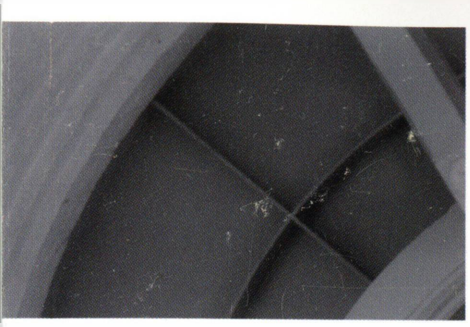
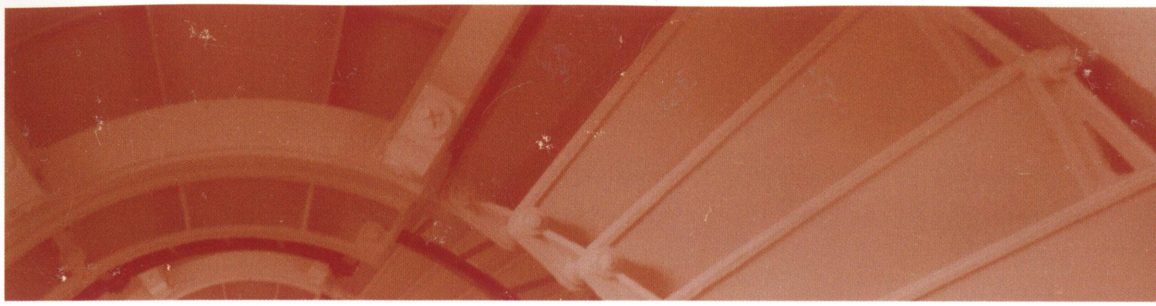
3-31-2013

Checklists and illustrative financial statements for employee health and welfare benefit plans, March 31, 2013

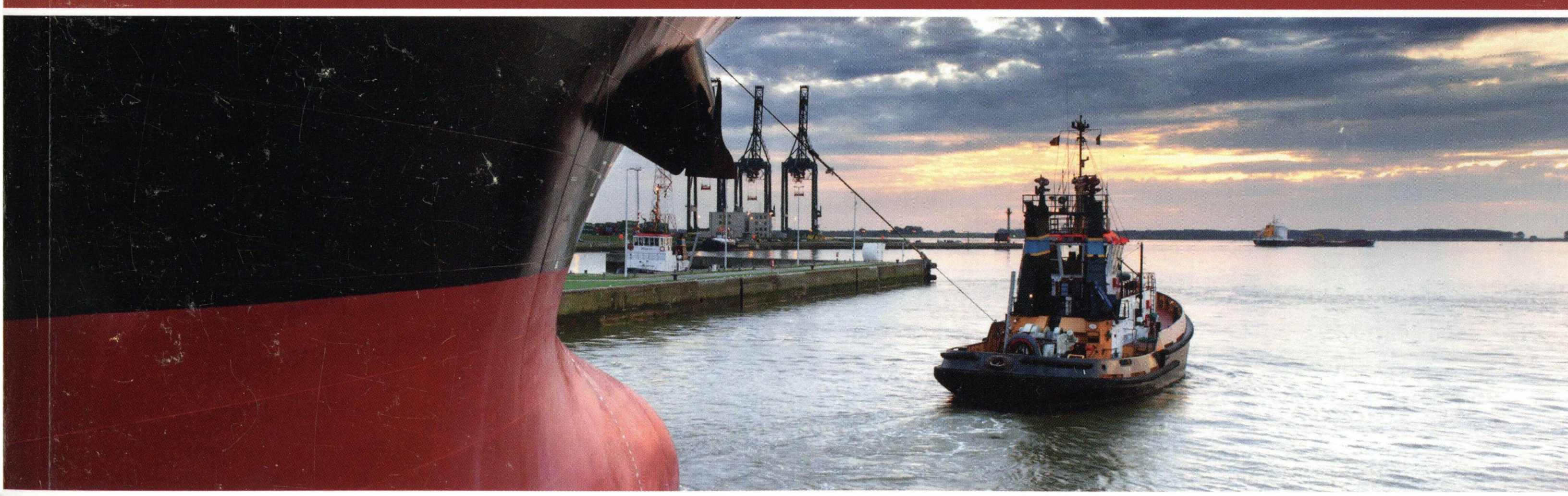
American Institute of Certified Public Accountants (AICPA)

CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Health and Welfare Benefit Plans

MARCH 31, 2013



AICPA®

CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Health and Welfare Benefit Plans

March 31, 2013

12846-359

ACK_HWP_title-copyright.indd 1 5/9/2013 11:42:01 AM

1 2 3 4 5 6 7 8 9 0 AAP 1 9 8 7 6 5 4 3

ISBN 978-1-93735-265-3

TABLE OF CONTENTS

Part 1 — Introduction

Introduction

General

.01 This publication includes the following parts:

- **Part 2, "Financial Statements and Notes Checklist."** For use by preparers of health and welfare benefit plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Part 3, "Auditor's Report Checklist."** For use by auditors in reporting on audited health and welfare benefit plan financial statements.
- **Part 4, "Illustrative Financial Statements and Auditor's Reports."** Illustrating full sets of health and welfare benefit 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 health and welfare benefit 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 health and welfare benefit plan prepared in conformity with accounting principles generally accepted in the United States of America (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 health and welfare benefit 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 health and welfare benefit 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 the 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 U.S. 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 materials and refer directly to FASB ASC as appropriate. These checklists and illustrative materials 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 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 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 prior to the clarified auditing standards' effective date. 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 statements and 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 Update (ASUs) updated 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 sec. 9265 par. .01–.10)
- 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 health and welfare benefit 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 in the auditor's or accountant's report. For audited financial statements, a "No" response that is material to the financial statements may warrant a departure from an unmodified opinion as discussed in AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Reports* (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 concerning 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 health and welfare benefit plans is not included in this document. Additionally, users of the checklists and illustrative materials 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

Diana Krupica, CPA
AICPA
220 Leigh Farm Road
Durham, NC 27707–8110

Description

.21 Health and welfare benefit plans (H&W plans) include plans that provide the following:

- Medical, dental, prescription drugs, visual, psychiatric, long term health care, life insurance, or accidental death or dismemberment benefits
- Benefits for postemployment (benefits for former or inactive employees after employment but before retirement), such as Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits, severance, or long-term or short-term disability
- Other benefits such as sick leave, vacation, holiday, apprenticeships, tuition assistance, day care, dependent care, housing subsidies, or legal services
- Postretirement benefits such as medical, dental, prescription drugs, vision and life insurance benefits
- Supplemental unemployment benefits

.22 Benefits may be provided through insurance contracts, from net assets accumulated in a trust or the general assets of the employer, or a combination thereof. Regardless of the funding arrangement, the ultimate reporting entity under the Employee Retirement Income Security Act of 1974 (ERISA) is the plan and not the underlying trust(s).

.23 As defined in the FASB ASC glossary, a *defined benefit H&W plan* specifies a determinable benefit, which may be in the form of a reimbursement to the covered plan participant or a direct payment to providers or third-party insurers for the cost of specified services. Such plans may also include benefits that are payable in a lump sum, such as death benefits. The level of benefits may be defined or limited based on factors such as age, years of service, and salary. Contributions may be determined by the plan's actuary or be based on premiums, actual claims paid, hours worked, or other factors determined by the plan sponsor. Even when a plan is funded pursuant to agreements that specify a fixed rate of employer contributions (for example, a collectively bargained multiemployer plan), such a plan may, nevertheless be a defined-benefit H&W plan if its substance is to provide a defined benefit.

.24 As defined by the FASB ASC glossary, a defined contribution H&W plan maintains an individual account for each plan participant. The plan has terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits a plan participant will receive are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements (FSAs), vacation plans and health reimbursement accounts (HRAs).

.25 H&W plans are subject to the fiduciary, reporting, and other requirements of ERISA. Generally, no regulatory funding requirements exist; however, a plan may establish a trust to hold assets to pay all or part of the covered benefits, and the trust may or may not be tax-exempt. Assets may be segregated and legally restricted under various types of trust arrangements (or a combination of these), such as

a. a voluntary employee beneficiary association (VEBA), an Internal Revenue Code (IRC) Section 501(c)(9) trust that is generally tax exempt.

b. a taxable trust, such as a grantor trust.

c. an IRC Section 401(h) account.

d. other funding vehicles.

Generally, if a trust exists, audited financial statements of the plan may be required under ERISA.

.26 The nature of a plan's health and welfare arrangements directly affects the method of accounting for the assets, liabilities, benefit obligations, and related changes. In some arrangements, an insurance company may assume all or a portion of the financial risk, or in others, a third party may provide only administrative services, such as claims processing.

.27 Users of this checklist are encouraged to consult the AICPA Audit and Accounting Guide *Employee Benefit Plans* as of January 1, 2013 (the guide) for additional guidance and information regarding auditing, accounting and reporting for H&W plans including

- chapter 7, "Health & Welfare Benefit Plans"
- appendix A, "The Annual Health Care Process," in chapter 7
- appendix B, "Examples of Health & Welfare Arrangements," in chapter 7

AICPA Employee Benefit Plan Audit Quality Center

.28 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/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

.29 FASB ASC 965, *Plan Accounting—Health and Welfare Benefit Plans*, provides standards of financial accounting and reporting for financial statements of H&W plans. Other FASB ASC topics may also apply to H&W plans.

.30 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 guide describes which plans are covered by ERISA and pertinent provisions of ERISA and related reporting and disclosure regulations issued by the DOL.

.31 Employee benefit plans that are subject to ERISA are required to report certain information annually to the federal government agencies (for example the DOL, the IRS, and the Pension Benefit Guaranty Corporation [PBGC] and to provide summarized information to plan participants. For many plans, the information is reported to the DOL on the Form 5500, *Annual Return/Report of Employee Benefit Plan*, that includes financial statements prepared in accordance with GAAP[1] and certain supplemental schedules. (See paragraphs .48–.53 of this section for a discussion of Form 5500.)

[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 (ERISA) and Department of Labor (DOL) regulations. See paragraphs 2.03–.04 and 11.27 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* as of January 1, 2013, for further discussion about the use of special purpose frameworks in employee benefit plan financial statements.

AICPA *Technical Practice Aids*

.32 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.

.33 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 are included in TIS section 8800, *Audits of Group Financial Statements and Work of Others* (AICPA, *Technical Practice Aids*). TIS sections 8800.37, "Employee Benefit Plan Using Investee Results to Calculate Fair Value," and 8800.38, "Using Net Asset Value to Calculate Fair Value," include issues relating to the calculation of fair value of employee benefit plan investments.

.34 In December 2011, the AICPA issued a series of five TIS sections containing accounting and disclosure guidance relating to reimbursements received under the Patient Protection and Affordable Care Act's (PPACA) Early Retiree Reinsurance Program (ERRP):

- TIS section 6931.13, "Health and Welfare Plan Accounting for Reimbursements Received Under the Patient Protection and Affordable Care Act's Early Retiree Reinsurance Program When the Reimbursement Is Not Remitted to the Trust"
- TIS section 6931.14, "Health and Welfare Plan Accounting for Reimbursements Received Under the PPACA's ERRP Described in TIS Section 6931.13"
- TIS section 6931.15, "Health and Welfare Plan Accounting for Reimbursements Applied for Prior to Year-End but Not Approved Until After Year-End Under the PPACA's ERRP Described in TIS Section 6931.13"
- TIS section 6931.16, "Accounting for the Effects of the Reimbursement on the Health and Welfare Plan's Postretirement Benefit Obligations Under the PPACA's ERRP Described in TIS Section 6931.13"
- TIS section 6931.17, "Health and Welfare Plan Disclosures About the PPACA's ERRP Described in TIS Section 6931.13"

.35 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 H&W Plans

Defined Benefit H&W Plans

.36 According to FASB ASC 965-205-10-1, the objective of financial reporting by a defined benefit H&W plan is the same as that of a defined benefit pension plan (DB plan); both types of plans provide a determinable benefit. Accordingly, the primary objective of the financial statements of a defined benefit H&W plan is to provide financial information that is useful in assessing the plan's present and future ability to pay its benefit obligations when due. To accomplish that objective, a plan's financial statements should provide information about all of the following: (*a*) plan resources and the manner in which the stewardship responsibility for those resources has been discharged, (*b*) benefit obligations, (*c*) the results of transactions and events that affect the information about those resources and obligations, and (*d*) other factors necessary for users to understand the information provided.[2]

.37 Per FASB ASC 965-205-45-1, the financial statements of a defined-benefit H&W plan prepared in accordance with GAAP[3] should be prepared on the accrual basis[4] of accounting and include all of the following:

- A statement of net assets available for benefits as of the end of the plan year[5]
- A statement of changes in net assets available for benefits for the year then ended[6]
- Information regarding the plan's benefit obligations as of the end of the plan year[7]
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations

.38 Per FASB ASC 965-205-45-2, information about the benefit obligations should be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location. The information should be presented in such reasonable detail as is necessary to identify the nature and classification of the obligations.

