Working Draft of Chapter X and Appendixes X, Y, and Z

Multiemployer Benefit Plans* and *Illustrations of Financial Statements: Multiemployer Defined Benefit Pension Plans, Multiemployer Health and Welfare Benefit Plans, and Multiemployer Apprenticeship Plans

For Inclusion in the AICPA Audit and Accounting Guide *Employee Benefit Plans*

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Comments should be received by November 6, 2018, and sent by electronic mail to Di Krupica at di.krupica@aicpa-cima.com, or you can send them by mail to Di Krupica, Product Management & Development, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

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Preface

This working draft of the chapter "Multiemployer Benefit Plans" and the appendixes "Illustrations of Financial Statements: Multiemployer Defined Benefit Pension Plans", "Illustrations of Financial Statements: Multiemployer Health and Welfare Benefit Plans", and "Illustrations of Financial Statements: Multiemployer Apprenticeship Plans" for inclusion in the AICPA Audit and Accounting Guide *Employee Benefit Plans* (EBP guide) has been developed by the AICPA Multiemployer Plans Task Force to assist preparers of multiemployer plan (ME plan) financial statements in preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and to assist auditors in auditing and reporting on such financial statements in accordance with generally accepted auditing standards.

Please note that the ME plan-specific auditing guidance for the ME plan chapter is not included in this working draft. Also, the placement of this chapter and the illustrative financial statements in the EBP guide will be determined at a later date and, therefore, the chapter is denoted as chapter X and the illustrative financial statements as appendixes X, Y, and Z as temporary numbering.

The Financial Reporting Executive Committee (FinREC) is the designated senior committee of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting. The financial accounting and reporting guidance contained in this chapter has been approved by the affirmative vote of at least two-thirds of the members of FinREC. However, the views and opinions expressed by FinREC are not authoritative sources of U.S. GAAP. The FASB *Accounting Standards Codification*™ is the authoritative source of U.S. accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC, and is discussed subsequently.

The purpose of the working draft is to solicit comments from preparers, auditors, and users of ME plan financial statements and other interested parties. FinREC invites comments on all matters in the proposed chapter and appendixes. In their comments, respondents should refer to specific paragraph numbers and include reasons for any suggestions or comments.

Comments should be received by November 6, 2018, and sent by electronic mail to Di Krupica at di.krupica@aicpa-cima.com, or you can send them by mail to Di Krupica, Product Management & Development, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

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Chapter X

Multiemployer Benefit Plans

Introduction and Background

Note:

Many of the accounting, reporting, and auditing considerations applicable to a multiemployer plan (ME plan) are the same as those presented for a single employer defined contribution retirement plan (DC plan), a single employer defined benefit pension plan (DB plan), or a single employer health and welfare benefit plan (H&W plan). This chapter highlights areas more prominent and unique to ME plans and does not include multiple employer retirement plans (MEPs) or multiple employer welfare arrangements (MEWAs). Chapters 5, 6, and 7 of this guide provide accounting and auditing guidance for the underlying plan type and for expanded guidance on certain topics (also, see paragraph X.05). In addition, see appendix A, "Regulation, Administration, and Operation of a Multiemployer Plan," of this chapter and the illustrative financial statements in the appendixes of this guide.

X.01 The Employee Retirement Income Security Act of 1974 (ERISA) defines the term *multiemployer plan* as a collectively bargained plan maintained by more than one employer, usually within the same or related industries, and a labor union. In addition to being defined under ERISA, ME plans are defined under the provisions of the Labor-Management Relations Act of 1947, which is commonly known as the Taft-Hartley Act. These plans are often referred to as *Taft-Hartley plans*.

X.02 The Taft-Hartley Act, among other things, requires the following:

a. Plan assets be held in trust for the purpose of paying benefits exclusively for eligible participants and their beneficiaries.

b. The detailed basis on which such payments are to be made to the trust is specified in a written agreement with the employer.

c. Establishment of a joint board of trustees with equal representation from labor (employees) and management (employers).

d. That pension funds cannot be used for any purpose other than paying pensions or annuities (for example, cannot be commingled with H&W funds).

e. An annual financial statement audit.

Note:

The Taft-Hartley Act requires an annual financial statement audit regardless of any U.S. Department of Labor (DOL) exemption or waiver, for example, those plans with under 100 eligible participants or apprenticeship plans that receive an exemption from the DOL.

X.03 ME plans are established pursuant to a collective bargaining agreement (CBA) between an employer or a group of employers and a labor union to provide benefits for eligible employees. In relation to the plan, a

CBA is generally the agreement that dictates the amount or rate of contributions that will be made to the plan from the contributing employers as well as when the contributions are due to the plan. In some cases, in lieu of a CBA, an employer can sign a participation agreement allowing contributions to the plan. ME plans are also governed by a trust agreement that contains provisions regarding powers of the board of trustees as well as detailing the methods of receipt, disbursement, and investment of funds in the plan. Most ME plans also have a plan document that have similar vesting, benefits, accrual, and minimum participation rules to that of a single employer plan.

Note: *Eligibility* refers to the conditions an employee must satisfy to participate in a plan or obtain a benefit. In an ME plan, an employee obtains eligibility when an employer makes the first contribution to the plan on the employee's behalf.

Multiple Employer Plans (MEPs and MEWAs)

X.04 An MEP is a plan that is maintained by more than one employer but not treated as an ME plan. MEPs and MEWAs are generally not collectively bargained and are intended to allow participating employers to pool their assets for investment purposes and to reduce the costs of plan administration. Unlike an ME plan, an MEP or MEWA typically maintains separate accounts for each of the adopting employers so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees. This chapter does not include MEPs or MEWAs. For additional guidance on such plans, see chapters 5, 6, and 7 of this guide.

Types of ME Plans

X.05 ME plans include DB plans, DC plans, and H&W (both DB and DC) plans. For additional information on these types of plans, see chapters 5, 6, and 7, respectively. In addition to the more common H&W plans, ME plans also include apprenticeship plans and other training plans, which are classified by the DOL and the IRS as H&W plans.

X.06 Apprenticeship plans are a unique form of multiemployer H&W plans that are established under a trust agreement and a CBA. Apprenticeship plans are considered welfare "programs" that provide training, education, and skills that employees need for a specific trade. Generally, the benefits in an apprenticeship plan do not vest or accumulate, are not allocated to an individual participant, and are not attributable to services already rendered; rather, benefits are for training of all participants in the program. The "benefits" provided by apprenticeship plans typically include, but are not limited to, classroom instruction and workshops and may include the following program expenses, for example, instructor salaries, textbooks, training materials and supplies, tests, contests, and graduation ceremonies. Apprenticeship plans are subject to Title I of ERISA and, as such, are required to comply with ERISA and related DOL rules and regulations. However, an apprenticeship plan can receive an exemption from the DOL that excludes such plans from the reporting and disclosure requirements of ERISA including the filing of the annual Form 5500. Because these plans are established under the Taft-Hartley Act, an annual audit of the financial statements would still be required. For additional guidance on apprenticeship plans, see paragraph A-13 of appendix A of this chapter.

Note:

Code of Federal Regulations, *Labor*, Title 29, Section 2520.104-22 of the DOL Rules and Regulations for Reporting and Disclosure under ERISA provides a limited exemption from reporting and disclosure requirements for plans that provide only apprenticeship training benefits, other training benefits, or a combi-

nation of both. As previously discussed, such plans are exempt from annual reporting (Form 5500) and disclosures (for example, Summary Plan Description, Summary of Material Modification, or Summary Annual Report requirements of Part 1 of Title I of ERISA), although they remain subject to general fiduciary obligations. To obtain the exemption from filing the Form 5500, the administrator of the plan must have done the following

a. Filed a notice ("waiver") with the DOL

b. Taken steps reasonably designed to ensure that the information required to be contained in such notice is disclosed to employees of employers contributing to the plan who may be eligible to enroll in any course of study sponsored or established by the plan

c. Made such notice available to such employees upon request

Once the waiver is obtained, the notice must be updated for any changes, as applicable.

Administration and Operation of an ME Plan

X.07 It is important to understand the roles and responsibilities of those charged with governance as well as what has been delegated to key parties that are involved in the operation and administration of the various types of ME plans. An understanding of these roles and responsibilities can be obtained from the plan document, CBA, trust agreement, service agreements, insurance contracts, internal policies and procedures manuals, as well as ERISA and IRS regulations. The key parties involved in employee benefit plans are listed in paragraphs 5.06, 6.05, and 7.12. The key parties unique to ME plans may include the following:

Plan

a. Board of trustees

b. Labor union

c. Employers' association

d. Audit and collections department (includes internal payroll compliance audits)

e. Administrative service entity (affiliated entity)

Service Providers

a. Payroll compliance auditor (for employers' payroll)

b. Third-party administrative manager

Note:

In practice, many ME plan board of trustees form a separate administrative service entity, such as a 501(c)(3) not-for profit entity, or hire an outside organization to act as a plan's administrative manager to perform the

day-to-day operations of the plan or for a specific purpose. These functions include general administration, contribution processing, claims administration, claims and benefit processing, eligibility determination, recordkeeping and reporting, and financial accounting matters including expense payments, financial statement preparation, or payroll auditing. The board of trustees retains the authority over all discretionary matters and decisions and the creation of plan policies.

X.08 See appendix A of this chapter for a detailed description of the key plan provisions, roles and responsibilities, and reports and records for an ME plan. The responsibilities relating to investments are discussed in chapter 8, "Investments," of this guide.

X.09 ERISA requires the plan administrator to maintain plan records in sufficient detail to permit benefits to be properly calculated and paid when due (see appendix A, "ERISA and Related Regulations," of this guide). The accounting records that form the foundation for the preparation of the plan's financial statements will vary in complexity depending on the type of plan, the decentralization of operations, complexity of plan provisions, and delegation of administrative functions.

X.10 Plan records may be prepared and maintained by the plan administrator or by service organizations such as investment trustees, insurance companies, consulting actuaries, service bureaus, and third-party administrators. Although the plan administrator has ultimate responsibility for maintaining the plan's records, during the audit of the plan, it is important to understand the roles and duties of all parties involved in the plan's administration, as well as the accounting records that each party prepares or maintains. The terms of these services and record retention requirements, as well as the accounting records that each party maintains, are usually documented in a service agreement that is entered into between the plan and the service organization. Additionally, in ME plans, a joint board of trustees is involved in the oversight of the plan.

Accounting, Reporting, and Auditing Multiemployer Plans

X.11 This chapter describes accounting principles generally accepted in the United States of America as promulgated by FASB (U.S. GAAP) for accounting and financial reporting for multiemployer DB plans as set forth in FASB *Accounting Standards Codification*® (ASC) 960, *Plan Accounting—Defined Benefit Pension Plans*; for multiemployer DC plans as set forth in FASB ASC 962, *Plan Accounting—Defined Contribution Pension Plans*; and for multiemployer H&W plans as set forth in FASB ASC 965, *Plan Accounting, Health and Welfare Benefit Plans*. Other FASB ASC topics may also apply to ME plans. FASB ASC contains all authoritative U.S. GAAP. This chapter also provides guidance that has been supported by the Financial Reporting Executive Committee (FinREC) on the accounting, reporting, or disclosure treatment of transactions or events that is not set forth in FASB ASC and describes related auditing procedures and guidance for ME plans. The auditing guidance may be found under the section "Auditing Considerations for Multiemployer Plans."

X.12 This chapter does not address the preparation of financial statements prepared in accordance with a special purpose framework, which is a cash, tax, regulatory, or contractual basis of accounting (cash, tax, and regulatory basis of accounting are commonly referred to as *other comprehensive basis of accounting*); however, the plan's financial statements may be prepared on the cash basis or modified cash basis, as permitted by the DOL regulations, as long as the departure from GAAP is disclosed.

X.13 AU-C section 700, *Forming an Opinion and Reporting on Financial Statement*,[fn 1] requires the auditor to evaluate whether the financial statements achieve fair presentation. In an audit of special purpose financial statements, when the special purpose financial statements contain items that are the same as or similar to, those in financial statements prepared in accordance with U.S. GAAP, the auditor should evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation. For example, these disclosures may include matters about related party transactions, restrictions on assets, subsequent events, and significant uncertainties. In such circumstances, the special purpose financial statements would include the same disclosure required by GAAP or disclosure that communicates the substance of those requirements. Disclosures in special purpose financial statements may substitute qualitative information for some of the quantitative information required by GAAP or may provide information that communicates the substance of those requirements. [fn 2]

X.14 If the plan's financial statements are prepared on the cash or modified cash basis of accounting, disclosure of the plan's benefit obligation information would be considered necessary for the financial statements to achieve fair presentation. In addition, the plan administrator might consider not disclosing or qualitatively disclosing information regarding accumulated plan benefits (such as the amount of the plan's estimated accumulated plan benefits or accumulated benefit obligations, as applicable, and the amount of accumulated benefit obligations by type, for example, claims payable, incurred but not reported (IBNR) claims, accumulated eligibility credits, and postretirement benefit obligations). Normally, the plan would be unable to properly communicate the substance of these disclosures without providing the disclosures quantitatively. It may be acceptable to condense some of the quantitative disclosures (for example, to disclose the total amount currently payable to or for participants, beneficiaries, and dependents without breaking out how much relates to health claims payable versus death and disability benefits payable). AU-C section 700 requires the auditor to form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. This includes the appropriateness of the financial statement presentation or appropriateness or adequacy of disclosures in the financial statements. See AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, to determine the effect on the auditor's report if the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

Financial Statements

X.15 In accordance with FASB ASC 960-205-10-1, 962-10-10-1, 965-205-10-1, and 965-205-10-2 the primary objective of a plan's financial statements is to provide financial information that is useful in assessing the plan's present and future ability to pay benefits and obligations when they are due. In that regard, both of the following are recognized:

[fn 1] All AU-C sections can be found in AICPA *Professional Standards.*

[fn 2] See paragraphs .17 and .A21–. A22 of AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.

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

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

X.16 In accordance with FASB ASC 960-205-10-3, 965-205-10-1, and 965-205-10-2, to accomplish its primary objective, a plan's financial statements should provide information about all of the following: (*a*) plan resources and how the stewardship responsibility for those resources has been discharged, (*b*) the accumulated plan benefits of the participants and benefit obligations, (*c*) the results of transactions and events that affect the information regarding those resources, benefits, and obligations, and (*d*) other factors necessary for users to understand the information provided.

X.17 The financial statements of an ME plan prepared in accordance with U.S. GAAP should be prepared on the accrual basis of accounting and, in accordance with FASB ASC 960-205-45-1, 962-205-45-1, and paragraphs 1 and 3 of FASB ASC 965-205-45 should include the following, as applicable:

For All Types of ME Plans

a. A statement that includes information regarding the net assets available for benefits as of the end of the plan year. (ERISA requires that this statement be presented in comparative form.)

b. A statement that includes information regarding the changes during the year in net assets available for benefits. (See paragraph X.25 for guidance on providing a statement of cash flows.)

Note: Appendix C, "Illustrations of Financial Statements: Defined Contribution Retirement Plans," of this guide provides illustrative financial statements for single employer DC plans, which are, in most cases, similar to a multiemployer DC plan. Unique ME disclosures can be found in the other ME plans illustrative financial statements included in this guide.

For Multiemployer DB Plans (in addition to *a* and *b*)

c. Information regarding the actuarial present value of accumulated plan benefits as of either the beginning or end of the plan year. (Financial information presented as of the beginning of the year should be the amounts as of the end of the preceding year.)

d. Information regarding the effects, if significant, of certain factors affecting the year-to-year change in actuarial present value of accumulated plan benefits.

Note: Information regarding the actuarial present value of accumulated plan benefits and changes therein, however, may be presented in the financial statements or in the notes. Appendix X, "Illustrations of Financial Statements: Multiemployer Defined Benefit Pension Plans," of this guide provides illustrative financial statements for an ME defined benefit plan.

For Multiemployer Defined Benefit H&W Plans (and Apprenticeship Plans, if Applicable) (in addition to *a* and *b*)

e. Information regarding the plan's benefit obligations as of the end of the plan year.

f. Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations.

Note: In accordance with 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 the financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligation 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. Appendix Y, "Illustrations of Financial Statements: Multiemployer Health & Welfare Benefit Plans," of this guide provides illustrative financial statements for an ME defined benefit H&W plan.

For DC plans, 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.

Apprenticeship plans are a type of welfare plan as defined by FASB ASC 965-10-20.

When an apprenticeship plan files with the DOL, the format of the financial statements would generally be presented in the same format as other H&W benefit plans, for example, the statements of net assets available for benefits would be comparative and a statement of benefit obligations and changes in benefit obligations may or may not be applicable. Appendix Z, "Illustrations of Financial Statements: Multiemployer Apprenticeship Plans," of this guide provides illustrative financial statements for an ME apprenticeship plan.

X.18 As described in paragraph 6.79, the actuarial present value of accumulated plan benefits for a multiemployer DB plan may be presented in the financial statements as of the beginning of the plan year or as of the end of the plan year. See paragraph 6.15 for a table summarizing the minimum financial statement presentation requirements when the plan uses a beginning of the year benefit information date versus the end of the year benefit information date.

Net Assets Available for Benefits

X.19 In accordance with FASB ASC 962-205-45-2 and 965-20-45-1, the statement of net assets available for benefits of the plan should present amounts for all of the following:

a. Total assets

b. Total liabilities

c. Net assets available for benefits

Participant Allocations in Multiemployer DC Plans

X.20 The net assets available for benefits for multiemployer DC plans are normally allocated to individual participant accounts according to procedures set forth in the plan document. Unlike single employers, where a 401(k) plan is the most prevalent type of DC plan, multiemployer DC plans are more likely to be profit sharing plans or money purchase pension plans (commonly referred to as *annuity plans*).

X.21 Multiemployer DC plans can include employer contributions only, participant contributions only, or a combination of both. Many ME profit sharing plans or money purchase plans generally only allow employer contributions while 401(k) plans permit participant contributions and participant loans. Transactions can be executed by the plan participant at varying frequencies depending upon the plan's provisions. ME plans often transact less frequently than daily. Therefore, the determination of the value of plan assets on the dates throughout the year in which the plan permits transactions is important. When an investment in a multiemployer DC plan is valued using significant unobservable inputs, periodic valuation is more difficult. Failure to value plan assets properly on the date of a participant-directed transaction or an employer transaction can result in such transactions being executed at inappropriate amounts and consequently result in a misstatement of plan assets and related activity.

Cash Balances

X.22 Noninterest-bearing cash balances of ME plans typically represent residual amounts not otherwise invested and are not classified as an investment but are typically shown as a separate line item on the financial statements. Often, noninterest-bearing cash balances consist of amounts which are held in a suspense account or a clearing account until disposition of the funds is determined or completed such as for distribution payments or payment of administrative expenses.

X.23 Interest-bearing cash is often maintained for liquidity for benefit payments or other plan transactions. In accordance with paragraphs 5.16, 6.18, and 7.35, FinREC recommends that investments in short-term, highly liquid investments, such as interest-bearing cash, be included as an investment rather than a cash equivalent. The current Form 5500 requires interest-bearing cash to be reported as an investment on Schedule H, line 4i—Schedule of Assets (Held at End of Year).

X.24 ME plans may have significant amounts of cash on deposit at financial institutions which exceeds the current standard deposit insurance coverage limit of $250,000 per depositor. The FDIC has specific rules regarding employee benefit plan accounts whereby any deposits for an employee benefit plan in an insured depository institution are insured on a "pass-through" basis for the noncontingent interest of each plan participant in a DB or DC plan, but this rule does not apply to H&W plans. Therefore, in accordance with FASB ASC 275-10-50-16, disclosure of the credit risk for demand deposits in a multiemployer H&W plan with a financial institution that exceeds the insurance limits of $250,000 should be disclosed.

X.25 According to FASB ASC 230-10-15-4, a statement of cash flows is not required to be provided by a multiemployer DB plan that presents financial information in accordance with the provisions of FASB ASC 960. Other employee benefit plans that present financial information similar to that required by FASB ASC 960 (including the presentation of plan investments at fair value) also are not required to include a statement of cash flows. Employee benefit plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid or obtains financing for investments).

X.26 A definition of a cash equivalent need not be disclosed as required by FASB ASC 230-10-45-6 when a cash flow statement is not presented.

Investments

X.27 Typically, ME plans hold a wide array of investments similar to other types of employee benefit plans. Due to the nature of a multiemployer H&W plan or an apprenticeship plan, these plans may only hold cash

and short-term investments, such as interest-bearing cash, money market accounts, repurchase agreements, and other short-term investments.

X.28 Many ME plans make use of the services of a third-party administrator who contracts to be responsible for plan administration. Although third-party administrators are not normally considered fiduciaries under ERISA, there may be circumstances in which they perform such procedures as processing of investment transactions relating to trading and accruals of investment income, investment income collection, and periodic reconciliation procedures over account balances.

X.29 According to paragraphs 1–2 of FASB ASC 960-325-35, 962-325-35-1, and 965-325-35-1, plan investments should be presented at their fair value at the reporting date. (See paragraphs 5.39–.45 and 7.40 for special provisions concerning the valuation of fully benefit-responsive investment contracts for DC plans and H&W plans, and paragraphs 6.29 and 7.45 for special provisions concerning the valuation of insurance contracts for DB plans and H&W plans.) If significant, the fair value of an investment should be reduced by brokerage commissions and other costs normally incurred in a sale (similar to fair value less cost to sell). The FASB ASC glossary defines *fair value of plan investments* as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

X.30 FASB ASC 960-325-35-4, 962-325-35-1B, and 965-345-35-2A states that if a plan's fiscal year-end does not coincide with a month-end, the plan may measure investments and investment-related accounts (for example, a liability for a pending trade with a broker) using the month-end that is closest to the plan's fiscal year-end. That election should be applied consistently from year to year.

X.31 Plan investments should be measured by quoted prices in an active market when available. Although U.S. GAAP does not require disclosure of original cost of investments in the financial statements, original cost of investments is required to be disclosed in the Form 5500, Schedule H, line 4i—Schedule of Assets (Held at End of Year) unless the investments are participant directed, and line 4j—Schedule of Reportable Transactions. See chapter 11, "The Auditor's Report," of this guide for an illustration of when the auditor modifies the report on supplemental schedules because the original cost of investments is omitted from the supplemental schedules. (The accounting for assets used in plan operations is discussed in paragraph X.71.)

> **Note:** Readers of this chapter should refer to chapter 8 of this guide, "Investments," for an in-depth discussion of investments and fair value measurements. Also, see the "Investments" section of chapters 5, 6, and 7 of this guide.

X.32 Some of the more common investment types or methods of holding investments for a specific plan type are discussed in the following chapters:

a. For DC plans, see paragraphs 5.24–.48

b. For DB plans, see paragraphs 6.25–.47

c. For H&W plans, see paragraphs 7.42–.53

d. For overall investment discussion, see paragraphs 8.39–.84

X.33 ME plans, based on their nature, size, and complexity, may invest in real property consisting of buildings that are leased or operating entities such as a hotel. Unlike most single employer plans which invest in real estate funds or limited partnerships, ME plans often invest in the actual land, buildings, and improvements

and are responsible for the leasing, operation, and maintenance of the property. Buildings owned and operated by ME plans may be intended to achieve different goals for the plan, sometimes simultaneously, during the holding period, such as lowering operating costs, generating rental income, providing operational efficiencies, and creating a long-term investment. The investment aspect of a building or operating entity may allow a plan to support funding targets and create opportunities to leverage the investment if appropriate. As such, valuation of real property or business entities held for investment that meets the definition in FASB ASC 820, *Fair Value Measurement*, should be reported at fair value.

X.34 Generally, real property in ME plans is held for the reasons stated previously, but also may be held for a dual-purpose (for example, held for both investment purposes and for use in operations). For example, a building may be partially leased by the plan for administrative purposes, to other related plans, the union, a contributing employer, or a third-party tenant. The predominant use of a dual-purpose asset is a key factor in determining if an investment objective exists or if it is an asset used in operations. See paragraphs X.73–.74 for further guidance regarding dual-purpose assets.

Presentation of Plan Investments

X.35 In accordance with FASB ASC 960-325-45-1 and 965-325-45-1, information regarding the plan's investments that are measured using fair value should indicate whether reported fair values have been measured by quoted prices in an active market or are fair values otherwise determined (paragraphs X.132–.144 include additional disclosures related to investments). In accordance with FASB ASC 960-325-45-2, 962-325-45-5, and 965-325-45-2, investments measured using fair value in the statement of net assets available for benefits or in the notes should be presented by general type, such as (*a*) registered investment companies (for example, mutual funds), (*b*) government securities, (*c*) common collective trusts (DB and DC plan guidance only), (*d*) pooled separate accounts (DB and DC guidance only), (*e*) short-term securities, (*f*) corporate bonds, (*g*) common stocks, (*h*) mortgages, (*i*) real estate, and (*j*) self-directed brokerage accounts (that is, an investment option that allows participants to select investments outside the plan's core options) (DC plan guidance only). For the presentation of fully benefit-responsive investment contracts, which are measured at contract value, FASB ASC 962-325-45-5 refers to guidance in FASB ASC 962-325-35-5A and 962-325-50-3; FASB ASC 965-325-45-2 refers to guidance in FASB ASC 965-325-35-8 and 965-325-50-2.

X.36 Ownership of investment assets, such as real estate or operating entities, by the ME plan may take different forms, such as direct ownership by the plan itself, or by a separate legal entity such as a wholly owned subsidiary, a single member limited liability company, or a 501(c)(2) not-for-profit real estate holding corporation, or a partnership or joint venture. In some cases, debt or other commitments may be associated with the investment. (See paragraphs X.83–.84 for the accounting related to debt obligations and other commitments.)

X.37 When the plan owns and operates a business, for example rental property, a hotel, a golf course, or some other business operation, the plan records the investment at fair value in the statement of net assets available for benefits and the changes in the fair value are included in net appreciation or depreciation of investments in the statement of changes in net assets available for benefits. FinREC recommends that rental or operating activity be presented net with investment income or loss in the statement of changes in net assets available for benefits but separate from net appreciation or depreciation of investments and that the gross income and expenses be disclosed in the notes to the financial statements.

X.38 When the investment is held in a separate legal entity, the transactions do not flow through the plan's financial statements because the activity is not consolidated but recorded at fair value in accordance with FASB ASC 820 with appropriate disclosures (for example, valuation, debt obligations, or other commitments).

X.39 If the building or operating entity is later sold, it is not considered a discontinued operation in accordance with FASB ASC 205-20 because the plan's financial statements do not present a statement of operations or activities. Therefore, distinguishing between continuing and discontinued operations is not applicable.

Securities Lending

X.40 Accounting for securities lending activities in ME plans is the same as for a single employer plan; therefore, see paragraphs 6.38–.45 for further guidance.

Participant Loans (Notes Receivable from Participants)

X.41 DC plans typically allow participants to borrow against their vested account balance. Such loans to participants are an extension of credit to a plan participant by the plan in accordance with the plan document or the plan's written loan policy. The loan is secured by the participant's vested account balance. Unlike single employer plans, where repayment of the loan is generally made from payroll deductions, in a multiemployer DC plan, repayment is often made directly by the participant to the plan. In addition, when participants change employers or become unemployed, they are often allowed to continue to make loan payments pursuant to the plan document. For additional guidance, see paragraphs 5.49–.51.

