) on a gross basis (question 1*c–e*, preceding)? _____ _____ _____
   *b.* The reconciliation disclosure required by "Pending Content" in FASB ASC 820-10-50-2(c)–(d) either gross or net (question 1*i–j*, preceding)? _____ _____ _____
   [FASB ASC 820-10-50-3]

6. Has the entity properly disclosed, for a liability measured at fair value and issued with an inseparable third-party credit enhancement, the existence of that credit enhancement? _____ _____ _____
["Pending Content" in FASB ASC 820-10-50-4A]

***Fair Value Measurements of Investments in Certain Entities That Calculate Net Assets Value per Share (or Its Equivalent)***

7. For investments that are within the scope of paragraphs 4–5 of FASB ASC 820-10-15 (regardless of whether the practical expedient in FASB ASC 820-10-35-59 has been applied) and are measured at fair value on a recurring or nonrecurring basis, has the plan disclosed information that helps 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 net asset value (NAV) per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed)? _____ _____ _____

| | Yes | No | N/A |
|---|---|---|---|

8. To meet the disclosure requirements in question 7, to the extent applicable, has the reporting entity disclosed, at a minimum, the following information for each class of investment:

   *a.* The fair value measurement (as determined by applying paragraphs 59–62 of FASB ASC 820-10-35) of the investments in the class at the reporting date, and a description of the significant investment strategies of the investee(s) in the class? ____ ____ ____

   *b.* For each class 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 class? ____ ____ ____

   *d.* A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice)? ____ ____ ____

   *e.* The circumstances in which an otherwise redeemable investment in the class (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 class at the measurement date? ____ ____ ____

   *g.* If a reporting entity has determined that it is probably 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 and any remaining actions required to complete the sale(s)? ____ ____ ____
   [“Pending Content” in FASB ASC 820-10-50-6A]

| | Yes | No | N/A |
|---|---|---|---|
| **G. Financial Instruments** | | | |
| 1. 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.

Financial instruments of a pension plan, including plan assets, if 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 are subject to the requirements of paragraphs 20–21 of FASB ASC 825-10-50).
[FASB ASC 825-10-50-22]

| | Yes | No | N/A |
|---|---|---|---|
| ***Disclosure About Concentrations of Credit Risk of All Financial Instruments*** | | | |
| 2. Except as indicated in FASB ASC 825-10-50-22, has the entity disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counterparties (*group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? (***Note***: The term *financial instruments* includes derivatives accounted for under FASB ASC 815.) [FASB ASC 825-10-50-20] | _____ | _____ | _____ |
| 3. Has all of the following information been disclosed 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 entity 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 entity? | _____ | _____ | _____ |
| *c.* The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity'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? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *d.* The entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the entity is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the entity's maximum amount of loss due to credit risk? [FASB ASC 825-10-50-21] | _____ | _____ | _____ |
| 4. Has quantitative information[6] about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks been disclosed (*encouraged, but not required*)? [FASB ASC 825-10-50-23] | _____ | _____ | _____ |

***Financial Instruments—Fair Value Option***

| | Yes | No | N/A |
|---|---|---|---|
| 5. Has the entity properly presented information that separates the reported assets and liabilities that are measured at fair value, pursuant to the fair value option in FASB ASC 825-10, from the carrying amounts of similar assets and liabilities measured using another measurement attribute by either | | | |
| *a.* presenting the aggregate of fair value and non-fair-value amounts in the same line item in the statement of financial position and parenthetically disclosing the amount measured at fair value included in the aggregate amount, or | _____ | _____ | _____ |
| *b.* presenting two separate line items to display the fair value and non-fair-value carrying amounts? [FASB ASC 825–10–15 par. 1–2] | _____ | _____ | _____ |

**Practice Tip**

Except as noted in the following paragraph, for annual reporting periods, the disclosure guidance related to fair value of financial instruments in paragraphs 10-19 of FASB ASC 825-10-50 applies to all entities but is optional for an entity that meets all of the following criteria:

- The entity is a *nonpublic entity* (as defined in the FASB ASC glossary)
- The entity's total assets of less than $100 million on the date of the financial statements
- The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under FASB ASC 815, other than commitments related to the origination of mortgage loans to be held for sale during the reporting period

A nonpublic entity is not required to provide the disclosure in FASB ASC 825-10-50-10(d) for items disclosed at fair value but not measured at fair value in the statement of financial position.

This criterion should be applied to the most recent year presented in comparative financial statements to determine the applicability of FASB ASC 825-10-50.
[FASB ASC 825-10-50 par. 3–4]

[6] Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (*a*) more details about current positions and perhaps activity during the period, (*b*) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (*c*) a gap analysis of interest rate repricing or maturity dates, (*d*) the duration of the financial instruments, or (*e*) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information. [FASB ASC 825-10-50–23]

| | Yes | No | N/A |
|---|---|---|---|
| 6. 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: | | | |
| *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 classes of assets and liabilities presented in accordance with FASB ASC 820's 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 | | | |
| i. loans and long-term receivables (other than securities subject to FASB ASC 320, *Investments—Debt and Equity Securities*) 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? | _____ | _____ | _____ |

| | *Yes* | *No* | *N/A* |
|---|---|---|---|
| *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] | _____ | _____ | _____ |
| 7. 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? (FASB ASC 825-10 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? (FASB ASC 825-10 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? | _____ | _____ | _____ |
| 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] | _____ | _____ | _____ |

*Yes* *No* *N/A*

**Practice Tip**

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]

*Fair Value Option—Other Required Disclosures*

8. 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]

9. 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]

**H. Income Tax Status**

1. If a favorable letter of determination has not been obtained or maintained, is the federal income tax status of the plan disclosed? ____ ____ ____
[FASB ASC 960-205-50-1(f)]

**Practice Tip**

Note that reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by FASB ASC 960.
[AAG 6.96*h*]

**I. Uncertainty in Income Tax**

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 notes 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.* The total amounts of interest and penalties recognized in the statement of financial operations and the total amounts of interest and penalties recognized in the statement of financial position? ____ ____ ____

| | Yes | No | N/A |
|---|---|---|---|
| *b.* 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? | ____ | ____ | ____ |
| *c.* A description of tax years that remain subject to examination by major tax jurisdictions? [FASB ASC 740-10-50 par. 15 and 15A] | ____ | ____ | ____ |

**Practice Tip**

A plan's tax exempt status is a position that may be subject to uncertainty. The sections of FASB ASC 740, *Income Taxes*, relating to accounting for uncertain tax positions are applicable to all entities. TIS section 5250.15, "Application of Certain FASB Interpretation No. 48 (codified in FASB ASC 740-10) Disclosure Requirements to Nonpublic Entities That Do Not Have Uncertain Tax Positions" (AICPA, *Technical Practice Aids*), clarifies that the description of open tax years that remain subject to examination is a required disclosure for a nonpublic entity even if the entity has no uncertain tax positions.
[AAG 5.76*i*]

| | Yes | No | N/A |
|---|---|---|---|
| 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? [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 a decision is made to terminate the plan or a wasting trust exists, are all relevant circumstances disclosed? [FASB ASC 960-40-50-1] | ____ | ____ | ____ |
| 2. If a decision is made to terminate the plan before the end of the plan year, have the plan's financial statements been prepared on the liquidation basis of accounting and have all benefits been reported as vested? [FASB ASC 960-40-25-1; FASB ASC 960-40-35-2] | ____ | ____ | ____ |

**Practice Tip**

For terminating plan assets, changing to the liquidation basis will usually cause little or no change in values, most of which are fair values. Assets that may not be carried at fair values include all of the following:

*a.* Operating assets

*b.* Insurance and certain investment contracts carried at contract values

[FASB ASC 960-40-35-1]

| | Yes | No | N/A |
|---|---|---|---|
| 3. Have the plan's financial statements for periods ending after the termination decision been prepared on the liquidation basis of accounting? [FASB ASC 960-40-25-2] | _____ | _____ | _____ |

**K. Related-Party Transactions**

| | Yes | No | N/A |
|---|---|---|---|
| 1. For related-party transactions, do disclosures include | | | |
| *a.* the nature of the relationships involved? | _____ | _____ | _____ |
| *b.* for each period for which a statement of changes in net assets is presented | | | |
| 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 Financial Position" 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. 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] | _____ | _____ | _____ |
| 4. 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 plan were autonomous? [FASB ASC 850-10-50-6] | _____ | _____ | _____ |
| 5. Do the notes to the financial statements include a description of any agreements and transactions with persons known to be parties in interest as required by ERISA? [AAG 6.96*p* and A.52*c*] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|

**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]

******

Section 3(14) of ERISA defines a *party in interest* to include, among others, 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 organization, or relatives of such persons just mentioned. ERISA defines *parties in interest* in much the same way as FASB ASC 850, *Related Party Disclosures*, defines the term *related parties*, except that ERISA's definition is broader and includes all entities and individuals that provide services to the plan; however, these entities may not necessarily be related parties.
[AAG 2.89 and A.91 fn 25]

**L. Leases**

1. Has the entity properly presented and disclosed leasing transactions as lessee or lessor in accordance with FASB ASC 840, *Leases*? _____ _____ _____
[FASB ASC 840]

2. Are the nature and extent of leasing transactions with related parties appropriately disclosed? _____ _____ _____
[FASB ASC 840-10-50-1]

**M. Subsequent Events**

1. If the entity does not file a Form 11-K with the Securities and Exchange Commission, has it disclosed (in both originally issued financial statements and any revised financial statements) 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 par. 1 and 4]

**Practice Tip**

Revised financial statements are considered reissued financial statements. For guidance on the recognition of subsequent events in reissued financial statements, see FASB ASC 855-10-25-4.
[FASB ASC 855-10-50-5]

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 the following:

   *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]

| | Yes | No | N/A |
|---|---|---|---|
| 3. Has the entity considered disclosing, regarding significant nonrecognized subsequent events, historical financial statements with pro forma financial data, including the presentation of pro forma statements (usually a balance sheet only, in columnar form on the face of the historical statements)? [FASB ASC 855-10-50-3] | _____ | _____ | _____ |
| 4. Do disclosures include unusual or infrequent events or transactions occurring after the latest benefit information date, but before the financial statements are issued or available to be issued (as discussed in FASB ASC 855-10-25), which might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [FASB ASC 960-205-50-1(h)] | _____ | _____ | _____ |
| 5. For those unusual or infrequent events or transactions identified in question 4, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [FASB ASC 960-205-50-1(h)] | _____ | _____ | _____ |
| **N. Transfers and Servicing of Financial Assets and Securitizations** | | | |
| *Sales of Financial Assets* | | | |
| 1. Has the entity properly disclosed the following, for each income statement period presented, the following: | | | |
| *a.* The characteristics of the transfer, including (i) a description of the transferor's continuing involvement with the transferred financial assets, (ii) the nature and fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and (iii) the gain or loss from the sale of transferred financial assets? | _____ | _____ | _____ |
| *b.* For the initial fair value measurements in item *a*, the level within the fair value hierarchy, as described in FASB ASC 820, in which fair value measurements fall, segregating fair value measurements into each level? | _____ | _____ | _____ |
| *c.* For the initial fair value measurements in item *a*, the key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor's continuing involvement, including quantitative information about all of the following: | | | |
| i. Discount rates? | _____ | _____ | _____ |
| ii. Expected prepayments including the expected weighted-average life of prepayable financial assets? | _____ | _____ | _____ |
| iii. Anticipated credit losses, including expected static pool losses? | _____ | _____ | _____ |
| *d.* For the initial fair value measurements in item *a*, the valuation technique(s) used to measure fair value? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *e.* Cash flows between a transferor and transferee, including (i) proceeds from new transfers, (ii) proceeds from collections reinvested in revolving-period transfers, (iii) purchases of previously transferred financial assets, (iv) servicing fees, and (v) cash flows received from a transferor's interests? [FASB ASC 860-20-50-3] | _____ | _____ | _____ |
| 2. Has the entity properly disclosed the following, for each statement of financial position presented, regardless of when the transfer occurred, the following: | | | |
| *a.* Qualitative and quantitative information about the transferor's continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor's risk profile has changed as a result of the transfer, including the following: | | | |
| i. The total principal amount outstanding? | _____ | _____ | _____ |
| ii. The amount that has been derecognized? | _____ | _____ | _____ |
| iii. The amount that continues to be recognized in the statement of financial position? | _____ | _____ | _____ |
| iv. The terms of any arrangements that could require the transferor to provide financial support to the transferee or its beneficial interest holders, including (1) a description of any events or circumstances that could expose the transferor to loss and (2) the amount of the maximum exposure to loss? | _____ | _____ | _____ |
| v. Whether the transformer has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including (1) the type and amount of support and (2) the primary reason for providing the support? | _____ | _____ | _____ |
| vi. Although encouraged, but not required, information about any liquidity arrangements, guarantees, or other commitments by third parties related to the transferred financial assets that may affect the fair value or risk of the related transferor's interest? | _____ | _____ | _____ |
| *b.* The entity's accounting policies for subsequently measuring assets or liabilities that relate to the continuing involvement with the transferred financial assets? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *c.* The key inputs and assumptions used in measuring the fair value of those interests including, at a minimum, quantitative information about (i) discount rates, (ii) expected prepayments including the expected weighted-average life of prepayable financial assets, and (iii) anticipated credit losses, if applicable? (***Note***: If the entity has aggregated transfers during a period in accordance with FASB ASC 860-10-50-5, it may disclose the range of assumptions.) | _____ | _____ | _____ |
| *d.* 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 item *b* independently from any change in another key assumption? | _____ | _____ | _____ |
| *e.* A description of the objectives, methodology, and limitations of the sensitivity analysis or stress test? | _____ | _____ | _____ |
| *f.* Information about the asset quality of transferred financial assets and any other financial assets that it manages together with them? (***Note***: This information should be separated between assets that have been derecognized and assets that continue to be recognized in the statement of financial position. This information is intended to provide financial statement users with an understanding of the risks inherent in the transferred financial assets as well as in other financial assets and liabilities that it manages together with transferred financial assets.) [FASB ASC 860-20-50-4] | _____ | _____ | _____ |
| 3. Has the entity properly disclosed the aggregate amount of gains or losses on sales of loans or trade receivables (including adjustments to record loans held for sale at the lower of cost or fair value) separately in the financial statements or in the notes to the financial statements? [FASB ASC 860-20-50-5] | _____ | _____ | _____ |
| ***Secured Borrowing and Collateral*** | | | |
| 4. Has the entity properly presented a collateral asset, which the secured party has the right by contract or custom to sell or repledge, separately from other assets not so encumbered, in its statement of financial position? [FASB ASC 860-30-45-1] | _____ | _____ | _____ |
| 5. Has the entity properly presented liabilities incurred by either the secured party or the obligor in securities borrowing or resale transactions separately? [FASB ASC 860-30-45-2] | _____ | _____ | _____ |
| 6. 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] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| 7. As of the date of the latest statement of financial position, are the carrying amount and classification of both of the following presented: | | | |
| *a.* Any assets pledged as collateral that are not reclassified and separately reported in the statement of financial position in accordance with FASB ASC 860-30-25-5(a)? | _____ | _____ | _____ |
| *b.* Associated liabilities? [FASB ASC 860-30-50-1A] | _____ | _____ | _____ |
| 8. As of the date of the latest statement of financial position is qualitative information about the relationships between those assets and liabilities presented (for example, if assets are restricted solely to satisfy a specific obligation, a description of the nature of restrictions placed on those assets)? [FASB ASC 860-30-50-1A] | _____ | _____ | _____ |
| 9. If the plan has accepted collateral that it is permitted by contract or custom to sell or repledge, are the following disclosed: | | | |
| *a.* The fair value (as of the date of each statement of financial position) of that collateral? | _____ | _____ | _____ |
| *b.* The fair value (as of the date of each statement of financial position) of the portion of that collateral that it has sold or repledged? | _____ | _____ | _____ |
| *c.* Information about the sources and uses of that collateral? [FASB ASC 860-30-50-1A] | _____ | _____ | _____ |
| ***Servicing Assets and Liabilities*** | | | |
| 10. Has the entity properly presented recognized servicing assets and servicing liabilities that are subsequently measured using the fair value measurement method in a manner that separates those carrying amounts on the face of the statement of financial position from the carrying amounts for separately recognized servicing assets and servicing liabilities that are subsequently measured using the amortization method? [FASB ASC 860-50-45-1] | _____ | _____ | _____ |
| 11. Has the entity properly presented the information, in order to accomplish the separate reporting in FASB ASC 860-50-45-1, either by (*a*) displaying separate line items for the amounts that are subsequently measured using the fair value measurement method and amounts that are subsequently measured using the amortization method, or (*b*) presenting the aggregate of those amounts that are subsequently measured at fair value and those amounts that are subsequently measured using the amortization method and by disclosing parenthetically the amount that is subsequently measured at fair value that is included in the aggregate amount? [FASB ASC 860-50-45-2] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| 12. For all servicing assets and servicing liabilities, are the following disclosures made: | | | |
| *a.* Management's basis for determining its classes of servicing assets and servicing liabilities? | _____ | _____ | _____ |
| *b.* A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities? | _____ | _____ | _____ |
| *c.* The amount of contractually specified servicing fees (as defined in the FASB ASC 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? | _____ | _____ | _____ |
| *d.* Quantitative and qualitative information about the assumptions used to estimate fair value? | _____ | _____ | _____ |
| *e.* Although not required, the entity is encouraged to disclose 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 the end of the period, and quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments? [FASB ASC 860-50-50-2] | _____ | _____ | _____ |
| 13. Has the entity properly disclosed the following regarding all 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? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| v. Other changes that affect the balance and a description of those changes? [FASB ASC 860-50-50-3] | ____ | ____ | ____ |
| 14. Has the entity properly disclosed the following regarding all servicing assets and servicing liabilities subsequently measured under the amortization method: | | | |
| *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? | ____ | ____ | ____ |
| *c.* 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? (***Note***: If the predominant risk characteristics and resulting stratums are changed, that fact and the reasons for those changes should be included in the disclosures about the risk characteristics of the underlying financial assets used to stratify the recognized servicing assets in accordance with FASB ASC 860-50-50-4.) | ____ | ____ | ____ |
| *d.* 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] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 15. Has the entity properly disclosed separately, if it elected under FASB ASC 860-50-35-3(d) to subsequently measure a class of servicing assets and servicing liabilities at fair value at the beginning of the fiscal year, the amount of the cumulative-effect adjustment to retained earnings? [FASB ASC 860-50-50-5] | _____ | _____ | _____ |