Defined Contribution H&W Plans

.39 In accordance with FASB ASC 965-205-10-2, the objective of financial reporting by a defined contribution H&W plan is to provide financial information that is useful in assessing the plan's present and future ability to pay its benefits. To accomplish that objective, a plan's financial statements should provide information about all of the following: (*a*) plan resources and the manner in which the stewardship responsibility for those resources has been discharged, (*b*) the results of transactions and events that affect the information about those resources, and (*c*) other factors necessary for users to understand the information provided. For example vacation, holiday, and legal are typical plans whose benefits are limited to the balance in the participant's account.

.40 Per FASB ASC 965-205-45-3, the financial statements of a defined-contribution health and welfare plan prepared in accordance with GAAP[8] should be prepared on the accrual basis of accounting and include both of the following:

- A statement of net assets available for benefits of the plan as of the end of the plan year[9]
- A statement of changes in net assets available for benefits of the plan for the year then ended

---

[2] It should be recognized that (*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 its benefit obligations when due, and (*b*) financial statements for several plan years, rather than for a single year, may provide more useful information in assessing the plan's future ability to pay benefit obligations.

[3] Financial statements prepared in accordance with a special purpose framework, which includes cash and modified cash, should disclose information regarding benefit obligations.

[4] As stated in "Pending Content" in FASB ASC 965-320-25-1, the accrual basis of accounting requires that purchases and sales of securities be recorded on a trade-date basis. If the settlement date is later than the financial statement date, accounting on a settlement-date basis of such purchases is acceptable if both of the following conditions exist: (*a*) the fair value less costs to sell, if significant, of the securities purchased just before the financial statement date does not change significantly from the trade date to the financial statement date and (*b*) the purchases do not significantly affect the composition of the plan's assets available for benefits.

[5] ERISA requires that this statement be presented in comparative form.

[6] Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 230-10-15-4 states that a statement of cash flows is not required to be provided by a defined benefit pension plan that presents financial information in accordance with the provisions of FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plan*. 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, if the plan invests in assets that are not highly liquid or obtains financing for investments).

[7] See footnote 5.

[8] See footnote 3.

[9] See footnote 5.

.41 FASB ASC 965-205-45-4 states that because a plan's obligation to provide benefits is limited to the amounts accumulated in an individual's account, information regarding benefit obligations is not applicable.

Financial Statement Presentation and Disclosure Requirements for H&W Plans

.42 "Pending Content" in FASB ASC 965-20-45-1 states that the statement of net assets available for benefits of the plan should present amounts for the following: (*a*) total assets, (*b*) total liabilities, (*c*) net assets reflecting all investments at fair value less costs to sell, if significant, and (*d*) net assets available for benefits. FASB ASC 965-20-45-2 states that the amount representing the difference between (*c*) and (*d*) should be presented on the face of the statement of net assets available for benefits as a single amount. This amount is calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value. Per FASB ASC 965-20-45-5, the statement of changes in net assets available for benefits should be prepared on a basis that reflects income credited to participants in the plan and net appreciation or depreciation in the fair value of only those investment contracts that are not deemed to be fully benefit responsive.

.43 "Pending Content" in FASB ASC 965-325-35-1 states that H&W plans should report plan investments, whether they are in the form of equity or debt securities, real estate, or other investments (excluding insurance contracts), at their fair value less costs to sell, if significant, at the financial statement date. As defined in the FASB ASC glossary, *fair value of plan investments* 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.

.44 Investment contracts held by defined-benefit H&W plans should be reported at fair value in accordance with FASB ASC 965-325-35-2. Defined-contribution H&W plans also should report all investments (including derivative contracts) at fair value. However, FASB ASC 965-325-35-8 states that contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution H&W plan attributable to fully benefit-responsive investment contracts. An investment contract is considered fully benefit responsive for purposes of this checklist, if certain criteria are met for that contract, analyzed on an individual basis. See the FASB ASC glossary for such criteria. As defined by the FASB ASC glossary, the *contract value of a fully benefit-responsive investment contract* held by a plan is the amount a participant would receive if he or she were to initiate transactions under the terms of the ongoing plan.

.45 FASB ASC 965-325-35-3 states that insurance contracts, as defined by the FASB ASC 944-20, should be presented in the same manner as specified in the annual report filed by the plan with certain governmental agencies pursuant to ERISA; that is, either at fair value or at amounts determined by the insurance enterprise (contract value). Plans not subject to ERISA should present insurance contracts as if the plans were subject to the reporting requirements of ERISA.

.46 See paragraphs 7.42–.47 of the guide for further guidance regarding insurance and investment contracts. Also, see the "Investment and Insurance Contracts" section in part 2, "Financial Statements and Notes Checklist," of this checklist for required disclosures in connection with fully benefit-responsive investment contracts.

.47 FASB ASC 965-205-45-6 states that certain retiree health benefits may be funded through a 401(h) account in a DB plan, pursuant to Section 401(h) of the Internal Revenue Code. The 401(h) account assets and liabilities used to fund retiree health benefits, and the changes in those assets and liabilities should be reported in the financial statements of the H&W plan.

ERISA Reporting Requirements

.48 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 the 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 IRC and Titles I and IV of ERISA.

.49 In general, the Form 5500 reporting requirements vary depending on whether the 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 3 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 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 the Employee Benefits Security Administration (EBSA) in accordance with the instructions to the form.

.50 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.

.51 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.

.52 All Form, Form 5500-SF, and any required schedules and attachments must be completed and filed electronically using 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.

.53 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 or 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)[10]
- 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

[10] **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 Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

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 health and welfare benefit plan. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section "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.	Investment and Insurance Contracts	________
	D.	Assets Held in 401(h) Account	________
	E.	Contributions Receivable	________
	F.	Deposits With and Receivables From Insurance Companies and Other Service Providers	________
	G.	Property, Plant, and Equipment	________
	H.	Cash	________
	I.	Liabilities	________
III.	Statement of Changes in Net Assets Available for Benefits		________

	Place ✓ by Applicable Sections
IV. Statement of Plan's Benefit Obligations	
A. Medicare Prescription Drug, Improvement and Modernization Act of 2003	____
V. Postemployment Benefits	
A. American Recovery and Reinvestment Act of 2009	____
VI. Statement of Changes in Plan's Benefit Obligations	
A. General	____
B. Claims Paid Through 401(h) Account	____
C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations	____
VII. Summary of Significant Accounting Policies	
A. Accounting Policies	____
B. Risks and Uncertainties	____
VIII. Other Financial Statement Disclosures	
A. Description of Health and Welfare Benefit Plans	____
B. Description of Plan Amendments	____
C. Accounting Changes and Error Corrections	____
D. Commitments and Contingencies	____
E. Derivatives and Hedging	____
F. Fair Value Measurement	____
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	____
IX. ERISA Reporting Requirements	
A. Form 5500 Report	____
B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA	____
C. Required Financial Statements and Supporting Schedules	____

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 all of the following:			

	Yes	No	N/A
a. For defined benefit health and welfare benefit plans			
i. a "Statement of Net Assets Available for Benefits" as of the end of the plan year? [FASB ASC 965-205-45-1*a*]	_____	_____	_____
ii. a "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [FASB ASC 965-205-45-1*b*]	_____	_____	_____
iii. information regarding the plan's benefit obligations as of the end of the plan year? [FASB ASC 965-205-45-1*c*]	_____	_____	_____
iv. information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations? [FASB ASC 965-205-45-1*d*]	_____	_____	_____
b. For defined contribution health and welfare benefit plans			
i. a "Statement of Net Assets Available for Benefits" as of the end of the plan year?	_____	_____	_____
ii. a "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [FASB ASC 965-205-45-3]	_____	_____	_____
2. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements? Regardless of the format selected, do the plan financial statements present the benefit obligations information in its entirety in the same location? [FASB ASC 965-205-45-2]	_____	_____	_____
3. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in such reasonable detail as is necessary to identify the nature and classification of the obligations? [FASB ASC 965-205-45-2]	_____	_____	_____
4. Are separate reports prepared for each plan where assets of more than one plan are held in a 501(c)(9) Voluntary Employees' Beneficiary Association (VEBA) trust? [FASB ASC 965-205-45-10]	_____	_____	_____
5. Is each financial statement suitably titled? [Common Practice]	_____	_____	_____
6. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Common Practice]	_____	_____	_____

	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 965-205-45-5]	_____	_____	_____
B. Comparative Financial Statements			
1. Are comparative statements presented, if appropriate?[1] [FASB ASC 205-10-45 par. 1–2]	_____	_____	_____
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 statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the entities in the group directly or indirectly has a controlling financial interest in the other entities.

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

[1] The Employee Retirement Income Security Act of 1974 (ERISA) requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form.

	Yes	No	N/A

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? ____ ____ ____
   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]

	Yes	No	N/A

Deconsolidation of a Subsidiary

3. Has the entity properly disclosed the following, as a parent entity, if in the period either a 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]

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]

	Yes	No	N/A

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 there is a cross-reference provided.)
   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? _____ _____ _____

	Yes	*No*	*N/A*

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 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 obligations, the disclosures that follow are not required.)

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:

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? _____ _____ _____

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? _____ _____ _____

	Yes	No	N/A
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 affect 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? (***Note:*** 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.)	____	____	____
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?	____	____	____

	Yes	No	N/A
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 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. Do disclosures include restrictions, if any, on plan assets (for example, legal restrictions on multiple trusts)? [FASB ASC 965-205-50-1*n*]	____	____	____

B. Investments

	Yes	No	N/A
1. Are plan investments, whether they are in the form of equity or debt securities, real estate, or other investments (excluding insurance contracts), reported at their fair values at the financial statement date? [FASB ASC 965-325-35-1]	____	____	____
2. Are the plan's investments presented in enough detail to identify the types of investments and indicate whether reported fair values have been measured by quoted prices in an active market or have been otherwise determined? [FASB ASC 965-325-45-1]	____	____	____

Practice Tip

FinREC recommends that defined benefit H&W plans classify investments in one of two ways on the face of the statement of net assets available for benefits. The plan administrator 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 (see item [*a*] that follows) or may classify such plan investments as recommended in FASB ASC 962-325-45-5 and ASC 965-325-45-2 (see item [*b*] that follows). 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*, 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 715-20-50-1 provides 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 H&W plan continues to classify investments in accordance with FASB ASC 965-325-45-2, then the plan needs to also comply with the fair value disclosure classifications for FASB ASC 820.

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

(continued)

	Yes	No	N/A

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 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)–5(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 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 trusts (CCTs), RICs (for example, mutual funds), and investments in contracts with insurance companies, including separate accounts.
[AAG 7.53]

3. For nonparticipant-directed investments, are investments presented in the "Statements of Net Assets Available for Benefits" or in the notes detailed by general type, including the following:

	Yes	No	N/A
a. Registered investment companies (also known as *mutual funds*)?	_____	_____	_____
b. Government securities?	_____	_____	_____
c. Short term securities?	_____	_____	_____
d. Corporate bonds?	_____	_____	_____
e. Common stocks?	_____	_____	_____
f. Mortgages?	_____	_____	_____
g. Real Estate? [FASB ASC 965-325-45-2]	_____	_____	_____
4. Does the disclosure of the plan's accounting policies include the identification of investments that represent 5 percent or more of the net assets available for benefits as of the end of the year? (***Note:*** Consideration should also be given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence [for example, surrender charges and fair value adjustments]). [FASB ASC 965-325-50-1]	_____	_____	_____

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.
[Common Practice]

It is important to note that any information required by ERISA to be disclosed in the schedules must be disclosed in the schedules; disclosure of the information on the face of the financial statements or in the notes to the financial statements but not in the schedules is not acceptable.
[AAG 7.127]

	Yes	No	N/A
5. Has consideration been given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (for example, surrender charges and market value adjustments)? [FASB ASC 965-325-50-1]	____	____	____
6. 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, AAG 7.49]	____	____	____

C. Investment and Insurance Contracts

Practice Tip

The AICPA issued TIS sections 6931.08–.10 (AICPA, *Technical Practice Aids*) to provide nonauthoritative guidance on the reporting of fully-benefit responsive investment contracts held by defined contribution health and welfare plans and to clarify the types of investments covered, financial statement presentation of investments in common collective trust funds and master trusts, and related disclosure requirements.