X.42 For reporting purposes and in accordance with FASB ASC 962-310-45-2, participant loans should be classified as notes receivable from participants. Loans to participants should be measured at their unpaid principal balance plus any accrued but unpaid interest in accordance with FASB ASC 962-310-35-2. Participant loans are to be included on the supplemental Schedule H, line 4i—Schedule of Assets (Held at End of Year), and recorded as an investment on Schedule H. According to FASB ASC 962-310-50-1, the fair value disclosures prescribed in paragraphs 10–16 of FASB ASC 825-10-50 are not required for participant loans.

Contributions and Contributions Receivable

Note: Many of the accounting considerations for contributions applicable to ME plans are the same as those for single employer DC, DB, or H&W plans. This section highlights areas unique to ME plans. Users of this chapter should also refer to the "Contributions and Contributions Receivable" sections in chapters 5, 6, and 7 of this guide for further guidance, as applicable.

X.43 Although the most common source of contributions made to an ME plan is participating employer contributions, contributions may be received from different sources, depending on the type of the plan. For example:

- Multiemployer DB plans typically only receive participating employer contributions, although there are a few plans that require a minimum employee contribution in order to participate in the plan.
- Multiemployer DC plans commonly receive participating employer contributions as well as employee contributions. Employee contributions may be discretionary or mandatory depending on the provisions of the CBA.
- Multiemployer H&W plans may be structured as defined contribution H&W or defined benefit H&W plans and include similar contribution sources as the plans listed previously as well as other types of participant (self-pay) contributions (for example, contributions remitted by inactive or unemployed participants, retirees or for COBRA).

- Apprenticeship plans typically only receive participating employer contributions. However, it is not uncommon for an apprenticeship plan to receive other contributions in the form of donated equipment, materials, or tools.

X.44 In many ME plans, the contribution rate is stated in the CBA or a participation agreement and is set at a fixed dollar amount (for example, dollars and cents) per hour of covered employment. For example, some CBAs state that contributions will be paid based on hours worked rather than hours paid (such as, when an employee may still get paid while on vacation but not be required to contribute during that pay period). Other CBAs state that contributions will be made based on gross wages paid or based on units (for example, sheets of drywall installed or miles driven). The collective bargaining parties typically determine the contribution rates during periodic negotiations taking into consideration the amounts necessary to fund benefits and to pay expenses. These contribution rates are typically changed annually.

X.45 Employers who participate in more than one plan may either remit their contributions in one lump sum covering all plans or separately for each plan. Generally, the CBA and related documents specify the allocation of funds between multiple plans for accounting purposes and which plan maintains the cash clearing account for such remittances. Often the plan holding the cash has a payable to the other plans until such amounts are appropriately transferred. For additional guidance regarding the allocation of funds, see appendix A of this chapter.

X.46 According to the FASB ASC glossary, contributions receivable are the amounts due, as of the date of the financial statements to the plan from participating employers, participants, and other sources of funding (for example, state subsidies, federal grants), each of which should be separately identified as required by FASB ASC 960-310-25-1, 962-310-45-1, and 965-310-45-1. Amounts due to the plan include those pursuant to formal commitments as well as legal or contractual requirements. With respect to ME plans, evidence of a formal commitment is typically found in the CBA or participation agreement. Participating employers often have a fixed number of days after month end to remit their contribution to the plan.

X.47 In accordance with FASB ASC 960-310-25-3, 962-310-35-1, and 965-310-35-1, an adequate allowance should be provided for estimated uncollectible amounts. Additionally, for a multiemployer DB plan the Form 5500, Schedule MB, *Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information*, may provide useful information in determining the contribution receivable at year-end. Form 5500 reporting for contributions may differ from U.S. GAAP. Differences between the amounts on Form 5500, Schedule H, *Financial Information,* and the financial statement amounts relating to contributions receivable should be disclosed as a reconciling item in the notes to the financial statements.

X.48 It is often difficult to determine the amount of contributions receivable at year-end in an ME plan without considering events occurring after year end. This is due to the number of participating employers involved as well as the nature of the industry and the workforce. For example, there may be a timing issue in notifying the plan administrator when a major infrastructure project comes to an end and the employer ceases operations in a particular location which causes covered employment under the CBA to end. In another scenario, an employer may be performing covered work in another geographic area with employees covered under a reciprocal agreement. An estimate is typically made of contributions receivable at year-end, and an allowance is established for uncollectible employer contributions. The estimate also takes into consideration

amounts due from underpayments found during routine payroll audits,[fn 3] stipulation, or settlement agreements and other payment schedules in place for delinquent or underreported contributions.

X.49 The board of trustees often establishes a written collection and delinquency policy including procedures to determine the criteria for when a contribution is considered delinquent. The plan administrator implements the collection policy and reports delinquencies and collection actions to the trustees. The board of trustees typically deals with collections in trustee meetings or can delegate that responsibility to a subcommittee, which is often called the "collection committee." The board of trustees or this committee, based on facts and circumstances, determines when to pursue delinquencies, when a write off is appropriate, and whether to assess additional fees such as an interest charge on deficiencies, payroll audit fees, legal fees, and liquidated damages.

X.50 Amounts due to the ME plan for interest on late deposits and unremitted employee contributions may result in additional receivables and disclosure of prohibited transactions similar to a single employer plan. Participating employers in an ME plan are not exempt from the requirements to remit employee contributions timely. For more information, refer to the DOL Field Assistance Bulletin (FAB) 2003-2, *Application of Participant Contribution Requirements in Multiemployer Defined Contribution Pension Plans.*

Note: In accordance with DOL FAB 2003-2, as is the case with single employer plans, if an ME plan maintains a reasonable process for the expeditious and cost-effective receipt of contributions, this process may be taken into account in determining when participant contributions can reasonably be segregated from the employer's general assets. To the extent that the CBA, for example, describes such a process, then the CBA should be considered in determining when participant contributions become plan assets.

Funded Status

X.51 The Pension Protection Act (PPA) has affected many aspects of plan design, administration, and funding for multiemployer DB plans. For DB plans, the PPA focuses on the funded percentage as the trigger point to activate additional funding requirements and benefit limitations. These rules are very complex, and this chapter does not address those complexities. Rather, it provides an overview of the key features.

X.52 Minimum funding requirements are established based on the ME plan's funded status. A significant requirement of the PPA, as amended, [fn 4] is for ME plans to have an annual certification prepared by the plan's actuary and filed with the IRS no later than 90 days after the beginning of each plan year, that helps to define the financial health of the plan (zone status). The benchmark measures of critical and critical and declining (red zone), seriously endangered (orange zone), endangered (yellow zone), and neither critical nor endangered (green zone) were standardized to help the board of trustees recognize plan funding deficiencies and establish long term solutions. See paragraph A-19 of appendix A of this chapter for further guidance.

X.53 In the first year that a plan is certified to be in endangered, critical, or critical and declining status, the plan administrator generally has a 240-day period from the required date of the certification to adopt a funding improvement plan (in the case of a plan that is in endangered status) or a rehabilitation plan (in the case

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[fn 3] Multiemployer (ME) plans routinely have an audit of the participating employer's payroll. See appendix A of this chapter.

[fn 4] The Pension Protection Act (PPA) has been further clarified and amended by the Multiemployer Pension Reform Act of 2014.

of a plan that is in critical and declining status). Funding improvement and rehabilitation plans generally require contribution increases, reductions in future benefit accruals, or a combination of both to meet specified benchmarks for reducing the amount of underfunding by the end of the funding improvement or rehabilitation period.

X.54 Each year the actuary certifies (*a*) whether or not the plan is in endangered status for the plan year, whether or not the plan is or will be in critical status for such plan year or for any of the succeeding five plan years, and whether or not the plan is or will be in critical and declining status for such plan year, and (*b*) in the case of a plan that is in a funding improvement or rehabilitation period, whether or not the plan is making the scheduled progress in meeting the requirements of its funding improvement or rehabilitation plan.

X.55 In accordance with FASB ASC 960-205-10-1, disclosure of the plan's most recent funded ("zone") status, when such status is critical or endangered, may be necessary to assess the plan's present and future ability to pay benefits. Additionally, FASB 960-205-50-1 requires plans to make disclosures in their financial statements whether the minimum funding requirements have been met. FinREC recommends that the financial statements include a disclosure when the plan has been certified to be in critical or endangered status because of the funding deficiencies as well as a summary of the key provisions of a funding improvement or rehabilitation plan that has been adopted by the plan's board of trustees.

Note: FASB ASC 715-80 requires disclosures regarding the funded status of ME plans in the employer's financial statements.

Rollover Contributions

X.56 Accounting for rollover contributions in ME plans is similar to that of a DC plan; therefore, see paragraphs 5.57–.58 for further guidance.

Other Contributions—Donations

X.57 Apprenticeship plans may receive donations or contributions for materials, equipment, or tools used for training from third parties or participating employers. Under, FASB ASC 845-10-30-1, these donations would be considered nonreciprocal transfers and should be recorded at the fair value of the asset received. In addition, the valuation method should be disclosed in the notes to the financial statements. If a contribution under FASB ASC 965-20-30 is a noncash contribution, it should be recorded at fair value at the date of the contribution. The recording as a fixed asset or expense would depend on the future use of the donated asset and would be subject to the plan's capitalization policy. Proper tracking of materials, equipment, and tools in an apprenticeship plan is an important fiduciary responsibility to ensure all ERISA assets are used for their intended purpose.

Other Receivables

X.58 ME plans may have other receivables, including those associated with contractual relationships. Other receivables may include the following:

For All Types of ME Plans

a. Investment related receivables, such as the following:

  i. Interest and dividend income
  ii. Securities lending income
  iii. Amounts due from brokers for securities sold
  iv. Derivative-related activity (for example, receivable for variation margin and foreign currency forward contracts)

b. Fee reimbursements (from participating employers and service providers)

c. Amounts due from related entities for shared administrative expenses

d. Amounts due from other plans under reciprocity agreements (See paragraphs X.59–.61.)

e. Amounts due from participating employers or others relating to operational defects

f. Reimbursement for nonexempt transactions or lost income

g. Legal settlements including liquidated damages

For Multiemployer DB Plans (in addition to *a–g*)

h. Withdrawal liability receivable (See paragraph X.66.)

For Multiemployer H&W Plans (in addition to *a–g*)

i. Prescription drug rebate programs

j. Refunds (for example, duplicate claims or favorable experience-rated insurance contract adjustments)

k. Government subsidies

l. Recoveries (for example, receivable from subrogation, spousal coverage, automobile insurance)

For Apprenticeship Plans (in addition to *a–g*)

m. Grants receivable

n. Tuition and course reimbursements

o. Subsidies from affiliated entities to provide programs

Reciprocity (Reciprocal) Payments

X.59 ME plan participants often move from one employer to another within the same industry or move from one location to another. As a result, ME plans enter into reciprocity agreements with other ME plans when participants perform work with another employer or outside the defined geographic area. There are two types of reciprocity agreements, money-follows-the-employee reciprocity and pro rata reciprocity. Under the money-follows-the-employee reciprocity agreement, the employer contributions related to employees who work outside of their home area are sent back to the plan covering the area in which the employee

lives. Alternatively, for a pro rata reciprocity agreement, workers working outside their home area may receive vesting credit for years of service worked on projects within the jurisdiction of another plan. This is required to aggregate the participant's service credits or hours worked when working under more than one CBA. The benefit earned by an employee performing work in multiple jurisdictions may be shared by those plans having reciprocity agreements on a pro rata basis. The terms of reciprocity agreements, as well as the amounts paid or received from year to year, can vary considerably.

X.60 When a plan enters into a money-follows-the-employee reciprocity agreement, the amounts received or receivable from other employers under such reciprocal agreements are considered contributions, whereas the amounts paid to other plans under reciprocal agreements are a reduction of employer contributions received because the contribution "follows the employee" and is due to the other plan under the agreement. When applicable, amounts receivable from other plans should include an allowance for estimated uncollectible amounts in accordance with FASB ASC 960-310-25-3, 962-310-35-1, and 965-310-35-1.

X.61 FinREC recommends that the following be presented or disclosed in the ME plan's financial statements relating to reciprocity agreements:

a. For the plan receiving reciprocal contributions:

i. Amounts receivable from other plans be either included with employer contributions receivable or shown separately as "amounts due under reciprocal agreements" in the statement of net assets available for benefits
ii. Amounts received from other plans under such agreements be shown either as employer contributions or shown separately as "reciprocal contributions" in the statement of changes in net assets available for benefits

b. For the plan paying reciprocal amounts:

i. Amounts payable to other plans under such agreements be shown as "amounts due other plans under reciprocal agreements" in the statement of net assets available for benefits and not netted with contributions receivable
ii. Amounts paid to other plans under such agreements are not reflected in the statement of changes in net assets available for benefits as the amounts paid out are not an expense of the plan

c. The existence of such reciprocity agreements, the general terms, and disclosure of any amounts that are included with employer contributions receivable or employer contributions received when the amounts of such payments are not shown separately in the statement of net assets available for benefits or statement of changes in net assets available for benefits

Refunds or Rebates

X.62 When a rebate or refund from service providers is contractually due to the plan, in accordance with paragraph 7.64, FinREC recommends that such rebates or refunds be recorded as plan assets if collection is probable and the amount can be reasonably estimated. If the amount cannot be reasonably estimated, such amounts should be recorded when received with appropriate disclosure. If the associated benefit has been paid, rebates and refunds should be recorded as an offset to benefit payments or premium payments, as applicable, with appropriate disclosure.

Government Subsidies

X.63 In multiemployer H&W plans, certain benefits may qualify for subsidies from a government agency. According to FASB ASC 960-310-25-1, each subsidy should be separately evaluated. If the subsidy is legally due the plan, the recording of a receivable may be appropriate. The primary objective of the financial statements of a multiemployer 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. See paragraphs X.127–.128 for further guidance relating to the Medicare Prescription Drug Subsidy.

Withdrawal Liability Receivable

X.64 A multiemployer DB plan may also have a receivable for a withdrawing employer's share of the plan's unfunded vested liability (for benefits). This receivable is the result of an employer withdrawing from participation in a multiemployer DB plan. The employer is generally liable to the multiemployer DB plan for its share of the unfunded vested liabilities in an amount determined under the Multiemployer Pension Plan Amendment Act of 1980. There are many exceptions regarding which industries this applies to, how it is calculated, and how it is collected. (See appendix A of this chapter for further guidance.)

X.65 An employer's withdrawal liability is based on its allocated share of the plan's unfunded vested benefits. The amount will depend on the date or dates that the plan's assets and liabilities are valued, the actuarial assumptions and methods used to value the assets and benefits, and the allocation method chosen by the plan. Generally, there are a number of special relief provisions such as a de minimis reduction, a 20-year payment cap, a credit for a prior partial withdrawal, and a limitation on liability. The employer generally must begin paying its withdrawal liability within 60 days after receiving a demand for payment from the plan. This liability is payable quarterly, unless the plan adopts another payment period. (See appendix A for further guidance.)

X.66 FASB ASC 960-310-25-3A states that an ME plan may also have a receivable for a withdrawing employer's share of the plan's unfunded liability. The plan should record a receivable, net of any allowance for an amount deemed uncollectible, when entitlement has been determined in the statement of net assets available for benefits. The withdrawal liability income is generally shown as a separate line item in the statement of changes in net assets available for benefits. Because there are many exceptions and variations regarding how such an assessment is calculated, FinREC recommends that the notes to the financial statements include

- a general description of the assessed withdrawal liability,
- the assessed amount,
- the number of employers with assessed withdrawal liabilities,
- the number of employers that were assessed a withdrawal liability during the current period,
- the general terms and conditions of payment, and
- the allowance for doubtful accounts, even if the likelihood of collection is remote.

X.67 Often, an ME plan assesses a withdrawal liability for an employer and determines that there is little likelihood that the amounts due to the plan will ever be collected. This determination is often based on the employer's bankruptcy or total cessation of operations or that the employer cannot be located. In those in-

stances, the plan should establish a receivable for the assessed withdrawal amount which has been appropriately discounted and an allowance for the same amount. In those rare instances where collections are then received on this fully reserved amount, the plan would recognize income in the year of collection.

Deposits With and Receivables from Insurance Companies and Other Service Providers in Multiemployer H&W Plans

X.68 Accounting for deposits with and receivables from insurance companies and other service providers in a multiemployer H&W plan is similar to that of a single employer H&W plan; therefore, see paragraphs 7.66–.70 for further guidance.

Forfeitures in Multiemployer DC Plans

X.69 Upon termination of employment, a participant may not be fully vested in the employer's contributions that have been allocated to his or her account. The forfeited nonvested portion of the participant's account remains as a plan asset (either in the participant's account or in a suspense account). The forfeitures account may only be used or allocated in accordance with the plan document. Generally, forfeitures are used to reduce future employer contributions, pay plan administrative expenses, or reallocated to participant accounts. Due to the nature of ME plans, forfeitures are not offset against future employer contributions but are generally used to pay administrative expenses. In accordance with paragraph 5.60, FinREC recommends that forfeitures not be shown separately on the face of the financial statements but rather be combined in the appropriate investment classification. For additional guidance, see paragraphs 5.61–.62.

Operating Assets

X.70 ME plans, unlike most single employer plans, may have assets used in operations that are recorded on the books of the plan. Assets used by plans in their operations generally include buildings and land, equipment, furniture and fixtures, vehicles, and leasehold improvements (as a tenant or owner). One of the unique aspects of ME plans is that they typically require a place to operate and, therefore, are more likely to buy or lease real estate for use in their operations. Often, such property is owned in a separate legal entity for liability purposes, and such an entity would be consolidated into the plan's financial statements with appropriate disclosures (See paragraph X.132*v*.)

X.71 In accordance with FASB ASC 960-360-35-1, 962-205-45-5, and 965-360-35-1, plan assets used in operations should be presented at cost less accumulated depreciation or amortization. This contrasts with the Form 5500 reporting rule that requires all plan assets to be reported at fair value. Resulting differences should be presented in a note to the financial statements that reconciles the differences between amounts reported in the financial statements and the Form 5500.

X.72 FASB ASC 360, *Property, Plant, and Equipment,* addresses accounting for the impairment of long-lived assets for assets to be held and used and assets to be disposed of. FASB ASC 360-10-35-21 requires that long-lived assets to be held and used by the plan, such as real estate owned by the plan for plan operations, be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets to be abandoned or exchanged for a similar productive asset should be considered held and used until disposed of. FASB ASC 360-10-35-43 states that a long-lived asset classified as held for sale should be measured at the lower of its carrying amount or fair value less cost to sell. A long-lived asset should not be depreciated while it is held for sale. See FASB ASC 360 for further accounting and disclosure requirements.

Dual-Purpose Assets

X.73 Assets owned by a plan may be classified as either operating assets or assets held for investment depending on the plan's initial use and objectives. For example, when an asset is held for investment purposes, the objective is to generate cash flow to pay benefits, whereas when an asset is used in operations, the objective may be based on a cost benefit analysis, or to reduce expenses. However, if only a portion is used by the plan in its operations, consideration of how to record the asset is necessary. When determining how to record the asset, the plan's board of trustees may want to consider various factors at the acquisition date, such as the reason for purchasing, the intent of holding, as well as the predominant use of the property (for example, the percentage that will be leased to third parties).

> **Note:** In rare circumstances, the plan's board of trustees may need to reevaluate the predominant use when that use changes significantly.

> **Note:** If a building that is owned is partially leased to a third-party, care should be taken in determining whether the leased portion of the building would qualify as a financing lease or a sales-type lease. See paragraphs X.75–.78.

X.74 When the plan leases only a portion of a building, the treatment of the rental income and related expenses depends on the relationship between the plan and the lessee. For the portion of a building that is rented to a related employee benefit plan or to the union, the rent charged may be the equivalent of fair market rent or may reflect a sharing of costs of operation (see paragraph X.94). If the plan purchases a building, obtains a mortgage on the building, and rents a portion of the building to a for profit entity, then the profit on that rental income, lease, or leases may generate unrelated business taxable income for the plan.

Capital and Operating Leases

X.75 Capital leases are considered to be equivalent to a purchase whereas operating leases cover the use of an asset for a period of time and the costs are treated by the lessee as periodic expenses.

> **Update X-1 *Accounting and Reporting*: Leases**
>
> FASB Accounting Standards Update No. 2016-02, *Leases* (Topic 842), addresses the increase of transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements.
>
> This ASU is effective for nonpublic entities including employee benefit plans for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.
>
> This edition of the guide has not been updated to reflect changes as a result of this ASU, however, the section that follows will be updated in a future edition. Readers are encouraged to consult the full text of the ASU on FASB's website at www.fasb.org. See the "Select Recent Developments" section in the preface for further details.

X.76 In cases in which the ME plan is leasing assets to use in plan operations (as a lessee) or is leasing assets to other parties (as a lessor to either related or non-related parties), FASB ASC 840, *Leases,* applies. According to FASB ASC 840-10-10-1, the objective of the lease classification criteria derives from the concept that a lease that transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee and

as a sale or financing by the lessor. All other leases should be accounted for as operating leases. For further guidance relating to accounting for leases by a lessee or lessor see FASB ASC 840.

X.77 FASB ASC 840-10-25-23 states that if the leased property is part of a larger whole, its cost (or carrying amount) and fair value may not be objectively determinable (for example, when an office or floor of a building is leased). If the cost and fair value of the leased property are objectively determinable, both the lessee and the lessor should classify and account for the lease according to the guidance for a lease involving both land and buildings in FASB ASC 840-10-25-38.

X.78 If a lease involves only part of a building (for example the plan uses part of the building for operations and leases the remaining floors to either related or non-related parties), in accordance with FASB ASC 840-10-25-69, if either the cost or the fair value of the property is not objectively determinable, the lessor should classify and account for a lease involving only part of a building as an operating lease.

Note: The DOL issued *FAQs on Multiemployer Plan Leasing Arrangements* to provide guidance in structuring leasing and compensation arrangements in such a way to avoid prohibited transaction violations of ERISA.

For additional information regarding these type of leasing arrangements, see the DOL website at www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/faqs/faq-leasingarrangements.pdf.

Accrued Liabilities

X.79 A plan may have liabilities (other than for benefits) that should be accrued. Such liabilities may include the following:

- *a.* Accrued expenses (for example, third-party administrator, investment management, trustee, recordkeeping, actuarial, Pension Benefit Guaranty Corporation (PBGC), professional fees, and other administrative expenses incurred during the period.
- *b.* Amounts owed for training program expenses in an apprenticeship plan, if applicable
- *c.* Amounts owed for securities purchased or other investment-related payables
- *d.* Amounts due to brokers for securities sold
- *e.* Obligations to return securities lending collateral
- *f.* Derivative-related payables
- *g.* Income taxes payable by the plan
- *h.* Payroll and payroll taxes payable by the plan
- *i.* Amounts due to other plans under reciprocity agreements (See paragraphs X.59–.61.)
- *j.* Amounts due to claims processors or third-party administrators on behalf of the plan
- *k.* Amounts due to related entities for shared administrative expenses

l. Amounts due to other related plans for contributions held in cash clearing accounts (See paragraph X.45.)

X.80 These liabilities should be deducted to arrive at net assets available for benefits. The plan should not reflect as liabilities amounts for persons who have elected to withdraw from the plan but have not yet been paid. Benefits payable are not accrued because all assets are available to pay benefits.

For Multiemployer DB Plans

- Current benefits payable should not be accrued as liabilities because the liability for benefits to be paid by the plan is already reflected in the actuarial present value of accumulated plan benefits.

For Multiemployer H&W Plans

- The total amount of claims payable (benefit claims that have been processed and approved for payment, but not paid), premiums payable, and claims IBNR are included in the "Amounts Currently Payable" section of the plan's statement of obligations or in the notes to the financial statements. As such, these amounts should not be accrued as liabilities on the plan's statement of net assets available for benefits.

For Apprenticeship Plans

- Depending on the plan's accounting policy adopted and disclosed, current training program expenses payable are either shown as an accrued liability in the statement of net assets available for benefits or as a current obligation in the statement of benefit obligations. Other benefits, such as tuition reimbursements or scholarships owed to participants or eligible dependents at year-end, are recorded as obligations in the statement of obligations or in the notes to the financial statements. As such, these amounts should not be accrued as liabilities on the plan's statement of net assets available for benefits.

Note: A note to the financial statements to reconcile the audited financial statements to the Form 5500 may be necessary because benefits payable are required to be reported on Schedule H.

X.81 A legal settlement against the plan for benefits and errors in determining plan obligations should be reported as an increase in the actuarial present value of accumulated plan benefits instead of as a liability in the statement of net assets available for benefits in the year it meets the criteria for accrual. Such amounts remain as an accumulated plan benefit until distributed. See FASB ASC 450, *Contingencies*, for further guidance when reporting on contingencies.

X.82 Although rare for an ME plan, corrective distributions may be required in the event that employee contributions exceed contribution limitations of the plan. These amounts should be recorded as a liability in the year in which they were initially contributed to the plan. In accordance with paragraph 5.60, FinREC recommends that these amounts be netted against contributions received in the statement of changes in net assets available for benefits because the contributions were ineligible for that plan year. See paragraph 5.77*d* and 5.77*q* for recommended disclosures.

Debt Obligations

X.83 ME plans often enter into debt arrangements to acquire or construct real property. Accounting for such arrangements would be no different than for any other type of entity. If a plan enters into debt agreements, the guidance in FASB ASC 470, *Debt,* should be followed. In accordance with FASB ASC 470-10-50-1, the combined aggregate amount of maturities for all long-term borrowings should be disclosed for each of the five years following the date of the latest balance sheet presented.

> **Note:** It is important for the auditor to consider the terms around extensions of credit between, and dealing with, parties in interest. See paragraphs 2.95–.105 of this guide for additional guidance related to parties in interest.

X.84 When the PBGC provides financial assistance to an insolvent ME plan, it is in the form of a loan that allows the plan to pay participants their guaranteed benefits and to pay the plan's reasonable administrative expenses. FASB ASC 440-10-50-1 requires disclosures of the details of the debt. See paragraph X.157.

Changes in Net Assets Available for Benefits

X.85 According to FASB ASC 960-30-45-2, 962-205-45-7, and 965-20-45-3 (unless otherwise noted), information about changes in net assets available for benefits is intended to present the effects of significant changes in net assets during the year and should present, at a minimum, all of the following:

a. The net appreciation or depreciation in fair value. Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period as well as unrealized appreciation or depreciation of the investments held at year end. See Chapter 8 for further guidance on fair value disclosures.

> **Note:** FASB ASC 960-30-45-3 states that separate disclosures of realized gains and losses on investments sold during the year is neither required nor proscribed.

b. Investment income, exclusive of changes in fair value described in item (*a*) preceding. Certain registered investment companies and other investment funds pay dividends or capital gain distributions that are reinvested into the plan. In accordance with paragraphs 5.69, 6.72*b*, and 7.75*f*, FinREC recommends that the dividends be considered investment income and shown separately from changes in fair value. FinREC recommends that capital gain distributions be considered investment income and shown separately from changes in fair value or included as part of the net change in fair value.

