# Appendix C

## *Illustrations of Financial Statements: Defined Contribution Retirement Plans*

**Note**

This guide has been updated to include the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB) whose provisions are not yet effective:

- FASB ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*
- FASB ASU No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient*. (Plans may early adopt any of the three parts of this ASU individually, without early adopting the other parts but once a part is adopted it must be done so in its entirety.)

Based on feedback from various sources, AICPA staff believe that many plans will want to adopt FASB ASU No. 2015-07 and FASB ASU No. 2015-12 early and therefore the financial statements have been updated to reflect these standards.

**For plans who are not early adopting these ASUs, the AICPA is continuing to offer the 2015 edition of the AICPA Audit & Accounting Guide, *Employee Benefit Plans* as a resource for users following the requirements prior to the effective date of these ASUs.**

See the section “Select Recent Developments” in the Preface of this guide for further discussion about these ASUs and their effective dates.

**C.01** This appendix illustrates applications of certain provisions of FASB *Accounting Standards Codification* (ASC) 962, *Plan Accounting—Defined Contribution Pension Plans*, to the annual financial statements of the hypothetical defined contribution retirement plan, XYZ Company 401(k) Plan.

**C.02** Circumstances include the following:

*a*. XYZ Company 401(k) plan is a single employer, defined contribution retirement plan.

*b*. The auditor of these financial statements was engaged to perform a full-scope audit and therefore these financial statements do not include additional illustrative disclosures that might be applicable for a DOL limited-scope audit relating to certified investment information (see paragraph C.08).

*c*. The financial statements are prepared using GAAP as promulgated by FASB.

*d*. The plan holds participant-directed and nonparticipant-directed investments.

*e*. The matching company contribution is invested directly in XYZ Company stock.

*f*. Participants may borrow from their fund accounts. These participant loans are classified as notes receivable from participants on the statement of net assets available for benefits.

*g*. The plan holds a traditional fully benefit-responsive investment contract that is measured at contract value.

**Note**

"Pending Content" in FASB ASC 962-325-55-17 includes example financial statements for a defined contribution pension plan that has adopted FASB ASU No. 2015-07 and FASB ASU No. 2015-12. The example illustrates a plan that holds traditional and synthetic fully benefit-responsive investment contracts, a stable value collective trust fund and self-directed brokerage accounts.

*h*. There were no significant transfers between level 1 and level 2 investments during the year ended December 31, 20X1.

*i*. Neither the plan nor its plan sponsor is an SEC registrant or filer.

**C.03** In the initial year of adoption for FASB ASU No. 2015-07, and FASB ASU No. 2015-12 the disclosures required by FASB ASC 250, *Accounting Changes and Error Corrections*, relating to a newly issued Codification update would need to be included. Such disclosures have not been illustrated in this example.

**C.04** The example does not illustrate other provisions of FASB ASC 962 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 the accompanying notes are only illustrative and are not necessarily the only possible presentations.

## Fair Value Disclosures

**C.05** The fair value disclosures illustrated 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 these illustrations are the only appropriate methodologies for these types of assets. As stated in FASB ASC 820-10-35-6A, 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 hierarchy level for each type of investment security based upon the plan's portfolio and actual fair valuation techniques used. "Pending Content" in FASB ASC 962-325-50-1 states that defined contribution pension plans are exempt from the requirements in FASB ASC 820-10-50-2B(a) to disaggregate assets by nature, characteristic, and risks. The disclosures of information by classes of assets required by FASB ASC 820-10-50 should be provided by general type of plan assets consistent with "Pending Content" in FASB ASC 962-325-45-5.

**Note**

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 general type of investment held.

The use of valuation techniques may differ by entity, but all valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs in estimating an exit price in the current market. For illustrations of fair value disclosures for various types of financial instruments, it is recommended that users consult the illustrative financial statements within appendixes C, D, E, and F of this guide, and the illustrations in FASB ASC 820. Also see the table in paragraph C.11 for other resources.

## Comparative Financial Statements and Supplemental Information

**C.06** Although generally accepted accounting principles do not require comparative financial statements, the Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the requirements of ERISA.

**C.07** ERISA and Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, and reported on by the independent auditor; this information is not required under generally accepted accounting principles. See appendix A, "ERISA and Related Regulations," of this guide for a further discussion of the ERISA and DOL requirements. These illustrative financial statements do not include example supplemental schedules.