	Yes	No	N/A
1. Are investment contracts held by defined benefit health and welfare plans reported at fair value? [FASB ASC 965-325-35-2]	____	____	____
2. Does the statement of net assets available for benefits present amounts for the following:			
a. Total assets?	____	____	____
b. Total liabilities?	____	____	____
c. Net assets reflecting all investments at fair value?	____	____	____
d. Net assets available for benefits? [FASB ASC 965-20-45-1]	____	____	____
3. Is the amount representing the difference between net assets reflecting all investments at fair value and net assets available for benefits, presented on the face of the statement of net assets available for benefits as a single amount? Is this amount calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value? [FASB ASC 965-20-45-2]	____	____	____
4. Are insurance contracts, as defined by FASB ASC 944, *Financial Services—Insurance*, presented in the same manner as specified in the annual report filed by the plan with certain governmental agencies pursuant to ERISA; that is, either at fair value or at amounts determined by the insurance entity (contract value)? If the plan is not subject to ERISA, does it present insurance contracts as if the plan was subject to the reporting requirements of ERISA? [FASB ASC 965-325-35-3]	____	____	____

	Yes	No	N/A
5. Are the following disclosed, in the aggregate, for fully benefit-responsive investment contracts:			
a. A description of the nature of those investment contracts, including how they operate, and the methodology for calculating the interest crediting rate, including the key factors that could influence future average interest crediting rates, the basis for and frequency of determining interest crediting rate resets, and any minimum interest crediting rate under the terms of the contracts? This disclosure should explain the relationship between future interest crediting rates and the amount reported on the statement of net assets available for benefits representing the adjustment for the portion of net assets attributable to fully benefit-responsive investment contracts from fair value to contract value.	____	____	____
b. The average yield earned by the plan for all fully benefit-responsive investment contracts (which may differ from the interest rate credited to participants in the plan) for each period for which a statement of net assets available for benefits is presented? This average yield should be calculated by dividing the annualized earnings of all fully benefit-responsive investment contracts in the plan (irrespective of the interest rate credited to participants in the plan) by the fair value of all fully benefit-responsive investment contracts in the plan.	____	____	____
c. The average yield earned by the plan for all fully benefit-responsive investment contracts with an adjustment to reflect the actual interest rate credited to participants in the plan for each period for which a statement of net assets available for benefits is presented? This average yield should be calculated by dividing the annualized earnings credited to participants in the plan for all fully benefit-responsive investment contracts in the plan (irrespective of the actual earnings of those investments) by the fair value of all fully benefit-responsive investment contracts in the plan.	____	____	____
d. A description of the events that limit the ability of the plan to transact at contract value with the issuer (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives), including a statement as to whether the occurrence of those events that would limit the plan's ability to transact at contract value with participants in the plan is probable or not probable (the term *probable* used herein is consistent with its use in FASB ASC 450, *Contingencies*)?	____	____	____

	Yes	No	N/A
e. A description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the plan and settle at an amount different from contract value? [FASB ASC 965-325-50-2]	____	____	____
6. For ERISA-covered plans, if a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500, but is reported in the financial statements at contract value, and the contract value does not approximate fair value, the DOL's rules and regulations require that a statement explaining the differences between amounts reported in the financial statements and DOL Form 5500 be added to the financial statements? [FASB ASC 965-325-50-3]	____	____	____

D. Assets Held in 401(h) Account

	Yes	No	N/A
1. Are the 401(h) assets and liabilities and changes in them shown in the health and welfare benefit plan financial statements either as a single line item on the face of the statements or included in individual line items with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items? [FASB ASC 965-205-45-7]	____	____	____
2. Do the notes to the financial statements disclose the following:			
a. The fact that retiree health benefit obligations are funded partially through a 401(h) account of the defined benefit pension plan (if applicable)?	____	____	____
b. If question 2(*a*) is applicable, is the fact that the assets in the 401(h) account are available only to pay retiree health benefits also disclosed?	____	____	____
c. The significant components of net assets and changes in net assets of the 401(h) account? [FASB ASC 965-205-50 par. 2–3]	____	____	____
3. Because ERISA requires 401(h) accounts to be reported as assets of the health and welfare benefit plan, do the notes to the financial statements include a reconciliation of the net assets reported in the financial statements to those reported in the Form 5500? [FASB ASC 965-205-50-4]	____	____	____

E. Contributions Receivable

	Yes	No	N/A
1. Are contributions receivable separately identified? [FASB ASC 965-310-45-1]	____	____	____
2. Are the following contributions receivable separately identified and accrued as of the date of the financial statements:			
a. Receivables from employer(s)?	____	____	____
b. Receivables from participants?	____	____	____

	Yes	No	N/A
c. Other sources of funding (for example, state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements? [Common Practice]	_____	_____	_____
3. Do contributions receivable include an allowance for uncollectible amounts? [FASB ASC 965-310-35-1]	_____	_____	_____
4. For defined benefit H&W plans, has a receivable from the employer been accrued equal to the liability for claims IBNR for participant claims if, as of the date of the financial statements, there is a legal or contractual requirement for the employer to fund the specific amount, as recommended by FinREC? (***Note:*** This legal or contractual requirement generally does not exist for single employer plans.) [AAG 7.61, Common Practice]	_____	_____	_____

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

	Yes	No	N/A
1. Is the nature of payments made to insurance entities disclosed for deposits required to be maintained to be applied against future losses in excess of current premiums and premium stabilization reserves? [FASB ASC 965-310-50-1]	_____	_____	_____
2. If the amount of refund due from an insurance entity for experience-rating cannot be reasonably estimated, is this fact disclosed? [FASB ASC 965-310-50-2]	_____	_____	_____
3. Have rebates or refunds that are contractually due from service providers been recorded as plan assets if collection is probable and the amount can be reasonably estimated, as recommended by FinREC? [AAG 7.63, Common Practice]	_____	_____	_____
4. If the amount of refunds or rebates that are contractually due from service providers cannot be reasonably estimated, have such amounts been recorded when received with appropriate disclosure, as recommended by FinREC? [AAG 7.63, Common Practice]	_____	_____	_____
5. If the associated benefit has been paid, have rebates and refunds been recorded as an offset to benefit payments or premium payments, as applicable, with appropriate disclosure, as recommended by FinREC? [AAG 7.63, Common Practice]	_____	_____	_____
6. In circumstances in which the plan sponsor is contractually due the rebate or refund, has the plan considered disclosing the existence of such programs, as recommended by FinREC? [AAG 7.63, Common Practice]	_____	_____	_____

	Yes	No	N/A
G. Property, Plant, and Equipment			
1. Are plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, or leasehold improvement) reported at cost less accumulated depreciation or amortization? [FASB ASC 965-360-35-1]	_____	_____	_____
2. For depreciable assets, do the financial statements include disclosure of the following:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. A general description of the method or methods used in computing depreciation for each major class of depreciable assets? [FASB ASC 360-10-50-1]	_____	_____	_____
3. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with the guidance for the presentation and disclosure of the "Impairment or Disposal of Long-Lived Assets" section of FASB ASC 360, *Property, Plant and Equipment*?[2] [FASB ASC 360-10-45; FASB ASC 360-10-50]	_____	_____	_____
H. 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]	_____	_____	_____

Practice Tips

FinREC recommends that investments in short-term, highly liquid investments, such as interest-bearing cash or overnight deposits, be included as an investment rather than as a cash equivalent. The current Form 5500 also requires interest-bearing cash to be reported as an investment on Schedule H, line 4i—Schedule of Assets (Held At End of Year).
[AAG 7.34]

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.

---

[2] Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (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 health and welfare benefit 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

I. Liabilities

1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses, for example, third-party administrator fees) deducted in arriving at net assets available for benefits? [FASB ASC 965-20-25-1] _____ _____ _____
2. Are the following stated separately:
   a. Accrued expenses? _____ _____ _____
   b. Other expenses (for example, third-party administrator fees)? _____ _____ _____
   [Common Practice; AAG exhibit E-1]

III. Statement of Changes in Net Assets Available for Benefits

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

Practice Tip

Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period. Ordinarily, information regarding the net appreciation or depreciation in the fair value of investments should be disclosed in the notes to the financial statements.
[FASB ASC 965-20-45-3; FASB ASC 965-320-50-1]

Consistent with FASB ASC 962-205-45-7, FinREC believes that gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year-end. This information may be presented in the accompanying notes to the financial statements. Ordinarily, information regarding the net appreciation or depreciation in the fair value of each significant class of investments is found in the notes to the financial statements.
[AAG 7.74]

---

   f. Investment income, excluding the net appreciation or depreciation? _____ _____ _____

Yes *No* *N/A*

Practice Tip

Self-directed accounts are not considered investment programs and, therefore, such presentation of the investment income relates to their underlying investments.

Certain registered investment companies and other investment funds pay dividends or capital gain distributions that are reinvested into the plan. FinREC recommends dividends be considered investment income and shown separately from changes in fair value. FinREC recommends 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 7.74*f*]

g. Income taxes paid or payable, if applicable? _____ _____ _____

h. Payments of claims, excluding payments made by an insurance entity pursuant to contracts that are excluded from plan assets? _____ _____ _____

i. Payments of premiums to insurance entities to purchase contracts that are excluded from plan assets? _____ _____ _____

j. Operating and administrative expenses? _____ _____ _____

Practice Tip

When plan expenses are paid from the general assets of the plan sponsor but are directly related to the plan, FinREC recommends the expenses be presented in the plan's financial statements so that financial statement users can fully understand the costs associated with the plan and the financial statements can reflect the true expenses of the plan. Capturing all activity associated with the plan is most meaningful to financial statement users.
[AAG 7.85]

k. Other changes (such as transfers of assets to or from other plans), if significant? _____ _____ _____
[FASB ASC 965-20-45-3]

2. Have the following items been presented separately in the statement of changes in net assets available for benefits if they are significant, as recommended by FinREC:

a. Other employer contributions or other income, including fee income from securities loaned and from miscellaneous sources, such as reimbursements for lost income or operational defects? _____ _____ _____

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

c. Transfers of assets to or from other plans, including transfers associated with mergers and spinoffs? _____ _____ _____
[AAG 7.76, Common Practice]

Practice Tip

The list of minimum disclosures is not intended to define the degree of detail or the manner of presenting the information, and subclassifications or additional classifications may be useful.
[FASB ASC 965-20-45-4]

	Yes	No	N/A
3. Is the statement of changes in net assets available for benefits prepared on a basis that reflects income credited to participants in the plan and net appreciation or depreciation in the fair value of only those investment contracts that are not deemed to be fully benefit-responsive? [FASB ASC 965-20-45-5]	_____	_____	_____
4. If the 401(h) account assets and liabilities are shown as a single line item in the statement of net assets, are the changes in net assets also shown as a single line item on the health and welfare benefit plan's statement of changes in net assets? [FASB ASC 965-205-45-8]	_____	_____	_____
5. If the 401(h) account assets and liabilities are included in individual asset and liability line items in the statement of net assets, are the changes in individual 401(h) amounts included in the changes in the individual line items in the statement of changes in net assets, with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items? [FASB ASC 965-205-45-8]	_____	_____	_____
6. For plan mergers and spin-offs, have the net assets transferred into or out of the plan been recorded on the statement of changes in net assets available for benefits following the net increase or decrease for the period, as recommended by FinREC? [AAG 7.138, Common Practice]	_____	_____	_____

IV. Statement of Plan's Benefit Obligations

Practice Tip

Information about the benefit obligations should be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location.
[FASB ASC 965-205-45-2]