> **Note:** For fully benefit-responsive investment contracts in a multiemployer DC plan, investment income includes interest income credited to participants in the plan.

c. Contributions from employers, segregated between cash and noncash contributions. A noncash contribution should be recorded at fair value. The nature of noncash contributions should be described either parenthetically or in a note.

d. Contributions from participants, including those transmitted by the participating employers.

e. Contributions from other identified sources (for example, government subsidies or federal grants).

f. Benefits paid to participants. (Benefits are only recorded when paid.)

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

h. Payments to insurance entities to purchase contracts that are excluded from plan assets. Item *e* in FASB ASC 960-205-50-1 requires disclosure of the plan's dividend income related to excluded contracts and permits that income to be netted against this item.

i. Operating or administrative expenses. See DOL Advisory Opinion No. 2001-01A for guidance on reasonable expenses of administering a plan.

j. Other changes (for example transfers of assets to or from other plans) should also be presented separately, if significant.

X.86 The minimum presentation items listed in the preceding paragraph should be made to the extent that they apply to the plan. In accordance with FASB 960-30-45-1, 962-205-45-8, and 965-20-45-4, the list of minimum presentation items is not intended to limit the amount of detail or the manner of presenting information regarding changes in the net asset information. Sub-classifications or additional classifications may be useful. Accordingly, plan administrators should use their best judgment considering the relevant circumstances.

X.87 In accordance with paragraphs 5.69, 5.71, 6.74, and 7.77, FinREC also recommends that the following items be presented separately, if they are significant:

a. Significant rollover contributions from a participant's other qualified employee benefit plan be shown as a separate line item from participant contributions and that corrective distribution amounts be netted against contributions received. See paragraph X.82 for a discussion of corrective distribution disclosures.

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

c. Interest earned on notes receivable from participants.

d. Income tax expense (for example, unrelated business income tax).

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

f. Transfers of assets to or from other plans.

X.88 In addition, FinREC recommends that income related to the assessed withdrawal liability be presented separately if it is significant. (See paragraph X.64.)

Participant Benefits, Distributions, and Withdrawals

X.89 The amount, timing, and form of participant benefits, distributions, and withdrawals are determined in accordance with the plan document. In an ME plan, the board of trustees or its agent is responsible for determining whether any distributions of plan assets satisfy the requirements set forth in the plan instrument and related documents and are otherwise consistent with ERISA.

Benefit Payments

X.90 Benefits are recorded when paid as all net assets of the plan are available to pay benefits. Each plan will contain provisions for who is entitled to receive benefits under the plan (for example, eligible participants, dependents, beneficiaries) and what types of benefits are covered. Benefit payments take on several different forms, such as in a lump sum, periodic payments, health claim payments, or annuity payments. Benefits to be provided through insurance contracts under which an insurance company is obligated to pay the benefits would be excluded from the assets of the plan. Costs associated with administering multiemployer H&W claims are considered administrative expenses and not included with claim payments.

Insurance Premiums

X.91 For insured multiemployer H&W benefits, the plan purchases insurance coverage from an insurance entity, and the insurance entity assumes the risk for payment of claims. Periodic premiums collected by the insurance entity are based on the policy terms.

Stop-Loss

X.92 As defined in appendix B of chapter 7, the insurance company assumes the benefit obligation in excess of the defined limits. Amounts due from stop-loss insurers should be included in the plan's financial information. Stop-loss amounts due to the plan or trust from insurers should be recorded as an asset with a corresponding offset to benefit payments if the benefit has been paid. Appropriate disclosure should be made regarding the amount of stop-loss recoveries that have been netted against benefits paid.

Subrogation Income

X.93 *Subrogation* is a legal process by which an insurance company (or plan), after paying a claim, has the right to recover that claim from another legally liable party. Claims that are reimbursed pursuant to subrogation matters are recorded upon settlement. Subrogation matters involve third parties considered to be responsible for claims paid by the plan from whom the plan seeks reimbursement.

Plan Expenses

X.94 Employee benefit plans may pay administrative and investment-related expenses out of plan assets provided that the plan document allows for such payments. DOL rules and regulations help clarify what expenses can be charged to a plan. Payment of improper expenses from a qualified plan is a breach of fiduciary duty and may be considered a nonexempt transaction. Expenses incurred related to implementing settlor decisions may be reasonable expenses of the plan. See the DOL-issued publication, *Understanding Retirement Plan Fees and Expenses*, and DOL Advisory Opinion No. 2001-01A to better understand and evaluate plan fees and expenses.

X.95 Typical plan expenses include fees to administer the plan. (See paragraphs 5.76, 6.78, and 7.87 for examples of expenses normally paid by a plan.) Due to the specialized nature of ME plans, additional plan expenses may be incurred that would not typically be incurred by single employer plans. (See paragraph X.97 for a listing of expenses.) Plan management considers whether plan assets are being expended to defray reasonable expenses of administering the plan, solely in the interest of participants and beneficiaries. Because plan assets may not be expended to benefit a party in interest, ME plans experience unique challenges in structuring compensation and service arrangements.

Note: Plan trustees may want to consult with legal counsel when determining whether a plan's compensation provided to fiduciaries, staff, and service providers meet the required conditions for exemption from the prohibited transaction rules under ERISA.

X.96 In certain instances, it may be difficult to understand the nature of the plan administrative expenses because they are often netted against income, or there may be other arrangements resulting in expenses not being apparent on the service provider statements. See paragraphs X.130 and X.132 for guidance on the financial statement disclosures related to expenses as well as chapter 9, "Plan Tax Status," of this guide for tax status considerations.

X.97 Certain plan expenses, imposed by laws and regulations, are usually paid by the plan sponsor of a single employer plan as a business decision to do so, because the plan document does not provide for their payment from the plan or because they are not considered to be allowable plan expenses for single employer plans. However, such expenses are typically allowed under the DOL and are paid by ME plans. Such expenses may include the following:

All Types of Plans

a. Fidelity bond premium.

b. Third party contract administration fees.

c. "Settlor" activities may be considered fiduciary activities for ME plans, and therefore, the related expenses may be allowable plan expenses. (See the DOL-issued FAB 2002-02 to better understand and evaluate this distinction for ME plans.) Certain settlor expenses may be paid by entities related to the plan, such as the local union or contributing employer.

d. Fiduciary liability insurance premium:

  i. Provided that the policy permits recourse.

  ii. A waiver of recourse premium may not be paid from either single employer or ME plan assets.

For Multiemployer DB Plans

e. Premiums paid to the PBGC.

For Multiemployer H&W Plans

f. Fees mandated by the Patient Protection and Affordable Care Act.

g. Costs associated with administrating H&W claims.

Note: FASB ASC 720, *Other Expenses*, provides guidance on the annual fees paid by pharmaceutical manufacturers and health insurers to the U.S. Treasury in accordance with the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The guidance in FASB ASC 720 applies to all pharmaceutical manufacturers and health insurers that are subject to the annual fee imposed by the Acts. In accordance with FASB ASC 720-10-25-1, the liability related to the annual fee should be estimated and recorded in full upon the first qualifying sale for pharmaceutical manufacturers or once the entity provides qualifying health insurance for health insurers in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

X.98 In a single employer plan, expenses may often be paid not from the plan itself, but by the plan sponsor. Likewise, the administration and operation of a single employer plan is typically carried out by personnel of the plan sponsor or outsourced to third party service providers. As discussed in paragraph X.02*c* and in appendix A to this chapter, an ME plan is sponsored by a joint board or trustees with equal representation from labor (union) and management (employers). Its administration and operations are separate and distinct from both the union and the employers. Plan operations may be handled by a third-party administrator or self-administered (conducted "in-house"). When the plan is self-administered, it will incur expenses like any other employer or small business. Typical expenses for such operating expenses may include the following:

All Types of Plans

a. Salaries and related expenses

b. Occupancy costs (such as repairs and maintenance, utilities, and rent)

c. General insurance

d. General office expenses (such as postage, printing, telephone, and office supplies)

e. Trustee compensation and reimbursements

Apprenticeship Plans

Note: It is not uncommon for an apprenticeship plan to purchase tools, materials, and services from contributing employers, including those employers of the board of trustees. Plan trustees need to consider the required conditions that need to be met for such transactions to be considered exempt from the prohibited transaction rules under ERISA. (See Prohibited Transaction Exemptions No. 78-6, *Class Exemption for Transaction Involving Collectively Bargained Multiple Employer Apprenticeship and Training Plans*)

f. Direct classroom and training expenses

g. Purchases of training materials and supplies

h. Instructor salaries and related expenses

i. Apprentice reimbursements

j. Drug testing fees

k. Graduation ceremony, award expenses, and skills competitions

l. Marketing and promotion expenses

Note: The DOL issued FABs 2012-01, *Citing Apprenticeship and Training Plans for using Plan Assets for Graduation Ceremonies and Program Marketing*, and 2014-02, *Supplemental FAQs on Apprenticeship and Training Plan Expenses–Skills Competitions*, to provide guidance when using plan assets for graduation ceremonies, program marketing, and skills competitions. In addition, the DOL issued an FAQ about fiduciary responsibilities under an Apprenticeship and Training Plan. These documents can be found on the DOL's Employee Benefit Security Administration website at https://www.dol.gov/agencies/ebsa.

X.99 Although a self-administered plan may pay expenses similar to a business entity, the plan is still required to comply with regulations set forth by ERISA regarding payment of expenses. Expenses considered "normal" for an ME plan can include bonuses or gifts to staff, holiday parties, picnics, luncheons, travel, meetings, and refreshments, but all are subject to the "reasonable and necessary" standards under ERISA for benefit plan employers. Payment of personal expenses by, or gifts from, service providers are types of prohibited transactions that may arise more frequently with ME plans. Reimbursed business expense policies may provide for a waiver of documentation requirements (for example, expenses under certain limits); however, ME plans are subject to DOL substantiation requirements for all expenses. (See appendix A of this chapter for further discussion on expenses.)

X.100 Another unique aspect is that individuals who are charged with governance for an ME plan may also have similar governance or management responsibilities with affiliated organizations such as the participating employer, local union, and other related ME plans. Many transactions can occur between these entities such as shared expenses, facilities, equipment, and staff. Reimbursements are based on estimates of time spent, space utilized, or costs incurred. A cost allocation study is usually performed by management to determine such estimates. For additional guidance, see appendix A of this chapter.

Note: The DOL issued *FAQs on Multiemployer Plan Leasing Arrangements* to provide guidance in structuring leasing and compensation arrangements in such a way to avoid prohibited transaction violations of ERISA.

Accumulated Plan Benefits and Changes in Accumulated Plan Benefits for Multiemployer Defined Benefit Pension Plans

Note: Many of the accounting considerations applicable to accumulated plan benefits and changes in accumulated plan benefits in a multiemployer DB plan are the same as those presented for a single employer DB plan. For detailed guidance, see paragraphs 6.79–.94.

Accumulated Plan Benefits

X.101 Accumulated plan benefits are to be presented as the present value of future benefits attributable under the plan's provisions to service rendered to the date of the actuarial valuation. The actuarial present value of accumulated plan benefits may be presented as of the beginning or the end of the plan year; under FASB ASC 960-205-45-4; however, an end-of-year benefit information date is considered preferable. See paragraph X.16.

X.102 In accordance with the FASB ASC glossary, accumulated plan benefits include benefits to be paid to (*a*) retired or terminated employees or their beneficiaries, (*b*) beneficiaries of deceased employees, and (*c*) present employees or their beneficiaries. To the extent possible, plan provisions should apply in recognizing accumulated plan benefits. A general method for measurement is provided in FASB ASC 960-20-25-4. Projected years of service should be a factor only in determining an employee's expected eligibility for particular benefits. Automatic benefit increases specified by the plan (for example, automatic cost-of-living increases) that are expected to occur after the benefit information date should be recognized. Plans providing death and disability benefits should consider these factors in the calculation.

X.103 Plan amendments adopted before the measurement date of the actuarial valuation should be given effect in the valuation, even if some provisions take effect only in future periods. For example, a plan amendment may provide for a change in the benefit formula that includes a retroactive component, and it may also include provisions to increase the benefit formula in future years. Plan amendments adopted after the benefit information date should not be recognized. See the table following paragraph 6.83.

X.104 The assumptions used in calculating accumulated plan benefits are to be based on the premise of an ongoing plan. Accordingly, the interest rates used for discounting expected future payments should reflect the rates of return expected on plan investments during the periods for which the benefits are deferred. See also FASB ASC 960-20-35-1 for information regarding assumptions used in determining benefit information. An appropriate allowance for future employee mortality and turnover should be provided. The significant assumptions used in the calculation must be developed using an *explicit* approach, whereby each assumption, standing alone, represents the best estimate of the plan's future experience. These assumptions may differ from those used in the determination of the plan's funding. For additional guidance regarding assumptions and calculations of accumulated plan benefits, see paragraphs 6.85–.91.

X.105 As noted previously, the benefit information may be presented in a separate statement, combined with other information in a financial statement, or presented in a note to the financial statements. The information, however, must all be located in one place and should be classified as follows, in accordance with FASB ASC 960-20-45-3:

a. Vested benefits of participants currently receiving payments, including benefits due and payable as of the benefit information date

b. Other vested benefits

c. Nonvested benefits

X.106 If the plan is contributory, accumulated contributions of active employees including, if applicable, interest credited on those contributions, should be disclosed. If interest is credited on the contributions, the interest rate should also be disclosed. (See disclosures in paragraph X.133*c*.)

Changes in Accumulated Plan Benefits

X.107 Information regarding the change in actuarial present value of accumulated plan benefits from the preceding benefit information date to the current benefit information date should be presented to identify significant factors affecting the comparability of the year-to-year accumulated benefits. As with the accumulated benefit information, the change may be presented in the body of the financial statements or in the notes; they may be presented in either a reconciliation or a narrative format. In either presentation, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should be presented. FASB ASC 960-20-45-6 states that the effects that are individually significant should be separately identified. In accordance with FASB ASC 960-20-50-3, minimum disclosures should include the significant effects of factors, such as (*a*) plan amendments, (*b*) changes in the nature of the plan, and (*c*) changes in actuarial assumptions. Changes in actuarial assumptions are to be viewed as changes in accounting estimates and, therefore, previously reported amounts should not be restated. FASB ASC 960-20-45-9 states that if only the minimum required disclosure is presented, presentation in a statement format will necessitate an additional unidentified *other* category to reconcile the beginning and ending amounts. See the note following paragraph 6.94 for presentation of the financial statements when using the end-of-year benefit information date or beginning of the year date.

Benefit Obligations, Claims, and Changes in Benefit Obligations for Multiemployer H&W Plans

Note: Many of the accounting considerations applicable to benefit obligations, claims and changes in benefits obligations in a multiemployer H&W plan are the same as those presented for a single employer H&W plan. For detailed guidance, see paragraphs 7.88–.126.

Benefit Obligations

X.108 Per FASB ASC 965-30-35-1, benefit obligations [fn 5] for DB health and welfare plans (including certain apprenticeship plans) should include the actuarial present value, as applicable, for all of the following:

a. Claims payable, claims IBNR, and premiums due to insurance entities [fn 6]

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

c. Postretirement benefits for the following groups of participants: [fn 7]

i. Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR [fn 8]

ii. Other plan participants fully eligible for benefits

iii. Plan participants not yet fully eligible for benefits

X.109 According to paragraphs 3–7 of FASB ASC 965-30-35, aggregating claims payable and claims IBNR is often appropriate if adequate time has passed to provide sufficient data on costs incurred, and the actuarially determined expected cost of long-term medical claims is insignificant. Benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment should not be included. Benefit obligations should be reported as of the end of the plan year. For additional guidance regarding the effect of plan amendments, presentation of benefit obligations in the financial statements, see paragraphs 7.88–.90

X.110 Apprenticeship plans generally do not recognize benefit obligations because benefits do not vest or accumulate, are not allocated to an individual participant, and are not attributable to services already rendered.

[fn 5] Per FASB *Accounting Standards Codification®* (ASC) 965-30-35-2, 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 should be reflected either by including the estimated costs in the benefits expected to be paid by the plan or by reducing the discount rate(s) used in measuring the benefit obligation. According to FASB ASC 965-30-50-7, if the latter method is used, the resulting reduction in the discount rate(s) should be disclosed.

[fn 6] In accordance with item (a) in FASB ASC 965-30-35-1, claims incurred but not reported (IBNR) may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, the claims for retirees are recorded in the postretirement benefit obligation.

[fn 7] See footnote 6.

[fn 8] See footnote 6.

However, benefits that represent a promise for future tuition reimbursements or scholarships to a participant or their eligible dependents are amounts currently due and may result in a claims or benefits payable that would be recorded as part of obligations. (See paragraph X.06)

Claims

X.111 According to FASB ASC 965-30-45-2, in an insured H&W 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 the amount of both of the following:

a. Claims payable and claims currently due for active and retired participants, dependents, and beneficiaries

b. IBNR claims for active participants [fn 9]

X.112 According to FASB ASC 965-30-45-3, IBNR claims for retired participants are included in the postretirement benefit obligation, if separately calculated in accordance with item (a) in FASB ASC 965-30-35-1. (See also footnote 14.)

X.113 For a self-funded plan, claims payable represents claims processed and approved for payment but not paid as of year-end. Claims IBNR includes claims that are being processed but have not yet been approved. According to FASB ASC 965-30-35-1A, for a self-funded plan, the cost of IBNR claims should be measured at the present value, as applicable, of the estimated ultimate cost to the plan of settling the claims. Estimated ultimate cost should reflect the plan's obligation to pay claims to or for participants, regardless of status of employment, beyond the financial statement date pursuant to the provisions of the plan or regulatory requirements.

X.114 Claims IBNR can be calculated by the plan administrator, actuary, and claim processor or a third-party administrator. Claims IBNR is normally estimated based on historical claims data and industry trends and should be measured at the present value, as applicable, of the estimated ultimate cost to the plan of settling the claims (including those associated with terminal diseases and catastrophic accidents) beyond the measurement date pursuant to the plan's provisions and regulatory requirements, regardless of employment status. The ultimate cost to the plan may be limited by factors, such as the maximum coverage specified in the plan document, stop-loss coverage, and Medicare. See paragraphs 7.96–.98 for additional guidance on calculating and processing claims.

Note: In determining the ultimate cost to the plan, the direct costs associated with settling the claims such as the per claim fee charged by the claims processor are generally included in the IBNR calculation.

Premiums Due Under Insurance Arrangements

X.115 Benefits to participants may be provided through insurance arrangements that transfer the risks of loss or liability to an insurance company. Group insurance contracts for H&W plans are usually written for a one-

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[fn 9] See footnote 6.

year period, although the contract may provide for annual renewals. The contract generally specifies, among other things, the schedule of benefits, eligibility rules, premium rate per eligible participant, and the date that premiums are due. According to FASB ASC 965-30-25-2, the benefit obligations should include any obligation for premiums due, but not paid, under insurance arrangements. See paragraphs 7.99–.101 for additional guidance regarding premiums and experience rated contracts.

Accumulated Eligibility Credits

X.116 Unique to ME plans is the concept of accumulated eligibility credits. In many industries (for example, the entertainment and building trades industries), the number of hours an employee works is not uniform throughout the year. In some months, employees work overtime hours, and in other months, they may not work at all. Many ME plans also have a lag between work months and eligibility months, wherein a participant's employment or service earns eligibility for future periods. For example, a participant performing work in April, May, and June earns eligibility for October, November, and December.

X.117 According to FASB ASC 965-30-35-12, plans may provide for the payment of insurance premiums or benefits for a period of time for those participants who have accumulated a sufficient number of eligibility credits or hours. At the financial statement date, accumulated eligibility credits represent an obligation of the plan arising from prior employee service for which employer contributions have been received. This benefit obligation is generally determined by applying current insurance premium rates to accumulated eligibility credits or, for a self-funded plan, by applying the average cost of benefits per eligible participant to accumulated eligibility credits. In either case, the obligation for accumulated eligibility credits should consider assumptions for mortality and expected employee turnover, or other appropriate adjustments, to reflect the obligation at the amount expected to be paid.

X.118 In ME plans additional obligations arise when hours worked, or contributions received for a contribution period, are in excess of the level required for eligibility under the plan for that period, and the participant can reserve or bank that excess for future eligibility periods. These obligations are commonly referred to as a *bank of hours* (also referred to as a *dollar bank*). If a plan participant does not work the sufficient number of hours in a given period to receive a benefit, the hours or credits that have been reserved or banked for that employee is typically charged for the amount necessary to make up the shortage.

Note: Care should be taken not to overlap obligations arising from extended provisions with those arising from a bank of hours.

Postemployment Benefits

X.119 According to FASB ASC 965-30-25-3, 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 following conditions are met:

a. The participants' rights to receive benefits are attributable to services already rendered.

b. The participants' benefits vest or accumulate. [fn 10]

[fn 10] In accordance with item (b) in FASB ASC 965-30-25-3, for example, the supplemental unemployment benefit is 52 weeks' pay if a participant worked 3 years; 78 weeks' pay if a participant worked 5 years; and 104 weeks' pay if a participant worked 7 years. In

c. Payment of benefits is probable.

d. The amount can be reasonably estimated (if an obligation for postemployment benefits is not recognized only because the amount cannot be reasonably estimated, the financial statements should disclose that fact).

X.120 Per FASB ASC 965-30-35-9, the postemployment benefit obligation should be measured as the actuarial present value of the future benefits attributed to plan participants' services rendered to the measurement date, reduced by the actuarial present value of future contributions expected to be received from the current plan participants. That amount represents the benefit obligation that is to be funded by contributions from the plan's participating employer(s) and from existing plan assets. The obligation is to be measured, assuming the plan continues in effect and all assumptions about future events are met. Any anticipated forfeitures or integration with other related programs (for example, state unemployment benefits) should be considered. The benefit obligation should be discounted using rates of return on high quality, fixed-income investments currently available with cash flows that match the timing and amount of expected benefit payments and expected participant contributions. For additional guidance for postemployment benefits, see paragraphs 7.105–.108.

X.121 Many plans require that participants pay the estimated full cost of health benefits provided under COBRA. In such situations, the plan would not recognize a postemployment obligation provided the premiums cover the claims and related costs incurred. See paragraphs 7.109–.110 for additional guidance on COBRA.

Note: Care should be taken to not double-count these claims in the obligation for claims IBNR and postemployment obligations.

Postretirement Benefit Obligations

X.122 According to FASB ASC 965-30-35-15, H&W plans may continue to provide benefits to participants after retirement (postretirement benefits). Those benefits may commence immediately upon termination of service, or payment may be deferred until the participant attains a specified age. If a plan provides postretirement benefits to participants, an estimated amount for those benefits, as described in the following paragraph, should be included in the benefit obligation.

Note: Postretirement benefits may be provided either in the active participants plan or in a separate retiree plan.

X.123 Per FASB ASC 965-30-35-16, the postretirement benefit obligation as of the measurement date is the actuarial present value of all future benefits attributed to plan participants' services rendered to that date, assuming the plan continues in effect, and all assumptions about future events are fulfilled. Postretirement benefits comprise benefits expected to be paid to or on behalf of any of the following, who are expected to receive benefits under the H&W plan:

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this situation, the benefits would be considered accumulating. Benefits that increase solely as a function of wage or salary increases are not considered accumulating.

a. A retiree or active participant

b. A terminated participant

c. A beneficiary or covered dependent

X.124 Per FASB ASC 965-30-35-17, postretirement benefits expected to be paid to or for an active participant, a beneficiary, or a covered dependent who is still earning postretirement benefits (that is, one who is not yet fully eligible) should be measured over the participant's credited period of service up to the date when full eligibility for benefits is attained. [fn 11]

X.125 As discussed in paragraph X.108, claims IBNR may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, the claims IBNR for retirees are included in the postretirement benefit obligation. It is important for plan administrators to determine that claims IBNR for retirees have been properly reported, that is, have not been double-counted or omitted entirely, and consider disclosure regarding where they are recorded.

X.126 According to FASB ASC 965-30-35-19, if a multiemployer H&W plan provides postretirement benefits, the benefit obligation should include the postretirement benefit obligation. Consideration should be given to the promises currently made to employees and the history of making such payments to retirees. The fact that benefits may be reduced or even potentially eliminated would not ordinarily affect the promise made as of the end of the plan year unless the change meets the substantive plan criteria of FASB ASC 715-60 (for example, an amendment is in place or has been communicated to employees). The fact that the contributing employers of an ME plan do not record a similar obligation under FASB ASC 715, *Compensation—Retirement Benefits*, does not affect the accounting for the obligations by the plan. See paragraphs 7.111–.119 for additional guidance.

Medicare Prescription Drug, Improvement, and Modernization Act of 2003

X.127 FASB ASC 715-60 addresses when and how an employer that provides postretirement prescription drug coverage should recognize the effects of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Medicare act) but does not address the accounting for the subsidy by the H&W plan itself. The subsidy in a single employer plan is normally received by the plan sponsor. Q&A section 6931.06, “Accounting and Disclosure Requirements for Multiemployer Employee Benefit Plans Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003,” in *AICPA Technical Questions and Answers* provides guidance on accounting and disclosures for ME benefit plans related to the Medicare act.

X.128 Q&A section 6931.06 states that the ME plan’s benefit obligations should be reduced by the effects of the Medicare subsidy because the ME plan trust receives the subsidy amount directly and not the individual employers and, therefore, the accumulated postretirement benefit obligation (APBO) net of the Medicare subsidy is a more meaningful measure of those benefits for an ME plan. See Q&A sections 6931.05–.06 for further guidance including recommended disclosures.

[fn 11] Per FASB ASC 965-30-35-18, for example, if a participant has worked 8 years and must work another 16 to be fully eligible for benefits after retirement, one-third of the postretirement benefits have been earned and should be included in the postretirement benefit obligation if it is probable that the employee will work the remaining 16 years.

Recognition of Plan Events

X.129 According to FASB ASC 965-30-35-7, the effect of plan amendments should be included in the computation of the expected benefit obligation and APBO once they have been contractually agreed to, even if some provisions take effect only in future periods. Certain events occurring after the reporting year should not be reflected in the benefit obligation presented as of the end of the reporting year. However, disclosure of such events may be appropriate. See paragraph 7.123 and the table following for further guidance.

Changes in Benefit Obligations

X.130 According to FASB ASC 965-30-45-4, information regarding changes in the benefit obligations within a plan period should be presented to identify significant factors affecting year-to-year changes in benefit obligations. Per FASB ASC 965-30-45-5, 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. Providing such information in the following categories will generally be sufficient: (*a*) claims payable, claims IBNR, and premiums due to insurance entities; (*b*) accumulated eligibility credits and postemployment benefits, net of amounts currently payable; and (*c*) postretirement benefits for the following:

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

b. Other plan participants fully eligible for benefits

c. Plan participants not yet fully eligible for benefits

X.131 According to FASB ASC 965-30-45-6, minimum disclosure regarding changes in benefit obligations should include the significant effects of (*a*) plan amendments, (*b*) changes in the nature of the plan (mergers or spin-offs), and (*c*) changes in actuarial assumptions (health care cost-trend rate or interest rate). Per FASB ASC 965-30-45-7, changes in actuarial assumptions are to be considered as changes in accounting estimates; and, therefore, previously reported amounts should not be restated. The significant effects of other factors may also be identified. These include, for example, benefits accumulated, [fn 12] the effects of the time value of money (for interest), and benefits paid. FASB ASC 965-30-45-8 states that if presented, benefits paid should not include benefit payments made by an insurance entity pursuant to a contract that is excluded from plan assets. However, amounts paid by the plan to an insurance entity pursuant to such a contract (including purchases of annuities with amounts allocated from existing investments with the insurance entity) should be included in benefits paid. [fn 13] 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.