**O. Other Matters**

| | Yes | No | N/A |
|---|---|---|---|
| 1. Do disclosures include the funding policy of the pension plan and any changes in such policy during the plan year? | _____ | _____ | _____ |
| *a.* If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? | _____ | _____ | _____ |
| *b.* For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions? | _____ | _____ | _____ |
| *c.* For plans subject to ERISA, do disclosures include whether the minimum funding requirements of ERISA have been met? | _____ | _____ | _____ |
| *d.* If a minimum funding waiver has been granted by the IRS or if a request for a waiver is pending before the IRS, is this fact disclosed? [FASB ASC 960-205-50-1(d)] | _____ | _____ | _____ |
| *e.* Does the plan include a brief description, in general terms and in layman's language, of how contributions are determined pursuant to the actuarial cost method (*encouraged, but not required*)? [FASB ASC 960-205-50-2, Common Practice] | _____ | _____ | _____ |
| *f.* Did the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information (*encouraged, but not required*)? [FASB ASC 960-205-50-3, Common Practice] | _____ | _____ | _____ |
| 2. Do disclosures include the policy regarding the purchase of insurance contracts that are excluded from plan assets and the dividend income from those contracts? (***Note***: For purposes of FASB ASC 960-30-45-2, the dividend income from excluded contracts may be netted against payments to insurance entities related to such contracts.) [FASB ASC 960-205-50-1(e)] | _____ | _____ | _____ |
| 3. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (*a*) the sponsor, (*b*) the employer(s), or (*c*) the employee organization(s)? | _____ | _____ | _____ |

(See also section K, "Related-Party Transactions," regarding parties in interest.)
[FASB ASC 960-205-50-1(g)]

| | Yes | No | N/A |
|---|---|---|---|
| 4. As required by ERISA, do disclosures include an explanation of the differences, if any, between the information contained in the financial statements and the amounts reported on Form 5500, Schedule H? [AAG 6.96*q*] | _____ | _____ | _____ |
| 5. Have the terms of expense offset arrangements with third parties, whereby expenses are netted against income, been disclosed in the notes to the financial statements, if significant, as recommended by FinREC? (***Note***: Expense offset arrangements generally consist of fees being paid to a third-party service provider (for example, recordkeeper) directly through the use of investment fee rebates made available by the plan's separate third-party investment manager.) [AAG 6.97; Common Practice] | _____ | _____ | _____ |
| 6. For master trusts, do the notes to the financial statements include the following (FinREC recommends this because audited financial statements are not required for the master trusts): | | | |
| *a.* A statement of net assets of the master trust? | _____ | _____ | _____ |
| *b.* A statement of changes in net assets of the master trust? [AAG 8.47; Common Practice] | _____ | _____ | _____ |

## VIII. 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) following the requirements for a *large plan* (as defined by ERISA) including financial statements prepared in accordance with GAAP or a basis of accounting other than U.S. GAAP (for example, a special purpose framework, such as a modified cash basis of accounting)? [AAG 11.26 and A.19] | _____ | _____ | _____ |

**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. This privilege is limited to small plans that filed Form 5500 with Schedule I and not filers of the other two forms. The Form 5500 and Form 5500-SF is filed with EBSA in accordance with the instructions to the form. (See paragraphs .40–.45 of part 1, "Introduction," for a discussion about the Form 5500.)
[AAG A.19]

| | Yes | No | N/A |
|---|---|---|---|
| **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 (Statutory Method)[7]** | | | |
| 1. If the financial statements of the plan are filed under the *statutory method*, do the notes to the financial statements include | | | |
| *a.* a description of the plan, including significant changes in the plan, and the effect of the changes on benefits? | ____ | ____ | ____ |
| *b.* 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? | ____ | ____ | ____ |
| *c.* a description of material lease commitments, and other commitments and contingent liabilities? | ____ | ____ | ____ |
| *d.* a description of any agreements and transactions with persons known to be parties in interest? | ____ | ____ | ____ |
| *e.* a general description of priorities in the event of plan termination? | ____ | ____ | ____ |
| *f.* whether a tax ruling or determination letter has been obtained? | ____ | ____ | ____ |
| *g.* any other information required for a fair presentation? | ____ | ____ | ____ |
| *h.* an explanation of differences, if any, 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, Schedule H? [AAG 6.96*q*, A.51*a*, and A.52*c*] | ____ | ____ | ____ |

**Practice Tips**

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan, and GAAP requires them to be deducted before arriving at the total of net assets available for pension benefits, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. The reconciliation should be accompanied by a discussion of the 401(h) account, explaining clearly that the assets in the 401(h) account are not available to pay pension benefits.
[FASB ASC 960-205-50-5]

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Additionally, any assets held for investment purposes in the 401(h) account should be shown on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) and Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan.
[AAG exhibit A-1]

[7] Plan administrators may, for purposes of Title I of ERISA, file an annual report containing all of the information required by ERISA Section 103 (that is, the statute) or the information required by the regulations. However, a filing in accordance with ERISA Section 103 will not satisfy an administrator's annual reporting obligations under the IRC or Title IV of ERISA; the Form 5500 must be filed to comply with those requirements.

| | Yes | No | N/A |
|---|---|---|---|
| **C. Required Financial Statements and Supporting Schedules** | | | |
| 1. For plans filing under either method (statute to regulations), is the following financial information included: | | | |
| *a.* Plan assets and liabilities aggregated by categories and valued at their current value with the same data displayed in comparative form using the end of the current plan year at either [1] the end of the previous plan year [statute] or [2] beginning of the current plan year [regulations]? | _____ | _____ | _____ |
| *b.* Information concerning plan income, expenses, and changes in net assets during the plan year? [AAG A.52a] | _____ | _____ | _____ |
| 2. Have certain supplemental schedules as required by Form 5500 been attached to the annual Form 5500 filing (using the Form 5500 series and not Form 5500-SF or 5500-EZ)? | _____ | _____ | _____ |

**Practice Tip**

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

***Nonstandardized Schedules (Not Permitted If Filing By the Statutory Method)***

| | Yes | No | N/A |
|---|---|---|---|
| *a.* The Schedule H, Line 4a—Schedule of Delinquent Participant Contributions? | _____ | _____ | _____ |

| 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 VFCP | Contributions Pending Correction in VFCP | |

| | Yes | No | N/A |
|---|---|---|---|
| *b.* The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown as follows or a similar format and the same size paper as the Form 5500 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 End of Year] and a Schedule of Assets Held [Acquired and Disposed of Within Year] are required.) | _____ | _____ | _____ |

*Yes* *No* *N/A*

| (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[8] | (e) Current value[9] |
|---|---|---|---|---|

**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.

*c.* 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 or similar format and the same size paper as the Form 5500? _____ _____ _____

| (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.

*d.* The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled "Schedule H, line 4j—Schedule of Reportable Transactions" and does it use the following format? _____ _____ _____
[AAG exhibit A-1]

| (a) Identity of party involved | (b) Description of asset (include interest rate and maturity in case of a loan) | (c) Purchase price | (d) Selling price | (e) Lease rental | (f) Expense incurred with transaction | (g) Cost of asset[10] | (h) Current value of asset on transaction date | (i) Net gain or (loss) |
|---|---|---|---|---|---|---|---|---|

**Practice Tips**

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

*(continued)*

[8] *Cost or cost of asset* refers to the original or acquisition cost of the asset. The DOL generally will accept any clearly defined and consistently applied method of determining historical cost that is based on the initial acquisition cost of the asset (for example, first in-first out or average cost). The use of revalued cost (the fair value of the asset at the beginning of the current plan year) for these schedules is not acceptable.

[9] *Current value* means fair market value where available. Otherwise, it means the fair value as determined in good faith under the terms of the plan by a trustee or a named fiduciary, assuming an orderly liquidation at the time of the determination.

[10] See footnote 7.

| | Yes | No | N/A |
|---|---|---|---|

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.

[AAG exhibit A-1]

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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.
[AAG A.52*b* fn 18]

***Standardized Schedules***

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

| | Yes | No | N/A |
|---|---|---|---|
| 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.52*b* and AAG exhibit A-1] | ____ | ____ | ____ |

***Note***: Certain plan transactions with parties in interest are prohibited under Section 406 and 407 of ERISA and are required without regard to their materiality, to be disclosed to the DOL in the plan's annual report, Form 5500.
[AAG 2.91]

# Part 3
# *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* (as of January 1, 2013)

AU-C = Reference to clarified auditing section number in AICPA *Professional Standards*

CFR = U.S. *Code of Federal Regulations*

DOL = Department of Labor

GAAP = Accounting principles generally accepted in the United States of America

GAAS = Auditing standards generally accepted in the United States of America

TIS = Technical Questions and Answers in AICPA *Technical Practice Aids*

**.03** The auditing guidance in this section of the checklist has been conformed to Statement on Auditing Standards (SAS) Nos. 122–127 (referred to as clarified SASs), which were issued as part of the Auditing Standards Board's (ASB's) Clarity Project. These clarified SASs are effective for audits of financial statements for periods ending on or after December 15, 2012. Although extensive, the revisions to GAAS resulting from these clarified SASs do not change many of the requirements found in the auditing standards that they supersede.

**.04** Part 1, "Introduction," of this checklist and the Financial Reporting Center on www.aicpa.org provide more information on the Clarity Project. Visit www.aicpa.org/sasclarity.