1. Do benefit obligations for single-employer, multiple-employer, and multiemployer defined-benefit health and welfare benefit plans include the actuarial present value, as applicable, of the following:
   a. Claims payable, claims incurred but not reported (IBNR), and premiums due to insurance entities? _____ _____ _____

Yes *No* *N/A*

Practice Tip

In an insured health and welfare benefit plan, claims payable and currently due and claims IBNR to the plan will be paid by the insurance entity. Consequently, they should be excluded from the benefit obligations of the plan. Benefit obligations of a self-funded plan should present claims payable and currently due for active and retired participants, dependents, and beneficiaries as well as IBNR claims for active participants. IBNR claims for retired participants are included in the postretirement benefit obligation, if separately calculated in accordance with FASB ASC 965-30-35-1(a).
[FASB ASC 965-30-45 par. 2–3]

Claims IBNR may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, such claims for retirees are recorded in the postretirement benefit obligation. Aggregating claims payable and claims IBNR are often appropriate if adequate time has passed to provide sufficient data on costs incurred and the actuarially determined expected cost of long-term medical claims is insignificant. Benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment should not be included.
[FASB ASC 965-30-35 par. 1 and 3–4]

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

c. Postretirement benefits for the following groups of participants:

i. Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR (assuming such amounts are included in the aggregate computation described in question 1[*a*])? _____ _____ _____

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

iii. Plan participants not yet fully eligible for benefits? _____ _____ _____
[FASB ASC 965-30-35-1]

2. Are benefit obligations reported as of the end of the plan year? _____ _____ _____
[FASB ASC 965-30-35-5]

Practice Tip

The effect of plan amendments should be included in the computation of the expected and accumulated postretirement benefit obligations (APBO) once they have been contractually agreed to, even if some provisions take effect only in future periods.
[FASB ASC 965-30-35-7]

3. To the extent they exist, are the amounts of benefit obligations in each of the three major classifications listed in question 1(*c*) shown as separate line items in the financial statements or notes to the financial statements? _____ _____ _____

a. Regardless of the format selected, do the plan financial statements present the benefit obligations information in its entirety in the same location? _____ _____ _____

	Yes	No	N/A

b. For negotiated plans, are benefit obligations due during a plan's contract period disclosed? (Common Practice) [FASB ASC 965-30-45-1] ____ ____ ____

4. Does the postretirement benefit obligation information include the following classifications:

   a. Obligations related to retired plan participants, including their beneficiaries and covered dependents? ____ ____ ____

   b. Obligations related to active or terminated participants who are fully eligible to receive benefits? ____ ____ ____

   c. Obligations related to other plan participants not yet fully eligible for benefits? ____ ____ ____
   [FASB ASC 965-30-35-22]

5. Is consideration given to separately disclosing each significant benefit (for example, medical and death) for each classification listed in question 4, as appropriate? ____ ____ ____
   [FASB ASC 965-30-50-1]

6. Premium deficits should be included in benefit obligations if (*a*) it is probable that the deficit will be applied against the amounts of future premiums or future experience-rating refunds (this determination should consider the extent to which the insurance contract requires payment of such deficits and the plan's intention, if any, to transfer coverage to another insurance entity) and (*b*) the amount can be reasonably estimated. If no obligation is included for a premium deficit because either or both of the conditions in the preceding list are not met, or if an exposure to loss exists in excess of the amount accrued, is disclosure of the premium deficit made if it is reasonably possible that a loss or an additional loss has been incurred? ____ ____ ____
   [FASB ASC 965-30-25-5; FASB ASC 965-30-50-4]

7. Are 401(h) obligations reported in the health and welfare benefit plan's statement of benefit obligations? ____ ____ ____
   [FASB ASC 965-205-45-8]

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

Single-Employer Health and Welfare Benefit Plans

1. Are the following disclosures made by a single-employer health and welfare benefit plan, whose effects of the plan sponsor's (employer's) Medicare prescription drug subsidy (Medicare subsidy) are not included in calculating the health and welfare plan's postretirement benefit obligation:

   a. The existence of the act? ____ ____ ____

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

	Yes	No	N/A
2. Until the plan sponsor (employer) is able to determine whether benefits provided by its plan are actuarially equivalent to Medicare Part D.1, is disclosure made that the employer is not able to determine whether the benefits provided by its plan are actuarially equivalent to Medicare Part D.1?	____	____	____
3. If the plan sponsor (employer) has included the effects of the Medicare subsidy in measuring its APBO and changes in benefit obligation, is disclosure made of the fact that the amount of the APBO differs from that disclosed by the plan sponsor (employer) because the plan sponsor's amounts are net of the Medicare subsidy? [TIS 6931.05]	____	____	____

Multiemployer Employee Health and Welfare Benefit Plans

	Yes	No	N/A
4. Are the following disclosures made when a multiemployer health and welfare benefit plan has included the effects of the Medicare subsidy in measuring its APBO and changes in the benefit obligation:			
a. The existence of the act?	____	____	____
b. The reduction in the APBO for the subsidy related to benefits attributed to past service?	____	____	____
c. The effect of the subsidy on the changes in the benefit obligation for the current period?	____	____	____
d. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures?	____	____	____
e. The gross benefit payments (paid and expected, respectively) including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively)?	____	____	____
5. Until the multiemployer plan is able to determine whether benefits provided by its plan are at least actuarially equivalent to Medicare Part D.1, are the following disclosures made:			
a. The existence of the act?	____	____	____
b. The fact that measures of the APBO and changes in the benefit obligation do not reflect any amount associated with the subsidy because the plan is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the act? [TIS 6931.06]	____	____	____

V. Postemployment Benefits

Yes No N/A

Practice Tip

Plans that provide postemployment benefits should recognize a benefit obligation for current participants, based on amounts expected to be paid in subsequent years, if all the conditions listed in FASB ASC 965-30-25-3 are met. See paragraphs 3–4 of FASB ASC 965-30-25 and paragraphs 9–10 of FASB ASC 965-30-35 for guidance on accounting for and reporting of postemployment benefits.
[FASB ASC 965-30-25 par. 3–4]

1. If an obligation for postemployment benefits is not recognized in accordance with FASB ASC 965-30-25-3 and paragraphs 9–10 of FASB ASC 965-30-35 only because the amount cannot be reasonably estimated, do the financial statements disclose that fact?
[FASB ASC 965-30-50-2] _____ _____ _____

2. Is disclosure made of the weighted-average assumed discount rate used to measure the plan's obligation for postemployment benefits?
[FASB ASC 965-30-50-5*b*] _____ _____ _____

A. American Recovery and Reinvestment Act of 2009

Note: The AICPA issued a TIS section to provide information on how the effects of the Consolidated Omnibus Budget Reconciliation Act (COBRA) premium subsidy should be reflected when calculating a health and welfare plan's postemployment benefit obligation. See TIS section 6931.12, "Accounting and Disclosure Requirements for Health and Welfare Plans Related to the COBRA Premium Subsidy Included in the American Recovery and Reinvestment Act of 2009" (AICPA, *Technical Practice Aids*), for additional nonauthoritative guidance.

1. Is disclosure made about the portion of the plan's estimated cost that is funded by the COBRA premium subsidy?
[TIS 6931.12] _____ _____ _____

VI. Statement of Changes in Plan's Benefit Obligations

Practice Tip

Information regarding changes in the benefit obligations within a plan period should be presented to identify the significant factors affecting year-to-year changes in benefit obligations. Like the benefit obligation information, the changes in each of the three major classifications of benefit obligations should be presented in the body of the financial statements or in the notes to the financial statements; the information may be presented in either a reconciliation or narrative format.
[FASB ASC 965-30-45 par. 4–5]

	Yes	No	N/A
A. General			
1. Are changes in benefit obligations presented in the following categories:			
a. Claims payable, claims IBNR, and premiums due to insurance entities?	_____	_____	_____
b. Accumulated eligibility credits and postemployment benefits, net of amounts currently payable?	_____	_____	_____
c. Postretirement benefits for retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR; other plan participants fully eligible for benefits; and plan participants not yet fully eligible for benefits? [FASB ASC 965-30-45 par. 5*a*–*c*]	_____	_____	_____
B. Claims Paid Through 401(h) Account			
1. Does the health and welfare benefit plan's statement of changes in benefit obligations include claims paid through the 401(h) account? [FASB ASC 965-205-45-8]	_____	_____	_____
C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations			

Practice Tip

If only the minimum disclosure is presented, presentation in a statement format will necessitate an additional unidentified other category to reconcile the initial and ultimate amounts.
[FASB ASC 965-30-45-8]

Changes in actuarial assumptions are to be considered as changes in accounting estimates and therefore previously reported amounts should not be restated.
[FASB ASC 965-30-45-7]

Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than separately disclosed. If the effects of changes in actuarial assumptions cannot be separately determined, those effects should be included in benefits accumulated and described accordingly.
[FASB ASC 965-30-45-7]

	Yes	No	N/A
1. At a minimum, is information provided with respect to the significant effects of all of the following:			
a. Plan amendments?	_____	_____	_____
b. Changes in the nature of the plan (mergers or spinoffs)?	_____	_____	_____
c. Changes in actuarial assumptions (health care cost-trend rate or interest rate)? [FASB ASC 965-30-45-6]	_____	_____	_____
2. Are significant effects of other factors identified, for example, benefits accumulated, the effects of the time value of money (for interest), and benefits paid? [FASB ASC 965-30-45-7]	_____	_____	_____

Yes *No* *N/A*

Practice Tip

Financial statements prepared in accordance with a special purpose framework, which includes cash and modified cash, should disclose information regarding benefit obligations.
[AAG 7.27 footnote 3]

VII. 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? _____ _____ _____
   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 significant accounting policies include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? _____ _____ _____
   [FASB ASC 965-325-50-1]
5. Does the disclosure of significant accounting policies include a description of the methods and significant actuarial assumptions used to determine the plan's benefit obligations? _____ _____ _____
   [FASB ASC 965-30-50-5]
6. Are any significant changes in assumptions between financial statement dates and their effects described? _____ _____ _____
   [FASB ASC 965-30-50-5]

	Yes	No	N/A
7. If administrative expenses expected to be paid by the plan (but not those paid directly by the plan's participating employer[s]) that are associated with providing the plan's benefits are reflected by reducing the discount rate(s) used in measuring the benefit obligation, is the resulting reduction in the discount rate(s) disclosed? [FASB ASC 965-30-50-7]	_____	_____	_____
8. For defined-contribution health and welfare plans, does the disclosure of significant accounting policies include the accounting policy for, and the amount and disposition of, forfeited nonvested accounts (specifically, identification of whether those amounts will be used to reduce future employer contributions, employer expenses, or will be allocated to participants accounts)? [FASB ASC 965-205-50-1*o*]	_____	_____	_____

Practice Tip

FinREC recommends that this disclosure also be made when there is a defined contribution component included in a defined benefit H&W plan.
[AAG 7.127*r*]

	Yes	No	N/A
9. Has the plan's accounting policy with respect to recording claims been disclosed in the financial statements and applied on a consistent basis, as recommended by FinREC? [AAG 7.97, Common Practice]	_____	_____	_____
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]	_____	_____	_____
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 possibly 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]	_____	_____	_____

	Yes	No	N/A
4. If known information available before the financial statements are issued or are available to be issued indicates that (*a*) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (*b*) the effect of the change would be material to the financial statements,			
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, 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 entity 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]	____	____	____

	Yes	No	N/A
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]	____	____	____

VIII. Other Financial Statement Disclosures

A. Description of Health and Welfare Benefit Plans

	Yes	No	N/A
1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vesting, and benefit provisions? [FASB ASC 965-205-50-1(a)]	____	____	____

Practice Tip

If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted provided that a reference to the other source is made.
[FASB ASC 965-205-50-1*a*]

	Yes	No	N/A
2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable? [FASB ASC 965-205-50-1(m)]	____	____	____

B. Description of Plan Amendments

	Yes	No	N/A
1. If applicable, do disclosures include a description of significant plan amendments adopted during the period, as well as significant changes in the nature of the plan (for example, a plan spin-off or merger with another plan) and changes in actuarial assumptions? [FASB ASC 965-205-50-1(b)]	____	____	____

	Yes	No	N/A

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 all of the following:

   i. A description of the prior-period information that has been retrospectively adjusted, if any? ____ ____ ____

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

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

   iv. If retrospective application to all prior periods is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change? ____ ____ ____

   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 post change interim periods? [FASB ASC 250-10-50-3]	____	____	____
Change in Accounting Estimate			
4. Is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets? Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, if the effect of a change in the estimate is material, is it disclosed?	____	____	____
5. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by paragraphs 1–3 of FASB ASC 250-10-50 are made?	____	____	____
6. If a change in estimate does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods 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.