[fn 12] In accordance with item (a) in 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.

[fn 13] In accordance with FASB ASC 965-30-45-8, because of the use of different actuarial assumptions, the amount paid by the plan to an insurance entity may be different from the previous measure of the actuarial present value of the related accumulated plan benefits. If that information is available, it should be presented as an actuarial experience gain or loss.

Financial Statement Disclosures

X.132 According to FASB ASC 960-205-50-1. 962,205-50-1, and 965-205-50-1, unless otherwise noted, the financial statements should disclose, if applicable, all of the following for specific types of plans that also relate to ME plans found in the following chapters:

a. DC plans, paragraphs 5.77–.78

b. DB plans, paragraphs 6.95–.97

c. H&W plans, paragraphs 7.127–.131

In addition, for ME plans, the following disclosures should be made if applicable:

d. A brief general description of the plan agreement, including, but not limited to, the parties involved subject to a CBA, participants covered (including the number of participating employers), its vesting and benefit provisions, allocation provisions, and the disposition of forfeitures. (If a plan agreement, or a description thereof, providing this information is otherwise published and made available, this description may be omitted provided that reference to such other source is made.)

e. The funding policy and any changes in such policy during the plan year, including the contribution rates in effect during the periods presented. (For a contributory plan, the disclosure should state the method of determining participants' contributions. Plans subject to ERISA should disclose whether the minimum funding requirement of ERISA has been met.)

f. In accordance with FASB ASC 850, *Related Party Disclosures*, material related party transactions, for example, allocations and transfers between related plans, related labor organizations, or administrative entities. (For plan expenses, see item *h* that follows and paragraphs X.94–.100. As described in paragraph A.52 of appendix A of this guide, ERISA requires the disclosure of agreements and transactions with persons known to be parties in interest. As described in chapter 2 of this guide, "Planning and General Auditing Considerations," not all parties in interest are related parties under GAAP.)

g. Significant real estate or other transactions in which the plan, employer(s), employee organization(s), or a combination of these are jointly involved should be disclosed in accordance with FASB ASC 850.

h. Amounts paid to affiliates or related parties such as administrative costs (for example, shared facilities, equipment and staff, contribution processing), advisory fees, brokerage commissions, and sales charges should be disclosed in accordance with FASB ASC 850 (FASB ASC 850 requires disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. Significant provisions of related party agreements, including the basis for determining management, advisory, administration, and other amounts paid to affiliates or related parties, should be described in a note to the financial statements. As required by ERISA, an explanation of the differences, if any, between the information contained in the financial statements and the amounts reported on Form 5500, Schedule H, disclosures of parties in interest and prohibited transactions. Operating assets should be reported at fair value in the Form 5500.)

i. The general terms of any debt arrangements, interest rate, collateral, or guarantees (FASB ASC 962-205-50-1 requires disclosure of guarantees by others of debt of the plan. FASB ASC 470-10-40-1 requires disclosures of debt service commitments for each of the next five years, and FASB ASC 440-10-50-1 requires disclosures of the details of the debt. See paragraphs X.83–.84.)

j. Disclosure of depreciable assets required by FASB ASC 360. (See paragraph X.137.)

k. For those plans that employ staff, recognition and disclosures as required under FASB ASC 715 related to postemployment benefits and retirement benefits, including participation in ME plans that provide postretirement benefits. (See paragraph X.142.)

l. Disclosure of consolidation policy when consolidated statements are presented in accordance with FASB ASC 810-50-1, for example, when an ME plan holds operating property in a separate legal entity for liability purposes. (See paragraph X.70.)

Multiemployer DB Plans

X.133 Financial statement disclosures specific to multiemployer DB plans include the following (in addition to paragraph X.132):

a. Disclosure of financial assistance from PBGC (See paragraph X.157)

FinREC also recommends that the following disclosures be made, if significant:

b. If a plan is determined to be in endangered status or critical status, appropriate disclosure be made in the financial statements as to the status of the plan and whether a funding improvement or rehabilitation plan has been adopted (See paragraph X.55.)

c. Disclosure of assessed withdrawal liability due the plan (See paragraph X.66.)

Multiemployer DC Plans

X.134 There are no additional financial statement disclosures specific to multiemployer DC plans that are not included in paragraph X.132.

Multiemployer H&W Plans

X.135 Financial statement disclosures specific to multiemployer H&W plans include the following (in addition to paragraph X.132):

a. Disclosure of the provisions of the Medicare subsidy (See paragraph X.127.)

b. According to FASB 275-10-50-16, disclosure of the credit risk for demand deposits in a multiemployer H&W plan with a financial institution that exceeds the insurance limits (See paragraph X.24.)

c. Disclosure of valuation method for donations or contributions for materials, equipment, or tools used for training from third parties or participating employers in accordance with FASB ASC 845-10-30-1 and FASB ASC 965-20-30 (See paragraph X.57.)

Note: These listings of disclosures in paragraphs X.132–.135 are not intended to modify the disclosure requirements of FASB ASC 960, 962, or 965 but rather to serve as a reference to the major requirements. This list does not include information required by ERISA to be disclosed in the schedules filed as part of a plan's annual report. In this connection, it is important to note that disclosure of this information only on the face of the financial statements or in the notes to the financial statements, or both, but not in the schedules, is not acceptable under ERISA reporting standards.

X.136 ERISA Section 2520.103-1(b)(3) requires the notes to the financial statements to include certain disclosures. See paragraph A.52 of appendix A of this guide for a listing of those disclosures.

Property, Plant, and Equipment

X.137 FASB ASC 360-10-50-1 states that all of the following disclosures should be made in the financial statements or in notes thereto:

a. Depreciation expense for the period

b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date

c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date

d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets

Capital and Operating Leases

Capital Leases

X.138 In accordance with FASB ASC 840-30-50-1, all of the following information with respect to capital leases should be disclosed in the lessee's financial statements or the notes thereto:

a. The gross amount of assets recorded under capital leases as of the date of each balance sheet presented by major classes according to nature or function. (This information may be combined with the comparable information for owned assets.)

b. Future minimum lease payments as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years, with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of the imputed interest necessary to reduce the net minimum lease payments to present value. (See paragraphs 1–4 of FASB ASC 840-30-30.)

c. The total of minimum sublease rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented.

d. Total contingent rentals actually incurred for each period for which an income statement is presented.

X.139 In accordance with FASB ASC 840-30-50-4, if leasing, exclusive of leveraged leasing, is a significant part of the lessor's business activities in terms of revenue, net income, or assets, all of the following information with respect to sales-type and direct financing leases should be disclosed in the financial statements or notes:

a. All of the following components of the net investment in sales-type and direct financing leases as of the date of each balance sheet presented:

i. Future minimum lease payments to be received, with separate deductions for both of the following:

(1) Amounts representing executory costs (including any profit thereon) included in the minimum lease payments
(2) The accumulated allowance for uncollectible minimum lease payments receivable

ii. The unguaranteed residual values accruing to the benefit of the lessor

iii. For direct financing leases only, initial direct costs

iv. Unearned income (See paragraphs 9 and 13 of FASB ASC 840-30-30.)

b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented

c. Total contingent rentals included in income for each period for which an income statement is presented

Operating Leases

X.140 In accordance with paragraphs 1–2 of FASB ASC 840-20-50, for all operating leases, the lessee should disclose rental expense for each period for which an income statement is presented, with separate amounts for minimum rentals, contingent rentals, and sublease rentals. Rental payments under leases with terms of a month or less that were not renewed need not be included. For operating leases having initial or remaining noncancelable lease terms in excess of one year, the lessee should disclose both of the following:

a. Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years

b. The total of minimum rentals to be received in the future under noncancelable subleases as of the date of the latest balance sheet presented

X.141 In accordance with FASB ASC 840-20-50-4, if leasing, exclusive of leveraged leasing, is a significant part of the lessor's business activities in terms of revenue, net income, or assets, all of the following information with respect to operating leases should be disclosed in the financial statements or notes thereto:

a. The cost and carrying amount, if different, of property on lease or held for leasing by major classes of property according to nature or function, and the amount of accumulated depreciation in total as of the date of the latest balance sheet presented

b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years

c. Total contingent rentals included in income for each period for which an income statement is presented

Participation in Multiemployer Plans

X.142 Many ME plans have employees working for the ME plan that are allowed to participate in the ME plan or plans that they work for or in a separate plan set up for the employees. As such, the ME plan becomes an employer and is subject to the disclosure requirements of FASB ASC 715-80. In accordance with paragraphs 4–10 of FASB ASC 715-80-50, employers must provide additional disclosures for ME pension plans and ME other postemployment benefit plans. Required disclosures are in regard to the significant ME plans in which an employer participates, including the following:

a. Plan names and identifying numbers

b. The level of an employer's participation in the significant ME plans, including the following:

  i. The employer's contributions made to the plans

  ii. An indication of whether the employer's contributions represent more than 5 percent of the total contributions made to the plan by all contributing employers

c. The financial health of the significant ME plans, including the following:

  i. An indication of the funded status

  ii. Whether funding improvement plans are pending or implemented

  iii. Whether the plan has imposed surcharges on the contributions to the plan

d. The nature of the employer commitments to the plan, including the following:

  i. When the CBAs that require contributions to the significant plans are set to expire

  ii. Whether those agreements require minimum contributions to be made to the plans

Fair Value Measurements

X.143 See chapter 8 of this guide for required disclosures related to fair value measurements in accordance with FASB ASC 820, including the fair value measurement of investments in certain entities that calculate net asset value per share.

Derivatives and Hedging

X.144 See chapter 8 of this guide for required disclosures related to derivatives and hedging in accordance with FASB ASC 815, *Derivatives and Hedging*, and FASB ASC 210-20-50.

Securities Lending Arrangements

X.145 See chapter 8 for disclosures related to securities lending arrangements.

Master Trusts

X.146 Although rare, an ME plan could have an interest in a master trust. For further guidance, see paragraphs 5.86–.88 and 6.106–.107.

> **Update 8-2:** ***Accounting and Reporting*****, Master Trust Reporting**
>
> FASB ASU No. 2017-06, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)*, relates primarily to the reporting by a plan for its interest in a master trust. The amendments clarify presentation requirements for a plan's interest in a master trust and require more detailed disclosures of the plan's interest in the master trust. The amendments also eliminate a redundancy relating to 401(h) account disclosures.
>
> This edition of the guide has not been updated to reflect changes as a result of this ASU, however, the section that follows will be updated in a future edition. Readers are encouraged to consult the full text of the ASU on FASB's website at www.fasb.org. See the "Select Recent Developments" section in the preface for further details.

Financial Instruments

X.147 See chapter 8 for disclosures related to financial instruments.

Risks and Uncertainties

> **Note:** The conclusions reached in paragraph BC22 of Part II of 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 (consensuses of the FASB Emerging Issues Task Force)*, discusses that although the disclosure requirement for investments that represent 5 percent or more of net assets available for benefits is eliminated, plans are still required to comply with the disclosure requirements in FASB ASC 275, *Risks and Uncertainties*, and FASB ASC 825, *Financial Instruments*, relating to concentration of credit risk.

X.148 FASB ASC 275-10-50-1 requires plans to make disclosures in their financial statements about the risks and uncertainties existing as of the date of those financial statements in the following areas: (*a*) the nature of their operations, (*b*) the use of estimates in the preparation of financial statements, (*c*) certain significant estimates, and (*d*) current vulnerability due to certain concentrations.

X.149 In accordance with FASB ASC 275-10-50-8, disclosure regarding an estimate should be made when known information available before the financial statements are issued or are available to be issued (as discussed in FASB ASC 855-10-25) indicates that both (*a*) it is at least reasonably possible that the estimate of 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.

X.150 For example, the present value of accumulated plan benefits could be subject to a material change in an ME plan when

a. Employees covered by the plan are party to a CBA, which was up for renegotiation at year-end, and it is reasonably possible that management's offer to significantly increase pension benefits in lieu of granting the union's request for a significant increase in cash compensation will be accepted within the next year. This could significantly increase the present value of accumulated plan benefits.

b. It is reasonably possible that there will be a significant decline in the fair value of investments (that is, financial instruments) during the next year and such change would affect the longer term expected returns. In that case, it might be appropriate to change the assumed rates of return used to discount the benefit obligation, which could significantly affect the present value of accumulated plan benefits.

X.151 Many plan participants may be concentrated in a specific industry that carries with it certain risks. Plans may also hold investments and other assets (other than financial instruments for which concentrations are covered by FASB ASC 825, as amended, rather than FASB ASC 275) that are concentrated in a single industry or in a single geographic area. In accordance with FASB ASC 275-10-50-16, vulnerability from concentrations arises when a plan is exposed to risk of loss greater than it would have had it mitigated its risk through diversification. Concentrations should be disclosed if based on information known to management before the financial statements are issued or are available to be issued and (*a*) the concentration exists at the date of the financial statements, (*b*) the concentration makes the plan vulnerable to the risk of a near-term severe impact, and (*c*) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term. For ME plans, a significant concentration exists when contributions from an employer represent a significant percentage of the total contributions to the plan, when the number of participants represent a significant percentage of the total participants in the plan, as well as when a significant employer voluntarily or involuntarily withdraws from the plan.

X.152 Because the disclosure requirements of FASB ASC 275 in many circumstances are similar to or overlap the disclosure requirements in certain other FASB ASC topics (for example, FASB ASC 450), in accordance with FASB ASC 275-10-50-1, the disclosures required by FASB ASC 275 may be combined in various ways, grouped together, or placed in diverse parts of the financial statements, or included as part of the disclosures made pursuant to the requirements of other FASB ASC topics.

Plan Transfers (Plan Mergers, Spin-Offs, and Other Transfers)

X.153 ME plans merge for a variety of reasons, such as funding status, efficiency, and geographic diversification. It is not uncommon for two ME plans to merge due to financial concerns whereby the combination would create a fund that is more stable and secure. Section 4231 of ERISA sets forth requirements for mergers and transfers between ME plans which include preservation of accrued benefits, plan solvency tests, valuation requirements, actuarial assumptions, and other calculations as well as required notices and approvals by the PBGC.

Note: In June 2016, the PBGC proposed a rule that would implement changes under the Multiemployer Pension Reform Act of 2014 (MPRA). Section 121 of MPRA amends the existing rules under Section 4231 of ERISA by adding a new Section 4231(e), which clarifies the PGBC's authority to facilitate the merger of two or more ME plans if certain statutory requirements are met. Such facilitation may include training, technical assistance,

mediation, communication with stakeholders, and support with related requests of government agencies. Additionally, the PBGC may provide financial assistance (as defined by Section 4261 of ERISA) to facilitate a merger it determines is necessary to enable one or more of the plans involved to avoid or postpone insolvency.

X.154 For additional guidance on plan transfers, mergers, spin-offs, and other transfers, see paragraphs 5.99–.103, 6.115–.120, and 7.145–.146 of this guide.

Going Concern

X.155 FASB ASC 205-40 requires management to assess an entity's ability to continue as a going concern. The following lists the main provisions of FASB ASC 205-40:

a. Defines the term *substantial doubt* about an entity's ability to continue as a going concern as follows:

i. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The term "probable" is used consistently with its use in FASB ASC 450 on contingencies.

b. Requires an evaluation every reporting period, including interim periods.

c. Provides that the mitigating effect of management's plans should be considered only to the extent it is probable the plans will be effectively implemented and mitigate the conditions or events giving rise to substantial doubt.

d. Requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans.

e. Requires an explicit statement in the notes to the financial statements that there is substantial doubt and other disclosures when substantial doubt is not alleviated.

f. Requires an evaluation for a period of one year after the date that the financial statements are issued (or available to be issued).

Note: Consideration regarding going concern needs to be evaluated when the plan has been certified as being in critical and declining status. See paragraphs X.51–.55.

Terminating Plans and Frozen Plans

X.156 Unlike the PBGC's program for single-employer pensions, PBGC does not assume responsibility for insolvent ME plans. Instead, the agency provides financial assistance, so the plans can pay benefits at no more than the PBGC guarantee level. This assistance is a loan that allows the plan to pay participants their guaranteed benefits and to pay the plan's reasonable administrative expenses.

X.157 The PBGC has broad discretion to set the conditions for this financial assistance. Typically, the PBCG will require the following:

a. The loan will be repaid if the plan's financial condition improves.

b. Benefits may only be paid at the guaranteed level.

c. PBGC's loan is collateralized by employer contributions, withdrawal liability payments, and other plan assets.

d. PBGC has board audit authority over the plan.

X.158 FASB ASC 960-40 provides guidance for terminating plans that are DB plans. According to the FASB ASC glossary, *terminating plans* include any plans about which a decision to terminate has been made, regardless of whether the terminated plan will be replaced.

X.159 According to paragraphs 1–2 of FASB ASC 960-40-25, if the liquidation of a plan is deemed to be *imminent* (as defined in FASB ASC 205-30-25-2) before the end of the plan year, the plan's year-end financial statements should be prepared using the *liquidation* basis of accounting in accordance with FASB ASC 205-30. Plan financial statements for periods ending after the determination that liquidation is imminent are prepared using the liquidation basis of accounting.

X.160 Determining whether liquidation is imminent is a matter of judgment, based on facts and circumstances. In accordance with FASB ASC 205-30-25-2, liquidation is imminent when either of the following occurs:

a. A plan for liquidation has been approved by the persons with authority to make such a plan effective, and the likelihood is remote that any of the following will occur:

i. Execution of the plan will be blocked by other parties.

ii. The entity will return from liquidation.

b. A plan for liquidation is imposed by other forces (for example, involuntary bankruptcy), and the likelihood is remote that the entity will return from liquidation.

Frozen Plans

X.161 A DB plan may be frozen in several ways. The plan may be amended to

a. no longer allow new participants to enter the plan while those participants already in the plan continue to accrue benefits or to stop benefit accruals for all active participants but allow benefits to increase with the growth in participants' wages ("soft freeze").

b. to stop benefit accruals for some (but not all) participants based on age, tenure, job classification, or plant location ("partial freeze")

c. to cease benefit accruals for all active participants and all participants cease earning benefits ("hard freeze")

X.162 Any of these amendments serve to "freeze" a plan. The plan will stay in existence as long as necessary to pay already accrued benefits. Once a plan has been frozen regarding participation or benefit accrual, complete and prominent disclosure of the relevant circumstances is essential in all subsequent financial statements issued by the plan.

X.163 In accordance with FASB ASC glossary, *liquidation* is defined as the process by which an entity converts its assets to cash or other assets and settles its obligations with creditors in anticipation of the entity ceasing all activities. Upon cessation of the entity's activities, any remaining cash or other assets are distributed to the entity's investors or other claimants (albeit sometimes indirectly). Liquidation may be compulsory or voluntary. Freezing a plan in and of itself is not generally an event that would trigger the liquidation basis of accounting. FASB ASC 205-30, and paragraphs 6.127–.130 will be helpful in assessing when the liquidation basis of accounting applies.

Changes in Service Providers

X.164 Changes in service providers (recordkeepers, trustees or custodians, appraisers, actuaries, investment advisors, and auditors) are fairly common for employee benefit plans. The Form 5500 requires disclosure for any change in actuaries or independent auditors on Schedule C, Part III—"Termination Information on Accountants and Enrolled Actuaries."

Appendix A — Regulations, Administration, and Operation of a Multiemployer Plan

A-01 This appendix provides a more detailed description of multiemployer (ME) plan regulations, administration, and operations. It is important to have an understanding of the key plan provisions, roles and responsibilities, and reports and records that are involved in the operations and administration of an ME plan. An understanding of these key areas can be obtained from various documents such as collective bargaining agreement(s) (CBA), participation agreements, plan documents, trust agreements, service provider agreements, insurance contracts, and internal policies and procedures manuals.

Background

A-02 An ME plan, typically referred to as a Taft-Hartley plan, is an employee benefit plan that is maintained pursuant to one or more CBAs between two or more contributing employers (or a group association of employers) and one or more labor unions. If a labor union is not one of the parties, then the plan is not an ME plan subject to the Labor Management Relations Act of 1947, better known as the Taft-Hartley Act. Among the requirements, the Taft-Hartley Act calls for ME plans to be managed by a joint board of trustees—an equal representation of union employees and employers. There can be an unequal number of trustees on each side, but each side has an equal vote in making decisions.

A-03 The CBA is generally the document that dictates the amount or rate of contributions that will be made to the plan from contributing employers as well as when the contributions are due to the plan. In some cases, in lieu of a CBA, an employer can sign a participation agreement allowing contributions to the plan. ME plans typically have similar vesting, accrual, and minimum participation rules that apply to single employer plans and generally have a plan document and a trust agreement. The plan document sets forth the benefits available under the plan and the eligibility requirements to receive such benefits. The trust agreement details the methods of receipt, disbursement, and investment of funds in the plan.

A-04 Multiple employer plans (MEPs) are qualified pension plans and multiple employer welfare arrangements (MEWAs) are qualified health and welfare plans in which two or more employers join together to provide plan benefits to their collective employee and/or retiree groups more efficiently than either employer could on its own. The primary philosophy is to use an economy of scale to receive more robust services and at lower cost. The design of each MEP or MEWA may be unique to the employers or industry involved; however, such plans are generally distinct from ME plans in that they are not established and maintained due to a CBA between employees and management.

A-05 MEPs may be further classified as either "open" or "closed" depending on the financial, business, or industry relationship of the employers. In general, a closed MEP meets various requirements set forth by the U.S. Department of Labor (DOL) and as a result is classified as a single plan for all purposes and must meet the DOL requirements on a plan basis. An open MEP (which also may include any plan intended to be a closed MEP that fails or ceases to meet the DOL requirements) is considered a single plan for IRS purposes, but must meet DOL requirements on an individual employer basis. For further guidance on accounting and auditing of MEPs and MEWAs, see chapters 5, 6, and 7 of this guide.

A-06 An ME plan typically has participating employers operating in the same industry and allows employees in a unionized work force to maintain eligibility for benefits when they move from one employer to another within the industry covered by the plan. ME plans are predominantly concentrated in industries with seasonal employment or high worker mobility—such as the building and construction trades. They also are common in industries with many small employers whose employees move from job to job, often within the same year, for example, retail, food, entertainment, trucking, garment manufacturing, maritime, mining, and service industries.

A-07 Portability is a fundamental feature of ME plans. In essence, all contributing employers in a plan are treated as a single employer for purposes of crediting a covered worker's employment. All of a worker's covered employment with all contributing employers is centralized. The worker can change employment from one contributing employer to another contributing employer within the industry without losing his or her accumulated benefit credit. When the worker applies for benefits from the plan, all of his or her covered employment with all contributing employers is counted, subject to break-in-service rules.

A-08 ME plans range in size from plans with only a few contributing employers to plans with several thousand contributing employers. There are national ME plans that are designed to cover workers employed by contributing employers in all or nearly all 50 states and the District of Columbia. There are also regional ME plans that cover workers in multiple states statewide. Local ME plans cover workers employed in areas within a state.

A-09 ME retirement plans can include defined benefit pension plans (DB plans) and defined contribution retirement plans (DC plans) including 401(k) plans, profit sharing plans, and money purchase plans (commonly referred to as *annuity plans*).

A-10 ME plans that are not retirement plans are classified by the DOL and the IRS as health and welfare benefit plans (H&W plans). H&W plans take many forms and provide an array of benefits, including health benefits such as medical, vision, prescription drug, life insurance, disability coverage, and dental benefits. Other plans may provide welfare benefits such as unemployment benefits, daycare, scholarships, vacation benefits, and legal services benefits. They may also include apprenticeship plans (many of these types of plans are commonly referred to as *funds*). Benefits may be fully insured, self-insured, or a combination of both. Some ME plans provide health and welfare benefits only while the participant

is working, whereas others provide postemployment and retiree benefits such as health coverage.

A-11 An apprenticeship plan is a unique form of a multiemployer H&W plan that is established under a trust agreement to provide training and education related to the skills needed by employees in a given trade. Benefits are generally not designated to a particular individual; rather benefits are used for training of all participants in the plan. The benefits provided by apprenticeship plans typically include, but are not limited to, classroom instruction and workshops and may include the following program expenses, for example, instructor salaries, textbooks, training materials and supplies, tests, contests, and graduation ceremonies. Apprenticeship plans are subject to Title I of the Employee Retirement Income Security Act of 1974 (ERISA) and, as such, are required to comply with those regulations and related DOL rules and regulations. However, an apprenticeship plan can receive an exemption from the DOL that excludes such plans from certain ERISA reporting and disclosure requirements, including the filing of the annual Form 5500. Even if an exemption is obtained, these plans are still required to have an annual audit pursuant to the Taft-Hartley Act.

A-12 Although the purpose and structure of an apprenticeship plan is very different than other ME plans, the plan trustees are still subject to the general fiduciary standards of conduct, and the plan must be operated in compliance with all ERISA and DOL requirements. Because an apprenticeship plan is defined under ERISA as a welfare plan, its financial statements would generally be presented in the same format as all other H&W benefit plans.

A-13 Code of Federal Regulations, *Labor*, Title 29, Section 2520.104-22 of the DOL Rules and Regulations for Reporting and Disclosure under ERISA provides a limited exemption from reporting and disclosure requirements that is available for plans that provide only apprenticeship training benefits, other training benefits, or a combination of both. As previously discussed, such plans are exempt from annual reporting (Form 5500) and disclosures (for example, Summary Plan Description, Summary of Material Modification, or Summary Annual Report requirements of Part 1 of Title I of ERISA), although they remain subject to general fiduciary obligations. To obtain the exemption from filing the Form 5500, the administrator of the plan must have done the following:

- Filed a notice (or “waiver”) with the DOL
- Taken steps reasonably designed to ensure that the information required to be contained in such notice is disclosed to employees of employers contributing to the plan who may be eligible to enroll in any course of study sponsored or established by the plan
- Made such notice available to such employees upon request

Once the waiver is obtained, the notice must be updated for any changes, as applicable.

Definitions

A-14 The following terms are used throughout chapter X and in this appendix. These terms are frequently encountered in ME plan transactions. When such definitions come from an authoritative source, such source is noted in the definition.

- **accumulated eligibility credits.** Plan participants may qualify for a benefit in which eligibility credits or hours accumulate and result in the plan continuing to cover benefits (for example, medical claims) for a period of time (for example, when unemployed). Eligible participants are provided with coverage during periods of unemployment (or when work is slow or nonexistent, which often occurs in industries in which work is seasonal) when employer contributions to the plan would not otherwise provide coverage or benefits. The accumulated eligibility credits are sometimes referred to as an *hours bank* or *dollar bank*. Many ME plans also have a lag between work months and eligibility months, wherein a participant's employment or service earns eligibility for future periods. For example, a participant performing work in April, May, and June earns eligibility for October, November, and December.

- **administrative service entity.** A separate legal entity established by a self-administered plan. The administrative service entity can be a third-party administrator for other related plans by using the excess capacity and skill of the administrative service entity's personnel.

- **bargaining unit.** The group of employees authorized to negotiate working terms and conditions on behalf of all the employees of a company or industry, who perform covered work as defined in the collective bargaining agreement (CBA).

- **collective bargaining agreement (CBA).** A legal contract that results from negotiations between one or more employers and one or more labor unions on behalf of employees. Elements of the written agreement typically include wages, benefits, work hours, working conditions, and other provisions.