**.05** Checklist Questionnaire:

| | *Yes* | *No* | *N/A* |
|---|---|---|---|
| **Auditor's Report** | | | |
| ***Title*** | | | |
| 1. Does the report have a title that includes the word *independent* to clearly indicate that it is the report of an independent auditor? [AU-C 700.23 and .A18] | _____ | _____ | _____ |
| ***Addressee*** | | | |
| 2. Is the report addressed to the entity whose financial statement are being audited or to its board of directors or stockholders as required by the engagement? [AU-C 700.24 and .A19] | _____ | _____ | _____ |
| ***Introductory Paragraph*** | | | |
| 3. Does the introductory paragraph of the auditor's report | | | |
| *a.* identify the entity whose financial statements have been audited? | _____ | _____ | _____ |
| *b.* state that the financial statements have been audited? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *c.* identify the title of each statement that the financial statements comprise? | ____ | ____ | ____ |
| *d.* state the date or period covered by each financial statement that the financial statements comprise? [AU-C 700.25 and .A20–.A23] | ____ | ____ | ____ |
| ***Management's Responsibility for the Financial Statements*** | | | |
| 4. Does the auditor's report include a section with the heading "Management's Responsibility for the Financial Statements?" [AU-C 700.26] | ____ | ____ | ____ |
| 5. Does the auditor's report describe management's responsibility for the preparation and fair presentation of the financial statements, including | | | |
| *a.* an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework? | ____ | ____ | ____ |
| *b.* the responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error? [AU-C 700.27 and .A24] | ____ | ____ | ____ |
| 6. Does the description about management's responsibility appropriately not refer to a separate statement prepared by management? [AU-C 700.28] | ____ | ____ | ____ |
| ***Auditor's Responsibility*** | | | |
| 7. Does the report include a section with the heading "Auditor's Responsibility?" [AU-C 700.29] | ____ | ____ | ____ |
| 8. Does the auditor's report state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit? [AU-C 700.30 and .A26] | ____ | ____ | ____ |
| 9. Does the auditor's report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards and that those standards require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement? [AU-C 700.31 and .A27–.A28] | ____ | ____ | ____ |
| 10. If applicable, when the auditor's report refers to both GAAS and another set of auditing standards, does the auditor's report identify the other set of auditing standards as well as their origin? [AU-C 700.43] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 11. Does the auditor's report describe an audit by stating | | | |
| *a.* that an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements? | _____ | _____ | _____ |
| *b.* that procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error and that in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, and accordingly, no such opinion is expressed? (***Note***: If the auditor has the responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase "that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed.") | _____ | _____ | _____ |
| *c.* that and audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements? [AU-C 700.32] | _____ | _____ | _____ |
| 12. Does the auditor's report state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion? [AU-C 700.33] | _____ | _____ | _____ |
| ***Auditor's Opinion*** | | | |
| 13. Does the auditor's report include a section with the heading "Opinion?" [AU-C 700.34] | _____ | _____ | _____ |
| 14. Does the auditor's opinion state that the financial statements present fairly, in all material respect, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework if an unmodified opinion is being expresses on the financial statements? [AU-C 700.35 and .A29] | _____ | _____ | _____ |
| 15. Does the auditor's opinion identify the applicable reporting framework and its origin? [AU-C 700.36 and .A31] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| ***Other Reporting Responsibilities*** | | | |
| 16. Does the auditor's report contain a separate section subtitled "Report on Other Legal and Regulatory Requirements" if the auditor addresses other reporting responsibilities in addition to the auditor's responsibility under GAAS to report on the financial statements? [AU-C 700.37 and .A32–.A34] | _____ | _____ | _____ |

**Practice Tip**

If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements, and explanations referred to in questions 3–15 should be under the subtitle "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" should follow the "Report on the Financial Statements."
[AU-C 700.38]

| | Yes | No | N/A |
|---|---|---|---|
| ***Signature of the Auditor*** | | | |
| 17. Does the auditor's report include the manual or printer signature of the auditor's firm? [AU-C 700.39 and .A35] | _____ | _____ | _____ |
| ***Auditor's Address*** | | | |
| 18. Does the auditor's report name the city and state where the auditor practices? (***Note***: The city and state may be named in the firm's letterhead on which the report is presented.) [AU-C 700.40 and .A37, TIS 9100.07] | _____ | _____ | _____ |
| ***Date of the Auditor's Report*** | | | |
| 19. Is the auditor's report dated no earlier than the date on which the auditor obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements including evidence that | | | |
| *a.* the audit documentation has been reviewed? | _____ | _____ | _____ |
| *b.* all statements that the financial statements comprise, including the related notes, have been prepared? | _____ | _____ | _____ |
| *c.* management has asserted that they have taken responsibility for those financial statements? [AU-C 700.41 and .A38–.A40] | _____ | _____ | _____ |
| ***Comparative Financial Statements and Comparative Information*** | | | |
| 20. Does the auditor's report refer to each period for which financial statements are presented and on which an audit opinion is expressed if comparative financial statements are presented? [AU-C 700.44] | _____ | _____ | _____ |
| 21. Does the report include appropriate language for when different opinions are expressed on comparative financial statements? [AU-C 700.A44] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| 22. Is the auditor's report appropriately dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to support the opinion for the most recent audit? [AU-C 700.45] | _____ | _____ | _____ |
| 23. Does the auditor's report clearly indicate the character of the auditor's work and degree of responsibility the auditor is taking if comparative information is presented but not covered by the auditor's opinion? [AU-C 700.46] | _____ | _____ | _____ |
| 24. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor expressed, does the auditor disclose in an emphasis-of-matter or other-matter paragraph, in accordance with AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, *Professional Standards*) | | | |
| *a.* the date of the auditor's previous report? | _____ | _____ | _____ |
| *b.* the type of opinion previously expressed? | _____ | _____ | _____ |
| *c.* the substantive reasons for the different opinion? | _____ | _____ | _____ |
| *d.* that the auditor's opinion on the amended financial statements is different from the auditor's previous opinion? [AU-C 700.53 and .A51] | _____ | _____ | _____ |

**Practice Tip**

DOL regulations prescribe that the annual report include a statement of net assets available for benefits on a comparative basis; the statement of changes in net assets available for benefits is required for the current year only.
[AAG 11.65]

***Prior Period Financial Statements Audited by a Predecessor Auditor***

| | Yes | No | N/A |
|---|---|---|---|
| 25. If the financial statements of the prior period were audited by a predecessor auditor and the predecessor auditor's report on the prior period's financial statements is not reissued, in addition to expressing an opinion on the current period's financial statements, does the auditor's report include an other-matter paragraph that includes | | | |
| *a.* the financial statements of the prior period were audited by a predecessor auditor? | _____ | _____ | _____ |
| *b.* the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reason for the modification? | _____ | _____ | _____ |
| *c.* the nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor's report, if applicable? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *d.* the date of that report? [AU-C 700.54] | _____ | _____ | _____ |

**Practice Tip**

Paragraphs 11.69–.71 and 11.91 of the guide contain a discussion and examples of reporting when the prior period financial statements are audited by a predecessor auditor.

*Prior Period Financial Statements Not Audited*

| | Yes | No | N/A |
|---|---|---|---|
| 26. When the current period financial statements are audited and presented in comparative form with compiled or reviewed financial statements for the prior period, and the report on the prior period is not reissued, has the auditor included an other-matter paragraph in the current period auditor's report that includes | | | |
| *a.* the services performed in the prior period? | _____ | _____ | _____ |
| *b.* the date of the report on that service? | _____ | _____ | _____ |
| *c.* a description of any material modifications noted in that report? | _____ | _____ | _____ |
| *d.* a statement that the service was less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements? [AU-C 700.56 and .A53–.A54] | _____ | _____ | _____ |
| 27. If the prior period financial statements were not audited, reviewed, or compiled, does the auditor's report include an other-matter paragraph to indicate that the auditor has not audited, reviewed, or compiled the prior period financial statements and that the auditor assumes no responsibility for them? [AU-C 700.57 and .A55] | _____ | _____ | _____ |

**Practice Tip**

Paragraphs 11.89–.90 of the guide contain a discussion and examples of reporting when the prior period financial statements have not been audited.

*Modifications to the Opinion in the Independent Auditor's Report*

**Practice Tip**

A *modified opinion* is a qualified opinion, an adverse opinion, or a disclaimer of opinion.
[AU-C 705.06]

| | Yes | No | N/A |
|---|---|---|---|
| 28. If applicable, has the auditor modified the opinion in the auditor's report when either the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are materially misstated or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement? [AU-C 705.07] | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| 29. If applicable, has the auditor expressed a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or the auditor is unable to obtain sufficient audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive? [AU-C 705.08] | ____ | ____ | ____ |
| 30. If applicable, has the auditor expressed an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements? [AU-C 705.09] | ____ | ____ | ____ |
| 31. If applicable, has the auditor disclaimed an opinion when the auditor has been unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive? [AU-C 705.10] | ____ | ____ | ____ |

**Practice Tip**

Question 31 does not apply to limited-scope audits pursuant to Title 29 CFR Part 2520.103-8. In these situations, see question 71 and paragraph 11.64 of the guide.

| | Yes | No | N/A |
|---|---|---|---|
| 32. If the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, does the auditor's report appropriately not also include an unmodified opinion with respect to the same financial reporting framework on a single statement or one or more specific elements, accounts, or items of a financial statement? [AU-C 705.15] | ____ | ____ | ____ |
| 33. If the auditor is not independent but is required by law or regulation to report on the financial statements, has he or she disclaimed the opinion with respect to the financial statements and specifically stating that he or she is not independent? [AU-C 705.16] | ____ | ____ | ____ |
| 34. If the auditor concludes that noncompliance with laws and regulations has a material effect on the financial statements and the act has not been properly accounted for or disclosed, has the auditor issued a qualified or adverse opinion (depending on the materiality effect on the financial statements as a whole)? [AU-C 250.24] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 35. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether noncompliance with laws and regulations that may be material to the financial statements has, or is likely to have, occurred, has the auditor expressed a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit, in accordance with AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*)? [AU-C 250.25] | ____ | ____ | ____ |
| 36. If the auditor is unable to determine whether noncompliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, has the auditor evaluated the effect on the auditor's opinion, in accordance with AU-C section 705? [AU-C 250.26] | ____ | ____ | ____ |
| 37. If, in the auditor's judgment, the two-way communication between the auditor and those charged with governance as described in AU-C section 260, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*), 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 | | | |
| *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-C 260.A46] | ____ | ____ | ____ |
| 38. Is a qualified opinion or disclaimer of opinion expressed when the auditor's understanding of internal control raises doubts about the auditability of an entity's financial statements, such as concerns about | | | |
| *a.* 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.* 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 unmodified opinion on the financial statements? [AU-C 315.A110] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 39. If the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements, has the user auditor modified the opinion in the user auditor's report in accordance with AU-C section 705? [AU-C 402.20] | ____ | ____ | ____ |
| 40. If the auditor has concluded that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, has the auditor modified the opinion? [AU-C 570.17–.18], | ____ | ____ | ____ |
| ***Basis for Modification Paragraph*** | | | |
| 41. If the auditor has modified the opinion on the financial statements, has the auditor included a paragraph in the auditor's report that | | | |
| *a.* provides a description of the matter giving rise to the modification? | ____ | ____ | ____ |
| *b.* immediately precedes the opinion paragraph? | ____ | ____ | ____ |
| *c.* has a heading that includes "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion?" [AU-C 705.17] | ____ | ____ | ____ |
| 42. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosure), has the auditor included in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable? If it is not practical to quantify the financial effects, has the auditor stated that in the basis for modification paragraph? [AU-C 705.18, .A21, and .A24–.A25] | ____ | ____ | ____ |
| 43. If there is a material misstatement of the financial statements that relates to narrative disclosures, has the auditor included an explanation of how the disclosures are misstated in the modification paragraph? [AU-C 705.19 and .A22] | ____ | ____ | ____ |
| 44. If there is a material misstatement of the financial statements that relates to the omission of information required to be presented or disclose, has the auditor described in the basis for modification paragraph the nature of the omitted information? [AU-C 705.20] | ____ | ____ | ____ |
| 45. If the modification results from the inability to obtain sufficient appropriate audit evidence, has the auditor included the reasons for that inability in the basis for modification paragraph? [AU-C 705.21 and .A26] | ____ | ____ | ____ |

| | Yes | No | N/A |
|---|---|---|---|
| 46. If the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, has the auditor described in the basis for modification paragraph any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof? [AU-C 705.22] | _____ | _____ | _____ |
| 47. If the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, has the auditor considered the need to describe in an emphasis-of-matter or other-matter paragraph(s) any other matters of which the auditor is aware that would have resulted in additional communications in the auditor's report on the financial statements that are not modifications of the auditor's opinion? [AU-C 705.22] | _____ | _____ | _____ |
| ***Opinion Paragraph*** | | | |
| 48. If the auditor has modified the opinion, has the auditor used a heading that includes "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion?" [AU-C 705.23 and .A28] | _____ | _____ | _____ |
| 49. If the auditor has expressed a qualified opinion due to material misstatement in the financial statements, has the auditor stated in the opinion paragraph that, in the auditor's opinion, except for the effects of the matter(s) described in the basis for qualified opinion paragraph, the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework? [AU-C 705.24 and .A30] | _____ | _____ | _____ |
| 50. If the auditor expressed a qualified opinion due to an inability to obtain sufficient appropriate audit evidence, has the auditor used the corresponding phrase "except for the possible effects of the matter(s)..." for the modified opinion? [AU-C 705.24] | _____ | _____ | _____ |
| 51. If the auditor has expressed an adverse opinion, has the auditor stated in the opinion paragraph that, in the auditor's opinion, because of the significance of the matter(s) described in the basis for modification paragraph, the financial statements are not presented fairly in accordance with the applicable financial reporting framework? [AU-C 705.25] | _____ | _____ | _____ |
| 52. If the auditor has disclaimed an opinion due to an inability to obtain sufficient appropriate audit evidence, has the auditor stated in the opinion paragraph that | | | |
| *a.* because of the significance of the matter(s) described in the basis for disclaimer of opinion paragraph, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for and audit opinion? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *b.* the auditor does not express an opinion on the financial statements? [AU-C 705.26] | _____ | _____ | _____ |

***Description of the Auditor's Responsibility When the Auditor Expresses a Modified Opinion***

| | Yes | No | N/A |
|---|---|---|---|
| 53. If the auditor expressed a qualified or adverse opinion, has the auditor amended the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor obtained is sufficient and appropriate to provide a basis for the auditor's modified opinion? [AU-C 705.27] | _____ | _____ | _____ |
| 54. If the auditor has disclaimed an opinion due to an inability to obtain sufficient appropriate audit evidence, has the auditor amended | | | |
| *a.* the introductory paragraph to state that the auditor was engaged to audit the financial statements? | _____ | _____ | _____ |
| *b.* The description of the auditor's responsibility and scope of services of the audit to state the following? Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter(s) described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. [AU-C 705.28] | _____ | _____ | _____ |