	Yes	No	N/A
Change in the Reporting Entity			
7. When there has been a change in the reporting entity, do the financial statements of the period of the change describe the nature of the change and the reason for it?	____	____	____

	Yes	No	N/A
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 entity disclose that its previously issued financial statements have been restated, along with a description of the nature of the error? Does the entity also disclose the following:	____	____	____
a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented?	____	____	____
b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented? [FASB ASC 250-10-50-7]	____	____	____
11. In addition to question 10, does the entity 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?	____	____	____

	Yes	No	N/A
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 Tip

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

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

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]	____	____	____

Accruals for Loss Contingencies

	Yes	No	N/A
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 1 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]	____	____	____

Yes No N/A

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*.

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 reason-able 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]

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]

	Yes	No	N/A
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

	Yes	No	N/A
9. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? [FASB ASC 450-30-50-1]	____	____	____

Guarantees

	Yes	No	N/A
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 par. 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?	____	____	____
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, is the reasons why the maximum potential amount cannot be estimated disclosed?	____	____	____
e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under FASB ASC 450-20-30, regardless of whether the guarantee is freestanding or embedded in another contract?	____	____	____
f. The nature of			
i. any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee?	____	____	____

	Yes	No	N/A
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)?	____	____	____
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]	____	____	____

	Yes	No	N/A
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

Practice Tip

In December 2011, FASB issued Auditing Standards Update (ASU) No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* which contains amendments to FASB ASC 210, *Balance Sheet*, 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 paragraphs 58 and 66 of FASB ASC 815-20-25), which 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 entity disclose the following information about derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 58 and 66 of FASB ASC 815-20-25):			
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? (***Note:*** An entity should select the format and the specifics of disclosures relating to its volume of such activity that are most relevant and practicable for its individual facts and circumstances.) [FASB ASC 815-10-50 par. 1A–1B]	_____	_____	_____

	Yes	No	N/A
3. Is the information described in question 2 about the instruments disclosed in the context of each instrument's primary underlying risk exposure (for example, interest rate, credit, foreign exchange rate, interest rate and foreign exchange rate, or overall price? [FASB ASC 815-10-50-1B]	_____	_____	_____
4. Does the description of those instruments in question 2 also distinguished between those used for risk management purposes and those used for other purposes? Derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 58 and 66 of FASB ASC 815-20-25) used for risk management purposes include those designated as hedging instruments under FASB ASC 815-20 as well as those used as economic hedges and for other purposes related to the entity's risk exposures. [FASB ASC 815-10-50-1B]	_____	_____	_____
5. For derivative instruments designated as hedging instruments, does the description distinguish between each of the following:			
a. Instruments used for risk management purposes, distinguish between each of the following:			
i. Derivatives designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, and derivative instruments designated as hedging instruments of the foreign currency exposure in a net investment in a foreign operation?	_____	_____	_____
ii. Instruments used as economic hedges and for other purposes related to the entity's risk exposure?	_____	_____	_____
b. Instruments used for other purposes? [FASB ASC 815-10-50-2]	_____	_____	_____
6. For derivative instruments not designated as hedging instruments under FASB ASC 815-20, does the description indicate the purpose of the derivative activity? [FASB ASC 815-10-50-4]	_____	_____	_____

Practice Tip

The qualitative disclosures required by FASB ASC 815-10-50-4A(a)–(b), question 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 entity 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)?	____	____	____
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?	____	____	____

	Yes	No	N/A
c. The effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges recorded in 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: (i) the amount of the hedges' ineffectiveness and (ii) the amount, if any, excluded from the assessment of hedge effectiveness?	_____	_____	_____
e. Derivative instruments not designated or qualifying as hedging instruments under FASB ASC 815-20? [FASB ASC 815-10-50-4C]	_____	_____	_____
10. Do the disclosures in 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]	_____	_____	_____
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 entity'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 entity 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 entity manages those risks? [FASB ASC 815-10-50-4F]	_____	_____	_____

	Yes	*No*	*N/A*
13. Does the entity 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?	_____	_____	_____
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, 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 of FASB ASC 815-20-25) are presented in more than a single footnote, does each derivative footnote cross-reference the other footnotes in which derivative-related information is disclosed? [FASB ASC 815-10-50-4I]	_____	_____	_____

	Yes	No	N/A

Credit Derivatives

15. If the entity 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*.)

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.

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 (iv), how those groupings are determined and used for managing risk? _____ _____ _____

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

	Yes	No	N/A

f. The nature of the following:

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

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

g. Does the entity, 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]

---

16. With respect to hybrid instruments that have embedded credit derivatives, does the seller of the embedded credit derivative disclose the information required by FASB ASC 815-10-50-4K, question 15, for the entire hybrid instrument, not just the embedded credit derivatives? _____ _____ _____
[FASB ASC 815-10-50-4L]

17. Does the seller of a credit derivative disclose the information required by FASB ASC 815-10-50-4K, question 15, for groups of similar credit derivatives by

   a. major types of contracts (for example, single-name credit default swaps, traded indexes, other portfolio products, and swaptions), _____ _____ _____

   b. for each major type, by additional subgroups for major types of referenced or underlying asset classes (for example, corporate debt, sovereign debt, and structured finance) (*encouraged but not required*)? _____ _____ _____
   [FASB ASC 815-10-50-4L]

	Yes	No	N/A
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 -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

	Yes	No	N/A
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

	Yes	No	N/A
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]	____	____	____

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.[3]
[FASB ASC 815-10-45-6]

[3] 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 (*a*) offset in accordance with either FASB ASC 210-20-45 or FASB ASC 815-10-45 or (*b*) 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 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 No. 2011-11 and ASU No. 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 No. 2011-11 and ASU No. 2013-01 and will be updated closer to the effective date.

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

	Yes	No	N/A
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]	____	____	____

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

	Yes	No	N/A
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

	Yes	No	N/A
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]	____	____	____

	Yes	No	N/A
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]	_____	_____	_____
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]	_____	_____	_____

	Yes	No	N/A

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 Measurement

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

	Yes	No	N/A

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
- 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]

   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.) _____ _____ _____

		Yes	*No*	*N/A*
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.)	_____	_____	_____
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.)	_____	_____	_____

		Yes	No	N/A
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)?	____	____	____
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]			

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

(continued)

	Yes	No	N/A

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]

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]

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]

	Yes	No	N/A

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)? _____ _____ _____

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? _____ _____ _____

	Yes	*No*	*N/A*
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]	_____	_____	_____

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

[FASB ASC 825-10-50-22]

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]	_____	_____	_____

	Yes	No	N/A
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 plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	_____	_____	_____
d. The 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[4] 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			
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?	_____	_____	_____

[4] 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
b. presenting two separate line items to display the fair value and non-fair-value carrying amounts? [FASB ASC 825-10-45 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 entities* as (defined in the FASB ASC glossary)
- The entity's total assets of less than $100 million on the date of the financial statements, and
- 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]

	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?	_____	_____	_____

	Yes	No	N/A
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) that have contractual principal amounts and for which the fair value option has been elected?	_____	_____	_____
ii. long-term debt instruments that have contractual principal amounts and for which the fair value option has been elected?	_____	_____	_____
e. For loans held as assets for which the fair value option has been elected			
i. the aggregate fair value of loans that are 90 days or more past due?	_____	_____	_____
ii. if the entity's policy is to recognize interest income separately from other changes in fair value, the aggregate fair value of loans in nonaccrual status?	_____	_____	_____
iii. the difference between the aggregate fair value and the aggregate unpaid principal balance for loans that are 90 days or more past due, in nonaccrual status, or both?	_____	_____	_____
f. For information required by FASB ASC 323-10-50-3 (equity method and joint venture investments) for investments that would have been accounted for under the equity method if the entity had not chosen to apply the fair value option? [FASB ASC 825-10-50-28]	_____	_____	_____
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.)	_____	_____	_____

	Yes	No	N/A
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]	____	____	____

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

	Yes	No	N/A
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

	Yes	No	N/A
1. Do disclosures include the federal income tax status of the plan? [FASB ASC 965-205-50-1(*d*)]	____	____	____

	Yes	No	N/A

Practice Tip

There is no determination letter program for health and welfare plans; however, a 501(c)(9) VEBA trust must obtain a determination letter to be exempt from taxation. That fact should be disclosed.
[AAG 7.127*e*]

I. Uncertainty in Income Tax

1. Does the entity 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 the entity 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? ____ ____ ____

   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]

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 when a wasting trust exists, are all relevant circumstances disclosed? ____ ____ ____
[FASB ASC 965-40-50-1]

	Yes	No	N/A
2. If a decision is made to terminate the plan before the end of the plan year, have the plan's year-end financial statements been prepared on the liquidation basis of accounting? [FASB ASC 965-40-25-1]	_____	_____	_____

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 value.

[FASB ASC 965-40-35-1]

	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 965-40-25-2]	_____	_____	_____
K. Related-Party Transactions			
1. For related-party transactions, do disclosures include the following:			
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]	_____	_____	_____

	Yes	No	N/A
4. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the entity 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 entity being significantly different from those that would have been obtained if the entities were autonomous? [FASB ASC 850-10-50-6]	_____	_____	_____

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 foonote 25)]

	Yes	No	N/A
5. Do the financial statements include disclosure of significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the plan administrator, employers, or employee organizations as required by ERISA? [AAG 7.127*i* and A.52*c* in app. A, Common Practice]	_____	_____	_____
6. Do the financial statements include disclosure of amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties? [AAG 7.127*h*, Common Practice]	_____	_____	_____
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]	_____	_____	_____

	Yes	No	N/A

M. Subsequent Events

1. If the entity does not file a Form 11-K with the SEC, 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]
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 financial statement date, but before the financial statements are issued or are 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 965-205-50-1(*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 quantifiable? [FASB ASC 965-205-50-1(*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? ____ ____ ____

	Yes	No	N/A
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?	_____	_____	_____
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?	_____	_____	_____

	Yes	No	N/A
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?	____	____	____
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]			

	Yes	No	N/A
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

	Yes	No	N/A
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]	____	____	____
7. As of the latest date of the 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]	____	____	____

	Yes	*No*	*N/A*

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 860-40-45-1, 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] _____ _____ _____

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? (***Note:*** Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.) _____ _____ _____

    c. The amount of contractually specified servicing fees (as defined in the 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? _____ _____ _____

	Yes	No	N/A
d. Quantitative and qualitative information about the assumptions used to estimate fair value? (***Note:*** 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 changes in valuation inputs or assumptions used in the valuation model?	____	____	____
v. Changes in fair value during the period resulting from other changes in fair value and a description of those changes?	____	____	____
vi. Other changes that affect the balance and a description of those changes? [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?	____	____	____

	Yes	No	N/A
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 changes, 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]	___	___	___
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

Practice Tip

The plan's financial statements should disclose other information as described in FASB ASC 965, *Health and Welfare Benefit Plans*. Certain of the disclosures relate to plans with accumulated assets rather than those with trusts that act more as conduits for benefit payments or insurance premiums. Separate disclosures may be made to the extent that the plan provides both health and other welfare benefits.
[FASB ASC 965-205-50-1]

	Yes	No	N/A
1. For defined contribution health and welfare plans, do the plan's financial statements provide information about plan resources and the manner in which the stewardship responsibility for those resources has been discharged? [FASB ASC 965-205-10-2(a)]	____	____	____
2. Do disclosures include the funding policy of the plan and any changes in the policy during the plan year?	____	____	____
a. If the benefit obligations exceed the net assets of the plan, is the method of funding this deficit, as provided for in the plan agreement or collective bargaining agreement, disclosed?	____	____	____
b. For a contributory plan, does the disclosure on funding policy state the method of determining participants' contributions?	____	____	____
c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed? [FASB ASC 965-205-50-1*c*]	____	____	____
3. Is a description included of the portion of the plan's estimated cost of providing postretirement benefits funded by retiree contributions for each year for which a year-end statement of net assets available for benefits is presented? [FASB ASC 965-205-50-1*c*]	____	____	____