- **covered employment or covered work.** The period of employment during which an employee is working in a job classification covered by the CBA. Covered work is work performed as defined by the CBA. Contributions can be made only if an employee is employed in covered work.

- **employer association.** A collective organization of employers within a specified industry of wage labor. Employer associations seek to coordinate the behavior of their member companies during negotiations with trade unions or government bodies. Employer associations at times appoint the management trustees in an ME plan.

- **funding improvement plan.** A formal written plan that outlines the actions, including options or a range of options, to be proposed to the bargaining unit parties that, if undertaken, are reasonably expected to close the plan's funding gap by one third, or otherwise improve the plan's funded status per IRC Section 432(c)(3).

- **hours bank or dollar bank.** The hours a health plan participant accumulates to pay benefits or maintain eligibility in a future period (see accumulated eligibility credits). The hours worked by a participant are credited to an individual account. A worker accumulates hours in excess of the amount required to fund the monthly benefit when working extra hours (for example, summer work by a bridge painter) and then uses those hours when work is slow or nonexistent. Hours banks generally specify the maximum hours that can be held in the account. Some ME plans use a dollar bank, the principle of which is the same as an hours bank.

- **liquidated damages.** The amount of damages the parties designate during the formation of a contract (CBA) for the plan to collect as compensation upon a specific breach (for example, late payment of contributions).

- **participation agreement.** An agreement (or side agreement) that allows non-collectively bargained employees to participate in an ME plan. Non-collectively bargained employees can only participate in an ME plan if the plan specifically allows it. A participation agreement sets forth eligibility and contribution rates.

- **reciprocity (reciprocal) agreement.** An agreement between two or more ME plans that allows participants to fulfill service requirements and accumulate plan benefits in any of the plans having the agreement. It is common in the construction industry to have these types of agreements where an employee temporarily works within the jurisdiction of another plan.

- **Taft-Hartley plan.** An employee benefit plan or welfare plan established under the Labor Management Relations Act of 1947, better known as the Taft-Hartley Act, which is a U.S. federal law that, among other provisions, establishes the rules under which an ME plan must operate.

- **trust agreement.** A legal document that spells out the methods of receipt, disbursement, and investment of funds under the ME plan. The agreement contains provisions concerning the duties and powers of the board of trustees. Such provisions include investment powers of trustees; trustee and other fees relative to the plan; liability of trustees; periodic reports to be made to the employer or union by the trustees; maintenance of records and accounts; conditions for removal, resignation, or replacement of trustees; benefit payments under the plan; and the rights and duties of the trustees in case of amendment or termination of the plan.

- **rehabilitation plan.** A formal written plan that outlines the actions, including options or a range of options, which, if undertaken by the plan, are reasonably expected to bring the plan out of critical status by the end of the rehabilitation period, or otherwise forestall plan insolvency, per IRC Section 432(e)(3).

- **self-administered plan.** A benefit plan administered by a plan itself rather than through an insurance company or a third-party administrator. Self-administration often occurs in large ME plans.

- **subrogation.** A legal process by which an insurance company (or the ME plan), after paying a claim, has the right to recover that claim from another legally liable party. For example, an H&W plan might attempt to recoup benefits paid to a participant through a legal proceeding against the third party who caused the accident and resulting medical expenses.

Laws and Regulations

A-15 The National Labor Relations Act of 1935, otherwise known as the Wagner Act, was the first major piece of U.S. labor legislation and was known at the time as "Labor's Bill of Rights." The Wagner Act gave workers the right to organize, join labor unions, collectively bargain through representatives of their choosing, and strike. The act also established the National Labor Relations Board. In 1947, the Taft-Hartley Act repealed significant provisions of the Wagner Act. ME plans are defined under the provisions of the Taft-Hartley Act.

A-16 Regarding an ME plan, the Taft-Hartley Act requires the following:

- Plan assets be held in trust for the purpose of paying benefits exclusively for eligible participants and their beneficiaries

- The detailed basis on which such payments are to be made to the trust is specified in a written agreement with the employer

- Establishment of a joint board of trustees with equal representation from labor (employees) and management (employers)

- That pension funds cannot be used for any purpose other than paying pensions or annuities (for example, cannot be commingled with H&W funds)

- An annual financial statement audit

A-17 ME plans are subject to the provisions of ERISA, which require plans to file an annual Form 5500 with the DOL and which establish standards for participation, vesting, and benefit accruals, along with rules that all fiduciaries of the plan, including the trustees, must follow. Further, DB plans must comply with the provisions of the Pension Protection Act

of 2006 (PPA) and other relevant laws. Multiemployer H&W plans must adhere to the provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Affordable Care Act (ACA), and a variety of other healthcare regulations.

A-18 A significant requirement of the PPA, as amended, [fn 6] is for ME plans to have an annual certification prepared and filed by the plan's actuary, that helps to define the financial health of the plan (zone status). The benchmark measures of critical and critical and declining (red zone), seriously endangered (orange zone), endangered (yellow zone), and neither critical nor endangered (green zone) were standardized to help the board of trustees recognize plan funding deficiencies and establish long term solutions. Once a plan's status is certified as endangered, critical or critical and declining, written notice of the plan's status is required to be provided to the plan participants, beneficiaries, the bargaining parties, the Pension Benefit Guaranty Corporation (PBGC), and the DOL.

A-19 As amended by the PPA and the Kline-Miller Multiemployer Pension Reform Act (MPRA), ERISA provides rules for ME plans determined to be in endangered, critical, or critical and declining status. The actuary of a multiemployer DB plan is required to certify to the IRS and the plan sponsor whether or not the plan is in endangered status, whether or not the plan is in or will be in critical status, and whether or not the plan is in or will be in critical and declining status no later than the 90th day of each plan year. In addition, the actuary is required to certify whether the plan is making the scheduled progress in meeting the requirements of an existing funding improvement or rehabilitation plan, as applicable. Within 30 days of being certified in critical or endangered status, the plan sponsor is required to notify in writing the participants and beneficiaries, the bargaining parties, the PBGC, and the DOL. No later than 240 days following the required date for the actuarial certification, the plan's trustees are required to adopt a funding improvement plan if the plan is in endangered status or a rehabilitation plan if in critical status.

A-20 ME plans that are DB plans must pay annual premiums to the PBGC based on the number of participants covered by the plan. In exchange for the premiums, the PBGC provides a guarantee that certain minimum pension benefits will be paid to the participants and beneficiaries if the plan becomes insolvent. The insurance program is funded and maintained separately from the PBGC's other insurance program for single employer plans. Unlike insolvent single employer plans, which are generally taken over by the PBGC, an insolvent ME plan retains its identity and is provided financial assistance by the PBGC to pay basic PBGC benefits when due. This assistance is a loan that allows the ME plan to pay participants their guaranteed benefits and to pay the plan's reasonable administrative expenses.

[fn 6] The PPA has been further clarified and amended by the Multiemployer Pension Reform Act of 2014.

There are various reasons why ME plans run out of money; for example, contributing employers may gradually stop funding a plan for economic reasons or a major employer in the plan may go bankrupt.

A-21 The PBGC has broad discretion to set the conditions for this financial assistance. Typically, the PBCG will require the following:

- The loan will be repaid if the plan's financial condition improves.
- Benefits may only be paid at the guaranteed level.
- PBGC's loan is collateralized by employer contributions, withdrawal liability payments, and other plan assets.
- PBGC has broad audit authority over the plan.

A-22 In December 2014, MPRA became law, allowing troubled plans to use certain options under this law to reduce benefits. MPRA gives the board of trustees of multiemployer DB plans in critical and declining status the ability to avoid insolvency by reducing benefits, including benefits of current retirees, subject to various criteria and conditions. This benefit reduction is referred to as a *benefit suspension*. Any MPRA-approved benefit cuts may not reduce the benefit to less than 110 percent of the PBGC's guaranteed benefit, which is approximately $13,000 per retiree per year.

A-23 The approval process for an MPRA benefit suspension is rigorous and cannot take place until all required actions are completed. After a plan determines it is eligible to apply and that its benefits can be reduced in a way that will satisfy all of the applicable criteria and restraints, it may apply to the Department of the Treasury (Treasury) for approval. The plan must notify participants and beneficiaries of the application and provide an individualized estimate of the reduced benefits along with providing an opportunity for comment on the application. If the Treasury approves the application, the benefit suspension must be ratified by participant vote. Under MPRA, the approval is ratified unless a majority of all eligible plan participants and beneficiaries vote against it. If ratified, the final step is the Treasury's authorization to proceed with the benefit suspensions.

Tax Considerations

A-24 ME plans are subject to the qualification rules under IRC Section 401(a), including but not limited to eligibility, vesting, and joint and survivor distribution. However, some rules, such as vesting and IRC Section 415, apply differently to ME plans. ME plans are also subject to additional qualification rules under IRC Section 413(b).

A-25 ME plans are exempt from federal taxation as long as they maintain their tax-exempt status under the IRC. The plan document must be amended or restated periodically to comply with the changing tax laws and IRS regulations. Multiemployer DB plans are subject to

minimum funding standards under the IRC. Self-funded multiemployer H&W plans typically are funded through a Voluntary Employee Beneficiary Association (VEBA) trust, which generally is exempt from federal income tax. The VEBA trust is required to file an annual return Form 990, *Return of Organization Exempt from Income Tax,* with the IRS.

A-26 As with single employer plans, ME plans can be subject to unrelated business income tax (UBIT). For a full discussion of UBIT, see paragraphs 9.15–9.20 of this guide.

Administration and Operations of a Multiemployer Plan

A-27 Unlike a single employer plan, a person does not join an ME plan. An individual generally becomes a participant in an ME plan when a contribution is made on his or her behalf based on performing covered work as defined by the CBA. Participants in apprenticeship plans typically have completed an application with and have joined the related union and may have been required to take an exam before being accepted into the training program.

A-28 ME plans can be self-administered, partially self-administered, or administered by a third party. The self-administered plans may outsource certain aspects of administration of the plan to a service organization. As such, it is common for ME plans to have employees and thus also be considered an employer.

A-29 ME plans allow employees to move among employers within unionized industries (such as trucking, construction, and grocery store chains) to participate in the same retirement plan negotiated under either separate or common CBAs. An employee may work for multiple employers within the plan in the same year. One key characteristic of ME plans is that participants maintain eligibility for coverage when they change employers, as long as the new employer is covered by the same CBA and as long as the employee continues to perform covered work. This is particularly important in the building and construction trades, where employers hire workers for a construction project from their base of employees or from a pool of workers supplied by the union. The employees work solely for that employer until the project is completed, and then may move on to another company in the same industry working under the same CBA.

Reciprocity (Reciprocal) Agreements

A-30 Many ME plans covering workers in the same industry have reciprocity agreements to provide coverage for workers who seek work outside the jurisdiction of their plan. For example, some ME plans enter into agreements in which the employer contributions related to employees who work outside of their home area are sent back to the plan covering the area in which the employee lives. Alternatively, workers working outside their home area may actually receive vesting credit for years of service worked on projects within the jurisdiction of another plan. The pension benefit earned by a person performing work in multiple jurisdictions may be shared by those plans having reciprocity agreements. These agreements allow participants to aggregate service credit or benefits among one or more different ME plans.

A-31 To prevent deprivation of benefits to participants solely because of temporary employment within the jurisdiction of a local union other than their home local union, the reciprocal agreement provides for the following: when a member of the home local union who works in the territory of a reciprocating local union, the latter is to make contributions to the former's fringe benefit funds on the participant's behalf, at rates applicable to the reciprocating fund and that monies received by the plan on behalf of members of participating local unions are forwarded to their home local union's fringe benefit funds.

Contributions from Employers

A-32 As with many other aspects of ME plans, the funding is unique. Unlike a single employer plan where employer contributions are made at the employer's discretion or determined by actuarial calculation, employer contributions to ME plans are determined through the collective bargaining process and stipulated in the CBA. ME plans may be funded from both employer and employee contributions, and the funding and collection of contributions must be monitored.

A-33 The CBA will specify the method for calculating the employer contribution and the required contribution rate; either the CBA or the trust agreement will specify the due date. Contributions may be based on a flat amount, hours worked, hours paid, or a percentage of payroll. Multiple CBAs may be in effect, as well as tiered contribution rates for different classes of participants (for example, journeyman or apprentices), resulting in many different contribution rates. Generally, employers are required to submit monthly reports listing the covered employees who performed covered work during the month, the hours worked, and a calculation of the required monthly contribution(s).

A-34 Employers may participate in more than one plan such as a DB plan, a DC plan, an H&W plan, and an apprenticeship plan. Employers may either remit their contributions in one lump sum covering all plans or separately for each plan. Generally, the CBA and related documents specify the allocation of funds between multiple plans. In many collective bargaining negotiations, the employer offers a per-hour total compensation amount and leaves it to the union, on behalf of the workers, to decide how to allocate that compensation among cash wages, pension, health and welfare, and other benefits. The CBA is written to reflect the union's decision.

Dollar or Hour Banks and Self Payments

A-35 Most multiemployer H&W plans require participants to work a minimum number of hours each month, or within a certain defined period (such as quarterly, semiannually, and so on), to receive eligibility and continue to work a minimum number of hours to maintain eligibility. This minimum number of hours is analogous to a monthly insurance premium. Under certain plans, hours worked, or employer contributions received in excess of the minimum required amount, may be "banked" to fulfill deficits in future periods, which is especially common in the construction industry where work can be seasonal. These "hour banks" (or "dollar banks") are known as accumulated eligibility credits and are considered

a benefit obligation of the plan. In addition, plans may also allow participants to make personal payments, commonly known as "self-payments" to make up any shortfalls in required contributions not fulfilled through employer contributions made on their behalf or their hours or dollar banks in order to maintain health insurance coverage. Multiemployer H&W plans also may receive self-payments from retirees. Certain multiemployer H&W plans require an employee to make a co-payment for monthly benefit coverage; such amounts are withheld by the participant's employer and remitted to the plan by the employer along with the monthly employer contribution.

A-36 Multiemployer DC plans such as 401(k), profit sharing, and money purchase plans may also allow employee contributions, subject to certain limitations.

Withdrawal Liabilities

A-37 Multiemployer DB plans may be partially funded through collections from employers related to withdrawal liabilities. The most common causes of an employer incurring a withdrawal liability are an employer going out of business or voluntarily ceasing participation in the plan. An employer can leave the plan and may not be assessed a withdrawal liability if the plan is appropriately funded.

A-38 Under the Multiemployer Pension Plan Amendments Act of 1980, as amended by the MPRA, employers that withdraw from an underfunded multiemployer DB plan may be assessed a share of the plan's unfunded liability if there is either of the following:

a. A complete withdrawal by an employer that permanently ceases to have an obligation to contribute under the plan or permanently ceases all covered operations under the plan

b. A partial withdrawal in which the employer has a decline of 70 percent or more in contribution base units or a partial cessation of the employer's contribution obligation

A-39 Special rules that limit the conditions under which a complete or partial withdrawal may occur without incurring a withdrawal liability apply to certain industries such as construction, trucking, and entertainment.

A-40 When a complete or partial withdrawal occurs, plan fiduciaries are required, in consultation with the plan's legal counsel and actuary, to calculate the withdrawal liability, notify the employer, and collect the funds. An employer must make periodic payments based on its historical contribution levels until its withdrawal liability obligation is settled. In lieu of monthly payments, normally over a 20-year period, the withdrawing employer and the plan may settle on a one-time lump sum payment.

Grants and Subsidies

A-41 Some apprenticeship plans apply for and receive grants and subsidies from governmental agencies (federal, state, or local) or affiliated labor organizations. For example, a program may receive a grant for a variety of reasons, such as to implement safety initiatives, encourage technological advances in the trade, or attract women or minority candidates, or both, to its training programs. These programs may be subject to additional reporting and compliance requirements to the grantor outside of ERISA.

Noncash Contributions

A-42 Apprenticeship plans may receive donations for materials, equipment, or tools from third parties or from contributing employers. Contributing employers may also donate labor to a project carried out by the apprenticeship plan.

Collection Policies

A-43 ERISA requires that trustees have a duty to collect all money due to a plan. Plan administrators should have procedures established and documented to regularly monitor collection and communicate delinquencies to the employers, board of trustees, and legal counsel. The plan's collection policy generally describes the following:

a. The date contributions are due to the plan

b. Collections and the security for the collections (bonds, deposits)

c. Steps taken if contributions are not received by the specified due date

d. Any liquidated damages and interest assessed on late remittances

e. When legal counsel should be notified

f. Under what circumstances an employer may request reimbursement for overpayments

g. Under what circumstances professional fees (for example, legal and payroll compliance audit fees) associated with the cost of collection would be assessed against the employer

A-44 The document also may address the plan's policy for selecting employers for payroll compliance audits, which are discussed in the following "Payroll Audit Compliance Programs" section. It is common for plan trustees to delegate the responsibility for enforcing the collections policy to a subcommittee, made up of labor and employer members of the board of trustees, the plan administrator, and the plan's legal counsel, that meets periodically to address collection issues.

Payroll Audit Compliance Programs

A-45 Payroll audit compliance programs, sometimes referred to as *payroll audits*, comprise a plan's policies and procedures for testing participating employers' accounting and payroll records to determine that contributions to the plan are complete and accurate, according to

the terms of the CBA. A payroll audit compliance program serves as a control by which the plan's fiduciaries can monitor the accuracy of participating employer contributions and demonstrate that they have been diligent in fulfilling their fiduciary duty to collect all contributions due to the plan. It also provides a process for the plan's independent auditor to assess the completeness of employer contributions. These programs are conducted as part of the plan's overall contribution monitoring. These procedures may be performed internally by the plan administrator, by an independent CPA firm, or by another outside specialist.

A-46 Testing of employer payroll records is routinely performed to fulfill the responsibility trustees have to collect and protect plan assets, but testing may be performed in other circumstances as well. Often these are referred to as *for cause* or *special* audits. Examples include selecting a delinquent employer in order to quantify the amount owed to the plan; an investigation of complaints by participants that an employer is not properly reporting all employees performing work covered by the CBA; or a final audit of an employer that has elected to withdraw from the union in order to make sure that they have reported accurately through the date of the withdrawal.

Unique Aspects of Multiemployer Plans

Investments

A-47 Investments are usually the most significant asset in a plan's financial statement. Although investments owned by an ME plan are similar to those in a single employer plan, there are typically significant differences in the areas of monitoring and decision making. In addition, because ME plans can accumulate large asset balances, the plans may have access to investments not available to many single employer plans. It is very common for ME plans to invest in real estate, operating entities, and alternative investments such as hedge funds, derivatives, and private equity funds and to participate in securities lending activities. Such investment decisions must satisfy ERISA regulations.

A-48 Ownership of assets, such as real estate or operating entities, may take different forms, such as direct ownership by the plan itself, in a wholly owned subsidiary such as a single member limited liability company or a 501(c)(2) not-for-profit real estate holding corporation, or a partnership or joint venture. In some cases, debt or other commitments may be associated with the investment.

A-49 The members of the board of trustees can consist of union officials, union members, small business owners, management level employees of large companies, or directors of employer associations, who often have no professional investment background. As such, the board of trustees frequently will rely on service providers to perform and monitor the plan's investment activities such as investment consultants, investment managers, and investment custodians.

A-50 An investment consultant may be engaged to assist the trustees in all aspects of investment oversight, including the development of investment policy and objectives, determination of asset allocation, trustee education, an investment manager search, and ongoing investment performance monitoring. The investment consultant is an advisor to the board of trustees and is considered a plan fiduciary.

A-51 Investment managers are hired to buy and sell investments on behalf of the plan. Typically, an investment manager is an individual or a firm that makes investments in portfolios of securities on behalf of the plan, in accordance with the plan's investment policy. An ME plan may have one investment manager or several dozen, depending on its needs and objectives. An investment manager may be responsible for all activities associated with the management of the plan's portfolio, from buying and selling securities on a day-to-day basis to portfolio monitoring, settlement of transactions, and regulatory reporting. Because of the discretionary authority given to the investment managers, they are generally considered plan fiduciaries.

A-52 The investment custodian, typically a bank or financial institution, is responsible for the holding and the safekeeping of the various investment assets of the plan. The custodian may hold assets of many portfolios managed by different investment managers and maintains records of the investments, including their fair value as well as all activity and transactions.

A-53 Because alternative investments generally involve "direct" investing, the trustees are directly responsible for the due diligence related to the investment decision, for which they often utilize the investment consultant to assist in this process. General partners or fund managers of these alternative investment structures usually will not acknowledge fiduciary status under ERISA. Moreover, many times the custodian does not actually "hold" the plan's alternative investment assets but merely serves as a record keeper for such assets.

A-54 Increasingly, ME plans are engaging investment consultants to perform full-fiduciary services whereby the board of trustees delegates some or all investment decision-making authority to the investment consultant, including decisions regarding asset allocation and the hiring/firing of investment managers. Even in situations where an investment consultant is hired to perform full-fiduciary services, the board of trustees is ultimately responsible for monitoring the consultant to make sure it is properly performing the services.

Property and Equipment

A-55 Because many ME plans are self-administered or partially self-administered, it is not uncommon for ME plans to own property and equipment that are not considered plan investments. These plans may purchase buildings, leasehold improvements, equipment, and furniture and fixtures for use in operating the plan's administrative office. Often, apprenticeship plans own the building in which training is conducted. Some of these buildings may have been constructed by the plan and, as such, the plan may have a related construction

loan from a financial institution. In addition, a plan may lease office space, office equipment, or training facility space. A plan may use all or part of a building in plan operations, while leasing excess space to other related parties or third parties.

A-56 At times, plan investments are selected because of the collateral economic or social benefits they may further, in addition to their investment returns. For example, ME plans may select investment funds that finance union-built construction. The DOL issued Interpretive Bulletin (IB) 2015-01, which confirmed the view from IB 94-1 that fiduciaries may not accept lower expected returns or take on greater risks to secure collateral benefits but may take such benefits into account as "tiebreakers" when investments are otherwise equal with respect to their economic and financial characteristics. The guidance also acknowledges that environmental, social, and governance factors may have a direct relationship to the economic and financial value of an investment. When they do, these factors are more than just tiebreakers, but rather are proper components of the fiduciary's analysis of the economic and financial merits of competing investment choices.

Plan Expenses

A-57 ME plan fiduciaries must comply with standards set forth in ERISA regarding expenses administering the plan. The reasonableness of plan expenses is determined by the circumstances and is based on what a fiduciary would prudently expend in like circumstances for the sole and exclusive interest of participants and beneficiaries (the "reasonableness standard"). Because of the unique nature of ME plans, certain plan expenses may be incurred that would not be incurred by single employer plans.

A-58 When self-administered, the ME plan often shares facilities, equipment, and staff with affiliated entities or with a contributing employer or service provider. Transactions between plans with common boards of trustees are generally considered prohibited transactions. However, the DOL has issued various class exemptions permitting plans to share administrative services and office space with related plans and other parties in interest provided that certain conditions are met. These sharing arrangements should be documented by written agreement between the plan(s) and/or other entities, commonly known as "cost sharing agreements" or "cost allocation agreements."

A-59 Allocations of shared services, space, and expenses are expected to be made based on objective time and space studies, updated at least annually, and approved by the trustees of the plan. The following are examples of how shared expenses are allocated:

- For shared office space, the plan establishes the reasonableness of the rent, such as comparing the rent being charged to the current rental market rates.
- The costs are incurred jointly and typically paid initially by one of the entities or at times paid initially by a separate entity established exclusively for the purpose of paying joint expenses of the affiliated entities. The other entities will then reimburse that entity for their share of the costs incurred.

- The reimbursements are based on estimates of time spent, space used, or costs incurred. A cost allocation study is usually performed by plan management to determine such estimates.
- The facilities used in operations may be leased under an agreement executed jointly by all parties or by only one of the entities, in which case the rent and other occupancy costs are allocated to the other entities.
- Conversely, the facilities may be owned by the plan or by one of the affiliated entities, and each of the other entities is considered a tenant of the building owner. Therefore, the plan may either lease office space to or from such an affiliated entity.

Purchases from Contributing Employers

A-60 It is not uncommon for an apprenticeship plan to purchase tools and materials used in its training program from a contributing employer. The DOL provided a class exemption to allow such purchases of property from a contributing employer for no more than fair value. The class exemption does not provide relief regarding self-dealing, unless certain conditions are met. For example, many times the apprenticeship plan purchases materials for training from a contributing employer who employs (or is owned by) a trustee of the apprenticeship plan. For such a transaction to be exempt, the trustee affiliated with the contributing employer cannot participate in the decision to purchase from such contributing employer. In addition, the apprenticeship plan should either have a policy which provides that the apprenticeship plan not purchase from any contributing employer that employs a trustee or that those trustees recuse themselves from all considerations by the plan if their employer is potentially a party to the transaction. Such decisions and actions should be documented in the minutes of the apprenticeship plan's board of trustee meetings.

Trustee and Administrator Compensation

A-61 ERISA provides that a plan fiduciary may receive reasonable compensation from a plan for services rendered to the plan as well as reimbursement for reasonable "direct expenses" properly and actually incurred in the performance of duties for the plan and not otherwise reimbursed. However, a fiduciary who is already receiving full-time pay from an employer, employer association, or a union whose members participate in the plan, may only receive reimbursement for reasonable "direct expenses." Further, there are no per diems for trustees.

A-62 Because of the prohibition against acts of self-dealing, a trustee who can be compensated (because he or she is not receiving full-time pay) should not take part in the decision whether to pay compensation to trustees or the amount of the compensation, even though the payment of the compensation itself would be permitted. Likewise, a plan administrator should not establish his or her own compensation or take part in the compensation decision.

Compensation to Plan Employees

A-63 The reasonableness standard discussed previously also applies to compensation for plan staff. A compensation package for a plan employee typically includes more than just the salary paid. For key positions, in addition to ordinary fringe benefits, the compensation package may include benefits such as a car, non-qualified retirement arrangements, bonuses, severance arrangements, and travel arrangements. The individual components of the package may be permissible so long as the compensation is reasonable and necessary, and the trustees have documented that their determination included a consideration of how the expense benefits participants and beneficiaries.

Graduation Ceremonies

A-64 A graduation ceremony, although not appropriate for an ERISA plan in general, may be appropriate for an apprenticeship plan under certain circumstances. In general, the apprenticeship plan may pay for a modest graduation ceremony, but the plan may not pay for excessive or elaborate expenses.

Promotion Expense

A-65 Expenditures that an apprenticeship plan may make for marketing and promotion must be limited to marketing or promoting the apprenticeship plan itself. Expenditures by an apprenticeship plan, for example, for the advancement of the industry, contributing employers or the union are not allowable. Payments by a plan for the purchase of tickets to sporting and other entertainment events, gifts, charitable donations, and staff holiday parties generally are not permissible.

Travel and Meeting Expenses

A-66 Although the plan's reimbursement of direct expenses incurred by trustees or employees for travel and expenses related to plan business is permissible as long as the expenses are both necessary and reasonable, the payment of any related personal expenses is prohibited under ERISA. The DOL has challenged plan reimbursements to trustees and administrators for movies, health club fees, massages, spa fees, medications, magazines, newspapers, gift shop purchases, entertainment, cigars, alcohol, bottled water, toiletries or similar items or services and, of course, any expenses for spouses, family, or guests. Recreational expenses—even if included with conference registration fees—such as golf, plays, and sports events generally are considered personal expenses.