## Limited-Scope Audit—Disclosure of Certification

**C.08** As discussed in paragraphs 2.22–.26 of this guide, the plan administrator may elect to restrict the audit with respect to assets held and transactions executed by certain qualifying institutions, 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 following is an illustration of a disclosure that would generally be included in the notes to the financial statements, when the limited-scope audit exemption is elected. Such disclosure would be modified for the specifics of the plan and the certification received.

**M. Certified Investments**

Certain information related to investments and notes receivable from participants disclosed in the accompanying financial statements and supplemental schedule, including investments and notes receivable from participants held at December 31, 20X1 and 20X0, and net appreciation in fair value of investments, interest and dividends for the year ended December 31, 20X1, was obtained or derived from information supplied to the plan administrator and certified as complete and accurate by DEF Trust Company (the trustee of the Plan).

## 403(b) Plans

**C.09** 403(b) plans are considered a type of defined contribution plan. Therefore, the financial statements and disclosures would be similar to those described in this appendix. However, it is important to consider which disclosures may need to be modified or added. For example, the general description of the plan, eligibility requirements, funding, and tax status (see paragraph C.10 for illustrative tax status note) should reflect the requirements of the 403(b) plan document. Additional or modified disclosures of the accounting policies surrounding the accounting treatment of certain contracts may also be necessary.

**C.10** Currently the IRS has no plans to implement a tax determination letter program for individually designed 403(b) plans. The only program currently available is the opinion letter program on pre-approved plans. (See Revenue Procedure 2013-12). The tax exempt status of a 403(b) plan is different from that of a 401(k) plan because the tax exempt status of a 403(b) plan relates to an exclusion from income for the participant rather than an exemption of tax for the plan. The following is an example of a tax status disclosure for an individually designed 403(b) plan:

> *The Plan has been designed to qualify under Section 403(b) of the Internal Revenue Code (Code). The terms of the Plan have been prepared to conform with the sample language provided by the Internal Revenue Service (IRS) in Revenue Procedure 2007-71 [or the draft Listing of Required Modifications issued April 4, 2009]. The Plan is required to operate in conformity with the Code to maintain the tax-exempt status for plan participants under Section 403(b).*

## Other Resources

**C.11** The following table contains other sources of investment related illustrations and disclosures that may provide additional guidance.

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

**C.12** In addition, *Employee Benefit Plans—Best Practices in Presentation and Disclosure* (formerly known as *Accounting Trends & Techniques—Employee Benefit Plans, 5th Edition*) is intended to provide preparers and auditors of employee benefit plan financial statements with a compilation of illustrative financial statements disclosures based on actual examples. [fn 1]

## I. Illustrative Financial Statements and Disclosures of a Defined Contribution Retirement Plan With Participant-Directed and Nonparticipant-Directed Investment Programs

### Exhibit C-1

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

| | *December 31,* | |
|---|---|---|
| | *20X1* | *20X0* |
| *Assets*: | | |
| Investments at fair value (See notes C and D) | $7,377,000 | $6,995,000 |
| Investment at contract value (See note E) | 1,500,000 | 650,000 |
| Receivables: | | |
| Employer contribution | 14,000 | 10,000 |
| Participant contributions | 52,000 | 50,000 |
| Notes receivable from participants | 300,000 | 350,000 |
| Total receivables | 366,000 | 410,000 |
| Total assets | 9,243,000 | 8,055,000 |
| *Liabilities:* | | |
| Accrued expenses | 10,000 | 20,000 |
| Excess contributions payable | 15,000 | — |
| Total liabilities | 25,000 | 20,000 |

[fn 1] Additional resources that contain actual plan financial statements include EFAST2 located at www.dol.gov.

| | | |
|---|---|---|
| Net assets available for benefits | $9,218,000 | $8,035,000 |

See accompanying notes to the financial statements.

**Exhibit C-2**

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

| | *Year Ended December 31, 20X1* |
|---|---|
| Additions: | |
| Investment income: | |
| Net appreciation in fair value of investments | $ 279,000 |
| Interest | 369,000 |
| Dividends | 165,000 |
| | 813,000 |
| Interest income on notes receivable from participants | 20,000 |
| Contributions: | |
| Employer (see note A) | 599,000 |
| Participants | 800,000 |
| Rollovers (see note F) | 200,000 |
| | 1,599,000 |
| Total additions | 2,432,000 |
| Deductions: | |
| Benefits paid to participants | 526,000 |
| Administrative expenses | 10,000 |
| Total deductions | 536,000 |
| Net increase | 1,896,000 |

| | *Year Ended December 31, 20X1* |
|---|---|
| Transfer to GHI plan (see note A) | 713,000 |
| Net assets available for benefits: | |
| Beginning of year | 8,035,000 |
| End of year | $9,218,000 |

See accompanying notes to the financial statements.