Practice Tip

The plan's estimated cost of postretirement benefits is the plan's expected claims cost for the year. It excludes benefit costs paid by Medicare and costs, such as deductibles and copayments, paid directly to the medical provider by participants. The portion of the plan's estimated cost that is funded by retiree contributions is determined at the beginning of the year based on the plan sponsor's cost-sharing policy. In determining that amount, the retirees' required contribution for the year should be reduced by any amounts intended to recover a shortfall (or increased by amounts intended to compensate for an overcharge) in attaining the desired cost-sharing in prior year(s).
[FASB ASC 965-205-50-1*c*]

	Yes	No	N/A
a. If the plan terms provide that a shortfall in attaining the intended cost sharing in the prior year(s) is to be recovered by increasing the retiree contribution in the current year, is that incremental contribution separately disclosed?	____	____	____
b. If the plan terms provide that participant contributions in the current year are to be reduced by the amount by which participant contributions in prior year exceeded the amount needed to attain the desired cost-sharing, is the resulting reduction in the current year contribution separately disclosed?	____	____	____
c. Is the information about retiree contributions provided for each significant group of retired participants to the extent their contributions differ? [FASB ASC 965-205-50-1*c*]	____	____	____

		Yes	*No*	*N/A*
4.	Do disclosures include the policy regarding the purchase of contracts with insurance entities that are excluded from plan assets? [FASB ASC 965-205-50-1*e*]	_____	_____	_____
5.	With respect to contracts with insurance entities that are excluded from plan assets, is consideration given to disclosing the type and extent of insurance coverage, as well as the extent to which risk is transferred (for example, coverage period and claims reported or claims incurred)? [FASB ASC 965-205-50-1*e*]	_____	_____	_____
6.	Do disclosures include the following:			
	a. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties? [FASB ASC 965-205-50-1*f*]	_____	_____	_____
	b. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the plan administrator, employers, or employee organizations? [FASB ASC 965-205-50-1*g*]	_____	_____	_____
7.	Do disclosures include the assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when the rate is expected to be achieved? [FASB ASC 965-205-50-1*j*]	_____	_____	_____
8.	For health and welfare benefit plans providing postretirement health care benefits, is the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation disclosed? [FASB ASC 965-205-50-1*k*]	_____	_____	_____
9.	Do disclosures include any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan's financial statements? [FASB ASC 965-205-50-1(l)]	_____	_____	_____
10.	For negotiated plans, are benefit obligations due during a plan's contract period disclosed? [FASB ASC 965-30-50-3; Common Practice]	_____	_____	_____

	Yes	No	N/A
11. If a Flexible Spending Arrangement (FSA) or Health Reimbursement Account (HRA) is wrapped[5] or a component of a H&W plan, have unused amounts available to participants available to participants at year-end been included in the plan's statement of net assets available for benefits and the associated activity (for example, contributions and benefits paid) been included in the plan's statement of changes in net assets available for benefits, as recommended by FinREC? [AAG 7.11, Common Practice]	____	____	____
12. Have claims incurred before plan year-end that are submitted after year-end (but before the date defined by the plan) along with the amount and ultimate disposition of forfeited amounts been disclosed for an FSA or an HRA, as recommended by FinREC? [AAG 7.11, Common Practice]	____	____	____
13. If a Health Savings Account is a component of a H&W plan, has disclosure that the arrangement exists been made, and the associated activity been excluded from the plan's financial statements, as recommended by FinREC? [AAG 7.11, Common Practice]	____	____	____
14. Have stop-loss premiums paid, whether paid by the plan or the plan sponsor, been recorded as an expense of the plan, as recommended by FinREC? [AAG 7.80, Common Practice]	____	____	____
15. Have stop-loss amounts due to the plan or trust from insurers been recorded as an asset with a corresponding offset to benefit payments if the benefit has been paid, as recommended by FinREC? [AAG 7.80, Common Practice]	____	____	____
16. Do disclosures include the amount of stop-loss recoveries that have been netted against benefits paid, as recommended by FinREC?[6] [AAG 7.80, Common Practice]	____	____	____
17. 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 the Form 5500 in accordance with FASB ASC 965-205-50-3? [AAG 7.127*l*]	____	____	____

[5] Wrapped plans typically "wrap" together several welfare benefit programs into a single plan document. [AAG 7.09]

[6] Although not commonplace, FinREC recognizes that there may be instances when recording stop-loss activity in the plan's financial statement may not be appropriate given the numerous variations and extensions of coverage that are available in the marketplace. Amounts payable to the plan sponsor that do not reduce the amount of benefits that need to be covered by the plan's assets and future employer contributions may not need to be reflected in the plan's financial statements. In such circumstances, the plan should consider disclosure of the existence of such stop-loss arrangements and the fact that the plan's financial statements do not reflect any amounts associated with such arrangements. [AAG 7.81]

	Yes	No	N/A
18. Do disclosures include the following, if significant, as recommended by FinREC:			
a. The significant terms of expense offset arrangements with third parties, whereby expenses are netted against income, disclosed in the notes to the financial statements. 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 7.128, Common Practice]	____	____	____
19. Do the notes to the financial statements include disclosures for masters trusts in accordance with chapter 8, "Investments," of the guide, if applicable? [AAG 7.127*v*]	____	____	____

Reimbursements Received Under the PPACA's ERRP

Note: The Early Retiree Reinsurance Program (ERRP) was established by the Patient Protection and Affordable Care Act (PPACA). The PPACA was passed by Congress and signed into law in March 2010, providing for comprehensive health insurance reforms. Congress appropriated funding of $5 billion for this temporary program to provide financial assistance to employers, unions, and state and local governments to help them maintain coverage for early retirees age 55 and older who are not yet eligible for Medicare, including their spouses, surviving spouses, and dependents. Employers could apply for the ERRP beginning June 29, 2010. The ERRP ceased accepting applications after May 5, 2011.

Per AICPA TIS section 6931.13, "Health and Welfare Plan Accounting for Reimbursements Received Under the Patient Protection and Affordable Care Act's Early Retiree Reinsurance Program When the Reimbursement Is Not Remitted to the Trust" (AICPA, *Technical Practice Aids*), if a reimbursement is received under the ERRP, the employer must use the proceeds to reduce (*a*) the employer's health benefit premiums or costs; (*b*) plan participants' health benefit premium contributions, copayments, deductibles, coinsurance, or other out-of-pocket costs or any combination of these costs; or (*c*) any combination of the costs specified in (*a*) and (*b*). Proceeds received pursuant to the ERRP may not be used as general revenue of the employer.

	Yes	No	N/A
20. Are reimbursements received (even if the reimbursement is not remitted to the trust) under the ERRP recorded as Contributions From Other Identified Sources in the statement of changes in net assets? [TIS 6931.14]	____	____	____
21. For reimbursements that were applied for prior to year-end but not approved until after year-end under the PPACA's ERRP, has the plan considered disclosing the following:			
a. The existence of the PPACA and the ERRP?	____	____	____

	Yes	No	N/A
b. The fact that the employer applied for reimbursements from the ERRP prior to year-end?	_____	_____	_____
c. Subsequent events disclosures of the reimbursement amounts received after year-end? [TIS 6931.15]	_____	_____	_____

Practice Tip

The health and welfare plan's financial statements should not reflect a receivable for reimbursements under the PPACA's ERRP until an approval of the reimbursement is received. As noted in TIS section 6931.13, the notification indicating approval of the reimbursement request will also include the amount of the reimbursement. Employers may be able to estimate the reimbursement amount when they submit their reimbursement request; however, realization of the reimbursement request is subject to approval, and approval is contingent upon the availability of funds in the ERRP.
[TIS 6931.15]

	Yes	No	N/A
22. In addition to the disclosures in question 12, do disclosures include the following for reimbursements received or applied for under the PPACA's ERRP:			
a. The amount of reimbursements received by the plan?	_____	_____	_____
b. How the reimbursements were used or are intended to be used?	_____	_____	_____
c. How the reimbursements are reflected in the plan's financial statements? [TIS 6931.17]	_____	_____	_____

IX. 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 .48–.53 of Part 1 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]

******

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)

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	

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)

[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

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 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]

******

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* footnote 18]

Standardized schedules

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

i. Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible? ____ ____ ____

ii. Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible? ____ ____ ____

iii. Schedule G, Part III—Nonexempt Transactions? ____ ____ ____
[AAG A.52*b* and 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 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 Tip

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

	Yes	No	N/A
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:			

		Yes	No	N/A
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*]	_____	_____	_____
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]	_____	_____	_____

	Yes	No	N/A
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]	____	____	____

[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
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]	____	____	____
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"?	____	____	____

	Yes	No	N/A
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]	___	___	___
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

(continued)

	Yes	No	N/A

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]

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.

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 pur-

(continued)

Yes *No* *N/A*

suant 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]

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]

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? _____ _____ _____

	Yes	No	N/A
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?	____	____	____
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?	____	____	____

[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
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]	____	____	____

Communicating Internal Control Related Matters Identified in an Audit

	Yes	No	N/A
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

	Yes	No	N/A
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 the application of the required provisions of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 965, *Plan Accounting—Health and Welfare Benefit Plans*, to the annual financial statements of the hypothetical health and welfare benefit (H&W) plan, *Allied Industries Health Care Benefit Plan*.

.02 Circumstances include the following:

- Allied Industries Health Care Benefit Plan is a single employer plan that displays the benefit obligation information in separate financial statements.
- The sponsor of the plan offers multiple individual health and welfare benefit programs that have been combined into a single plan using a wrapper plan document.
- The plan has assets in an underlying voluntary employees' beneficiary association (VEBA) trust.
- The plan is a defined benefit plan which incorporates a defined contribution health reimbursement arrangement.
- The plan pays some benefits directly from plan assets, and others are paid from the general assets of the employer.
- The plan obtains insurance for certain benefits and is self-insured for other benefits.
- It is assumed that the plan provides health benefits and life insurance coverage to both active and retired participants.
- The plan provides postemployment benefits in the form of long-term disability benefits and provides limited coverage during periods of unemployment.
- Retiree health benefits that are funded partially through a 401(h) account in the plan sponsor's defined benefit pension plan (paragraphs .11–.15).
- Retirees contribute a portion of the cost for their medical coverage.
- The plan records claims payments when paid by a third-party claims processor.
- Amounts due to claims processors that have not been reimbursed by the plan are recorded as a payable to claims administrators in the statements of net assets available for benefits.
- The plan recorded claims when submitted to the plan by the claims processor for reimbursement, and therefore the claims paid by the claims processor prior to year-end that were not reimbursed by the plan as of year-end are recorded as claims payable in the statement of benefit obligations.
- The plan does not have any level 3 investments and there were no significant transfers between level 1 and level 2 investments during the year ended December 31, 20X1.

The illustrative financial statements in this section were derived from the AICPA Audit and Accounting Guide *Employee Benefit Plans* (guide) as of January 1, 2013.

.03 The example does not illustrate other provisions of FASB ASC 965, as well as other FASB ASC topics that might apply in circumstances other than those assumed in this example. The formats and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations.

Fair Value Disclosures

.04 The information contained in the fair value disclosures is based upon information specific to this illustration for Allied Industries Health Care Benefit 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–E of the guide, and the illustrations in FASB ASC 820. Also see the table in paragraph .06.

Comparative Financial Statements and Supplemental Information

.05 The Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. ERISA and U.S. Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, which are not required under accounting principles generally accepted in the United States of America (GAAP), and are reported on by the independent auditor. See appendix A, "ERISA and Related Regulations" of the guide for further discussion of such ERISA and DOL requirements. These illustrative financial statements do not include example supplemental schedules.

Other Resources

.06 The illustrative financial statement contained in this checklist is only one example of how a H&W 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.

(continued)

Source	*Comments*
FASB ASC 820	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.

.07 In addition, the *Accounting Trends & Techniques, Employee Benefit Plans, 4th Edition*, 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]

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

- Defined benefit H&W plan (paragraph .09 of the checklist)
- Standard limited-scope audit report under DOL Regulations (paragraph .10 of the checklist)

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

- 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

.09 The following is an illustration of an auditor's report on the financial statements of a defined benefit H&W plan.