A-67 To be considered a reasonable expense, trustees or plan employees may only receive reimbursement for days during which they are actually in attendance at a meeting. When appropriate, the day before and the day after the meeting, as needed for travel, may also be considered reasonable. If meeting attendees are located within a single region or city, the

meeting should be held in that region or city unless there is some reason to benefit participants and beneficiaries that the meeting must be held elsewhere, and this reason is documented by the plan trustees.

A-68 Because thorough substantiation of travel and meal expenses provides evidence that the plan is meeting the exemption requirements for these reimbursements, many plans adopt a written expense policy. Appropriate guidelines in an expense policy would include a requirement for providing sufficient detail of expenses incurred.

Key Roles and Responsibilities

A-69 It is important to understand the roles and responsibilities of those charged with governance as well as what has been delegated to the key parties that are involved in the operation and administration of the various types of ME plans. An understanding of these roles and responsibilities can be obtained from the plan document, CBA, trust document, service agreements, insurance contracts, and internal policies and procedures manuals. The key parties and responsibilities of an ME plan is likely to involve the same parties as listed in paragraphs 5.06, 6.05, and 7.12 as well as paragraph X.07. The following parties are often unique to ME plans such as the board of trustees, labor union, employer association, audit and collection department, administrative service entity, payroll compliance auditor, and third-party administrative manager. (Also see the previous definitions and the glossary for a more detailed definition of certain terms.)

Plan Administrator Responsibilities

A-70 The plan's board of trustees has the exclusive right and responsibility to manage the plan's operations. The trustees typically delegate the authority and responsibility for day-to-day administration to an administrator. The plan administrator's typical responsibilities include general administration (maintenance of plan documents and amendments, minutes, contracts, CBAs, insurance policies), participant enrollment, and maintenance of participant data and fund records, as well as contribution and distribution processing, as follows:

- *General administration*. A plan administrator in an ME plan refers to either a third-party administrator (TPA), who is a service provider to the plan, or an in-house plan administrator, who is considered a key employee (or sometimes a fiduciary) of the plan. Both TPA and in-house administration models will often have dedicated departments for contribution processing and claims and benefits processing. Employees of self-administered plans often perform work for the plan and several related plans.

- *Enrollment and notices*. In an ME plan, the employees are provided a notice of eligibility at the time of hire or joining the union. Employees are provided a copy of the summary plan description and subsequent amendments. The plan administrator must provide notices to all participants and beneficiaries whose rights under the plan will be temporarily suspended, limited, or restricted. Once a participant

becomes eligible and is enrolled, the plan census data information is sent to the plan administrator, which may include, date of birth, date of hire, marital status, and the employee identification number.

- *Employer contributions process*. Employers signatory to the plan abide by a CBA that is negotiated periodically with the related labor union and ratified by the union members. Typically, employers remit the required contributions on a monthly basis, based on covered work hours or compensation amounts reported for the month and at the contribution rate agreed upon through collective bargaining. All employers may be under the same contribution rate under one CBA or have separately established rates under a variety of CBAs.

    a. The plan administrator typically sends out remittance reports to the employers on a set day of every month. The reports and contributions are due back to the plan by a set day of the next month.

    b. The remittance reports may cover either an individual plan or all plans proscribed by the CBA and may include other items such as union dues. They are usually pre-filled with the employer's previous month's employee information. This information includes employee name, employee identification number, and fields to be completed or updated, noting the hours worked or paid (for example, wages as defined by the CBA) and the amount(s) contributed for each plan on their behalf for the current cycle (for example, monthly or weekly). On each remittance report are instructions to the employers to adjust for any additions and deletions, as needed.

    c. The remittance reports may require the employer to send one payment covering contributions to several related entities including the plan or separate payments to each entity. Employer contributions are sent directly to the plan administrator's office or sent to a lockbox account held by the plan.

    d. Along with the contribution payments are the monthly remittance reports detailing the work hours or compensation for each employee. Most ME plans still rely on paper reports although some plans have implemented an electronic process for reporting hours and/or remitting contributions.

    e. The plan administrator posts the contributions and hours per the remittance reports. These contribution reports are typically subjected to validation and internal control procedures by the administrator for accuracy. The plan administrator typically uses computer software either internally developed or purchased from a third-party vendor with some customization, to maintain and process contributions. The system also

serves to accumulate participants' hours and wages, credits for eligibility, vesting, and reciprocity contributions and payments. In addition, various reports are produced to monitor the employer remittance activity, as needed.

f. The plan administrator monitors collection of employer and employee contributions and reviews delinquency or aging reports, coordinating with the plan's attorney on pursuing collection including liquidated damages and interest. In addition, the plan administrator would review results of payroll compliance audits.

- *Payroll compliance audits*. The plan trustees should maintain a payroll compliance program, whereby contributing employers are subject to audits of their payroll records to make sure that all eligible employees were included on remittance reports at the proper rate(s). This would include determining that changes to the census and the employee data were made at the appropriate time (for example, all new employees were added or terminated employees deleted and that contributions rates were changed). A representative group of contributing employers would be tested each year as determined by the trustees as part of a compliance audit cycle.

- *Participant contributions*. Participating employers in 401(k) plans withhold employee contributions and include these amounts on the remittance report. H&W plans typically receive contributions directly from retirees to cover some or all of their premiums. Participants may also make self-payments either to continue coverage under COBRA for required co-payments under the plan or to make up any shortfall in hours worked to maintain their eligibility. Such payments are typically sent directly to the plan by the retiree or participant or can be withheld from the retiree's DB monthly pension payment.

- *Participant records (data)*. Participant records are generally maintained on the system used for posting contributions and hours reported by the employer. The information includes employee identification number, gender, marital status, participant classification, date of birth, hours worked, beneficiary information and reciprocal directions, if any, and the history of contributions received on his or her behalf. The same database is often used for several affiliated plans. The administrator also uses the data to track participants' information for determination of eligibility and vesting.

- *Benefit payments process***.** The plan document describes the benefits available to the participants. Benefit payment records are generally maintained by the plan administrator. As noted previously, the contribution system is used to determine if a participant is eligible for a benefit.

a. **DC plans:** For participants or beneficiaries eligible for and requesting a distribution, the plan administrator or union office is typically contacted and will send out an application. The plan administrator verifies eligibility to receive the distribution and then will use participant records, such as age, contribution history, years of service, marital status, or divorce decree (or qualified domestic relations order) to determine the amount available for distribution based upon the provisions of the plan and obtain approval from the trustees for the distribution. Once approved, the distribution is then paid either by the plan or by the recordkeeper to the participant or beneficiary, or it is rolled over into another qualified plan. The plan administrator reviews and reconciles the distributions paid typically by agreeing to the bank statement or trust statement.

Note: Some plans may also follow a similar process if they allow for hardship distributions or participant loans which also would include repayment provisions.

b. **H&W plans:** Eligibility is determined based on the contribution history and plan provisions. See appendix A of chapter 7, "The Annual Health Care Process" for claims processing information.

c. **DB plans:** For new retirees, the plan administrator or union office is typically contacted and will send out a pension application. Once the plan administrator receives a completed application form along with supporting documents such as birth and marriage certificates, divorce decree (or qualified domestic relations order), the participant's years of service (pension credits) is verified by various means such as a letter to the employer, communication with the union, and tracing to the plan's contribution system. Contributions posted to a participant's record and years of service (hours) are converted to pension credits in the system based on plan provisions. The plan administrator calculates the benefit to be paid based on the number of pension credits and the applicable rates from the plan document.

The calculation is often reviewed for accuracy by the plan's actuary. Finally, the designated trustees review the applications and approve the distributions. After approval, the retiree is advised of the benefit amount and the start date of the monthly benefit. New pension benefits and any corresponding withholdings (for example, insurance or medical benefits or taxes) are communicated to the party making the benefit payments so that the retiree can be added to the monthly pension roll.

Once the plan administrator determines that a pensioner or beneficiary is deceased, they are removed from the pension roll. Generally, the plan administrator is notified, or the custodian bank will advise the plan that a check was returned. The plan administrator will typically request the death

certificate to verify the date of death or perform death record searches to make sure that records are up to date. Retired participants or beneficiaries (pensioners) typically receive their monthly pension benefit on the first day of each month. Pension checks may be issued by the custodian bank. The plan administrator reviews and reconciles the monthly pension roll and tracks the number of pensioners based on listings of new and terminated pensioners.

- *Benefit obligation process*. Relevant participant demographic, employment, and participation data is provided to the actuary to compute the benefit obligation for the plan.

  The plan administrator typically maintains the records of plan members who are both active, inactive, and retired. The contributing employers generally maintain the underlying records of active employees. The plan administrator typically acts as the recordkeeper for census data. The plan administrator prepares the census data file to provide to the actuary, which is based, in part, on information reported to the plan by contributing employers on a periodic basis as well as directly from employees. The census data file is an accumulation of census data information reported by contributing employers to the plan over numerous years that is adjusted by the plan administrator based on known events.

  Census data is reported to the plan administrator in numerous ways. It often begins with enrollment of an employee, whether by the employer or directly by the employee, through an application process that communicates certain elements of census data—including name, employee identification number, date of birth, gender, date of hire, marital status, and benefit group.

  Subsequent to enrollment, incremental changes to the census data are often reported to the plan administrator through the periodic employer remittance reports. The plan administrator uses the remittance reports to update records and the census data file for the current year. Similarly, other important status changes—such as benefit group, marital status, and employment status—may be reported to the plan administration through a reporting mechanism other than the employer contribution remittance reports.

Note: The accuracy and validity of the actuarial analysis are dependent on, among other things, the quality of the data used. Actuaries use professional judgment when determining whether and how to refine data or make modifications within the analysis based upon the accuracy of the data. Important aspects of data utilization used by the actuary include documentation and disclosure of the sources of data, review of data, material biases resulting from data used by the actuary, adjustments or corrections made to the data, and the extent of reliance on data supplied by others. Typically, actuaries do not audit data; therefore, it is important that census data be reconciled to participant records.

- *Administrative and operating expenses process*. The plan pays administrative and operating expenses. Such expenses are billed directly to the plan by invoice or based on the terms of a contract approved by the trustees. If self-administered, the plan also pays payroll and related expenses to or on behalf of its employees. Payroll may be processed in-house or by a third-party payroll processor.

  a. Self-administered plans may incur occupancy costs such as rental payments pursuant to a lease agreement or if the plan's premises are owned by the plan, any costs related to its operation or maintenance. Self-administered plans may also incur expenses for office supplies, postage, printing, insurance, and computer consulting. At their meetings, the trustees typically review payment records in detail and approve payments.

  b. For reimbursement of trustee expenses, plans often follow a written expense reimbursement policy developed by the trustees, plan administrator or plan attorney, so that the plan complies with ERISA and DOL regulations.

  c. For shared administrative expenses, either a related entity initially pays expenses and is reimbursed by the plan or the plan initially pays expenses and is reimbursed by the related entity or entities. On a regular basis (typically annually), time and space use estimates are developed and approved by the plan administrator and management of the related entity or entities. The mechanics of the allocation calculation are based on management estimates and assumptions. Trustees and governance of the related entity or entities review and approve the allocation of shared expenses. Often, a monthly estimate of allocated expenses is paid by or to the plan and an annual reconciliation and reimbursement between the related entities is made according to the allocation calculation.

Reports and Records

A-71 In addition to the typical records discussed in chapter 1, "Introduction and Background," and in appendix A of chapters 5 and 6 of this guide, an ME plan will also have the following:

a. **Contribution and participant hours records**. These records are often maintained on the plan's contribution system. The information includes the contributions and related work history for each participant in the plan. These records provide sufficient detail to record contributions and payments received from each contributing employer according to the CBA and participation agreements.

b. **Delinquency reports**. A delinquency report is typically prepared monthly and regularly reviewed by the plan administrator as well as the board of trustees. The report identifies all employers delinquent in payment of contributions.

c. **Payroll compliance audit reports**. A payroll compliance audit report is generated for each review of an employer's records for a given time period. The report identifies all employers audited and includes any underpayments or overpayments of contributions to the plan.

d. **Withdrawal liability reports**. If an employer experiences a withdrawal from the plan, an actuarial estimate is made of the withdrawal liability based on the employer's allocable share of the plan's unfunded vested benefits. Withdrawal liability letters are provided to withdrawing employers, specifying the assessment amount and required installment payment schedule.

e. **Real estate records**. Plan-owned real estate is often valued periodically by independent third-party appraisals. The plan maintains these appraisal reports to support amounts recognized in its financial statements and amounts included in annual Form 5500 filings.

f. **Lease agreements**. The plan's lease agreements in effect (as lessee or lessor) provide the terms under which the plan rents or leases property.

g. **Allocation studies**. Annual allocations of an ME plan's expenses that are jointly incurred with related entities are based on estimates of time, space, and usage. These reports document the specific allocation methods and assumptions that support the amounts paid or received by the plan.

h. **Collection information and records**. Because ME plans have collection policies and procedures to follow, documentation of actions taken when following these procedures needs to be retained in the plan's records. This is most important when contributions due from a contributing employer are dismissed or deemed uncollectible,

which is allowed under specific DOL exemption guidance. Usually, a plan will receive an opinion from plan counsel regarding such actions. In addition, detailed contributing employer contribution information needs to be maintained by the plan for various reasons, including for the calculation of any potential withdrawal liability for a specific employer.

Appendix X

Illustrations of Financial Statements: Multiemployer Defined Benefit Pension Plans

This appendix is nonauthoritative and is included for informational purposes only.

X.01 This appendix illustrates applications of certain provisions of FASB *Accounting Standards Codification* (ASC) 960, *Plan Accounting—Defined Benefit Pension Plan*, to the annual financial statements of the hypothetical multiemployer defined benefit pension plan, Steamrollers Pension Plan.

X.02 Circumstances include the following:

a. Steamrollers Pension Plan is a multiemployer defined benefit pension plan providing retirement, disability, and death benefits.

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 Department of Labor (DOL) limited-scope audit relating to certified investment information. (See paragraph C.08 in appendix C, "Illustrations of Financial Statements: Defined Contribution Retirement Plans," of this guide for an illustrative note for certified investment information.)

c. As of January 1, 20X3, the Plan was certified to be in critical status (red zone) for the Plan year beginning January 1, 20X2. The funded status provides an indication of the financial health of the plan. The Plan had been certified to be in critical status in both 20X1 and 20X0 and established a rehabilitation plan in 20X0. Disclosure of the rehabilitation plan has been simplified and is a hypothetical example as each plan's circumstances are unique.

If not in critical or endangered status, consider the following disclosure:

Pension Protection Act Funding Status

Beginning January 1, 20X2, based on actuarial assumptions, participant and financial data, and plan provisions, the Plan's actuary certified that the Plan was in neither critical nor endangered status as defined in the Pension Protection Act of 2006.

d. There were no transfers of investments between levels of the fair value hierarchy during the years ended December 31, 20X2 and 20X1, and the Plan has not entered into securities lending arrangements or invested in any derivatives. See appendix E, "Illustration of Financial Statements: Single Employer Defined Benefit Pension Plan" for examples of such disclosures.

e. The Plan owns investment rental property, which is leased to unrelated third parties, is recorded at fair value in the statements of net assets available for benefits, and the changes in fair value are included in net appreciation of investments in the statements of changes in net assets available for benefits. The net rental income is presented within investment income in the statements of changes in net assets available for benefits separate from net appreciation.

f. The Plan holds investments in a hedge fund and a real estate limited partnership, neither of which files as a direct filing entity. These funds are measured and presented at fair value using net asset value per share as a practical expedient.

Note

FASB ASC 960-325-50-6 states that if an investment is measured using the net asset value per share (or its equivalent) practical expedient in FASB ASC 820-10-35-59 and that investment is in a fund that files U.S. Department of Labor Form 5500 as a direct filing entity, disclosure of that investment's significant investment strategy, as discussed in FASB ASC 820-10-50-6A(a), is not required.

g. The Plan presents separate statements of net assets available for benefits (exhibit X-1), statement of changes in net assets available for benefits (exhibits X-2), statement of accumulated plan benefits (exhibits X-3), and statement of changes in accumulated plan benefits (exhibit X-4).

h. Appendix X assumes a beginning-of-year benefit information date (see appendix E, exhibits E-1, E-2, E-3, and E-4, "Illustration of Financial Statements: Single Employer Defined Benefit Pension Plan," for an illustration of the end-of-year benefit information date).

- The financial statement disclosures include a summary of plan expenses in a separate note that may otherwise be broken out by major categories on the face of the financial statements. Additionally, these expenses are often presented in an accompanying supplemental schedule.

X.03 The disclosures required by FASB ASC 250, *Accounting Changes and Error Corrections*, relating to the adoption of a FASB ASC update have not been illustrated in this example.

X.04 Although not illustrated, FASB ASC 960-20-45-2 permits the information regarding the actuarial present value of accumulated plan benefits and changes therein to be presented in the notes to the financial statements. That information may be presented on the face of one or more financial statements or the notes thereto. Regardless of the format selected, each category of information should be presented in its entirety in the same location. If a statement format is selected for either category, a separate statement may be used to present that information or, provided the information is as of the same date or for the same period, that information may be presented together with information regarding the net assets available for benefits and the year-to-year changes therein.

Use of Beginning-of-Year Benefit Information Date

X.05 The presentation of the financial statement information and the notes to the financial statements are affected by the benefit information date selected for disclosure. The preferred approach is to use an end-of-year benefit information date. If a beginning-of-year benefit information date is selected, the present value of accumulated plan benefits should also be presented as of the same date as the net assets. In this case, two statements of net assets available for benefits and two statements of changes in net assets available for benefits are presented. Only a single year of the present value of accumulated plan benefits is required with a reconciliation from the prior year.

X.06 The notes to the financial statements are for the illustrative financial statements that use beginning-of-year benefit information. See appendix E, "Illustration of Financial Statements: Single Employer Defined Benefit Pension Plan," for the end-of-year benefit information disclosures.

X.07 Generally accepted accounting principles (GAAP) do not require comparative financial statements unless the beginning-of-year benefit information is used. In this case, a prior-year statement of net assets available for benefits and changes therein must also be presented in order to report on the financial status of the Plan. The Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the requirements of ERISA.

X.08 The illustrative financial statements do not illustrate other requirements of FASB ASC 960 as well as other FASB ASC topics that might be applicable in circumstances other than those assumed for this example. The formats and the wording of accompanying notes are illustrative and not necessarily the only possible presentation.

Fair Value Disclosures

X.09 The information contained in the fair value disclosures is based upon information specific to this illustration for Steamrollers Pension Plan as presented in exhibits E-1 through E-5. 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 820-10-35-6A, the principal (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. FASB ASC 960-325-50-1 states that defined benefit 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 FASB ASC 960-325-45-2.

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 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 either or both a valuation approach and a 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 X.12 for other resources.

FASB ASU No. 2016-02, *Leases (Topic 842)*

X.10 On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU replaces FASB ASC 840, *Leases*, with new lease guidance applicable to both lessees and lessors, which is now included in FASB ASC 842. For employee benefit plans filing with the SEC, ASU No. 2016-02 is effective for fiscal years beginning after December 15,

2018. For all other types of plans, the guidance is effective for fiscal years beginning after December 15, 2019. These illustrative financials do not take into account ASU No. 2016-02.

Comparative Financial Statements and Supplemental Information

X.11 ERISA requires a comparative statement of net assets available for benefits. ERISA and DOL regulations require that certain information be included in supplemental schedules and reported on by the independent auditor; this information is not required under GAAP. See appendix A, "ERISA and Related Regulations," for a further discussion of such ERISA and DOL requirements. These illustrative financial statements do not include example supplemental schedules.

Other Resources

X.12 The illustrative financial statements contained in this appendix are only examples of how defined benefit pension plan financial statements may look. The following table contains other sources of investment-related illustrations and disclosures that may provide additional guidance.

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

X.13 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 statement disclosures based on actual examples. [fn 1]

Illustration Assuming a Beginning-of-Year Benefit Information Date

Exhibit X-1

Steamrollers Pension Plan
Statements of Net Assets Available for Benefits

December 31, 20X2 and 20X1

	December 31,	
	20X2	*20X1*
Assets		
Investments, at fair value (notes E and F):	$41,640,000	$41,270,000
Receivables		
Employer contributions, net	400,000	350,000
Assessed withdrawal liability, net (note H)	900,000	1,000,000
Due from broker for securities sold	210,000	75,000
Accrued interest and dividends	75,300	72,900
Due from related organizations	1,700	3,100
Total receivables	1,587,000	1,501,000
Property and equipment, net (note G)	188,000	145,000

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

Cash—noninterest bearing	200,000	90,000
Total assets	43,615,000	43,006,000
Liabilities		
Due to broker for securities purchased	90,000	460,000
Accrued expenses	65,000	40,000
Total liabilities	155,000	500,000
Net assets available for benefits	$43,460,000	$42,506,000

See accompanying notes to the financial statements.

Exhibit X-2

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

Steamrollers Pension Plan
Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 20X2 and 20X1

	20X2	*20X1*
Investment income:		
Net appreciation in fair value of		
Investments	$651,000	$1,360,000
Interest	1,325,000	1,120,000
Dividends	50,000	90,000

Net rental income from investment property	150,000	145,000
	2,176,000	2,715,000
Less investment expenses	390,000	350,000
Total investment income	1,786,000	2,365,000
Employer contributions	5,140,000	5,040,000
Withdrawal liability income	90,000	100,000
Total additions	7,016,000	7,505,000
Benefits paid directly to participants	4,740,000	4,561,000
Purchases of annuity contracts	257,000	185,000
Total benefits paid	4,997,000	4,746,000
Administrative expenses (note P)	1,065,000	1,058,000
Total deductions	6,062,000	5,804,000
Net increase	954,000	1,701,000
Net assets available for benefits:		
Beginning of year	42,506,000	40,805,000
End of year	$43,460,000	$42,506,000

See accompanying notes to the financial statements.

Exhibit X-3

Steamrollers Pension Plan
Statement of Accumulated Plan Benefits
December 31, 20X1

	20X1

	20X1
Actuarial present value of accumulated plan benefits (note C)	
Vested benefits:	
Participants currently receiving payments	$17,850,000
Other participants	39,510,000
	57,360,000
Nonvested benefits	14,520,000
Total actuarial present value of accumulated plan benefits	$71,880,000

See accompanying notes to the financial statements.

Exhibit X-4

Steamrollers Pension Plan
Statement of Changes in Accumulated Plan Benefits
Year Ended December 31, 20X1

	20X1
Actuarial present value of accumulated plan benefits at beginning of year	$69,890,000
Increase (decrease) during the year attributable to:	
Changes in actuarial assumptions (note C)	3,700,000
Benefits accumulated	2,012,000

Increase for interest [fn 2]	1,024,000
Benefits paid	(4,746,000)
Net increase	1,990,000
Actuarial present value of accumulated plan benefits at end of year	$71,880,000

See accompanying notes to the financial statements.

> **Note**
>
> As discussed in paragraph X.04, as an alternative, it is acceptable to show a reconciliation of the significant changes in benefit obligations in paragraph form, which includes appropriate reference to related notes as well as including the actuarial present value of the accumulated plan benefits as of the end of the preceding year.

Exhibit X-5

Steamrollers Pension Plan
Notes to Financial Statements

A. *Description of Plan*

The following description of the Steamrollers Pension Plan (the 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 multiemployer defined benefit pension plan. The Plan was established effective September 1, 1964, as a result of a collective bargaining agreement (CBA) between the Steamrollers Contractors Association and the Local Union No. 27 of the International Brotherhood of Steamrollers and Steampipe

[fn 2] The actuarial report will often refer to this amount as the "increase for interest due to the decrease in the discount period."

Workers (Local 27) to provide retirement, death, and disability benefits for eligible participants and beneficiaries. To be eligible, an employee must be working for a participating employer who is subject to the CBA or for a participating employer subject to a trustee approved participation agreement. Additionally, pursuant to a participation agreement, office employees of the Plan are eligible to participate in the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Administration of the Plan is the responsibility of the Board of Trustees (the Trustees) and is governed by a joint board consisting of equal representation from the participating employers and the Local 27.

2. *Funding Policy*. The participating employers make monthly contributions to the Plan on behalf of covered employees in amounts determined by the CBA and subject to minimum funding requirements of ERISA and maximum deductibility of contributions by participating employers under the IRC. Hourly contribution rates vary by collective bargaining agreements from $X.XX to $Y.XY. Contributions by participants are not permitted under the Plan. The Plan Trustees design the benefit structure based on information from the actuarial consultants. The Plan's actuary has certified that the minimum funding requirements of ERISA have been met as of January 1, 20X1.

3. *Pension Protection Act Funding Status.* As required by ERISA under the Pension Protection Act of 2006 (PPA), the Plan's actuary has completed the Plan's actuarial funding status certification as of January 1, 20X3, in accordance with generally accepted actuarial principles and practices. The certification was based on projections using the actuarial present value of accumulated benefit obligations as of January 1, 20X2 and audited financial information as of December 31, 20X1, as well as other financial information, including estimated cash flows for the year ended December 31, 20X2 and the rate of market value return as reported by the investment consultant. The funded (zone) status provides an indication of the financial health of the Plan.

   The Plan was certified to be in critical status (red zone) because a funding deficiency was projected for the next four years, and the funded percentage was less than 65 percent. The Plan's funding status at December 31, 20X1 was 59 percent. The certification also notified the Trustees that the Plan is making scheduled progress in meeting the requirements of the Rehabilitation Plan aimed at restoring the financial health of the Plan that was adopted by the Trustees in October 20X1.

   As required by the PPA, on May 31, 20X0, the Trustees established a Rehabilitation Plan. The Rehabilitation Plan sets forth the actions taken by the bargaining parties and the Trustees of the Plan, based on reasonably anticipated experience and reasonable actuarial assumptions, to enable the Plan to cease to be in critical

status at the end of the Plan's Rehabilitation Period. The Rehabilitation Period is the 10-year period beginning on January 1, 20X1 and ending on December 31, 20Y0. The Plan will emerge from critical status when its actuary certifies for a Plan Year that the Plan is not projected to have an accumulated funding deficiency for that Plan Year or any of the nine succeeding Plan Years (without regard to the use of the shortfall funding method but taking into account any extension of amortization periods under Section 431(d) of the IRC).

The Rehabilitation Plan incorporated the following benefit reductions and contribution increases.

- Benefit accrual rates reduced from XX% to WW% of contributions effective with January 20X1 work hours.

- Suspension of the lump-sum payment option for participants retiring after January 1, 20X3.

- Early retirement benefit factors reduced effective November 1, 20X1.

- Early retirement age for vested benefits earned on or after January 1, 20X2, has been revised from age 60 to 62.

- Employer contributions are required to increase by $1.00 per hour per year in August 20X1 through 20X4, with no additional accrual of benefits.

The Rehabilitation Plan is based on several assumptions about future experience and may need to be adjusted in the future if such assumptions are not met.

4. *Pension Benefits*. The Plan provides the following three types of pension benefits: (1) normal retirement, (2) early retirement, and (3) disability retirement. The type and amount of the pension benefit is based on several factors, including the participant's age, work history (years of service and number of hours worked), and disability. Participants are 100 percent vested in the Plan after five years of credited service without a permanent break in service.