**Exhibit C-3**

## XYZ Company 401(k) Plan
## Notes to Financial Statements

### *A. Description of Plan*

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

1. *General.* The Plan is a defined contribution plan covering all full-time employees of the Company and its wholly owned subsidiaries who have one year of service and are age 21 or older. The Plan is subject to the provisions of ERISA. In November 20X1 the Company sold its wholly owned subsidiary Sub Company. As a result of its sale, on December 1, 20X1, the accounts of all Sub Company employees were transferred out of the Plan to GHI Plan (an existing plan controlled by the acquiring company). The Board of Trustees is responsible for oversight of the Plan. The Investment Committee determines the appropriateness of the Plan's investment offerings, monitors investment performance and reports to the Plan's Board of Trustees.

2. *Contributions*. Each year, participants may contribute up to XX percent of pretax annual compensation, as defined in the Plan. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans (rollover). Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan includes an auto-enrollment provision whereby all newly eligible employees are automatically enrolled in the Plan unless they affirmatively elect not to participate in the Plan. Automatically enrolled participants have their deferral rate set at 2 percent of eligible compensation and their contributions invested in a designated balanced fund until changed by the participant. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. The matching Company contribution is invested directly in XYZ Company common stock. Additional profit sharing amounts may be contributed at the option of the Company's board of directors and are invested in a portfolio of investments as directed by the Company. During the year ended December 31, 20X1 the Com-

pany made a $450,000 profit sharing contribution to the Plan. Contributions are subject to certain Internal Revenue Service (IRS) limitations.

3. *Participant accounts*. Each participant's account is credited with the participant's contributions and Company matching contributions, as well as allocations of the Company's profit sharing contribution and Plan earnings. Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

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

5. *Notes receivable from participants.* Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50 percent of their vested account balance. The loans are secured by the balance in the participant's account. The loan interest rate, determined quarterly, is set at 2 percent above the prime rate, as defined. Principal and interest is paid ratably through monthly payroll deductions.

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

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

### *B. Summary of Accounting Policies*

*Basis of Accounting*

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

*Use of Estimates*

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

*Investment Valuation and Income Recognition*

Investments are reported at fair value (except for the fully benefit-responsive investment contract, which is reported at contract value). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by the investment advisers, custodians and insurance company. See note C for discussion of fair value measurements.

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

*Notes receivable from participants*

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 20X1 or 20X0.

*Excess Contributions Payable*

Amounts payable to participants for contributions in excess of amounts allowed by the IRS are recorded as a liability with a corresponding reduction to contributions. The Plan distributed the 20X1 excess contributions to the applicable participants prior to March 15, 20X2.

*Payment of Benefits*

Benefits are recorded when paid.

*Expenses*

Certain expenses of maintaining the Plan are paid by the Plan, unless otherwise paid by the Company. Expenses that are paid by the Company are excluded from these financial statements. Fees related to the administration of notes receivable from participants are charged directly to the participant's account and are included in administrative expenses. Investment related expenses are included in net appreciation of fair value of investments.

*Subsequent Events*

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

## *C. 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 under FASB ASC 820 are described as follows:

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

The asset 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.

*Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.

*Corporate bonds*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

*Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

*U.S. government securities*: Valued using pricing models maximizing the use of observable inputs for similar securities.

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* |
| Mutual funds | $5,884,500 | — | — | $5,884,500 |
| Common stocks | 960,000 | — | — | 960,000 |
| | — | | — | |
| Corporate bonds | --- | 307,500 | — | 307,500 |
| U.S. government securities | | 225,000 | — | 225,000 |
| | — | — | | |
| Investments at fair value | $6,844,500 | $532,500 | — | $7,377,000 |

| | *Assets at Fair Value as of December 31, 20X0* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| Mutual funds | $5,750,000 | — | — | $5,750,000 |
| Common stocks | 870,000 | — | — | 870,000 |
| | — | | — | |
| Corporate bonds | --- | 255,000 | — | 255,000 |
| U.S. government securities | | 120,000 | — | 120,000 |
| | — | — | | |
| Investments at fair value | $6,620,000 | $375,000 | — | $6,995,000 |