Circumstances include the following:

- *The report contains an unmodified opinion on the financial statements of a defined benefit H&W 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.*

(continued)

[1] Additional resources that contain actual plan financial statements include the Employee Retirement Income Security Act Filing Acceptance System II, or EFAST 2, located at www.dol.gov.

- *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*).*

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements[2]

We have audited the accompanying financial statements of Allied Industries Benefit Plan, which comprise the net assets available for benefits and of plan benefit obligations as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in benefit obligations for the year ended December 31, 20X2, and the related notes to the financial statements.[3]

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.[4] 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.

---

[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.

[3] For a defined contribution health and welfare benefit plan, this paragraph would be worded as follows: "We have audited the accompanying financial statements of Allied Industries Health Plan, that comprise the net assets available for benefits of Allied Industries Health Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements."

[4] 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.

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.

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 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 11.37]

.10 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 Title 29 U.S.* Code of Federal Regulations *(CFR) Part 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.

[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 checklist for discussion when reporting on the supplemental schedules when performing a full-scope audit.

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) [6] 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)[7] holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian)[8] 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)[9] 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),[10] have been audited by

---

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

[7] See footnote 6.

[8] See footnote 6.

[9] See footnote 6.

[10] See footnote 6.

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]

.11

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN
Allied Industries Health Care Benefit Plan
Statements of Net Assets Available for Benefits
December 31, 20X1 and 20X0

	20X1	*20X0*
Assets		
Investments, at fair value		
Short-term investment fund	$5,000,000	$4,000,000
Net assets held in defined benefit plan—restricted for 401(h) account	1,072,000	966,000
Receivables		
Participant contributions	125,000	100,000
Pharmacy rebate	60,000	50,000
Accrued interest	12,000	10,000
Total receivables	197,000	160,000
Premium stabilization reserve	350,000	400,000
Total assets	6,619,000	5,526,000
Liabilities		
Payable to claims administrators	250,000	240,000
Accrued expenses	25,000	25,000
Total liabilities	275,000	265,000
Net assets available for benefits	$6,344,000	$5,261,000

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

.12

Allied Industries Health Care Benefit Plan
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 20X1

	20X1
Additions:	
Contributions	
Employer	$15,000,000
Participants	3,000,000
Total contributions	18,000,000
Interest income	150,000
Net increase in 401(h) account	106,000
Total additions	18,256,000
Deductions	
Claims paid, net	16,723,000
Premiums paid	300,000
Administrative expenses	150,000
Total deductions	17,173,000
Net increase	1,083,000
Net assets available for benefits	
Beginning of year	5,261,000
End of year	$ 6,344,000

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

.13

Allied Industries Health Care Benefit Plan
Statements of Benefit Obligations
December 31, 20X1 and 20X0

	20X1	*20X0*
Amounts currently payable		
Claims payable and claims incurred but not reported	$2,700,000	$2,500,000
Premiums due to insurers	50,000	45,000
	2,750,000	2,545,000
Postemployment benefit obligations, net of amounts currently payable		
Death and disability benefits for inactive participants	350,000	400,000
COBRA benefits	50,000	45,000
	400,000	445,000
Postretirement benefit obligations, net of amounts currently payable		
Current retirees	2,000,000	1,900,000
Other participants fully eligible for benefits	4,000,000	3,600,000
Participants not yet fully eligible for benefits	5,000,000	4,165,000
	11,000,000	9,665,000
Total benefit obligations	$14,150,000	$12,655,000

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

.14

Allied Industries Health Care Benefit Plan
Statement of Changes in Benefit Obligations
Year Ended December 31, 20X1

	20X1
Amounts currently payable	
Balance at beginning of year	$ 2,545,000
Claims and premiums incurred, including claims and premiums reclassified from postemployment and postretirement benefit obligations	17,228,000
Claims and insurance premiums paid	(17,023,000)
Balance at end of year	2,750,000
Postemployment benefit obligations, net of amounts currently payable	
Balance at beginning of year	445,000
Claims incurred	40,000
Claims reclassified to amounts currently payable	(96,000)
Interest	1,000
Other actuarial gains and losses	10,000
Balance at end of year	400,000
Postretirement benefit obligations, net of amounts currently payable	
Balance at beginning of year	9,665,000
Benefits earned	1,150,000
Claims and premiums reclassified to amounts currently payable	(650,000)
Interest	750,000
Plan amendment	(175,000)
Changes in actuarial assumptions	150,000
Other actuarial gains and losses	110,000
Balance at end of year	11,000,000
Total benefit obligations at end of year	$ 14,150,000

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

.15

Allied Industries Health Care Benefit Plan
Notes to Financial Statements

A. Description of Plan

The following description of the Allied Industries (Company) Health Care Benefit Plan (Plan) provides only general information about the Plan's provisions. Participants should refer to the plan agreement for a complete description of the Plan's provisions, copies of which may be obtained from the Plan sponsor.

General. The Plan provides health and other benefits to eligible employees of the Company (with at least 1,000 hours of service each year) and covered dependents. Retired employees are entitled to medical benefits if they have attained at least age 62 and have at least 15 years of service with the Company.

Certain Plan assets are held in a VEBA trust. The Plan is subject to the provisions of ERISA, as amended.

Benefits. The Plan provides health benefits (medical, vision, dental, and prescription drugs), life insurance, short and long-term disability benefits, and accidental death and dismemberment benefits. Retired employees are entitled to similar health benefits (in excess of Medicare coverage). The Plan also provides continuation of certain benefits upon termination of employment through the Consolidated Omnibus Budget Reconciliation Act (COBRA).

Insured Benefits. The Plan offers one health maintenance organization that participants can choose. The Plan fully insures the life insurance benefits (basic, supplemental, and dependent), accidental death and disability benefits (basic, supplemental, and spousal), and long-term disability benefits. The Company purchases annual insurance contracts for these insured benefits. Premiums for basic life insurance and basic accidental death and dismemberment insurance programs are paid to the insurance company from the general assets of the Company. Premiums for all other insured benefits are paid from the assets of the VEBA trust.

Experience-rated Contracts. Certain insurance contracts are subject to experience-rating adjustments. Experience ratings (calculated as the difference between premiums paid and the total of claims paid and fees charged by the insurance company) are determined by the insurance company in the following year and may result in a premium surplus or deficit.

Stop Loss Coverage. The Plan has entered into a stop-loss insurance arrangement in an effort to limit its exposure for self-insured benefits (individual participant claims over a specific dollar amount, as well as its aggregate exposure for all claims).

Self-insured Benefits. All other Plan benefits are self-insured. The claims for self-insured benefits (other than short-term disability) are processed by the Plan's third-party claims processors under administrative services only arrangements. The claims processors pay claims directly to or on behalf of participants and are then reimbursed by either the Plan's VEBA trust, the 401(h) account (see "401(h) Account" section that follows) or the general assets of the Company. Despite the Plan's utilization of third-party claim's processors, ultimate responsibility for payments to providers and participants is retained by the Plan.

The Plan utilizes a pharmacy benefit manager (PBM) which periodically makes refunds to the Plan based on the Plan's actual utilization pattern of specific drugs.

The Plan has a health reimbursement arrangement (HRA) that is funded solely through Company contributions. The HRA allows eligible participants to be reimbursed tax free for qualified medical expenses subject to a specified ceiling. Amounts remaining at the end of the year can generally be carried over to the next year. The employer is not permitted to refund any part of the balance to the employee; the account cannot be used for anything other than reimbursements for qualified medical expenses; and remaining amounts are not portable upon termination once the employee leaves the employer.

401(h) Account. The Plan includes a health and welfare component, in addition to normal retirement benefits, to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the Allied Industries Defined Benefit Plan for the net assets related to the medical benefit component (the

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. The related obligations for health benefits are not included in the Allied Industries Defined Benefit Plan obligations, but are reported as obligations in the accompanying financial statements of the Plan.

Contributions. In addition to deductibles and copayments, participants contribute specified amounts based on applicable monthly premiums for their respective benefit elections. Participants pay the full cost of supplemental and dependent life insurance and supplemental accidental death and dismemberment insurance programs based on the current group rate premium cost. The Company pays the full cost of basic life insurance, basic accidental death and dismemberment insurance, and stop loss insurance. The costs of the postretirement benefit plan are shared by the Company and retirees. Retiree contribution rates are as follows:

Participants Retiring	*20X1 Retiree Contribution*	*20X0 Retiree Contribution*
(1) Pre-1995	(1) None	(1) None
(2) 1995–20X1	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits
(3) 20X1 and after	(3) Retirees pay 100% of estimated cost of providing their postretirement benefits	(3) Retirees pay 100% of estimated cost of providing their postretirement benefits

The Company makes contributions to the Plan as needed to fund claims in excess of participants' contributions. Any deficiency of the Plan's net assets over benefit obligations is funded by the Company on a pay-as-you-go basis.

B. Summary of Accounting Policies

1. *Basis of Accounting and Use of Estimates.* The accompanying financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

2. *Payment of Benefits.* Premiums paid by either the Company or the VEBA trust are recorded as premium payments in the accompanying statement of changes in net assets available for benefits.

   Claim payments are recorded when paid by the third-party claims processor. Amounts due to claims processors that have yet to be reimbursed by the Plan are recorded as payable to claims administrators in the accompanying statements of net assets available for benefits. Short-term disability payments are processed through the Company's payroll system and paid from the general assets of the Company. These payments are recorded as claims paid in the accompanying statement of changes in net assets available for benefits.

3. *Experience-rated Contracts.* For experience-rated contracts, premium surpluses are recorded as a receivable from the insurance company. To the extent that premium surpluses are attributable to premiums paid by the Company, a payable to the Company is also recorded for surplus amounts attributable to Company-paid coverage.

   If the insurance company requires payment of additional premiums due to a premium deficit, an obligation for the additional premiums is included in benefit obligations. If the deficit relates to Company-paid coverage, a receivable from the Company is also recorded. Periodically, a premium deficit is due related to participant-funded coverage, but the trust is unable to pay the entire amount. In this case, the Company pays the difference to the insurance company and a receivable from the Company is recorded.

4. *Premium Stabilization Reserve.* The Plan is required to maintain a premium stabilization reserve with an insurance company, which can be drawn against to reduce future premium payments when premiums paid to the insurance company exceed the total of claims paid and other charges. The premium stabilization reserve has been included as an asset of the Plan until such amounts are used to pay premiums. The reserve is nonforfeitable should the insurance contract terminate.
5. *Stop Loss.* Premiums for stop loss insurance are included in premium payments in the accompanying statement of changes in net assets available for benefits. Stop loss refunds totaling $XXX have been netted with claims paid in the accompanying statement of changes in net assets.
6. *Refunds.* Refunds dues from the Plan's PBM are recorded when earned. Refunds due as of the financial statement date have been reported as a receivable, with the offset being netted against claims paid. Pharmacy rebates totaling $225,000 have been netted with claims paid in the accompanying statement of changes in net assets available for benefits for the year ended December 31, 20X1.
7. *Medicare Subsidy.* The Plan's postretirement benefit obligation does not reflect an amount associated with the Medicare subsidy allowed under the Medicare Prescription Drug Improvement and Modernization Act of 2003 because the Plan is not directly entitled to the Medicare subsidy. The Company has included the effects of the Medicare subsidy in measuring its postretirement benefit obligation; therefore, the Plan's postretirement benefit obligation differs from that of the Company.
8. *Health Reimbursement Arrangement.* Included in the accompanying statements of net assets are amounts available to reimburse participants for qualifying medical expenses as of December 31, 20X1 and 20X0, totaling $48,000 and $41,000, respectively. Claims incurred before plan year-end that were submitted after year-end (but before the date defined by the plan agreement) totaled $40,000 and $37,000 relating to 20X1 and 20X0, respectively. Forfeited amounts were used by the Company to offset Company contributions in the year forfeited.
9. *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 Company's Treasury Group determines the Plan's valuation policies and procedures and reports to the Plan's Board of Trustees. See note F for discussion of fair value measurements.

   Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.
10. *Subsequent Events.* Management has evaluated subsequent events for the Plan through [*insert date*], the date the financial statements were available to be issued.