**Practice Tips**

The financial statements of a DB plan prepared in accordance with GAAP should include information regarding the actuarial present value of accumulated plan benefits and the effects, if significant, of certain factors affecting the year-to-year change in accumulated plan benefits. If the benefit information either is omitted or not appropriately measured in accordance with FASB ASC 960, the auditor should modify the auditor's opinion on the financial statements, as appropriate, in accordance with AU-C section 705.
[AAG 11.81]

******

FASB ASC 960 requires the presentation of information regarding the actuarial present value of accumulated plan benefits and year-to-year changes therein of a DB plan, but permits certain flexibility in presenting such information. The information may be included on the face of a financial statements (a separate statement or one that combines accumulated benefit information with asset information), or it may be included in the notes to the financial statements. In accordance with paragraph .16 of AU-C section 708, *Consistency of Financial Statements* (AICPA, *Professional Standards*), the auditor should evaluate a material change in financial statement classification and the related disclosure to determine whether such a change is also either a change in accounting principle or an adjustment to correct a material misstatement in previously issued financial statements. If so, the requirements in paragraphs .07–.15 of AU-C section 708 apply. Changes in the presentation of information regarding accumulated benefits are considered reclassifications or variations in the nature of information presented. Changes in classification in previously issued financial statements do not require recognition in the auditor's report unless the change represents the correction of a material misstatement or a change in accounting principle.
[AAG 11.82]

******

*(continued)*

| | Yes | No | N/A |
|---|---|---|---|

The auditor's report need not be modified for consistency for changes in actuarial assumptions; changes that merely result in presenting new or additional accumulated plan benefits information; a change in the format of presentation of accumulated plan benefit information (for example, from a separate statement to disclosure in the notes to the financial statements); or a change from presenting the accumulated plan benefit information (of a DB plan) as of the beginning of the year to presenting it as of the end of the year.
[AAG 11.83]

**********

Consult the AU-C topical index in AICPA *Professional Standards* under "Modification to the Opinion in the Independent Auditor's Report" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

***Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report***

55. Has an emphasis-of-matter paragraph been added to the standard report when the auditor considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements? (***Note***: Such a paragraph should refer only to information presented or disclosed in the financial statements.) ____ ____ ____
[AU-C 706.06]

56. Has an emphasis-of-matter paragraph been added to the auditor's report in any of the following circumstances:

    *a.* 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? In such circumstances, does the report include, in a separate paragraph or paragraphs, the information required by the rule? ____ ____ ____
    [AU-C 700.A15]

    *b.* An uncertainty relating to the future outcome of unusually important litigation or regulatory action? ____ ____ ____
    [AU-C 706.A2]

    *c.* A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position? ____ ____ ____
    [AU-C 706.A2]

    *d.* Significant transactions with related parties? ____ ____ ____
    [AU-C 706.A2]

    *e.* Unusually important subsequent events? ____ ____ ____
    [AU-C 706.A2]

    *f.* The auditor's opinion on the revised financial statements differs from the opinion the auditor previously expressed? ____ ____ ____
    [AU-C 706.A14; AU-C 560.16*c*]

| | | Yes | No | N/A |
|---|---|---|---|---|
| *g.* | There has been a change in accounting principle that has a material effect on the financial statements? [AU-C 706.A14; AU-C 708.08] | _____ | _____ | _____ |

**Practice Tips**

The auditor should include an emphasis-of-matter paragraph relating to a change in accounting principle in reports on financial statements in the period of the change, and in subsequent periods, until the new accounting principle is applied in all periods presented. If the change in accounting principle is accounted for by retrospective application to the financial statements of all prior periods presented, the emphasis-of-matter paragraph is needed only in the period of such change.
[AU-C 708.09]

**********

The auditor should evaluate and report on a change in accounting estimate that is inseparable from the effect of a related change in accounting principle like other changes in accounting principle.
[AU-C 708.10 and .A10]

| | | Yes | No | N/A |
|---|---|---|---|---|
| *h.* | A change in the reporting entity that results in financial statements that, in effect, are those of a different reporting entity? [AU-C 706.A14; AU-C 708.11] | _____ | _____ | _____ |
| *i.* | If an entity's financial statements contain an investment accounted for by the equity method and the investee makes a change in accounting principle that is material to the investing entity's financial statements? [AU-C 706.A14; AU-C 708.12] | _____ | _____ | _____ |
| *j.* | Unless the financial statements with the auditor's report are intended for general use, when the financial statements are prepared in accordance with a special purpose framework and indicate that the financial statements are prepared in accordance with the applicable special purpose framework, refers to the note to the financial statements that describes that framework, and states that the special purpose framework is a basis of accounting other than GAAP? [AU-C 706.A14; AU-C 800.19 and .21] | _____ | _____ | _____ |

**Practice Tip**

AU-C section 800, *Special Considerations–Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* (AICPA, *Professional Standards*), provides guidance on financial statements prepared in accordance with a special purpose framework. Paragraph .07 of AU-C section 800 states that a special purpose framework is a financial reporting framework other than GAAP that is one of the following bases of accounting: cash basis, tax basis, regulatory basis, contractual basis, or other basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in the financial statements (commonly referred to as other comprehensive bases of accounting).

Paragraphs 11.26–.33 of the guide contain discussion of reporting considerations for employee benefit plan financial statements prepared in accordance with special purpose framework. Also, paragraph 11.34 contains an illustration of an auditor's report on a 401(k) plan prepared on the modified cash basis of accounting.

| | Yes | No | N/A |
|---|---|---|---|
| *k.* There is substantial doubt about the entity'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, and if so, is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern?[1] [AU-C 706.A14; AU-C 570.15–.16] | _____ | _____ | _____ |
| *l.* There has been a material change between periods in accounting principles or in the method of their application and the auditor's report identifies the nature of the change and refer the reader to the note in the financial statements that discusses the change in detail? (***Note***: The auditor's concurrence with a change is implicit unless he or she takes exception to the changes in expressing his or her opinion as to the fair presentation of the financial statements in conformity with GAAP.) [AU-C 706.A14; AU-C 708.08 and .A7–.A8] | _____ | _____ | _____ |
| *m.* When there are adjustments to correct a material misstatement in previously issued financial statements and the financial statements are restated to correct the prior material misstatement? [AU-C 708.13 and .A14] | _____ | _____ | _____ |
| 57. If an emphasis-of-matter of paragraph has been included in the auditor's report | | | |
| *a.* is it immediately after the opinion paragraph? | _____ | _____ | _____ |
| *b.* does it have a heading "Emphasis of Matter?" | _____ | _____ | _____ |
| *c.* does it include clear reference to the matter being emphasized and, where relevant, to disclosures that fully describe the matter can be found in the financial statements? | _____ | _____ | _____ |
| *d.* does it indicate that the auditor's opinion is not modified with respect to the matter emphasized? [AU-C 706.07 and .A5] | _____ | _____ | _____ |
| 58. Has an other-matter paragraph been included in the auditor's report when the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report, in a paragraph in the auditor's report with the heading "Other Matter" or other appropriate heading? [AU-C 706.08] | _____ | _____ | _____ |

[1] In a going concern emphasis-of-matter 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 paragraphs .A6–.A8 of AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*), for examples.

| | Yes | No | N/A |
|---|---|---|---|
| 59. If included, does the content of an other-matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements? [AU-C 706.A10] | _____ | _____ | _____ |
| 60. If included, does the other-matter paragraph appropriately not include information that the auditor is prohibited from providing by law, regulation, or other professional standards (for example, ethical standards relating to the confidentiality of information) or information that is required to be provided by management? [AU-C 706.A10] | _____ | _____ | _____ |
| 61. Is the other-matter paragraph properly placed in the auditor's report based on the following: | | | |
| *a.* The other-matter paragraph draws users' attention to a matter relevant to their understanding of the audit of the financial statements, the paragraph is included immediately after the opinion paragraph and any emphasis-of-matter paragraph? | _____ | _____ | _____ |
| *b.* The other-matter paragraph draws users' attention to a matter relating to other reporting responsibilities addressed in the auditor's report, the paragraph is included in the section subtitled "Report on Other Legal and Regulatory Requirements?" | _____ | _____ | _____ |
| *c.* When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the other-matter paragraph is included as a separate section following the "Report on the Financial Statements" and the "Report on Other Legal and Regulatory Requirements?" [AU-C 706.A11] | _____ | _____ | _____ |
| 62. Has an other-matter paragraph been added to the auditor's report in any of the following conditions: | | | |
| *a.* The auditor's opinion on the revised financial statements differs from the opinion the auditor previously expressed? [AU-C 706.A15; AU-C 560.16*c*] | _____ | _____ | _____ |
| *b.* The auditor's opinion on prior financial statements has changed or he prior periods were audited by a predecessor auditor as required by questions 24–26? [AU-C 706.A15; AU-C 700.53–.54] | _____ | _____ | _____ |
| *c.* The prior period financial statements were not audited as required by questions 26–27? [AU-C 706.A15; AU-C 700.56–.57] | _____ | _____ | _____ |
| *d.* The auditor identifies a material inconsistency prior to the report release date that requires revision of the other information and management refuses to make the revision? [AU-C 706.A15; AU-C 720.12] | _____ | _____ | _____ |

| | | *Yes* | *No* | *N/A* |
|---|---|---|---|---|
| *e.* | The entity presents supplementary information with the financial statements? [AU-C 706.A15; AU-C 725.09; AU-C 730.07] | _____ | _____ | _____ |
| *f.* | The auditor is expressing an opinion on special purpose financial statements? [AU-C 706.A15; AU-C 800.20] | _____ | _____ | _____ |
| *g.* | A report on compliance is included in the auditor's report on the financial statements? [AU-C 706.A15; AU-C 806.13] | _____ | _____ | _____ |
| *h.* | The auditor's report should contain an alert that restricts the use of the auditor's written communication? [AU-C 706.A15; AU-C 905.07] | _____ | _____ | _____ |

**Practice Tip**

See paragraph 11.22 of the guide for an illustration of an other-matter paragraph that has been added to the auditor's report on the financial statements of an employee benefit plan (full-scope audit in accordance with GAAS) when reporting on supplementary information required by ERISA and DOL regulations.

***Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting***

**Practice Tip**

A liquidation basis of accounting may be considered GAAP for entities in liquidation or for which liquidation appears imminent. Therefore, the auditor is permitted to issue an unmodified opinion on such financial statements, provided that the liquidation basis of accounting has been properly applied and that adequate disclosures are made in the financial statements.
[AU-C 9700.02]

| | | Yes | No | N/A |
|---|---|---|---|---|
| 63. | For financial statements that have been prepared on the liquidation basis of accounting, does the auditor's report include an emphasis-of-matter paragraph that states that the entity has changed the basis of accounting used to determine the amounts at which assets and liabilities are carried from the going concern basis to a liquidation basis? [AU-C 9700.03–.04] | _____ | _____ | _____ |

**Practice Tip**

See paragraph 11.85 of the guide for an illustration of an emphasis-of-matter paragraph that may be added to the auditor's report to emphasize that a DB plan is being terminated.

| | Yes | No | N/A |
|---|---|---|---|

***Consideration of Subsequent Events***

64. If a subsequent event disclosed in the financial statements occurs after the original date of the independent auditor's report but before the issuance of the related financial statements, has the auditor followed one of the following two methods available for dating the report:

    *a.* Dual dating, in which the independent auditor's responsibility for events occurring subsequent to the original report date is limited to the specific event referred to in an explanatory note in the report (or otherwise disclosed)? _____ _____ _____

    *b.* Dating the report as of the later date, in which the independent auditor's responsibility for subsequent events extends to the date of the report? _____ _____ _____
    [AU-C 560.A11]

***Consideration of Other Information Presented In a Document Containing Audited Financial Statements***

**Practice Tips**

*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-C 720.05]

*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.

A *designated accounting standard setter* is a body designated by the AICPA Council to establish GAAP pursuant to Rule 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 202 par. .01), and Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .01). The bodies designated by the council to establish professional standards with respect to financial accounting and reporting principles pursuant to Rules 202 and 203 are the FASB, PCAOB, Government Accounting Standards Board, Federal Accounting Standards Advisory Board, and the International Accounting Standards Board.
[AU-C 730.04]

The information required by ERISA and the regulations is described in appendix A, "ERISA and Related Regulations" of the guide. Because the supplemental schedules are required by ERISA and DOL regulations, not a designated accounting standard setter, the supplemental schedules are not considered *required supplementary information*, as defined in AU-C section 730, *Required Supplementary Information* (AICPA, *Professional Standards*); therefore, AU-C section 730 does not apply.
[AAG 11.18]

65. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the audited financial statements has it been determined whether the financial statements, the auditor's report, or both require revision? _____ _____ _____
    [AU-C 720; AU-C 730]

| | Yes | No | N/A |
|---|---|---|---|
| 66. Although the auditor is not required to reference the other information in the auditor's report on the financial statements, has the auditor considered including an other-matter paragraph disclaiming an opinion on the other information (***Note***: An example of such an other-matter paragraph can be found in paragraph .A13 of AU-C 720)? [AU-C 720.A2] | _____ | _____ | _____ |

***Supplementary Information in Relation to the Financial Statements as a Whole***

**Practice Tip**

*Supplementary information* is 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-C 725.04]

| | Yes | No | N/A |
|---|---|---|---|
| 67. When the entity presents the supplementary information with the financial statements, the auditor should report on the supplementary information in either (*a*) an other-matter paragraph in accordance with AU-C section 706 or (*b*) in a separate report on the supplementary information. Does the other-matter paragraph or separate report include the following elements: | | | |
| *a.* A statement that the audit is conducted for the purpose of forming an opinion on the basic financial statements as a whole? | _____ | _____ | _____ |
| *b.* A statement that the supplementary information is presented for purposes of additional analysis and is not part of the basic financial statements? | _____ | _____ | _____ |
| *c.* A statement that the supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements? | _____ | _____ | _____ |
| *d.* A statement 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 auditing standards generally accepted in the United States of America? | _____ | _____ | _____ |

| | Yes | No | N/A |
|---|---|---|---|
| *e.* A statement 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, if the auditor issues an unmodified opinion on the financial statements and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole? | ____ | ____ | ____ |
| *f.* If the auditor issues a qualified opinion on the financial statements and the qualification has an effect on the supplementary information, a statement that, in the auditor's opinion, except for the effects on the supplementary information of (refer to the paragraph in the auditor's report explaining the qualification), such information is fairly stated, in all material respects, in relation to the financial statements as a whole? [AU-C 725.09 and .A17 illustration 1] | ____ | ____ | ____ |
| *g.* A statement that the auditor does not express an opinion on the supplementary information if the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion? [AU-C 725.11 and .A17 illustration 1] | ____ | ____ | ____ |
| *h.* Do the statements required in items *a*–*f* appear in a separate report when the audited financial statements are not presented with the supplementary information?[2] [AU-C 725.10 and .A3] | ____ | ____ | ____ |
| 68. If the auditor concludes, on the basis of the procedures performed, that the supplementary information is materially misstated in relation to the financial statements as a whole and management does not revise the supplementary information, has | | | |
| *a.* the auditor's opinion on the supplementary information been modified describing the misstatement in the auditor's report? | ____ | ____ | ____ |
| *b.* the auditor's report on the supplementary information been withheld if a separate report has been issued on the supplementary information? [AU-C 725.13] | ____ | ____ | ____ |