   Normal pensions are granted at the age of 65 to participants with vested status, at age 62 with 30 years of service with a minimum of 500 hours earned for each year, or at any age with 35 years of service with a minimum of 500 hours earned for each year. Early retirement pensions are granted between the ages of 62 and 65 to participants with a vested status and to participants at age 57 who have 30 years of service with a minimum of 500 hours earned for each year. The normal or early retirement benefits, to which a married participant (with a qualifying spouse) is entitled, is automatically paid in the form of a qualified joint and 50 percent survivor benefit unless the participant and his spouse elect another benefit option. The Plan also offers 75 percent and 100 percent joint and survivor options.

Upon retirement, participants have the option of receiving their vested benefits in the form of a one-time lump-sum payment or a monthly annuity payable for their lifetime. As of January 1, 20X3, the lump-sum payment option has been suspended.

5. *Death and Disability Benefits*. Active participants with at least five years of vesting service, who have worked at least one hour in covered employment during the 12 months prior to disability and who have been deemed disabled by the Social Security Administration, are eligible to receive total and permanent disability benefits equal to 82.5 percent of the accrued normal retirement benefit subject to a minimum benefit of $200 and a maximum benefit of $400 per month. This is payable until the earlier of age 65, recovery, or death.

   Beneficiaries of participants are eligible to receive a death benefit. When a participant dies following retirement, the death benefits available are based on the benefit option selected at the time of retirement. Pre-retirement death benefits are based on the participant's years of covered employment, marital status, and disability status.

B. *Summary of Accounting Policies*

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

1. *Basis of Accounting*. The accompanying financial statements are prepared on the accrual basis of accounting.

2. *Use of Estimates.* The preparation of financial statements in 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, liabilities, and changes therein; disclosure of contingent assets and liabilities; and the actuarial present value of accumulated plan benefits at the date of the financial statements, and changes therein. Actual results could differ from those estimates.

3. *Investment Valuation and Income Recognition*. Investments are stated at fair value. *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies by using information provided by its investment advisers, custodians, and insurance company. See note E for a discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation in fair value of investments includes the Plan's gains and losses on investments bought and sold as well as held during the year. Net

rental income from investment property includes gross rents and lease termination income, net of operating expenses for the investment property.

4. *Payment of Benefits*. Benefit payments to participants are recorded upon distribution.

5. *Administrative Expenses.* Expenses incurred in connection with the general administration of the Plan are recorded as deductions in the accompanying statements of changes in net assets available for benefits. The Plan shares certain administrative expenses with a related annuity plan. In computing these allocated costs, various factors were considered, including the time spent, space used, costs incurred, and volume of transactions relating to the Plan in relation to the other plan (see note L). Certain investment-related expenses are included in net appreciation in fair value of investments presented in the accompanying statements of changes in net assets available for benefits.

6. *Employer Contributions Receivable*. The Plan's policy is to recognize contributions based on the latest executed collective bargaining agreement on an individual employer basis. Contributions from participating employers are based on a percentage of the participating employers' monthly payroll for covered employees and are payable to the Plan during the subsequent month. Contributions due but not paid prior to year-end are recorded as contributions receivable. Management of the Plan evaluates participating employers' contributions receivable periodically for potential uncollectible amounts based on the likelihood of collection. As of December 31, 20X2 and 20X1, the allowance was $100,000 and $71,000, respectively.

7. *Assessed Withdrawal Liability Receivable.* The Plan's policy is to recognize a receivable at its present value, net of any allowance for collectability once a withdrawal liability has been actuarially determined and formally assessed by the Plan.

8. *Property and Equipment*. Property and equipment are recorded at cost, less accumulated depreciation. Major additions are capitalized, whereas replacements, maintenance, and repairs, which do not improve or extend the useful lives of the respective assets, are expensed currently. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Building and Improvements	10–40
Equipment	3–19

9. *Long-Lived Asset Impairment.* The Plan evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate that the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The fair values are determined based on appraisals received. There was no asset impairment during the years ended December 31, 20X2 and 20X1.

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

C. *Actuarial Present Value of Accumulated Plan Benefits*

Accumulated plan benefits are those future periodic payments, including lump sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (*a*) retired or terminated employees or their beneficiaries, (*b*) beneficiaries of employees who have died, and (*c*) present employees or their beneficiaries. Benefits under the Plan are accumulated based on participants' years of credited service. The accumulated plan benefits for active employees will equal the accumulation, with interest, of the annual benefit accruals as of the benefit information date. Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated plan benefits.

The actuarial present value of accumulated plan benefits is determined by an independent actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuation as of December 31, 20X1 were (*a*) life expectancy of participants [*identify mortality assumption(s), for example, applicable mortality table used*], (*b*) retirement age assumptions (the assumed average retirement age was 62), and (*c*) investment return. The interest rates used to discount the obligation for 20X1 were X.XX percent, including a reduction of X.XX percent to reflect anticipated administrative expenses associated with providing benefits. Changes in actuarial assumptions increased the benefit obligations by $3,700,000 during the year ended December 31, 20X1, primarily due to changes to the mortality table and interest rate. The foregoing actuarial assumptions are based on the presumption that the Plan will continue.

Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits. The computations of the actuarial present value of accumulated plan benefits were made as of January 1, 20X2. Had the valuations been performed as of December 31, there would be no material differences.

D. Plan Termination

It is the intent of the Trustees to continue the Plan in full force and effect; however, the right to discontinue the Plan is reserved by the Trustees. During termination, the Plan's assets should not be used for or diverted to purposes other than the exclusive benefit of the pensioners, beneficiaries, and participants. In the event of termination, the net assets of the Plan will be allocated, as prescribed by ERISA and its related regulations, generally to provide the following benefits in the order indicated.

1. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under plan provisions in effect at any time during the five years preceding plan termination.

2. Other vested benefits insured by the Pension Benefit Guaranty Corporation (PBGC) (a U.S. government agency) up to the applicable limitations.

3. All other vested benefits (that is, vested benefits not insured by the PBGC).

4. All nonvested benefits.

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

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide for accumulated benefit obligations and may also depend on the financial condition of the Plan and the level of benefits guaranteed by the PBGC. For multiemployer plans, the PBGC provides financial assistance to plans that are unable to pay basic PBGC guaranteed benefits when due.

E. 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 *i.* quoted prices for similar assets or liabilities in active markets; *j.* quoted prices for identical or similar assets or liabilities in inactive markets; *k.* inputs other than quoted prices that are observable for the asset or liability; *l.* 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's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

Common stock: 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. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

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

Real estate: Valued at fair value based upon an independent appraisal. This appraisal was based upon market valuation techniques with a focus on income capitalization, discounted cash flow, and sales of comparable properties.

Hedge fund and limited partnerships: Valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate 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 Plan will sell the investment for an amount different than the reported NAV.

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

Assets at Fair Value as of December 31, 20X2

	Level 1	*Level 2*	*Level 3*	*Total*
Common stock	$16,040,000	—	—	$16,040,000
Corporate bonds	—	3,100,000	400,000	3,500,000
U.S. government securities	—	9,350,000	—	9,350,000
Real estate	—	—	6,000,000	6,000,000
Total assets in the fair value hierarchy	16,040,000	12,450,000	6,400,000	34,890,000
Investments measured at NAV				6,750,000
Total investments, at fair value	**$16,040,000**	**$12,450,000**	**$6,400,000**	**$41,640,000**

Assets at Fair Value as of December 31, 20X1

	Level 1	*Level 2*	*Level 3*	*Total*
Common stock	$15,830,000	—	—	$15,830,000
Corporate bonds	—	3,450,000	220,000	3,670,000
U.S. government securities	—	9,270,000	—	9,270,000
Real estate	—	—	5,800,000	5,800,000
Total investments in the fair value hierarchy	15,830,000	12,720,000	6,020,000	34,570,000
Investments measured at NAV				6,700,000
Total investments, at fair value	**$15,830,000**	**$12,720,000**	**$6,020,000**	**$41,270,000**

Transfers Between Levels

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

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

Changes in Fair Value of Level 3 Assets and Related Gains and Losses

The following tables sets forth a summary of changes in the fair value of the Plan's level 3 assets for the years ended December 31, 20X2 and 20X1.

	Year Ended December 31, 20X2		
	Corporate Bonds	*Real Estate*	*Total*
Balance, beginning of year	$220,000	$5,800,000	$6,020,000
Realized gains/(losses)	100,000		100,000

	Year Ended December 31, 20X2		
	Corporate Bonds	*Real Estate*	*Total*
Unrealized gains/(losses) relating to assets still held at the reporting date	(30,000)	200,000	170,000
Purchases	210,000		210,000
Sales	(100,000)		(100,000)
Issuances	—		—
Settlements	—		—
Balance, end of year	$400,000	$6,000,000	$6,400,000
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$(30,000)	$200,000	$170,000

	Year Ended December 31, 20X1		
	Corporate Bonds	*Real Estate*	*Total*
Balance, beginning of year	$140,000	$5,300,000	$5,440,000
Realized gains/(losses)	50,000		50,000

	Year Ended December 31, 20X1		
	Corporate Bonds	*Real Estate*	*Total*
Unrealized gains/(losses) relating to assets still held at the reporting date			
	20,000	100,000	120,000
Purchases	110,000	400,000	510,000
Sales	(100,000)		(100,000)
Issuances	—		—
Settlements	—		—
Balance, end of year	$220,000	$5,800,000	$6,020,000
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$20,000	$100,000	$120,000

Gains and losses (realized and unrealized) included in changes in net assets for the previous period are reported in net appreciation in fair value of investments in the statement of changes in net assets available for benefits.

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

The following table represents the Plan's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments as of December 31, 20X2 and 20X1, respectively, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	*Fair Value 12/31/20X2*	*Fair Value 12/31/20X1*	*Principal Valuation Technique*	*Significant Unobservable Inputs*	*Range of Significant Input Values*	*Weighted Average*
Corporate bonds	$400,000	$220,000	Discounted cash flow	Credit risk (basis points)	xx–xxx	Y%
				Liquidity risk (basis points)	xx–xxx	Y%
Real estate	$6,000,000	$5,800,000	Market approach with focus on income capitalization and discounted cash flow blended with sales comparison approach with focus on sales of comparable properties	Capitalization rate	X–% Y%	Z%
				Discount rate	X%	Z%
				Debt Coverage ratio and Band of Investment ratio	X%–Y%	Z%

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

Fair Value of Investments that Calculate Net Asset Value

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

December 31, 20X2	*Fair Value*	*Unfunded Commit-ments*	*Redemption Frequency (if currently eligible)*	*Redemption Notice Pe-riod*
Hedge fund (a)	$4,480,000	$100,000	Monthly	30 days
Real estate limited partnership (b)	$2,270,000	$1,000,000	See (b)	See (b)

December 31, 20X1	*Fair Value*	*Unfunded Commit-ments*	*Redemption Frequency (if currently eligible)*	*Redemption Notice Pe-riod*
Hedge fund (a)	$4,460,000	$100,000	Monthly	30 days
Real estate limited partnership (b)	$2,240,000	$1,000,000	See (b)	See (b)

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

(b) *Real estate limited partnership*. The real estate limited partnership invests primarily in commercial real estate and includes mortgage loans, which are backed by the associated properties. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. As of December 31, 20X2, a limitation was in effect, which delayed the payment of withdrawal requests and provided for payments of such requests on a pro rata basis as cash becomes available. Aside from the withdrawal limitation in place at December 31, 20X2, investments in the real estate limited partnership can be redeemed 2 times in a 30-day period at the current net asset value per share based on the fair value of the underlying assets.

F. Real Estate Investment

The Plan owns an office building located at 123 Main Street, Capital City, which is leased to third parties. The Plan recognizes the real estate as a plan investment, which is recorded at fair value. The Plan has an agreement with Property Management, LLC, as property manager of the office building and an agreement with Brokerage, Inc. as a leasing agent of the building. The following is a summary of the net rental income:

	Year Ended December 31,	
Income:	20X2	20X1
Gross rents	$800,000	$789,000
Lease termination income	1,000	—
Total income:	801,000	789,000
Expenses:		
Operating expenses	551,000	541,000
Administrative expenses	100,000	103,000
Total expenses	651,000	644,000
Net rental income	$150,000	$145,000

G. Property and Equipment

Property and equipment used in operations consist of the following:

	December 31,	
	20X2	*20X1*
Land	$100,000	$100,000
Building and improvements	420,000	410,000
Furniture and equipment	80,000	35,000
Total	600,000	545,000
Less: Accumulated depreciation	(412,000)	(400,000)
Property and equipment, net	$188,000	$145,000

Depreciation expense was $12,000 and $8,000 for the years ended December 31, 20X2 and 20X1, respectively, which is included in administrative expenses in the statement of changes in net assets available for benefits.

H. Assessed Withdrawal Liability

The Plan complies with the provisions of the Multiemployer Pension Plan Amendment Act of 1980 (MPPAA), which requires imposition of a withdrawal liability on a contributing employer that partially or totally withdraws from the Plan. Under the provisions of MPPAA, a portion of the Plan's unfunded vested liability would be allocated to a withdrawing employer. A withdrawal liability is usually paid in quarterly installments as determined by a statutory formula over a maximum of 20 years. The Plan entered into various settlement agreements with participating employers who withdrew from the Plan and were subject to withdrawal liability assessments. Quarterly assessments are being paid through March 20Y4. The Trustees, at times, approve settlements and payment plan arrangements for assessment amounts owed to the Plan.

During 20X2 and 20X1, the Plan recognized withdrawal liability income of $90,000 and $100,000 respectively.

At December 31, 20X2 and 20X1, the Plan was receiving withdrawal assessment payments under payment plan arrangements from two former participating employers. The receivable amount represents the present value of the remaining payments using a discount rate of 7.5 percent, net of an allowance for uncollectible accounts of $25,000 and $30,000 as of December 31, 20X2 and 20X1, respectively.

I. Obligations Under Operating Lease

The Plan leases office facilities under a jointly executed lease with the Steamfitters Health and Welfare Plan and the Steamfitters Annuity Plan. The Plan's percentage of the lease payments was 33.33 percent for each of the years ended December 31, 20X2 and 20X1.

Monthly rental payments for the life of the lease are based on the lease agreement and are shared by the related plans with the final payment due in December 20X4. Annual rental payments for the plans during the years ended December 31, 20X2 and 20X1 were $28,356 and $27,120, respectively. The Plan's share of rental expenses under this operating lease totaled $9,451 and $9,039 for the years ended December 31, 20X2 and 20X1, respectively.

At December 31, 20X2, the Plan's portion of the future minimum lease payments under the lease is as follows:

Year Ending December 31	Building Lease

20X3	$10,042
20X4	10,642
Total	$20,684

J. Operating Lease - As Lessor

The Plan leases office space in the building held for investment purposes (note F) under various long-term operating lease agreements ranging from 3 years to 10 years. Minimum lease payments to be received in future years are as follows:

Year Ending December 31	Amount
20X3	$810,000
20X4	XXX, XXX
20X5	XXX, XXX
20X6	XXX, XXX
20X7	XXX, XXX
Later years	X, XXX, XXX
Total	$X, XXX, XXX

K. Tax Status

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

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the

Plan 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.

L. Related Party and Party in Interest Transactions

The Plan pays fees for several arrangements with service providers and affiliated entities. These transactions are considered exempt party in interest transactions under ERISA.

The Plan shares common governance and transacts with related organizations, including Local Union No. 27, the Contractors Association, the Steamrollers Annuity DC Plan, and the Steamrollers Health and Welfare Plan, all of which are tax-exempt.

The Plan shares certain operating expenses with the Steamrollers Annuity Plan. The operating expenses are initially paid by the Plan and reimbursed by the Annuity Plan. During the years ended December 31, 20X2 and 20X1, the Steamrollers Annuity Plan reimbursed the Plan in the amount of $18,024 and $15,290, respectively. As of December 31, 20X2 and 20X1, the Annuity Plan owed the Plan $1,700 and $3,100, respectively.

M. Participation in Multiemployer Plans

Defined Benefit Pension Plan

The Plan's office employees are covered by this multiemployer defined benefit pension plan. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers.
- If the Plan chooses to stop participating in this plan, the Plan may be required to pay those plans an amount based on the underfunded status of the Plan, referred to as a *withdrawal liability*.

The Plan's participation in this plan for the years ended December 31, 20X2 and 20X1 is outlined in the following table. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The zone status is based on information that is certified by the Plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded; plans in the yellow zone are less than 80 percent funded; and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a funding

improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. In addition to regular plan contributions, the Plan may be subject to a surcharge if the Plan is in the red zone. The "Surcharge Imposed" column indicates whether a surcharge has been imposed on contributions to the Plan. There have been no significant changes that affect the comparability of 20X2 and 20X1 contributions.

				FIP/RP			
				Status -			
	EIN/Pension	Pension Protection Act Zone Status		Pending or	Employer Contributions		Surcharge Imposed
Pension Fund	Plan Number	20X2	20X1	Implemented	20X2	20X1	
Steamrollers Pension Plan	XX-XXXXXXX XXX	Red	Red	Implemented	181,743	$162,397	Yes

Contributions are made monthly under the terms of a participation agreement, which does not have an expiration date. The Plan was not listed in the previous Plan's Form 5500 as providing more than 5 percent of the total contributions for the Plan years ended 20X2 and 20X1.

Defined Contribution Retirement Plan

In addition to the preceding Plan, office employees are covered by the Steamrollers Annuity Plan. Contributions to this plan are made monthly under the terms of a participation agreement. The Plan's contributions to this plan for the years ended December 31, 20X2 and 20X1 totaled $15,156 and $14,750, respectively.

Welfare Plan that Provides Postretirement Benefits

The Plan's office employees are covered by the Steamrollers Health and Welfare Plan that provides medical benefits to retirees and to eligible employees and their dependents. Contributions to this plan for the years ended December 31, 20X2 and 20X1 totaled $29,101 and $27,853, respectively.

N. 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 statements of net assets available for benefits.

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

O. Significant Contributing Employers

In 20X2 and 20X1, contributions from one employer represented 11 percent of total employer contributions. In the event this employer was to suspend contributions, the Plan would retain the risk of meeting its current obligations until the appropriate adjustments were made.

P. Administrative Expenses

Administrative expenses were as follows:

	20X2	**20X1**
Office salaries	$380,000	$405,000
Employee fringe benefits	226,000	205,000
Consulting and actuarial	130,000	120,000
Insurance	80,000	80,000
Audit and accounting	65,000	55,000
Legal	70,550	85,960
Telephone	15,000	14,000
Postage	30,000	27,000
Office supplies and expense	14,000	12,000
Payroll taxes	29,900	31,800
Depreciation	12,000	8,000
Rent	9,451	9,039
Miscellaneous	3,099	5,201
Total Administrative Expenses	$1,065,000	$,1058,000

Q. Reconciliation of Financial Statements to Form 5500 [fn 3]

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

	December 31,	
	20X2	*20X1*
Net assets available for benefits per the financial statements	$43,460,000	$42,506,000
Difference between fair value and net book value of property and equipment	382,000	410,000
Net assets available per the Form 5500	$43,842,000	$42,916,00

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

	Year Ended December 31, 20X2
Net increase in net assets available for benefits per the financial statements	$954,000
Add: Depreciation expense of property and equipment	12,000
Less: Change in fair value of property and equipment	(40,000)
Net income per Form 5500	$926,000

Under U.S. GAAP, property and equipment used in plan operations are recorded at cost less accumulated depreciation, whereas the Form 5500 reporting rule requires all plan assets to be reported at fair value. This fair value was established through independent appraisal and estimates made by plan management.

[fn 3] The reconciliation of amounts reported in the Plan's financial statements to amounts reported in Form 5500 is required by the Employee Retirement Income Security Act of 1974.

Appendix Y

Illustrations of Financial Statements: Multiemployer Health and Welfare Benefit Plans

This appendix is nonauthoritative and is included for informational purposes only.

Y.01 The appendix illustrates applications of certain provisions of FASB *Accounting Standards Codification* (ASC) 965, *Plan Accounting—Health and Welfare Benefit Plans*, to the annual financial statements of the hypothetical multiemployer defined benefit health and welfare benefit plan *Steamrollers Health and Welfare Plan.*

Y.02 Circumstances include the following:

- Steamrollers Health and Welfare Plan is a defined benefit multiemployer health and welfare benefit plan that displays the benefit obligation information in separate statements following the consolidated statements of net assets available for benefits and consolidated statement of changes in net assets available for benefits.

- The auditor of these financial statements was engaged to perform a full-scope audit and, therefore, these financial statements do not include additional illustrative disclosures that might be applicable for a Department of Labor (DOL) limited-scope audit relating to certified investment information. (See paragraph C.08 in appendix C, "Illustrations of Financial Statements: Defined Contribution Retirement Plans," of this guide for an illustrative note for certified investment information.)

- The Plan prepares its financial statements on the consolidated basis, which includes the operations of its wholly owned subsidiary. The plan has property used in its operations as well as property leased to two other affiliated, collectively bargained benefit plans. The property leased to the affiliated benefit plans is held in a wholly owned separate entity that only exists to hold the title of the property.

- The Plan has assets in an underlying voluntary employees' beneficiary association (VEBA) trust.

- The Plan offers multiple collectively bargained health and welfare benefit programs that are combined into a single plan using a wrapper plan document.

- The Plan obtains insurance for certain benefits and is self-insured for other benefits.

- Under the Plan, participants accumulate eligibility credits, which can be applied when a participant is out of work to maintain eligibility.

- Certain claims are processed by a third-party claims processor, whereas other claims may be processed by an affiliated entity that administers the Plan.

- The Plan provides benefits to both active and retired participants. Retired participants are not required to make contributions. For illustrative disclosures when retirees are making contributions, see Illustrations of Financial Statements: Health and Welfare Benefit Plans, Exhibit F-5, Note A, Contributions.

- The Plan records claims when submitted to the Plan by a third-party claims processor. Amounts due to claims processors that have not been reimbursed by the Plan are recorded as an amount currently payable in the accompanying consolidated statements of benefit obligations.

- The Plan does not have any level 3 investments, and there were no significant transfers between level 1 and 2 investments during the year ended September 30, 20X1.

- The financial statement disclosures include a summary of plan expenses in a separate note that may otherwise be broken out by major categories on the face of the financial statements. Alternatively, these expenses are often presented in an accompanying supplemental schedule.

Y.03 The disclosures required by FASB ASC 250, *Accounting Changes and Error Corrections*, relating to the adoption of a FASB ASC update have not been illustrated in this example.

Y.04 The example does not illustrate other provisions of FASB ASC 965, as well as other FASB ASC topics, that might apply in circumstance other than those assumed in this example. The formats and the wording of the accompanying notes are illustrative and not necessarily the only possible presentation.

Fair Value Disclosures

Y.05 The information contained in the fair value disclosures is based upon information specific

to this illustration for the Steamrollers Health and Welfare Plan as presented in exhibits Y-1 through Y-5. 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

820-10-35-6A, the principal (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. FASB ASC 965-325-50-1 states that health and welfare benefit 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 FASB ASC 965-325-45-2.

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 either or both a valuation approach and a 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, and E of this guide, and the illustrations in FASB ASC 820. Also see the table in paragraph Y.08 for other resources.

FASB ASU No. 2016-02, *Leases (Topic 842)*

Y.06 On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU replaces FASB ASC 840, *Leases*, with new lease guidance applicable to both lessees and lessors, which is now included in FASB ASC 842. For employee benefit plans filing with the SEC, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018. For all other types of plans, the guidance is effective for fiscal years beginning after December 15, 2019. These illustrative financials do not take into account ASU No. 2016-02.

Comparative Financial Statements and Supplemental Information

Y.07 The Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. ERISA and DOL regulations require that certain information be included in supplemental schedules and reported on by the independent auditor; this information is not required under accounting principles generally accepted in the United States of America. See appendix A, "ERISA and Related Regulations," for a further discussion of such ERISA and DOL requirements.

These illustrative financial statements do not include example supplemental schedules.

Other Resources

Y.08 The illustrative financial statements contained in this appendix are only examples of how a health and welfare benefit plan financial statement may look. The following table contains other sources of investment-related illustrations and disclosures that may provide additional guidance.

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

Y.09 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 statement disclosures based on actual examples. [fn 1]

Exhibit Y-1

Steamrollers Health and Welfare Plan
Consolidated Statements of Net Assets Available for Benefits
September 30, 20X1 and 20X0

	20X1	*20X0*
Assets		
Investments, at fair value	$55,400,000	$53,700,000
Receivables		
Employer contributions, net	3,400,000	3,480,000
Participant contributions	100,000	120,000
Reciprocal contributions	63,000	75,000
Medicare Part D subsidy	14,000	21,200
Accrued interest	100,000	100,000
Refunds and rebates	111,000	112,000
Due from affiliate	37,500	98,000
Total receivables	3,825,500	4,006,200
Property and equipment, net	4,240,000	4,430,000
Cash—noninterest bearing	415,000	825,000

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

	20X1	*20X0*
Other assets	20,000	22,100
Total assets	63,900,500	62,983,300
Liabilities		
Accrued expenses and other liabilities	12,700	17,000
Reciprocal contributions payable	10,000	11,000
Due to affiliate	40,000	39,500
Total liabilities	62,700	67,500
Net assets available for benefits	$63,837,800	$62,915,800

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

Exhibit Y-2

Steamrollers Health and Welfare Plan
Consolidated Statement of Changes in Net Assets Available for Benefits
Year Ended September 30, 20X1

	20X1
Investment Income:	
Net appreciation in fair value of investments	$1,500,000
Interest and dividends	530,000
Total investment income	2,030,000

	20X1
Contributions	
Employers	44,226,400
Participants	1,400,000
Total contributions	45,626,400
Medicare Part D Subsidy	700,000
Rental income	220,000
Total additions	48,576,400
Claims paid, net	43,076,200
Premiums paid	2,100,000
Total benefits paid	45,176,200
Claims processing and other fees	1,880,000
Administrative expenses	413,000
Building operating expenses	185,200
Total deductions	47,654,400
Net increase	922,000
Net assets available for benefits	
Beginning of year	62,915,800

	20X1
End of year	$ 63,837,800

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

Exhibit Y-3

Steamrollers Health and Welfare Plan
Consolidated Statements of Benefit Obligations
September 30, 20X1 and 20X0

	20X1	*20X0*
Amounts currently payable		
Claims payable and claims incurred but not reported	$5,060,000	$4,193,000
Premiums due to insurers	23,000	23,500
	5,083,000	4,216,500
Accumulated eligibility credits and postemployment benefits, net of amounts currently payable		
Accumulated eligibility credits	1,121,500	1,302,800
COBRA benefits	50,000	45,000
Benefits for disabled participants	250,000	275,000
	1,421,500	1,622,800
Postretirement benefit obligations, net of amounts currently payable		

	20X1	*20X0*
Current retirees, beneficiaries, and dependents	83,500,000	56,950,000
Other participants, fully eligible for benefits	68,250,000	71,250,000
Other participants, not yet fully eligible for benefits	162,300,000	161,250,000
	314,050,000	289,450,000
Total benefit obligations	$320,554,500	$295,289,300

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

Exhibit Y-4

Steamrollers Health and Welfare Plan
Consolidated Statement of Changes in Benefit Obligations
Year Ended September 30, 20X1

	20X1
Amounts currently payable	
Balance at beginning of year	$4,216,500
Claims and premiums incurred, including amounts reclassified from accumulated eligibility credits, postemployment, and postretirement benefit obligations	46,042,700
Claims and insurance premiums paid	(45,176,200)
Balance at end of year	5,083,000

Accumulated eligibility credits and postemployment benefits, net of amounts currently payable

Balance at beginning of year	$1,622,800
Accumulated eligibility credits earned	225,200
Accumulated eligibility credits reclassified to amounts currently payable	(406,500)
Claims and premiums incurred	35,700
Claims and premiums reclassified to amounts currently payable	(59,900)
Interest	18,500
Changes in actuarial assumptions	16,000
Other actuarial gains and losses	(30,300)
Balance at the end of year	$1,421,500

Postretirement benefit obligations, net of amounts currently payable

Balance at beginning of year	$289,450,000
Benefits earned	16,950,000
Claims and premiums reclassified to amounts currently payable	(22,835,390)
Interest	15,095,500
Plan amendment	(8,260,000)
Changes in actuarial assumptions	14,863,890
Other actuarial gains and losses	8,786,000
Balance at end of year	314,050,000
Total benefit obligations at end of year	$320,554,500

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

Exhibit Y-5

Steamrollers Health and Welfare Plan
Notes to the Consolidated Financial Statements

A. *Description of the Plan*

The following description of the Steamrollers Health and Welfare Plan (the Plan) only provides general information about the Plan's provisions. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General. The Plan is a multiemployer defined benefit health and welfare plan that was established on October 1, 1972, pursuant to a collective bargaining agreement (CBA) between the Steamrollers Contractors Association, Inc., which represents the participating employers, and Local Union No. 27 of the International Brotherhood of Steamrollers and Steampipe Workers (Local 27). The Plan is governed by the board of trustees (the Trustees) and managed by the Joint Benefit Administrators of Steamrollers (the Plan Administrator). The Plan Administrator is a separate not-for-profit entity created by the Steamrollers local union and employers to serve the Plan and other plans for the same union members. It administers the collection and investment of funds received from participating employers for providing medical and other benefits to participants of the Plan. The Plan provides benefits for eligible participants and their dependents and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Plan assets are held in a voluntary employees' beneficiary association (VEBA) trust. The accompanying consolidated financial statements also include the accounts of the Plan and its wholly owned subsidiary Steamrollers Property Holding, Inc., which was established for the sole purpose of holding title to real property on behalf of the Plan. The Steamrollers Property Holding, Inc. owns a building that is predominately used by the Plan for administration and is leased to two related entities. See Note K.