C. Postretirement and Postemployment Benefit Obligations

A postretirement benefit obligation has been recognized for retiree medical benefits for eligible participants and their dependents upon retirement. In addition, a postemployment benefit obligation has been recognized for health and welfare benefits for individuals currently on long-term disability or COBRA. These benefit obligations represent the actuarial present value of the cost of those estimated future benefits that are attributed by the terms of the Plan to employee service rendered to the date of the financial statements, reduced by the actuarial present value of contributions expected to be received in the future from current retirees of the Plan. The obligations represent the amounts that are expected to be funded by contributions from the Company and from existing assets of the Plan. Postretirement benefits include future benefits expected to be paid to or for (*a*) currently retired or terminated employees and their beneficiaries and dependents, and (*b*) active employees and their beneficiaries and dependents after retirement from service with the Company.

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

The obligation for COBRA benefits is estimated by an actuary based on the actual number of employees utilizing COBRA benefits as of the measurement date and claim payment history and includes an estimate for claims incurred by COBRA participants that have not been reported. Long-term disability obligations are estimated by an actuary based on reserve reports prepared from historical long-term disability benefits data.

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

The weighted-average health care cost trend rate assumption has a significant effect on the amounts reported as postretirement benefit obligations. If the assumed rates increased by 1 percentage point in each year, it would increase the obligation as of December 31, 20X1 and 20X0, by $2,600,000 and $2,500,000, respectively.

The following were other significant assumptions used to determine the postretirement and postemployment benefit obligations as of December 31, 20X1 and 20X0.

Weighted-average discount rate	8.0%—20X1; 8.25%—20X0
Average retirement age rates	Various rates ranging from 10% at age 62 to 100% at age 65
Mortality and disability	RP 2000 Mortality Table projected for five years and 1987 Commissioner's Group Long-Term Disability

In 20X1, the plan was amended to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 20X2. The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the benefit obligations.

D. Claims Incurred but not Reported

Plan obligations at December 31 for claims incurred but not reported are estimated by the Plan's actuary in accordance with accepted actuarial principles based on claims data provided by the Plan's third-party claims administrators. These amounts are paid by the Plan only if claims are submitted and approved for payment.

E. Certified Investments

[include note related to certified investments when plan administrator elects the limited scope audit engagement]

The plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA. Investments held at December 31, 20X1 and 20X0, and investment income for the year ended December 31, 20X1, including investment information related to the 401(h) account (see notes A and J), that is disclosed in the accompanying financial statements and supplemental schedules, was obtained or derived from information supplied to the plan administrator and certified as complete and accurate by the trustee of the Plan.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques 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 measured at fair value. There have been no changes in the methodologies used at December 31, 20X1 and 20X0.

> The short-term investment fund is a common trust fund and is valued at the net asset value (NAV) of units of the common trust fund. The NAV, as provided by the trustee, is used as a practical expedient to estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Plan transactions (issuances and redemptions) may occur daily. Were the Plan to initiate a full redemption of the common trust fund, the investment adviser reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner. The common trust fund is designed to protect capital with low-risk investments and includes cash, bank notes, corporate notes, government bills, and various short-term debt instruments.[11]

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

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
Short-term investment fund	$0	$5,000,000	$0	$5,000,000
Total assets at fair value	$0	$5,000,000	$0	$5,000,000

[11] The Financial Reporting Executive Committee believes that this disclosure may be shown in narrative or tabular format, as appropriate to the circumstances.

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
Short-term investment fund	$0	$4,000,000	$0	$4,000,000
Total assets at fair value	$0	$4,000,000	$0	$4,000,000

G. Administrative Expenses

The Plan pays administrative expenses that consist primarily of administrative fees paid to third-party claims administrators, the trustee, and actuary. These expenses are reported on the statement of changes in net assets available for benefits as administrative expenses. All other administrative expenses, such as professional fees, are paid by the Company on behalf of the Plan.

H. Tax Status

The VEBA trust funding certain benefits of the Plan received an exemption letter from the IRS dated September 15, 199X, stating that the trust is tax-exempt under the provisions of Section 501(c)9 of the IRC. However, as a result of the Plan's funding policy, from time to time the trust may be subject to income taxes. No federal or state income taxes have been recorded in 20X1 for unrelated business taxable income (UBTI).

In addition, the Plan and the trust are required to operate in conformity with the IRC to maintain the tax-exempt status of the trust. The plan administrator believes that the Plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the related trust is tax-exempt.

GAAP require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if it has taken an uncertain position that more likely than not would not be sustained upon examination by the [*identify the taxing authority*]. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 20XX.

Practice Tip

Although tax-exempt health and welfare benefit plans are not generally subject to taxation, certain activities of the plan may be taxable. A VEBA is subject to UBIT to the extent that assets exceed certain account limits for health, disability, life, supplemental unemployment, and severance benefits. Additionally, unrelated business taxable income (UBTI) of a tax-exempt entity is subject to taxation. For health and welfare benefit plans, UBTI may be generated from certain plan investment types (for example, nonleveraged investments, which may generate UBTI, include partnerships, real estate partnerships or other real estate trust that are not real estate investment trusts, loans or mortgages, and options to buy or sell securities, such as short sales or repurchase agreements).

If a plan has material unrelated business income tax expense, it should be presented separately on the statement of changes in net assets available for benefits.

I. Termination of the Plan

Although it has not expressed any intention to do so, the Company has the right under the Plan to modify the benefits provided to, and contributions required of, participants to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of termination of the Plan, remaining assets will be applied in a uniform and nondiscriminatory manner toward the provision of benefits for or on account of the participants. No assets of the Plan may revert to the Company or be used for purposes other than for the exclusive benefit of the Plan's participants.

J. 401(h) Account

A portion of the Plan's obligations are funded through contributions to the Allied Industries Defined Benefit Plan in accordance with IRC Section 401(h). The following table presents the components of the net assets available for such obligations and the related changes in net assets available.

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

	December 31,	
	20X1	*20X0*
Investments at fair value:		
U.S. government securities	$ 140,000	$ 150,000
Money market fund	900,000	800,000
	1,040,000	950,000
Cash	20,000	10,000
Employer's contribution receivable[12]	20,000	15,000
Accrued interest	7,000	6,000
Total assets	1,087,000	981,000
Accrued administrative expenses	(15,000)	(15,000)
Net assets available for benefits	$ 1,072,000	$ 966,000

Changes in Net Assets in 401(h) Account

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

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

U.S. government securities: Valued by a third-party pricing source that incorporates market observable data such as reported sales of similar securities, broker quotes and reference data.

Money market fund: Valued at the daily closing price as reported by the fund. The money market fund held in the 401(h) account is an open-end mutual funds that is registered with the Securities and Exchange Commission. This fund is required to publish its daily NAV and to transact at that price. The money market fund held by the 401(h) account is deemed to be actively traded.

Note: For purposes of this hypothetical illustration, the assets of 401(h) account are classified within level 1 and level 2 of the fair value hierarchy. Note that this is not representative of all 401(h) accounts. Accordingly, other 401(h) accounts may hold assets that are also classified within levels 2 and 3 of the fair value hierarchy. Presentation in the notes to the financial statements should be made accordingly.

[12] A receivable from the employer must meet the requirements of Financial Accounting Standards Board *Accounting Standards Codification* 960-310-25-2.

The following table sets forth by level, within the fair value hierarchy, the assets held in the 401(h) account at fair value as of December 31, 20X1 and 20X0:

	Assets at Fair Value as of December 31, 20X1			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$—	$140,000	$—	$140,000
Money market fund	900,000	—	—	$900,000
Total assets at fair value	$900,000	140,000	—	$1,040,000

	Assets at Fair Value as of December 31, 20X0			
	Level 1	*Level 2*	*Level 3*	*Total*
U.S. government securities	$—	$150,000	$—	$150,000
Money market fund	800,000	—	—	$800,000
Total assets at fair value	$800,000	$150,000	—	$950,000

K. Reconciliation of Financial Statements to Form 5500

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

	December 31,	
	20X1	*20X0*
Net assets available for benefits per the financial statements	$6,344,000	$5,261,000
Net assets held in defined benefit plan restricted for 401(h) account	(1,072,000)	(966,000)
Benefit obligations currently payable	(2,750,000)	(2,545,000)
Net assets available for benefits per the Form 5500	$2,522,000	$1,750,000

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

	Year ended December 31, 20X1
Claims paid per the financial statements	$16,723,000
Add: Amounts currently payable at December 31, 20X1	2,700,000
Less: Amounts currently payable at December 31, 20X0	(2,500,000)
Claims paid per the Form 5500	$16,923,000

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

	Year ended December 31, 20X1
Premiums paid per the financial statements	$300,000
Add: Amounts currently payable at December 31, 20X1	50,000
Less: Amounts currently payable at December 31, 20X0	(45,000)
Premiums paid per the Form 5500	$305,000

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

	Year ended December 31, 20X1
Total additions per the financial statements	$18,256,000
Less: Net increase in 401(h) account	(106,000)
Total additions per the Form 5500	$18,150,000

Claims and premiums that have been processed and approved for payment at year-end, but not paid and claims incurred but not reported are not considered liabilities under GAAP and, therefore, are not presented as liabilities or claims and premiums paid in the accompanying financial statements, but are recorded on the Form 5500 as a liability.

The net assets and related activity of the 401(h) account included in the financial statements are not included in the Form 5500 because the assets are held by the Allied Industries Defined Benefit Plan.

L. Related-Party Transactions

Certain Plan assets were invested in a common trust fund managed by the custodian of the Plan. As described in notes A and G, the Plan has several arrangements with service providers. These transactions are party in interest transaction under ERISA.

M. Risks and Uncertainties

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

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

AICPA Online Professional Library

AICPA Online Professional Library is your source for the latest guidance, information, and standards on a variety of accounting & auditing, industry-specific, and practice management topics provided Through this online subscription you'll get:

- Robust search engine — helps you narrow down your research to find your results quickly
- Links between titles — no need to search for the related information, references are fully linked for quick access and answers
- Quick Find — separates the literature by document type or subject matter so you can quickly locate a specific standard or other guidance
- Timely updates — new standards and conforming changes are added to keep you current with all of the authoritative guidance

AICPA Premium A&A Research Collection includes the following:

- AICPA Professional Standards
- AICPA Technical Practice Aids
- PCAOB Standards & Related Rules
- All of the guidance contained in AICPA Guides and Audit Risk Alerts
- Audit Risk Assessment Tool
- U.S. GAAP Financial Statements — Best Practices in Presentation and Disclosure
- IFRS Financial Statements—Best Practices in Presentation and Disclosure
- AICPA Audit & Accounting Manual
- All current Checklists and Illustrative Financial Statements

You can also add the FASB *Accounting Standards Codification*™ and the GASB Library

Premium A&A Research Collection and FASB *Accounting Standards Codification*™ and GASB Library, one-year individual online subscription
No. WGL-BY

Premium A&A Research Collection and FASB *Accounting Standards Codification*™, one-year individual online subscription
No. WFL-BY

Premium A&A Research Collection, one-year individual online subscription
No. WAL-BY

AICPA online professional library offers a range of online subscription options – log onto **www.cpa2biz.com/library** for details.

CPExpress, the AICPA's comprehensive bundle of enhanced online continuing professional education courses for CPAs, offers you immediate access to more than 900 of one and two-credit hour courses (1200+ total hours) that allow you to select the specific topic you need when you need it for just-in-time learning. You can choose from a full spectrum of subject areas and knowledge levels.

How can CPExpress help you?

- Start and finish most CPE courses in as little as 1 to 2 hours with 24/7 access so you can fit CPE into a busy schedule
- Quickly brush up or get a brief overview on hundreds of topics when you need it
- Create and customize your personal online course catalog for quick access with hot topics at your fingertips
- Print CPE certificates on demand to document your training – never miss a CPE reporting deadline!
- Receive free Quarterly updates – Tax, Accounting & Auditing, SEC, Governmental and Not-For-Profit

With CPExpress, your learning options are virtually unlimited.

In short, CPExpress is the ideal solution for busy accountants, CFOs, controllers, managers and other accounting professionals, who need a quick, convenient, and affordable way to access online CPE.

CPExpress One Year Online Subscription
Product# BYT-XX

Health and Welfare Benefit Plans

ISBN 978-1-93735-265-3

9 781937 352653

ACKHWP13P

AICPA American Institute of CPAs®

aicpa.org | cpa2biz.com