[2] Consult AU-C section 9725, *Supplementary Information in Relation to the Financial Statements as a Whole: Auditing Interpretations of Section 725* (AICPA, *Professional Standards*), for guidance when reporting on supplementary information (either in a separate report or in an other-matter paragraph within the auditor's report on the financial statements) after the date of the auditor's report on the financial statements.

| | Yes | No | N/A |
|---|---|---|---|

***Communicating Internal Control Related Matters Identified in an Audit***

69. Is the reporting form, content, and timing of paragraphs .11–.16 of AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*), followed when communicating matters related to an organization's internal control over financial reporting identified in an audit of financial statements? ____ ____ ____
[AU-C 265.11–.16]

***Auditor's Report Requirements Under DOL Regulations***

70. Auditor's report requirements under DOL regulations are as follows:
    *a.* Is the auditor's report dated and manually signed? ____ ____ ____
    *b.* Does it indicate the city and state where issued? ____ ____ ____
    *c.* Does it identify (without necessarily enumerating) the statements and schedules covered? ____ ____ ____
    [AAG A.51*a* fn 15]
    *d.* Does it disclose any omitted auditing procedures deemed necessary by the accountant and the reasons for their omission? ____ ____ ____
    *e.* Does it state clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein? ____ ____ ____
    *f.* Does it state clearly the consistency[3] 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.51*a*; 29 CFR 2520]
    *g.* Does it state clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements? ____ ____ ____
    [AAG A.51*a*; 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.51*a*; 29 CFR 2520.103-1(iv)]

[3] An accountant's report prepared in accordance with AU-C section 708, *Consistency of Financial Statements* (AICPA, *Professional Standards*), which prescribes that no reference be made to the consistent application of accounting principles generally accepted in the United States in those cases in which there has been no accounting change, will be viewed as consistent with the requirements of ERISA and regulations issued thereunder with regard to the required submission of an accountant's report.

| | *Yes* | *No* | *N/A* |
|---|---|---|---|
| 71. If, the plan administrator has elected to comply with the statute and has satisfied all the requirements of ERISA Section 103 not relied on regulatory exemptions and simplified methods of reporting or alternative methods of compliance prescribed with respect to the Form 5500, has the accountant expressed an opinion on (*a*) whether the financial statements and ERISA Section 103(b) schedules conform with U.S. GAAP on a basis consistent with that of the preceding year and (*b*) current value, comparing the end of the previous plan year and the end of the plan year being reported? [AAG A.51*b*] | ____ | ____ | ____ |
| 72. If a limited-scope audit is performed pursuant to 29 CFR 2520.103-8, does the auditor’s report contain wording in accordance with the standard limited-scope audit report as established by agreement between the Auditing Standards Board and the DOL? [AAG 11.58 and .64] | ____ | ____ | ____ |
| 73. If a limited-scope audit is performed, has the auditor disclaimed an opinion on the financial statements and supplemental schedules due to the limitation on the scope of the audit in accordance with GAAS? [AAG 11.58] | ____ | ____ | ____ |
| 74. If a limited-scope audit is performed, does the auditor’s report provide an opinion regarding whether the form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the qualifying institution, have been audited by the auditor and are presented in compliance with DOL rules and regulations under ERISA? [AAG 11.58] | ____ | ____ | ____ |

**Practice Tips**

When the auditor is engaged to perform a limited-scope audit, as permitted under 29 CFR 2520.103-8 of the DOL’s rules and regulations for reporting and disclosure under ERISA, and consequently disclaims an opinion on the financial statements as a whole, the auditor is precluded from issuing an opinion on the supplemental schedules in relation to the financial statements under AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*). Therefore, unless the auditor is specifically engaged to perform the procedures required in AU-C section 725, the auditor is not required to follow such AU-C section. However, because the DOL requires supplemental schedules to be presented with the financial statements, the auditor is required to follow the guidance in AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*). AU-C section 720 requires the auditor to read the other information in order to identify material inconsistencies, if any, with the audited financial statements. AU-C section 720 also addresses if, on reading the other information, the auditor becomes aware of an apparent material misstatement of fact. (See AU-C section 720 for specific guidance.)
[AAG 11.61]

Generally, the DOL will reject Form 5500, *Annual Return/Report of Employee Benefit Plan*, filings that contain modified opinions, other than the disclaimer of opinion issued in connection with a limited-scope audit pursuant to Title 29 U.S. *Code of Federal Regulations* (CFR) Part 2520.103-8 or -12. If the employee benefit plan

*(continued)*

| Yes | No | N/A |
|---|---|---|

financial statements are materially misstated, or the auditor is unable to obtain sufficient appropriate audit evidence on which to form an opinion, then the guidance in AU-C section 705 applies.
[AAG 11.77]

**********

See paragraphs 11.64–.79 for illustrations of the standard limited-scope audit report as well as limited-scope audit reports with modifications to the report on supplemental schedules.

**********

Present DOL regulations permit, but do not require, financial statements included in the annual report on Form 5500 to be prepared on a basis of accounting other than GAAP. For guidance regarding reporting on financial statements prepared on a basis of accounting other that GAAP refer to question 56*j*. In addition, AU-C section 800 provides guidance on financial statements prepared in accordance with a special purpose framework. Paragraph .07 of AU-C section 800 states that a special purpose framework is a financial reporting framework other than GAAP that is one of the following bases of accounting: cash basis, tax basis, regulatory basis, contractual basis, or other basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in the financial statements (commonly referred to as other comprehensive bases of accounting).

**********

AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication* (AICPA, *Professional Standards*), provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

# Part 4

# *Illustrative Financial Statements and Auditor's Reports*

**.01** This checklist illustrates certain applications of the required provisions of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 960, *Plan Accounting—Defined Benefit Pension Plans*, to the annual financial statements of the hypothetical defined benefit pension plan, C&H Company Pension Plan.

**.02** Circumstances include the following:

- C&H Company Pension Plan is a single employer, cash balance, defined benefit pension plan providing retirement, disability, and death benefits.
- The auditor of these financial statements was engaged to perform a full scope audit and therefore these financial statements do not include additional illustrative disclosures that might be applicable for a Department of Labor (DOL) limited-scope audit relating to certified investment information. (See paragraph C.07of the AICPA Audit and Accounting Guide *Employee Benefit Plans*, 2013 edition (guide), for a illustrative note for certified investment information.)
- The pension plan includes a 401(h) account.
- The plan presents separate statements of net assets available for benefits (paragraph .16), statements of changes in net assets available for benefits (paragraph .17), statements of accumulated plan benefits (paragraphs .18 and .21), and statements of changes in accumulated plan benefits (paragraphs .19 and .22).
- Paragraphs .16–.19 assume an end-of-year benefit information date.
- Paragraphs .20–.22 assume a beginning of year benefit information date.

**.03** Although not illustrated, FASB ASC 960-20-45-2 permits the information regarding the actuarial present value of accumulated plan benefits and changes therein to be presented in the notes to the financial statements. That information may be presented on the face of one or more financial statements or the notes thereto. Regardless of the format selected, each category of information should be presented in its entirety in the same location. If a statement format is selected for either category, a separate statement may be used to present that information or, provided the information is as of the same date or for the same period, that information may be presented together with information regarding the net assets available for benefits and the year-to-year changes therein.

**.04** The presentation of the financial statement information and the notes to the financial statements are affected by the benefit information date selected for disclosure. The preferred approach is to use an end-of-year benefit information date. If a beginning-of-year benefit information date is selected the present value of accumulated plan benefits will be as of the same date as the net assets. In this case, two statements of net assets available for benefits and two statements of changes in net assets available for benefits are presented. Only a single year of the present value of accumulated plan benefits is required with a reconciliation from the prior year.

**.05** The notes to the financial statements are for the illustrative financial statements that use end-of-year benefit information. Necessary modifications to the notes when beginning-of-year benefit information is presented are in brackets.

**.06** Accounting principles generally accepted in the United States of America (GAAP) do not require comparative financial statements unless the beginning-of-year benefit information is used. In this case, a prior-year statement of net assets available for benefits and changes therein must also be presented in order to report on the financial status of the plan. The Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the requirements of ERISA.

**.07** This checklist does not illustrate other requirements of FASB ASC 960, as well as other FASB ASC topics, that might be applicable in circumstances other than those assumed for this example. The formats and the wording of accompanying notes are illustrative and are not necessarily the only possible presentation.

## Fair Value Disclosures

**.08** The information contained in the fair value disclosures is based upon information specific to this illustration for C&H Company Pension Plan. The fair value disclosures are not representative of all types of investment securities and do not represent the classification for every instance of such investment securities. It should not be assumed that the methodologies stated in this illustration 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 security based upon the plan's portfolio and actual fair valuation techniques used.

**Practice Tip**

Illustrative descriptions of the valuation techniques and inputs used by the plan to estimate fair value are specific to this example. For fair value measurements using significant other observable inputs (level 2) and significant unobservable inputs (level 3), FASB ASC 820, *Fair Value Measurement*, requires a description of the valuation technique (or multiple techniques) used, such as the market approach, income approach, or the cost approach, and the inputs used in determining the fair values of each class of assets or liabilities. If there has been a change in the valuation technique(s), FASB ASC 820 requires disclosure of that change and the reason for making it. These disclosures should be specific to the particular valuation techniques and inputs used by the entity for each major class of assets held. The use of valuation techniques may differ by entity, but all valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs in estimating an exit price in the current market. For illustrations of fair value disclosures for various types of financial instruments, it is recommended that users consult the illustrative financial statements within appendixes C, D, and E of the guide, and the illustrations in FASB ASC 820. Also see the table in paragraph .10 following for other resources.

## Comparative Financial Statements and Supplemental Information

**.09** ERISA requires a comparative statement of net assets available for benefits. ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and are reported on by the independent auditor. See appendix A, "ERISA and Related Regulations," of the guide for a further discussion of such ERISA and DOL requirements. These illustrative financial statements do not include example supplemental schedules.

## Other Resources

**.10** The illustrative financial statements contained in this checklist are only examples of how defined benefit pension plan financial statements may look. The following table contains other sources of investment related illustrations and disclosures that may provide additional guidance.

| *Source* | *Comments* |
|---|---|
| FASB ASC 815, *Derivatives and Hedging* | FASB ASC 815 contains implementation guidance and illustrations relating to derivatives and hedging. |
| FASB ASC 820, *Fair Value Measurement* | FASB ASC 820-10-55 contains implementation guidance and illustrations relating to fair value measurements. |
| AICPA Audit and Accounting Guide *Investment Companies* | The AICPA Audit and Accounting Guide *Investment Companies* contains illustrations with disclosures relating to unique investments, such as short sales, credit default swaps, futures, forwards, and derivatives. |

**.11** In addition, *Accounting Trends & Techniques: Employee Benefit Plans* is intended to provide preparers and auditors of employee benefit plan financial statements with a compilation of illustrative financial statement disclosures based on actual examples.[1]

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

- Defined benefit pension plan assuming end-of-year benefit information date (paragraph .13)
- Defined benefit plan assuming beginning-of-year benefit information date (paragraph .14)
- Standard limited-scope audit report under DOL regulations (paragraph .15)

Although the illustrations are for single employer plans, the reporting elements are the same for all plans; therefore, these illustrations may be adapted for multiemployer or multiple employer plans, as appropriate.

For additional illustrative auditor's reports, see chapter 11, "The Auditor's Report," of the guide, which includes the following reports:

- Unmodified Opinions on the Financial Statements With Modifications to the Report on Supplementary Information
- Modified Opinions on the Financial Statements
- Additional Limited-Scope Audit Reports Under DOL Regulations for the following:
  - — Limited-scope audit in prior year; full-scope audit in current year
  - — Limited-scope audit in current year; full-scope audit in prior year
  - — Limited-scope audit in current year; prior year limited-scope audit performed by other auditors
  - — Change in trustee
- Standard Limited-Scope Audit Report With Modifications to the Report on Supplemental Schedules
- Accumulated plan benefits–accounting principles generally accepted in the United States of America (GAAP) departures and changes in accounting

[1] Additional resources that contain actual plan financial statements include EFAST2, located at www.dol.gov, and EDGAR, located at www.sec.gov.

.13

**Illustration of Auditor's Report on Financial Statements of Defined Benefit Pension Plan Assuming End-of-Year Benefit Information Date**

The following is an illustration of an auditor's report on the financial statements of a defined benefit pension plan (DB plan) assuming an end-of-year benefit information date.