### *D. Nonparticipant-Directed Investments*

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

| | *December 31,* | |
|---|---|---|
| | *20X1* | *20X0* |
| Net Assets: | | |
| Mutual funds | $2,262,500 | $2,000,000 |

| | | |
|---|---|---|
| Common stocks | 960,000 | 870,000 |
| Corporate bonds | 307,500 | 255,000 |
| U.S. government securities | 225,000 | 120,000 |
| | $3,755,000 | $3,245,000 |

| | *Year Ended December 31, 20X1* |
|---|---|
| Changes in Net Assets: | |
| Contributions | $ 599,000 |
| Dividends | 165,000 |
| Net appreciation | 60,000 |
| Benefits paid to participants | (280,000) |
| Transfers to participant-directed investments | (34,000) |
| | $ 510,000 |

## *E. Group Annuity Contract With National Insurance Company*

In 20X0, the Plan entered into a traditional fully benefit-responsive guaranteed investment contract with National Insurance Company (National) totaling $1,500,000 for 20X1 and $650,000 for 20X0. National maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The guaranteed investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan. The crediting rate is based on a formula established by the contract issuer but may not be less than 4 percent. The crediting rate is reviewed on a quarterly basis for resetting. The guaranteed investment contract does not permit the insurance company to terminate the agreement prior to the scheduled maturity date.

This contract meets the fully benefit-responsive investment contract criteria and therefore is reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value, as reported to the Plan by National, represents contributions made under the contract, plus earnings, less participant withdrawals, and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

The Plan's ability to receive amounts due is dependent on the issuer's ability to meet its financial obligations. The issuer's ability to meet its contractual obligations may be affected by future economic and regulatory developments.

Certain events might limit the ability of the Plan to transact at contract value with the issuer. Such events include (1) amendments to the Plan documents (including complete or partial Plan termination or merger with another plan), (2) changes to the Plan's prohibition on competing investment options or deletion of equity wash provisions, (3) bankruptcy of the Plan sponsor or other Plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that cause a significant withdrawal from the Plan, or (4) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA (5) premature termination of the contract. No events are probable of occurring that might limit the ability of the Plan to transact at contract value with the contract issuers and that also would limit the ability of the plan to transact at contract value with the participants.

In addition, certain events allow the issuer to terminate the contract with the Plan and settle at an amount different from contract value.  Such events include (1) an uncured violation of the Plan's investment guidelines, (2)  a breach of material obligation under the contract, (3) a material misrepresentation, (4) a material amendment to the agreement without the consent of the issuer.

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### *F. Rollovers Contributions*

On January 20, 20X1, XYZ Company acquired ABC Company and approved an amendment to terminate the ABC 401(k) Plan effective November 1, 20X1. All participants in the ABC 401(k) Plan became 100 percent vested in that plan upon termination and were provided the option to have their account balance rolled into any qualified plan (including the Plan) or IRA, receive a lump sum distribution, or be paid through an annuity contract. An aggregate of $XXX,000 was rolled into the Plan during the year ended December 31, 20X1, and is included in rollovers on the statement of changes in net assets available for benefits.

### *G. Related-Party Transactions and Party In Interest Transactions*

Certain Plan investments are managed by Prosperity Investments. Prosperity Investments is the trustee and recordkeeper for the Plan and, therefore, these transactions qualify as party in interest transactions.

Effective January 1, 20X1, Prosperity Investments provides certain administrative services to the Plan pursuant to a Master Plan Services Agreement (MSA) between the Company and Prosperity Investments. Prosperity Investments receives revenue from mutual fund service providers for services Prosperity Investments provides to the funds. This revenue is used to offset certain amounts owed to Prosperity Investments for its administrative services to the Plan.

If the revenue received by Prosperity Investments from such mutual fund service providers exceeds the amount owed under the MSA, Prosperity Investments remits the excess to the Plan's trust on a quarterly basis. Such amounts may be applied to pay Plan administrative expenses or allocated to the accounts of the participants. During 20X1 there were no excess amounts. The Plan or Plan Sponsor may make a payment to Prosperity Investments for administrative expenses not covered by revenue sharing.

### *H. Plan Termination*

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

### *I. Tax Status*

The IRS has determined and informed the Company by a letter dated August 30, 20XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the IRC and, therefore, believe that the Plan is qualified, and the related trust is tax-exempt.

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

### *J. Risks and Uncertainties*

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

### *K. Reconciliation of Financial Statements to Form 5500*

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

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

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

| | |
|---|---|
| Benefits paid to participants per the financial statements | $526,000 |
| Add: Amounts allocated to withdrawing participants at December 31, 20X1 | 50,000 |
| Less: Amounts allocated to withdrawing participants at December 31, 20X0 | (35,000) |
| Benefits paid to participants per Form 5500 | $541,000 |

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