*Circumstances include the following:*

- *The report contains an unmodified opinion on the financial statements of a DB plan prepared in accordance with U.S GAAP (full-scope audit).*
- *The plan presents comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits.*
- *The plan uses an end-of-year benefit information date.*
- *The auditor has been engaged to report on the ERISA supplemental schedules, in accordance with AU-C section 725,* Supplementary Information in Relation to the Financial Statements as a Whole *(AICPA,* Professional Standards*), and the auditor concludes that the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.*
- *The auditor reports on the supplemental schedules in an other-matter paragraph included in the auditor's report, in accordance with paragraph .09 of AU-C section 725 and AU-C section 706,* Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report *(AICPA,* Professional Standards*).*
- *The information regarding the actuarial present value of accumulated plan benefits and changes therein is presented in separate statements within the financial statements. (See paragraph 6.14.)*

**Independent Auditor's Report**

[*Appropriate Addressee*]

**Report on the Financial Statements**[2]

We have audited the accompanying financial statements of XYZ Pension Plan, which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

[2] The subtitle "Report on the Financial Statements" is unnecessary when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable. In this illustration, the heading "Report on the Financial Statements" has been included even though there is no report on other legal and regulatory requirements included in this report.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[3] Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.[4]

**Report on Supplementary Information**[5]

Our audits were conducted for the purpose of forming an opinion on the financial statements 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 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. Such 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. The information has been subjected to the auditing procedures applied in the audits 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 au-

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[3] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

[4] Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 960, *Plan Accounting—Defined Benefit Pension Plans*, left unresolved the question of whether accumulated plan benefit information represents a liability of a defined benefit pension plan (DB plan). Accordingly, because the financial statements of a DB plan do not present information on accumulated plan benefits as a liability of the plan and because they do not present an account comparable to the owners' equity of other types of entities, the auditor's opinion in the illustrative reports does not refer to the presentation of the financial position of the plan. The terms *financial status* and *changes in financial status*, as used here, refer to the presentation of information regarding net assets available for plan benefits and changes therein and information regarding accumulated plan benefits and changes therein as specified in FASB ASC 960.

[5] The auditor is reporting on the supplemental schedules in an other-matter paragraph, as required by AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*). In accordance with paragraph .08 of AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, *Professional Standards*), the heading "Other Matter" or other appropriate heading should be used when including an other-matter paragraph in the auditor's report. In this illustration the heading "Report on Supplementary Information" is used rather than "Other Matter."

Also see paragraphs 11.18–.24 of the guide for discussion when reporting on the supplemental schedules when performing a full-scope audit.

diting standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

__________

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

[AAG 11.35]

**.14**

### Illustration of Auditor's Report on Financial Statements of DB Plan Assuming Beginning-of-Year Benefit Information Date

The following is an illustration of an auditor's report on the financial statements of a DB plan assuming a beginning-of-year benefit information date.

*Circumstances include the following:*

- *The report contains an unmodified opinion on the financial statements of a DB pension plan prepared in accordance with U.S. GAAP (full-scope audit).*
- *The plan presents comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits.*
- *The plan uses a beginning-of-year benefit information date.*
- *The auditor has been engaged to report on the ERISA supplemental schedules, in accordance with AU-C section 725, and the auditor concludes that the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.*
- *The auditor reports on the supplemental schedules in an other-matter paragraph included in the auditor's report, in accordance with paragraph .09 of AU-C section 725 and AU-C section 706.*
- *The information regarding the actuarial present value of accumulated plan benefits and changes therein is presented in separate statements within the complete financial statements. (See paragraphs 6.14–.15.)*

**Practice Tip**

FASB ASC 960 permits variation in the presentation of information regarding the actuarial present value of accumulated plan benefits and changes therein. If such information is not presented in separate financial statements but is presented on the face of one or more financial statements or the notes thereto, the opening paragraph of the auditor's report should refer only to the financial statements that are presented. For example, if information regarding accumulated plan benefits and changes therein is presented in the notes to the financial statements regarding net assets available for benefits and changes therein, the first sentence of the auditor's report might read as follows: "We have audited the accompanying financial statements of XYZ Pension Plan, which comprise the statements of net assets available for benefits 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." The wording of the opinion paragraph would be the same as in the illustration and would refer to the financial status of the plan.

## Independent Auditor's Report

[*Appropriate Addressee*]

**Report on the Financial Statements**[6]

We have audited the accompanying financial statements of XYZ Pension Plan, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 20X1, and the related statement of changes in accumulated plan benefits for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[7] Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets available for benefits as of December 31, 20X2 and changes therein for the year then ended, and its financial status as of December 31, 20X1 and changes therein for the year then ended in accordance with accounting principles generally accepted in the United States of America.[8]

***Report on Supplementary Information***[9]

Our audits were conducted for the purpose of forming an opinion on the financial statements 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 financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Re-

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[6] See footnote 2.

[7] See footnote 3.

[8] See footnote 4.

[9] See footnote 5.

porting and Disclosure under the Employee Retirement Income Security Act of 1974. Such 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. The information has been subjected to the auditing procedures applied in the audits 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

______________

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

[AAG 11.36]

**.15**

**Standard Limited-Scope Audit Report**

The following is an illustration of a standard limited-scope audit report.

*Circumstances include the following:*

- *A standard limited-scope auditor's report for a 401(k) plan financial statements prepared in accordance with U.S. GAAP.*
- *The plan presents comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits.*
- *The plan administrator limits the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL's rules and regulations for reporting and disclosure under the ERISA.*
- *The auditor follows AU-C section 720,* Other Information in Documents Containing Audited Financial Statements *(AICPA,* Professional Standards*), relating to the supplemental schedules and chooses to disclaim an opinion on the supplemental schedules.*

**Independent Auditor's Report**

[*Appropriate Addressee*]

**Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of XYZ 401(k) Plan, which comprise the statements of net assets available for benefits 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 related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

***Basis for Disclaimer of 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, 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)[10] of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that the trustee (or custodian)[11] holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian)[12] 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)[13] is complete and accurate.

***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

***Other Matter***

The supplemental schedules [*identify schedules*] as of or for the year ended December 31, 20X2 are required by the Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on these supplemental schedules.

**Report on Form and Content in Compliance With DOL Rules and Regulations**

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),[14] 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.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

[AAG 11.64]

[10] The words in this sentence may be modified when the assets are certified by an insurance entity.

[11] See footnote 10.

[12] See footnote 10.

[13] See footnote 10.

[14] See footnote 10.

**.16** Illustrations Assuming an End-of-Year Benefit Information Date

## C&H COMPANY PENSION PLAN

### Statements of Net Assets Available for Benefits

### [End-of-year benefit information date]

| | *December 31,* | |
|---|---|---|
| | *20X1* | *20X0* |
| **Assets** | | |
| Investments, at fair value (notes E, F, G, H, and J): | | |
| Plan interest in C&H Master Trust[15] | $2,250,000 | $1,860,000 |
| C&H Company common stock | 690,000 | 880,000 |
| Guaranteed investment contract with insurance company | 1,000,000 | 890,000 |
| Corporate bonds | 3,500,000 | 3,670,000 |
| U.S. government securities | 350,000 | 270,000 |
| Hedge fund | 480,000 | 460,000 |
| Real estate fund | 270,000 | 240,000 |
| Total investments | 8,540,000 | 8,270,000 |
| Net assets held in 401(h) account (note O)[16] | 1,072,000 | 966,000 |
| **Receivables** | | |
| Employer's contribution | 40,000 | 35,000 |
| Due from broker for securities sold | 310,000 | 175,000 |
| Accrued interest and dividends | 77,000 | 76,000 |
| Total receivables | 427,000 | 286,000 |
| **Cash–Noninterest Bearing** | 200,000 | 90,000 |
| Total assets | 10,239,000 | 9,612,000 |
| **Liabilities** | | |
| Due to broker for securities purchased | 90,000 | 460,000 |
| Accrued expenses | 65,000 | 40,000 |
| Amounts related to obligation of 401(h) account (note O) | 1,072,000 | 966,000 |
| Total liabilities | 1,227,000 | 1,466,000 |
| Net assets available for benefits | $9,012,000 | $8,146,000 |

See accompanying notes to the financial statements.

[15] The master trust holds certain derivative instruments. See note I to the financial statements.

[16] 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 any 5 percent reportable transactions in the 401(h) account should be shown on Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan.

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## C&H COMPANY PENSION PLAN

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

| | *Year Ended December 31, 20X2* |
|---|---|
| **Investment income:** | |
| Net appreciation in fair value of investments (note E) | $ 278,000 |
| Interest | 325,000 |
| Dividends | 5,000 |
| | 608,000 |
| Less investment expenses | 39,000 |
| | 569,000 |
| Plan interest in C&H Master Trust investment income (note G) | 129,000 |
| Total investment income | 698,000 |
| **Employer Contributions** | 1,230,000 |
| Total additions | 1,928,000 |
| Benefits paid directly to participants | 740,000 |
| Purchases of annuity contracts (note H) | 257,000 |
| Total benefits paid | 997,000 |
| Administrative expenses | 65,000 |
| Total deductions | 1,062,000 |
| Net increase | 866,000 |
| **Net assets available for benefits:** | |
| Beginning of year | 8,146,000 |
| End of year | $9,012,000 |

See accompanying notes to the financial statements.

***Note:*** FASB ASC 230-10-15-4 states that a statement of cash flows is not required for defined benefit pension plans that presents financial information in accordance with FASB ASC 960. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, if the plan invests in assets that are not highly liquid or obtains financing for investments). [FASB ASC 230-10-15-4]

**Practice Tip**

Alternatively, paragraph .16 may be combined with paragraph .18, and paragraph .17 may be combined with paragraph .19. See the exhibits presented in the illustrations in FASB ASC 960-205-55.

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## C&H COMPANY PENSION PLAN

### Statement of Accumulated Plan Benefits

| | December 31, | |
|---|---|---|
| | *20X2* | *20X1* |
| **Actuarial present value of accumulated plan benefits (note C)** | | |
| Vested benefits: | | |
| Participants currently receiving payments | $3,040,000 | $2,950,000 |
| Other participants | 8,120,000 | 6,530,000 |
| | 11,160,000 | 9,480,000 |
| Nonvested benefits | 2,720,000 | 2,400,000 |
| **Total actuarial present value of accumulated plan benefits** | $13,880,000 | $11,880,000 |

See accompanying notes to the financial statements.

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## C&H COMPANY PENSION PLAN

### Statement of Changes in Accumulated Plan Benefits

### [End-of-Year benefit information date]

| | *Year Ended December 31, 20X2* |
|---|---|
| **Actuarial present value of accumulated plan benefits at beginning of year** | $11,880,000 |
| Increase (decrease) during the year attributable to: | |
| Plan amendment (note L) | 2,410,000 |
| Change in actuarial assumptions (note C) | (1,050,500) |
| Benefits accumulated | 895,000 |
| Increase for interest[17] | 742,500 |
| Benefits paid | (997,000) |
| Net increase | 2,000,000 |
| **Actuarial present value of accumulated plan benefits at end of year** | $13,880,000 |

See accompanying notes to the financial statements.

[17] The actuarial report will often refer to this amount as the "increase for interest due to the decrease in the discount period."

**.20** Illustrations Assuming a Beginning-of-Year Benefit Information Date

**Practice Tip**

The presentation of the financial statement information and the notes to the financial statements are affected by the benefit information date selected for disclosure. The preferred approach is to use an end-of-year benefit information date. If a beginning-of-year benefit information date is selected the present value of accumulated plan benefits will be as of the same date as the net assets. In this case, two statements of net assets available for benefits and two statements of changes in net assets available for benefits are presented. Only a single year of the present value of accumulated plan benefits is required with a reconciliation from the prior year. The Statement of Net Assets Available for Benefits, assuming a beginning-of-year information date, would be the same as that illustrated in paragraph .16.

## C&H COMPANY PENSION PLAN

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

### [If a beginning-of-year benefit information date is selected]

| | *Year Ended December 31,* | |
|---|---|---|
| | *20X2* | *20X1* |
| Investment income: | | |
| Net appreciation in fair value of investments (note E) | $278,000 | $41,000 |
| Interest | $325,000 | $120,000 |
| Dividends | 5,000 | 90,000 |
| | 608,000 | 251,000 |
| Less investment expenses | 39,000 | 35,000 |
| | 569,000 | 216,000 |
| Plan interest in C&H Master Trust investment income (note G) | 129,000 | 150,000 |
| Total investment income | 698,000 | 366,000 |
| Employer contributions | 1,230,000 | 1,140,000 |
| Total additions | 1,928,000 | 1,506,000 |
| Benefits paid directly to participants | 740,000 | 561,000 |
| Purchases of annuity contracts (note H) | 257,000 | 185,000 |
| Total benefits paid | 997,000 | 746,000 |
| Administrative expenses | 65,000 | 58,000 |
| Total deductions | 1,062,000 | 804,000 |
| Net increase | 866,000 | 702,000 |
| Net assets available for benefits: | | |
| Beginning of year | 8,146,000 | 7,444,000 |
| End of year | $9,012,000 | $8,146,000 |

See accompanying notes to the financial statements.

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## C&H COMPANY PENSION PLAN

### Statement of Accumulated Plan Benefits

### [If a beginning-of-year benefit information date is selected]

| | *December 31, 20X1* |
|---|---|
| Actuarial present value of accumulated plan benefits (note C) | |
| Vested benefits: | |
| Participants currently receiving payments | $2,950,000 |
| Other participants | 6,530,000 |
| | 9,480,000 |
| Nonvested benefits | 2,400,000 |
| Total actuarial present value of accumulated plan benefits | $11,880,000 |

See accompanying notes to the financial statements.

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## C&H COMPANY PENSION PLAN

### Statement of Changes in Accumulated Plan Benefits

### (If a beginning-of-year benefit information date is selected)

| | *Year Ended December 31, 20X1* |
|---|---|
| Actuarial present value of accumulated plan benefits at beginning of year | $9,890,000 |
| Increase (decrease) during the year attributable to: | |
| Change in actuarial assumptions (note C) | 700,000 |
| Benefits accumulated | 1,060,000 |
| Increase for interest[18] | 976,000 |
| Benefits paid | (746,000) |
| Net increase | 1,990,000 |
| Actuarial present value of accumulated plan benefits at end of year | $11,880,000 |

See accompanying notes to the financial statements.

**Practice Tip**

As discussed in paragraph .03, as an alternative, it is acceptable to show a reconciliation of the significant changes in benefit obligations in paragraph form, which includes appropriate reference to related notes as well as including the actuarial present value of the accumulated plan benefits as of the end of the preceding year.

## C&H COMPANY PENSION PLAN

### Notes to Financial Statements[19]

**A. Description of Plan**

The following brief description of the C&H Company Pension 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 cash balance defined benefit plan providing retirement, disability, and death benefits to all eligible employees. The Plan sponsor is the C&H Company (the Company) and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan includes all full-time employees of the Company. Employees are eligible to participate in the Plan the first day of the quarter after completing one year of service with the Company. The Plan is administered by the Company's Benefits Committee (Committee), which is a committee of the board of directors of the Company. The Committee has overall responsibility for the operation and administration of the Plan. The Committee determines the

[18] The actuarial report will often refer to this amount as the "increase for interest due to the decrease in the discount period."

[19] The notes are for the accompanying illustrative financial statements that use an end-of-year benefit information date. Modifications necessary to accompany the illustrative financial statements that use a beginning-of-year benefit information date are presented in brackets.

appropriateness of the Plan's investment offerings, monitors investment performance and reports to the Plan's Board of Trustees.

2. *Participant's Accounts*: Under the Plan provisions, amounts are credited by the Company to the participants' hypothetical accounts. The accounts are allocated compensation credits and investment credits at the end of every quarter. The compensation credits are allocated based on a percentage of the participants' certified compensation as defined in the plan document for that particular quarter. The applicable percentage ranges from x percent to y percent and is based on the participants' age plus years of credited service (as defined in the plan document) at the end of the quarter. Age and credited service are determined in whole years at the end of the quarter.

   Participants' hypothetical accounts also receive investment credits at the end of every quarter. The amount of the investment credit is tied to the average of the annual yields on 30-year treasury securities and is adjusted quarterly. As of December 31, 20X2 and 20X1, the interest rate was x percent and y percent, respectively.

3. *Funding Policy*: The Plan's funding policy is for the Company to contribute an amount which will meet or exceed the annual ERISA minimum funding requirement. During 20X2 [and 20X1], the Company made contributions of $_____ and $ _____, respectively. The Company's contributions for 20X2 [and 20X1] exceeded the minimum funding requirements of ERISA. Additionally, the Company makes annual contributions to the 401(h) account based upon the maximum deductibility under the Internal Revenue Code.[20]

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

4. *Pension Benefits*: Benefits are determined based on the participant's hypothetical account balance. Plan participants are eligible for their plan benefit after terminating employment with vested rights. Participants become vested in the Plan upon completion of 3 or more years of service or attainment of the normal retirement age (65). If employees terminate before rendering 3 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the Company's contributions. Upon termination of employment, participants have the option of receiving their vested benefit in the form of a one-time lump sum payment or a monthly annuity payable for their lifetime. Participants may elect to defer payment of their benefit until a later date (if the value of the vested benefit is greater than $1000). Participants eligible for a special transition benefit from the prior final average pay formula design will have their final benefits determined at the time they elect to begin receiving payments from the plan. Any adjustment for the special transition benefit calculation is automatically determined and communicated to participants.

   Employees who were active participants in the Plan on January 1, 20XX, and were at least age 45 with 3 or more years of credited service, became eligible for a special transition benefit under the Plan. This transition benefit was established to ensure that eligible participants would receive the same benefit or a larger benefit than they would have under the former arrangement.

5. *Death and Disability Benefits*: If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled partici-

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[20] In some plans, as a condition of participation, employees are required to contribute a certain percent of their salary to the plan. Disclosure should be made of this requirement as well as the amount of the accumulated contributions, including interest and the crediting interest rate. See FASB ASC 960-205-50-1(d).

pants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

**B. Summary of Accounting Policies**

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

1. *Basis of Accounting*: The accompanying financial statements are prepared on the accrual basis of accounting.
2. *Use of Estimates*: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements, and changes therein. Actual results could differ from those estimates.
3. *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. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by its investment advisers, custodians, and insurance company. See note F for a 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.
4. *Payment of Benefits*: Benefit payments to participants are recorded upon distribution.
5. *Administrative Expenses*: The Plan's expenses are paid either by the Plan or the Company, as provided by the plan document. Expenses that are paid directly by the Company are excluded from these financial statements. Certain expenses incurred in connection with the general administration of the Plan that are paid by the Plan are recorded as deductions in the accompanying statement of changes in net assets available for benefits. In addition, certain investment related expenses are included in net appreciation of fair value of investments presented in the accompanying statement of changes in net assets available for benefits.
6. *Subsequent Events*: The plan has evaluated subsequent events through [*insert date*], the date the financial statements were available to be issued.

**C. Actuarial Present Value of Accumulated Plan Benefits**

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (*a*) retired or terminated employees or their beneficiaries, (*b*) beneficiaries of employees who have died, and (*c*) present employees or their beneficiaries. Benefits under the plan are accumulated based on employees' compensation during their last five years of credited service. The accumulated plan benefits for active employees will equal the accumulation, with interest, of the annual benefit accruals as of the benefit information date. Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated plan benefits. The actuarial present value of accumulated plan benefits is determined by an independent actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 20X2 and 20X1 [20X1][21] were (*a*) life expectancy of participants (the RP 2000 Combined Mortality Table with projections was used), (*b*) retirement age assumptions (the assumed average retirement age was 60), and (*c*) investment return. The interest rates used to discount the obligation for 20X2 and 20X1 were x.xx percent and x.xx percent respectively, including a reduction of .X percent to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the plan will continue. Were the plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits. The computations of the actuarial present value of accumulated plan benefits were made as of January 1, 20X3 and 20X2 [20X2]. Had the valuations been performed as of December 31, there would be no material differences.

**D. Plan Termination**

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

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

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

Certain benefits under the plan are insured by the PBGC if the plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the plan are guaranteed at the level in effect on the date of the plan's termination.

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

**E. Investments**

The following table presents the fair values of investments that represent 5 percent or more of the plan's net assets.[22]

[21] Necessary modification to the notes when beginning-of-year benefit information is presented in brackets.

[22] See note F for discussion of fair value measurements.

| | *December 31,* *20X2* | *[20X1]* |
|---|---|---|
| C&H Company common stock | $ 690,000 | $ 880,000 |
| ABC Company corporate bond | 500,000 | — |
| Guaranteed investment contract with National Insurance Company #8041A, .X% | 1,000,000 | 890,000 |
| Hedge fund | 480,000 | 460,000 |

During 20X2 [and 20X1], the plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $278,000 [and $41,000, respectively,] as follows:

| | *Year Ended December 31,* *20X2* | *20X1* |
|---|---|---|
| C&H Company common stock | $208,000 | $(59,000) |
| U.S. government securities | 20,000 | 40,000 |
| Corporate bonds | (40,000) | 60,000 |
| Guaranteed investment contract with insurance company | 40,000 | 100,000 |
| Hedge fund | 100,000 | (90,000) |
| Real estate fund | (50,000) | (10,000) |
| | $278,000 | $41,000 |

**F. Fair Value Measurements**

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy 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<br>• quoted prices for similar assets or liabilities in active markets;<br>• quoted prices for identical or similar assets or liabilities in inactive markets;<br>• inputs other than quoted prices that are observable for the asset or liability;<br>• inputs that are derived principally from or corroborated by observable market data by correlation or other means.<br>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's 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 20X2 and 20X1.

*C&H Company Common Stock*: Valued at the closing price reported on the New York Stock Exchange.

*Guaranteed Investment Contract With the National Insurance Company (National)*: Valued at fair value by the insurance company discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (see note H). *Corporate Bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

*U.S. Government Securities*: Valued using pricing models maximizing the use of observable inputs for similar securities. *Hedge fund and real estate fund:* Valued based on the net asset value per share, without further adjustment. Net asset value is based upon the fair value of the underlying investments.

*Derivative instruments*: Valued using pricing models based on the prevailing forward exchange rate of the underlying currencies taking into account the counterparties' creditworthiness.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 20X2 and 20X1. The following table does not include the plan's interest in the C&H Master Trust because that information is presented in a separate table (see note H):

| | *Assets at Fair Value Measurements as of December 31, 20X2* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| C&H Company common stock | $690,000 | — | — | $690,000 |
| Guaranteed investment contract with National Insurance Company | — | — | 41,000,000 | 1,000,000 |
| Corporate bonds: | | | | |
| Investment grade bonds | — | 3,000,000 | — | 3,000,000 |
| Noninvestment grade bonds | — | 100,000 | 400,000 | 500,000 |
| Total corporate bonds | — | 3,100,000 | 400,000 | 3,500,000 |
| U.S. government securities | — | 350,000 | — | 350,000 |
| Hedge fund | — | 480,000 | — | 480,000 |
| Real estate fund | — | — | 270,000 | 270,000 |
| **Total assets, excluding plan interest in C&H Master Trust, at fair value** | **$690,000** | **$3,930,000** | **$1,670,000** | **$6,290,000** |

| | *Assets at Fair Value Measurements as of December 31, 20X1* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| C&H Company common stock | $880,000 | — | — | $880,000 |
| Guaranteed investment contract with National Insurance Company | — | — | $890,000 | 890,000 |
| Corporate bonds: | | | | |
| Investment grade bonds | — | $3,250,000 | — | 3,250,000 |
| Noninvestment grade bonds | — | 200,000 | 220,000 | 420,000 |
| Total corporate bonds | — | 3,450,000 | 220,000 | 3,670,000 |
| U.S. government securities | — | 270,000 | — | 270,000 |
| Hedge fund | — | 460,000 | — | 460,000 |
| Real estate fund | — | 240,000 | — | 240,000 |
| **Total assets, excluding plan interest in C&H Master Trust, at fair value** | **$880,000** | **$4,420,000** | **$1,110,000** | **$6,410,000** |

**Transfers Between Levels**

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits.

On March 25, 20X2, a contractual limitation was instituted for the real estate fund which delays certain withdrawal requests; therefore this fund has been transferred from level 2 to level 3 in the fair value hierarchy.

**Changes in Fair Value of Level 3 Assets and Related 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, 20X2.

[The use of the beginning-of-the-year benefit information would require this note to include December 31, 20X1 information.]

| | *Guaranteed Investment Contract* | *Corporate Bonds* | *Real Estate Fund* | *Total* |
|---|---|---|---|---|
| Balance, beginning of year | $890,000 | $220,000 | — | $1,110,000 |
| Transfer into level 3 | — | — | $240,000 | 240,000 |
| Realized gains/(losses) | — | 100,000 | — | 100,000 |
| Unrealized gains/(losses) relating to assets still held at the reporting date | 40,000 | (30,000) | (50,000) | (40,000) |
| Purchases | 337,000 | 210,000 | 80,000 | 627,000 |

*(continued)*

| | *Guaranteed Investment Contract* | *Corporate Bonds* | *Real Estate Fund* | *Total* |
|---|---|---|---|---|
| Sales | (267,000) | (100,000) | — | (367,000) |
| Issuances | — | — | — | — |
| Settlements | — | — | — | — |
| **Balance, end of year** | **$1,000,000** | **$400,000** | **$270,000** | **$1,670,000** |
| 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 | $(30,000) | $(50,000) | $(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.

**Quantitative Information About Significant Unobservable Inputs Used in Level 3 Fair Value Measurements**

The following table represents the Plan's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments as of December 31, 20X2,[24] and the significant unobservable inputs and the ranges of values for those inputs:

| *Instrument* | *Fair Value* | *Principal Valuation Technique* | *Significant Unobservable Inputs* | *Range of Significant Input Values* | *Weighted Average* |
|---|---|---|---|---|---|
| Guaranteed investment contract | $1,000,000 | Discounted Cash Flow | Discount rate<br>Duration (years) | X%<br>5 | Y% |
| Corporate bonds | $400,000 | Discounted Cash Flow | Credit risk (basis points)<br>Liquidity risk (basis points) | xx-xxx<br>xx-xxx | Y%<br>Y% |

In estimating fair value of the investments in level 3, the Investment Committee may use third-party pricing sources or appraisers. In substantiating the reasonableness of the pricing data provided by third parties, the Investment Committee evaluates a variety of factors including review of methods and assumptions used by external sources, recently executed transactions, existing contracts, economic conditions, industry and market developments, and overall credit ratings.

**Fair Value of Investments That Calculate Net Asset Value**

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of December 31, 20X2 and 20X1, respectively.

[24] This is the initial year for these disclosure requirements, and these disclosures are effective prospectively. Therefore, only one year of these disclosures are illustrated in these financial statements. In future years, these disclosures should be comparative.

| *December 31, 20X2* | *Fair Value* | *Unfunded Commitments* | *Redemption Frequency (if currently eligible)* | *Redemption Notice Period* |
|---|---|---|---|---|
| Hedge fund (*a*) | $480,000 | $100,000 | Monthly | 30-60 days |
| Real estate fund (*b*) | $270,000 | $1,000,000 | See (*b*) | See (*b*) |

| *December 31, 20X1* | *Fair Value* | *Unfunded Commitments* | *Redemption Frequency (if currently eligible)* | *Redemption Notice Period* |
|---|---|---|---|---|
| Hedge fund (*a*) | $460,000 | $100,000 | Monthly | 30-60 days |
| Real estate fund (*b*) | $240,000 | $1,000,000 | See (*b*) | See (*b*) |

*a.* *Hedge fund*. The hedge fund's objective is to use leveraged, long, short, and derivative positions in both domestic and international markets with the goal of generating high returns. The Plan can redeem monthly from the fund (30 days prior to month end).

*b.* *Real estate fund*. The real estate fund invests primarily in commercial real estate and includes mortgage loans which are backed by the associated properties. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. As of December 31, 20X2, a limitation was in effect which delayed the payment of withdrawal requests and provided for payments of such requests on a pro rata basis as cash becomes available. Aside from the withdrawal limitation in place at December 31, 20X2, investments in this category could previously be redeemed two times in a 30-day period at the current net asset value per share based on the fair value of the underlying assets. Participants are not allowed to transfer back into this category until the 30-day period has expired. New contributions are allowed during this time period.

**G. Interest in C&H Master Trust**

A portion of the Plan's investments are in the Master Trust, which was established for the investment of assets of the Plan and several other C&H Company sponsored retirement plans. Each participating retirement plan has an undivided interest in the Master Trust. The assets of the Master Trust are held by GLC Trust Company (Trustee).

The value of the Plan's interest in the C&H master trust is based on the beginning of year value of the Plan's interest in the trust plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses. At December 31, 20X2 and 20X1, the Plan's interest in the net assets of the Master Trust was approximately 9 percent and 11 percent, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based upon the amount of the time the plan's assets were invested in the Master Trust.

The following table presents the assets, including investments, of the Master Trust as of December 31, 20X2 and 20X1. Investments that represent 5 percent or more of the Master Trust's net assets are separately identified.

| | *December 31,* | |
|---|---|---|
| | *20X2* | *20X1* |
| Common stocks | | |
| C&H common stock | $1,255,000 | $1,115,000 |
| Other (stocks on loan were 50,000 and 50,000, respectively) | 9,745,000 | 6,885,000 |
| Corporate bonds | 11,800,000 | 6,700,000 |
| U.S. government securities | 867,000 | 750,000 |

*(continued)*

| | December 31, 20X2 | 20X1 |
|---|---|---|
| Securities lending collateral | 900,000 | 800,000 |
| Total investments | 24,567,000 | 16,250,000 |
| Unrealized gain on foreign currency forward exchange contract | 1,233,000 | 1,344,091 |
| Obligation to return securities lending collateral | (900,000) | (800,000) |
| Accrued income | 150,000 | 135,000 |
| Accrued liabilities | (50,000) | (20,000) |
| Total net assets | $25,000,000 | $16,909,091 |
| Plan interest in C&H master trust | $2,250,000 | $1,860,000 |

During 20X2 and [20X1], the Master Trust's investments (including investments bought and sold, as well as held during the year) appreciated (depreciated) as follows:

| | Year Ended December 31, 20X2 | 20X1 |
|---|---|---|
| **Investment income:** | | |
| Net appreciation in fair value of investments: | | |
| Common stocks | $ 300,000 | $ 200,000 |
| Corporate bonds | 200,000 | 200,000 |
| Derivative instruments | 90,000 | 50,000 |
| U.S. government securities | 210,000 | 150,000 |
| Net appreciation in fair value | $800,000 | $600,000 |

The following are the changes in net assets for the Master Trust for the year ended December 31, 20X2. [The use of the beginning-of-the-year benefit information would require this note to include December 31, 20X1, information.]

**Changes in Net Assets:**

| | |
|---|---|
| Net appreciation in fair value of investments | $ 800,000 |
| Interest | 400,000 |
| Dividends | 230,000 |
| Net investment income | $1,430,000 |
| Net transfers | $7,060,909 |
| Administrative expenses | ( 400,000) |
| Increase in net assets | 8,090,909 |
| Net assets: | |
| Beginning of year | $16,909,091 |
| End of year | $25,000,000 |

Refer to note F for description of the valuation methodologies used.

The following table sets forth by level, within the fair value hierarchy, the Master Trust's assets at fair value as of December 31, 20X2 and 20X1:

**Practice Tips**

For purposes of this illustration, the assets of this master trust are classified within levels 1 and 2 of the fair value hierarchy due to the fact that they are valued either using quoted market prices or are valued using pricing models maximizing the use of observable inputs for similar securities. Note that this is not representative of all master trusts. Accordingly, other master trusts may hold assets that are also classified within level 3 of the fair value hierarchy, requiring additional disclosures. Presentation and disclosure in the notes to the financial statements should be made accordingly, based on the types of investments held within the master trust.

If all of the assets of the plan are held in the master trust then all the relevant fair value disclosures would be required to be included in this master trust disclosure note.

***Master Trust Assets at Fair Value as of December 31, 20X2***

| | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| Common stocks: | | | | |
| Energy | $5,500,000 | — | — | $5,500,000 |
| Health care | 3,050,000 | — | — | 3,050,000 |
| Information technology | 1,050,000 | — | — | 1,050,000 |
| Consumer goods | 900,000 | — | — | 900,000 |
| Utilities | 500,000 | — | — | 500,000 |
| Total common stocks | 11,000,000 | — | — | 11,000,000 |
| Corporate bonds—domestic | — | 11,800,000 | — | 11,800,000 |
| U.S. government securities | — | 867,000 | — | 867,000 |
| Securities lending collateral: | | | | |
| Interest bearing cash | 100,000 | | | 100,000 |
| U.S. government securities | | 800,000 | | 800,000 |
| Total securities lending collateral | 100,000 | 800,000 | | 900,000 |
| Derivative instruments | | 1,233,000 | | 1,233,000 |
| **Total assets at fair value** | **$11,100,000** | **$14,700,000** | | **$25,800,000** |

*Master Trust Assets at Fair Value as of December 31, 20X1*

| | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| Common stocks: | | | | |
| Energy | $3,950,000 | — | — | $3,950,000 |
| Health care | 2,200,000 | — | — | 2,200,000 |
| Information technology | 800,000 | — | — | 800,000 |
| Consumer goods | 750,000 | — | — | 750,000 |
| Utilities | 300,000 | — | — | 300,000 |
| Total common stocks | $8,000,000 | — | — | $8,000,000 |
| Corporate bonds—domestic | — | 6,700,000 | — | 6,700,000 |
| U.S. government securities | — | 750,000 | — | 750,000 |
| Securities lending collateral: | | | | |
| Interest bearing cash | 80,000 | | | 80,000 |
| U.S. government securities | | 720,000 | | 720,000 |
| Total securities lending collateral | 80,000 | 720,000 | | 800,000 |
| Derivative instruments | | 1,344,091 | | 1,344,091 |
| **Total assets at fair value** | **$8,080,000** | **$9,514,091** | | **$17,594,091** |

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended December 31, 20XX, there were no significant transfers in or out of levels 1, 2, or 3.

**Practice Tip**

These illustrative financial statements do not contain any significant transfers between fair value levels. If there were any, the reporting entity is also required to disclose any significant transfers to or from level 1 and level 2 and the reasons for those transfers. For instance, a transfer may occur if a stock becomes deregistered.

The following table presents the investments that represent 5 percent or more of the Master Trust's net assets:

| | *December 31,* | |
|---|---|---|
| | *20X2* | *20X1* |
| XYZ Company common stock | $ 1,300,000 | $ 850,000 |
| ABC Company corporate bond | 2,000,000 | 1,000,000 |

## H. Guaranteed Investment Contract With National Insurance Company

In 20X0, the Plan entered into a guaranteed investment contract with National Insurance Company (National) under which the plan deposits a minimum of $100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of X percent. The interest rate is guaranteed through 20X3 but is subject to change for each succeeding 5-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a 5-year basis.

The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the plan for the year(s) ended December 31, 20X2 [and 20X1] were $25,000 [and $24,000, respectively]. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

Funds under the guaranteed investment contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the plan's assets.

**I. Derivative Instruments**

The Plan (through the master trust) may enter into foreign currency forward exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S dollar denominated investment securities. When entering into a forward currency contract, the Plan agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. The Plan's net equity therein, representing unrealized gain or loss on the contracts, as measured by the difference between the forward foreign exchanges rates at the dates of entry in the contracts and the forward rates at the reporting date is included in the master trust's statement of net assets. Realized and unrealized gains and losses are included in the master trust's statement of changes in net assets. These instruments involve market risk, credit risk, or both kinds of risks in excess of the amount recognized in the statement of net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and movement in currency and securities values and interest rates. The year-end balance is indicative of the average volume during the year. At December 31 20X2, the Plan had the following foreign currency forward exchange contracts:

| | *Unrealized Gains* |
|---|---|
| 1,407,900,000 Japanese yen vs. $14,588,000 for settlement | |
| January 25, 20X3 | $1,233,000 |

At December 31, 20X1, the Plan sold the following foreign currency forward exchange contracts:

| | *Unrealized Gains* |
|---|---|
| 1,501,000,000 Japanese yen vs. $13,322,000 for settlement | |
| January 24, 20X2 | $1,344,091 |

The fair value of the foreign currency forward exchange contracts, none of which are accounted for as hedge instruments under FASB ASC 815, *Derivatives and Hedging*, are included in the master trust's statement of assets under unrealized gain on foreign currency contract.

Realized and unrealized gains and losses of $201,091 and $(111,091), respectively, on derivatives contracts entered into during the year ended December 31, 20X2, by the Plan are recorded in net appreciation of investments on the master trust's statement of changes.

The Plan may be required to post collateral on derivatives if the Plan is in a net liability position with the counterparty exceeding certain amounts. Additionally, counterparties may immediately terminate derivatives contracts if the Plan fails to maintain sufficient asset coverage for its contracts or its net assets decline by stated percentages.

**J. Securities Lending**[25]

The Master Trust is authorized to engage in the lending of certain investments. Securities lending is an investment management enhancement that utilizes certain existing securities of the Master Trust to earn additional income. Securities lending involves the loaning of securities to approved banks and broker/deal-

[25] This example for securities lending shows that investment in securities lending are held in the Master Trust. If not held in the Master Trust, the amounts need to be shown on the face of the statement of net assets available for benefits.

ers. In return for the loaned securities, the trustee, prior to or simultaneous with delivery of the loaned securities to the borrower, receives collateral in the form of cash or U.S. government securities as a safeguard against possible default of any borrower on the return of the loan under terms that permit the Master Trust to repledge or sell the securities. Each loan is initially collateralized, in the case of: (a) loaned securities denominated in US dollars or whose primary trading market is located in the US, or (b) loaned securities not denominated in US dollars or whose primary trading market is not located in the U.S. to the extent of 105 percent of the market value of the loaned securities. The collateral is marked to market on a daily basis. In the event the counterparty is unable to meet its contractual obligation under the securities lending arrangement, the Master Trust may incur losses equal to the amount by which the market value of the securities differ from the amount of collateral held. The Master Trust mitigates credit risk associated with securities lending arrangements by monitoring the fair value of the securities loaned on a daily basis, with additional collateral obtained or refunded as necessary.

The Master Trust maintains full ownership rights to the securities loaned and accordingly, classifies loaned securities as investments. Because the securities received as collateral may be repledged or sold, the Master Trust recognizes the amount of collateral received and a corresponding obligation to return such collateral on the statement of net assets. The fair value of securities on loan was approximately \$____ and \$____ and the fair value of collateral was approximately \$____ and \$____, respectively at December 31, 20X2 and 20X1. Securities lending income earned by the Master Trust is recorded on the accrual basis and was approximately \$____ and \$____ for the years ended December 31, 20X2 and 20X1, respectively.

### K. Risks and Uncertainties

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

Plan contributions are made, and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

### L. Plan Amendment

Effective October 1, 20X2, the Plan was amended to implement a voluntary retirement window policy. This amendment provided the opportunity for eligible participants to elect early retirement during the window period from October 27, 20X2, to December 10, 20X2. The early retirement benefit was equal to the unrecorded accrued benefit at age 65, and participants could opt to receive this benefit in a lump sum payment commencing on January 1, 20X3. The effect of the amendment was an increase in the actuarial present value of accumulated plan benefits of \$2,410,000 for the year ended December 31, 20X2.[26]

### M. Tax Status

The plan obtained its latest determination letter on June 30, 20XX, in which the Internal Revenue Service states that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue code (IRC). The plan has been amended since receiving the determination letter. However, the plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the [*identify the taxing authorities*]. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits

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[26] If beginning of year benefit information date is used, this amendment would be reflected in the following year.

for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 20XX.

**N. Related-Party and Party in Interest Transactions**

Certain plan investments are shares of C&H Company common stock. The Plan held 25,000 shares of C&H Company common stock at December 31, 20X2 and 20X1, valued at $690,000 and $880,000, respectively. During the years ended December 31, 20X2 and 20X1, purchases of shares by the Plan totaled $1,100,000 and $500,000, respectively, and sales of shares by the Plan totaled $1,498,000 and $750,000, respectively. As described in Note B, the Plan paid certain expenses related to plan operations and investment activity to various service providers. These transactions are party in interest transactions under ERISA.

**O. 401(h) Account**

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

Refer to note F for description of the valuation methodologies used.

| | *Assets at Fair Value as of December 31, 20X2* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| U.S. government securities | — | $172,000 | — | $172,000 |
| Money market fund | 900,000 | — | — | $900,000 |
| Total assets at fair value | $900,000 | $172,000 | — | $1,072,000 |

| | *Assets at Fair Value as of December 31, 20X1* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| U.S. government securities | | $166,000 | | $166,000 |
| Money market fund | 800,000 | | | $800,000 |
| Total assets at fair value | $800,000 | $166,000 | | $966,000 |

**P. Reconciliation of Financial Statements to Form 5500**[27]

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

[27] The reconciliation of amounts reported in the Plan's financial statements to amounts reported in Form 5500 is required by the Employee Retirement Income Security Act of 1974.

| | December 31, 20X2 | December 31, 20X1 |
|---|---|---|
| Net assets available for pension benefits per the financial statements | $9,012,000 | $8,146,000 |
| Net assets held in 401(h) account included as assets in Form 5500 | 1,072,000 | 966,000 |
| Net assets available per the Form 5500 | **$10,084,000** | **$9,112,000** |

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

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

| | *For the Year Ended December 31, 20X2* | | |
|---|---|---|---|
| | *Amounts per Financial Statements* | *401(h) Account* | *Amounts per Form 5500* |
| Net appreciation in fair value of investments | $278,000 | $10,800 | $288,800 |
| Interest income | 325,000 | 80,200 | 405,200 |
| Employer contributions | 1,230,000 | 40,000 | 1,270,000 |
| Benefits paid to participants | 740,000 | 10,000 | 750,000 |
| Administrative expenses | 65,000 | 15,000 | 80,000 |

**Q. Subsequent Events**

Effective July 1, 20X3, the ABC plan was merged into the Plan. ABC plan's net assets available for benefits and accumulated benefit obligations transferred to the Plan amounted to approximately $1,750,000 and $2,125,000 respectively. This merger will not affect the participant's pension benefits because the benefit provisions of the merged plan will be incorporated into the Plan.

The Pension Protection Act of 2006 (PPA) as amended by the Worker, Retiree and Employer Recovery Act of 2008 (WRERA) imposes certain benefit restrictions for qualified defined benefit plans that do not meet certain funding thresholds. The "At-Risk" status is referred to as the Funding Target Attainment Percentage (FTAP). A plan's funded percentage is referred to as the Adjusted Funding Target Attainment Percentage (AFTAP). The 20X2 AFTAP for the Plan is XX.X percent. [Because the Plan's AFTAP equals or exceeds 80 percent, the Plan is not subject to any benefit restrictions.] [However, as a result of the downturn in the market, the 20X3 AFTAP is less than 80 percent, therefore, benefit restrictions may become effective April 1, 20X4. The restrictions also mean that plan amendments which would increase liabilities could be prohibited as early as April 1, 20X4.] [Additional contributions of approximately XX have been estimated to be required during 20X3.] [The AFTAP will be re-assessed in early 20X4 to determine if these restrictions will continue to apply.]

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