Eligibility. To become initially eligible for benefits, a participant must complete 26 consecutive weeks of employment with a participating employer or employers on a full-time basis. Once the eligibility requirements are met, certain eligible dependents are also covered under the Plan upon submission of the applicable enrollment form and supporting documents to the Plan Administrator.

Generally, a participant will remain eligible as long as actively employed with a participating employer. Participants may also continue to remain eligible for benefits through the use of accumulated eligibility credits for times of unemployment (less than full time) and upon termination of employment through the Consolidated Omnibus Budget Reconciliation Act (COBRA). After initial eligibility, at least 26 weeks of contributions out of the past 52 weeks must be received prior to incurring a reimbursable expense, or, if unemployed during all or any portion of such period, the participant must have been registered as available for employment.

Retired employees are entitled to benefits if they are an eligible retired participant of the Steamrollers Pension Plan and are receiving a standard, early retirement, or disability pension and were covered immediately prior to the effective date of retirement. Once the eligibility requirements are met, certain eligible dependents are also covered under the Plan upon submission of the applicable enrollment form and supporting documents to the Plan Administrator.

Contributions. Under the terms of the CBA, participating employers contribute various amounts based on the employee's classification. For the year ended September 30, 20X1, employers contributed between 7 percent and 44 percent of hourly gross wages towards contributions depending on job classification. Participant contributions are allowed to provide COBRA benefits, and participants pay the full cost of such benefits. There are currently no contributions required of retired or disabled participants.

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). Additionally, the Plan provides similar benefits during periods of unemployment (accumulated eligibility credits), disability, or upon termination of employment through COBRA.

Insured Benefits. 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 Plan purchases annual insurance contracts for these insured benefits. In addition, the plan purchases stop loss insurance to actively manage catastrophic medical claims.

Self-Insured Benefits. All other Plan benefits are self-insured. The claims for self-insured benefits are processed by the Plan's third-party claims processors under administrative services only (ASO) arrangements. The claims processors pay claims directly to or on behalf of participants

and are then reimbursed by the Plan. Ultimate responsibility for payments to providers and participants is retained by the Plan. The Plan uses a pharmacy benefit manager (PBM), which periodically makes refunds to the Plan based on the Plan's actual utilization pattern of specific drugs.

B. Significant Accounting Policies

1. *Basis of Accounting and Use of Estimates.* The accompanying consolidated financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (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. *Principles of Consolidation.* The consolidated financial statements include the accounts of the Plan and Steamrollers Property Holding, Inc., its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. *Payment of Benefits.* Premiums paid are recorded as premium payments in the accompanying consolidated statement of changes in net assets available for benefits. Claim payments are recorded when submitted to the Plan by the third-party claims processor for reimbursement. Claims paid by the claims processor prior to year-end or claim payments submitted to the Plan by the third-party claims processor that are not yet paid are recorded as an amount currently payable in the accompanying consolidated statements of benefit obligations. Premiums not yet paid at year-end are included as an amount currently payable in the accompanying consolidated statements of benefit obligations.

4. *Refunds and Rebates.* Prescription refunds due from the Plan's PBM are recorded when earned. Refunds due at year-end are recorded as a receivable on the consolidated statements of net assets available for benefits, with the offset being netted against claims paid. Pharmacy rebates totaling $52,400 have been netted against claims paid in the accompanying consolidated statement of changes in net assets available for benefits.

5. *Stop Loss*. Claims that were already paid from the Plan that exceeded the stop-loss coverage and are due to the Plan at year-end are recorded as a receivable. Premiums for stop-loss insurance are included in premium payments in the accompanying consolidated statement of changes in net assets available for benefits. Stop-loss refunds totaling $480,000 have been netted against claims paid in the accompanying consolidated statement of changes in net assets available for benefits.

6. *Medicare Subsidy.* The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) applies to postretirement health care plans and provides prescription drug benefits. The Act provides for a Plan to receive a subsidy under Medicare (Medicare Part D) if it provides a benefit that is at least actuarially equivalent to Medicare Part D. The Plan received

$700,000 in Federal subsidies for the year ended September 30, 20X1. The Plan's postretirement benefit obligation reflects an amount associated with the Medicare subsidy allowed under the Act because the Plan is directly entitled to the Medicare subsidy. Medicare subsidy amounts received are recorded on the consolidated statement of changes in net assets available for benefits netted against claims paid.

7. *Employers' Contributions and Related Receivables.* Contributions receivable are reported at their outstanding balances net of an estimated reserve for doubtful accounts and are primarily composed of balances due from employers. The Plan estimates doubtful accounts based on historical bad debts, factors related to specific employers' or groups of participants' ability to pay, and current economic trends and conditions. As of September 30, 20X1 and 20X0, the allowance for doubtful accounts was $1,000,050 and $1,008,000, respectively. Changes in the allowance for doubtful accounts are recorded in administrative expenses in the consolidated statement of changes in net assets available for benefits.

8. *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 Investment Committee determines the Plan's valuation policies and procedures and reports to the Plan's board of trustees. See Note E for discussion of fair value measurements.

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

9. *Property and Equipment.* Property and equipment, which is predominately used in operations, is stated at cost, less accumulated depreciation or amortization. Depreciable assets are depreciated principally by the straight-line basis over the following estimated useful lives:

	Years
Buildings	20–40
Improvements to land and buildings	10–15
Machinery and equipment:	
General	4–10
Automobiles	4

Furniture and fixtures	5–12
Telephone system	15

Expenditures for maintenance and repairs are expensed as incurred, whereas additions and improvements that extend the life of the asset are capitalized. Depreciation and amortization expense is recorded in building operating expenses.

10. *Long-Lived Asset Impairment.* The Plan evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The fair values are determined based on current appraisals. There was no asset impairment during the years ended September 30, 20X1 and 20X0.

11. *Rental Income*. Rental income from property is recognized as earned. The income from rental operations is shown separate from building operating expenses incurred by the property on the accompanying consolidated statement of changes in net assets available for benefits.

12. *Fees and Other Expenses.* The Plan Administrator allocates certain administrative and record-keeping costs to the Plan, in addition to the cost of payroll and related payroll benefits directly attributable to the Plan. In computing these allocated costs, various factors were considered, including the time spent, space used, costs incurred, and volume of transactions relating to the Plan in relation to the various other entities administered by the Plan Administrator. (See Note K.) These expenses are reported in administrative expenses on the consolidated statement of changes in net assets available for benefits. The Plan also pays administrative fees to third-party claims administrators. These expenses are recorded when incurred and reported in claims processing and other fees on the consolidated statement of changes in net assets available for benefits. Certain investment related expenses are included in net appreciation (depreciation) in fair value of investments.

13. *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, Accumulated Eligibility Credits and Postemployment Benefit Obligations

A postretirement benefit obligation has been recognized for future benefits expected to be paid to or for (1) currently retired participants and their beneficiaries and dependents, and (2) active participants and their beneficiaries and dependents after retirement from service with the participating employers. 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 participant 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. Currently, retirees are not required to contribute to the plan. The obligations represent the amounts that are expected to be funded by contributions from the participating employers and from existing assets of the Plan. Prior to an active participant's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributable to that employee's service with a participating employer or employers rendered to the valuation date.

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

The Plan is required to provide benefits to certain members, if such members have accumulated credit amounts (expressed in dollars) in excess of that required for current coverage. Participants draw on their accumulated credits whenever they fail to meet the annual requirement. The estimated future liability represents the present value of an extension of future benefits that occurs prior to eligibility for retirement with medical benefits per the rules specified in the Plan agreement. The calculation of the accumulated eligibility credit reserves at September 30, 20X1 and 20X0, have been based on assumptions of past underemployment data, usage, and estimated cost of coverage. The weighted-average discount rate was 3.46 percent and 3.49 percent in 20X1 and 20X0, respectively.

In addition, a postemployment obligation is recognized for individuals on disability and COBRA. The obligation for COBRA benefits is estimated by an actuary based on the actual number of participants using 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.

For measurement purposes, a 7.0 percent weighted-average annual rate of increase in the average per capita cost of covered health care benefits was assumed for 20X1; the rate was assumed to decrease gradually to 4.5 percent for 20X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at September 30, 20X0.

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 September 30, 20X1 and 20X0, by $68,045,220 and $67,066,600, respectively.

The following were other significant assumptions used to determine the postretirement and postemployment benefit obligations as of September 30, 20X1 and 20X0.

Weighted-average discount rate: X.X%—20X1; X.XX%—20X0

Average retirement age rates: Various rates ranging from 10% at age 62

to 100% at age 65

Mortality and disability: [*identify mortality and disability assumptions*

used]

An average retiree drug subsidy per capita cost was estimated based on all Medicare-eligible retirees and spouses, regardless of whether they were accepted by Medicare. The estimated reduction in benefit obligations from the receipt of future subsidies was $2.6 million and $2.5 million at September 30, 20X1 and 20X0, respectively and is included in the benefit obligations earned in the consolidated statement of changes in benefits. Starting in 20X1, prescription drug costs of Medicare-eligible retirees and spouses were reduced by retiree drug subsidy per capita amounts, which are assumed to increase according to the same trend rates as the prescription drug per capita costs.

During the year ended September 30, 20X1, the Plan was amended to increase the participant's co-pay with regard to certain covered benefits. The effects of the impact of these modifications are classified as changes due to plan amendments in the consolidated statement of changes in plan benefit obligations. The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different assumptions and other factors might be applicable in determining the actuarial present value of postretirement and postemployment obligations.

The Plan's excess of benefit obligations over net assets at September 30, 20X1 and 20X0, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current CBAs. However, the Plan empowers the board of trustees to establish self-payments by eligible retired participants and modify the terms and conditions under which retiree eligibility may be maintained; therefore, the cost to the Plan can be reduced or eliminated prospectively by action of the board of trustees.

D. Claims Incurred but not Reported

Benefit obligations other than postretirement and postemployment benefit obligations include health claims currently payable, health claims incurred but not yet reported, and premiums payable. Claims paid by the claims processor prior to the year-end that are not reimbursed by the Plan as of year-end are recorded as claims payable and included in claims payable and claims incurred but not reported on the consolidated statements of benefit obligations. Premiums not yet paid by the Plan related to coverage at or before year-end are included in premiums due to insurers in the consolidated statement of benefit obligations.

Claims incurred but not yet reported are estimated by the Plan's actuary in accordance with accepted actuarial principles based on claims data provided by the Plan Administrator. These amounts are paid by the Plan only if claims are submitted and approved for payment.

E. 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 September 30, 20X1 and 20X0.

Money market mutual fund: Valued at the daily closing price as reported by the fund. The money market fund is an open-end mutual fund that is registered with the Securities and Exchange Commission. This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively 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. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.

U.S. government securities and federal agency obligations: 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 September 30, 20X1 and 20X0:

Assets at Fair Value as of September 30, 20X1

	Level 1	*Level 2*	*Level 3*	*Total*
Money Market Mutual Fund	$15,980,000	$ -	$ -	$ 15,980,000
Corporate bonds	-	18,800,000	-	18,800,000

	Level 1	Level 2	Level 3	Total
Federal agency obligations	-	3,550,000	-	3,550,000
U.S. government securities	-	17,070,000	-	17,070,000
Total assets at fair value	$	$39,420,000	$ -	$55,400,000

Assets at Fair Value as of September 30, 20X0

	Level 1	*Level 2*	*Level 3*	*Total*
Money Market Mutual Fund	$12,540,000	$ -	$ -	$ 12,540,000
Corporate bonds	-	22,170,000	-	22,170,000
Federal agency obligations	-	7,030,000	-	7,030,000
U.S. government securities	-	11,960,000	-	11,960,000
Total assets at fair value	$12,540,000	$41,160,000	$ -	$53,700,000

Transfers Between Levels

The Plan assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Plan's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the years ended September 30, 20X1 and 20X0, there were no transfers among levels.

F. Property and Equipment

Property and Equipment consist of the following as of September 30, 20X1 and 20X0:

	20X1	*20X0*
Land	$1,050,000	$1,050,000
Building	1,550,000	1,560,000
Building improvements	2,180,000	2,260,000
Equipment	125,000	110,000

Furniture and fixtures	75,000	82,000
Other	35,000	42,000
	5,015,000	5,104,000
Less accumulated depreciation and amortization	(775,000)	(674,000)
	$4,240,000	$4,430,000

Depreciation and amortization provided on the straight-line method over the estimated useful lives of the assets was $110,000 for the year ended September 30, 20X1.

G. *Operating Leases*

The Plan leases a portion of its building to certain related organizations under agreements that expire June 20Y4 and require various minimum annual rentals. The total minimum rental commitment as of September 30, 20X1 is due to the Plan in future years as follows (Note K):

Year ending September 30,	
20X2	$230,000
20X3	237,000
20X4	244,000
20X5	251,000
20X6	258,000
Later years	2,043,065
	$3,263,065

H. *Reciprocity Agreements*

During 1982, the Plan entered into a Master Health and Welfare Reciprocity Agreement with certain pension funds administered by local unions of the Thirteenth District. The Plan joined the International Health and Welfare Reciprocity Plan for the Steamrollers Industry in November 1981. In accordance with these agreements, the Plan is required to remit funds received and is entitled to receive funds from contributing employers on behalf of temporary employees to and from the employees' participating local unions.

For the year ended September 30, 20X1, the Plan remitted $68,200 and received $195,000 of reciprocal cash payments in accordance with these agreements with the participating local unions. Reciprocal payments received are included in the employer's contributions in the consolidated statement of changes in net assets available for benefits. No allowance for credit losses as of September 30, 20X1 or 20X0, was necessary for reciprocal payments due to the Plan. Payments made to other plans for reciprocal contributions collected on behalf of those plans are recorded as a reduction to the reciprocal contributions payable account and are not included in the consolidated statement of changes in net assets available for benefits as they do not represent an expense of the Plan.

I. Tax Status

The Plan has received an exemption letter from the IRS dated December 5, 201X, stating that the VEBA trust established under the Plan was in compliance with the applicable requirements of the provisions of Section 501(c)(9) of the IRC. No federal or state income taxes have been recorded in 20X1 for unrelated business taxable income.

The Plan and 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 was tax-exempt as of the financial statement date.

Accounting principles generally accepted in the United States of America require 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 IRS. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

J. Priorities Upon Termination of the Plan

Although the board of trustees has not expressed intent to discontinue the Plan, they may do so at any time subject to the provisions of ERISA and the terms of the CBA. In the event of termination of the Plan, the assets of the Plan would continue to be used to pay reasonable administrative expenses and to distribute and apply remaining surplus as the trustees so determine, until no assets remain.

K. Party in Interest and Related Party Transactions

As described previously, the Plan pays fees for several arrangements with service providers and affiliated entities. Also, certain Plan assets are invested in the Institutional Liquid Reserves Fund managed by the custodian of the Plan. These transactions are considered exempt party in interest transactions under ERISA.

The Plan shares certain common governance with Local 27, the Steamrollers Pension Plan and the Steam Mechanics Health and Welfare Plan, all of which are tax-exempt. Additionally, the Plan shares facilities, equipment, and staff with these related entities. All shared administrative costs are initially paid by the Plan and subsequently allocated to the respective entities by the Plan Administrator.

The Steamrollers Property Holding, Inc. leases office space to related organizations (Note G). The rental income of $220,000 from two affiliated plans for the year ended September 30, 20X1, is included in rental income on the accompanying consolidated statement of changes in net assets available for benefits. The rental income for the affiliated entities for the year ended September 30, 20X1, was based on a 15-year lease requiring a monthly payment of $XXX. Transactions between the plan and Steamrollers Property Holding, Inc. are eliminated in consolidation.

Amounts due from (to) affiliates result from transactions with related entities during the year. Amounts due to the Plan Administrator resulted from the annual review of the expense allocation (see Note A). Amounts due from the Steamer's Equipment Factory Union Health Plan are for reimbursements of certain expenses incurred on behalf of an affiliated benefit plan during the normal course of operations.

Amounts due from (to) affiliates consist of the following as of September 30:

	20X1	20X0
Steamer's Equipment Factory Union Health Plan	$ 37,500	$ 98,000
Plan Administrator	$ (40,000)	$ (39,500)

These expenses, along with fees incurred to hold the Plan's assets by the Plan's custodian and fees paid to investment managers to oversee the Plan's investments, are recorded as administrative expenses on the consolidated statement of changes in net assets available for benefits.

L. 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 consolidated statement of net assets available for benefits.

Cash consists of monies held in non-interest-bearing transaction accounts. The Plan places its cash with a financial institution deemed to be creditworthy. Balances are insured by the FDIC up to $250,000. At September 30, 20X1, the Plan's cash exceeded federally insured limits by approximately $165,000.

Contributions from one employer accounted for approximately 22 percent of total employer contributions collected for the year ended September 30, 20X1. In the event this employer was to suspend contributions, the Plan would terminate coverage to the employer's participants as set forth in the Plan document. The Plan would retain the risk of meeting current fixed administrative expenses until the appropriate adjustments were made.

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.

The Plan is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Plan's financial status.

M. Administrative and Building Operating Expenses

The Plan recorded the following administrative and building operating expenses for the year ended September 30, 2017.

Building Operating Expenses	
Light, heat, power, and telephone	$17,000

Supplies	2,500
Repairs and maintenance	7,500
Sanitation and cleaning services	6,900
Depreciation and amortization expense	110,000
Insurance	16,300
Real estate taxes	25,000
Total Building Operating Expenses	$185,200

Administrative Expenses

Amounts charged by the Plan Administrator for	
Allocated direct and indirect salaries	$ 156,000
Employee benefits, including payroll taxes	72,000
Administrative overhead and other	12,000
Investment management expenses	173,000
Total Administrative Expenses	$ 413,000

N. 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:

	September 30,	
	20X1	*20X0*
Net assets available for benefits per the financial statements	$ 63,837,800	$ 62,915,800

Difference for health benefits payable, including amounts incurred but not reported	(5,083,000)	(4,216,500)
Difference between fair value and net book value of property and equipment	(1,660,000)	(875,000)
Net assets available for benefits per the Form 5500	$ 57,094,800	$ 57,824,300

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

	Year ended September 30, 20X1
Claims paid per the financial statements	$ 43,076,200
Premiums paid per the financial statements	2,100,000
Add: Health benefits payable, including amounts incurred but not reported at September 30, 20X1	5,083,000
Less: Health benefits payable, including amounts incurred but not reported at September 30, 20X0	(4,216,500)
Total benefit payments per Form 5500	$ 46,042,700

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

	Year ended September 30, 20X1
Net increase in net assets available per the financial statements	$ 922,000

	Year ended September 30, 20X1
Add: Depreciation expense of property and equipment	110,000
Less: Net change in fair value of property and equipment	(895,000)
Net income per Form 5500	$ 137,000

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; therefore, these claims and premiums are not presented as liabilities or claims and premiums paid in the accompanying consolidated financial statements but are recorded on the Form 5500 as a liability.

Under GAAP, property and equipment is recorded at cost less accumulated depreciation, whereas the Form 5500 reporting requires all plan assets to be recorded at fair value, thus, creating a reconciliation of the difference between the fair value and the net property value recorded on the consolidated financial statements. This fair value was established through an independent third-party appraisal.

Appendix Z

Illustrations of Financial Statements: Multiemployer Apprenticeship Plans

This appendix is nonauthoritative and is included for informational purposes only.

Z.01 This appendix illustrates applications of certain provisions of FASB *Accounting Standards Codification* (ASC) 965, *Plan Accounting—Health and Welfare Benefit Plans*, to the annual financial statements of the hypothetical multiemployer apprenticeship plan *Steamrollers Training Fund.*

Z.02 Circumstances include the following:

- Steamrollers Training Fund is a multiemployer apprenticeship plan that is a defined benefit health and welfare (H&W) plan. The purpose of the Plan is to provide, maintain, and administer a program to recruit, develop, and train apprentices to become journeyman steamrollers and to provide continuing training to journeyman steamrollers.

- The auditor of these financial statements was engaged to perform a full-scope audit and, therefore, these financial statements do not include additional illustrative disclosures that might be applicable for a Department of Labor (DOL) limited-scope audit relating to certified investment information. (See paragraph C.08 in appendix C, "Illustrations of Financial Statements: Defined Contribution Retirement Plans," of this guide for an illustrative note for certified investment information.)

- The Plan pays for all training school educational costs and for certain on-the-job training programs on a self-funded basis. Participants pay certain application, class, and other educational fees, some of which are refundable upon successful completion of the program.

- Management's policy is to record unpaid training expenses as an accrued liability; therefore, the financial statements comprise only the statements of net assets available for benefits and the statement of changes in net assets available for benefits. (Alternatively, management's policy may be to record such unpaid training expenses as a benefit obligation and not as an accrued liability; therefore, the financial statements would include a statement of benefit obligations and a statement of changes in benefit obligations. See paragraphs X.06, X.80, and X.109).

- The Plan holds real property used in operations of this plan and leases 20 percent to other related entities for use in their operations. Additionally, the Plan leases approximately 10 percent of its premises to an unrelated lessee. The property is recorded at cost less accumulated depreciation because the asset is not held for investment purposes.

- The Plan separately leases office space from the related Local Union of the Steamrollers Workers.

- The Plan holds only mutual funds.

- The Plan files a Form 5500 with the DOL even though a plan that exclusively provides apprenticeship and training benefits may file a notice in accordance with ERISA Regulation 2520.104-22 for exemption from filing with the DOL. Audited financial statements are generally required under the requirements of the Taft-Hartley Act.

- The Plan applied for and obtained its tax-exempt status under Section 501(c)(5) of the IRC. Other multiemployer apprenticeship plans may be exempt under different IRC sections, such as 501(c)(3), 501(6), or 501(c)(9).

- The Plan makes contributions on behalf of its employees to various multiemployer plans to provide health care, retirement, and other benefits under terms of participation agreements. Information about the defined benefit pension plan in which the Plan participates is available in the public domain through that plan's Form 5500 filings, which are accessible online.

- The financial statement disclosures include a summary of plan expenses in a separate note that may otherwise be broken out by major categories on the face of the financial statements. Additionally, these expenses are often presented in an accompanying supplemental schedule.

Z.03 The disclosures required by FASB ASC 250, *Accounting Changes and Error Corrections*, relating to the adoption of a FASB ASC update have not been illustrated in this example.

Z.04 The example does not illustrate other provisions of FASB ASC 965, as well as othe FASB ASC topics, that might apply in circumstance other than those assumed in this example. The formats and wording of the accompanying notes are illustrative and not necessarily the only possible presentation.

Fair Value Disclosures

Z.05 The information contained in the fair value disclosures is based upon information specific to this illustration for the Steamrollers Training Fund as presented in exhibits Z-1 to Z-3. 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 820-10-35-6A, the principal (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. FASB ASC 965-325-50-1 states that H&W benefit 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 FASB ASC 965-325-45-2.

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 either or both a valuation approach and a 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, and E of this guide and the illustrations in FASB ASC 820. Also see the table in paragraph Z.08 for other resources.

FASB ASU No. 2016-02, *Leases (Topic 842)*

Z.06 On February 25, 2016 FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The ASU replaces FASB ASC 840, *Leases*, with new lease guidance applicable to both lessees and lessors, which is now included in FASB ASC 842, *Leases*. For employee benefit plans filing with the SEC, FASB ASC 842 is effective for fiscal years beginning after December 15, 2018. For all other types of plans, the guidance is effective for fiscal years beginning after December 15, 2019. These illustrative financial statements do not reflect the application of FASB ASC 842.

Comparative Financial Statements and Supplemental Information

Z.07 The Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. ERISA and DOL regulations require that certain information be included in supplemental schedules and reported on by the independent auditor; this information is not required under accounting principles generally accepted in the United States of America. See appendix A, "ERISA and Related Regulations," for a further discussion of such ERISA and DOL requirements.

These illustrative financial statements do not include example supplemental schedules.

Other Resources

Z.08 The illustrative financial statements contained in this appendix are only examples of how an apprentice plan financial statements may look. The following table contains other sources of investment-related illustrations and disclosures that may provide additional guidance.

Source	***Comments***
FASB ASC 815, *Derivatives and Hedging*	FASB ASC 815 contains implementation guidance and illustrations relating to derivatives and hedging.
FASB ASC 820, *Fair Value Measurement*	FASB ASC 820-10-55 contains implementation guidance and illustrations relating to fair value measurements.

AICPA Audit and Accounting Guide *Investment Companies*	The AICPA Audit and Accounting Guide *Investment Companies* contains illustrations with disclosures relating to unique investments, such as short sales, credit default swaps, futures, forwards, and derivatives.

Z.09 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 statement disclosures based on actual examples. [fn 1]

Exhibit Z-1

Steamrollers Training Fund
Statements of Net Assets Available for Benefits
December 31, 20X1 and 20X0

	20X1	*20X0*
Assets		
Investments, at fair value	$16,300,000	$17,300,000
Property and equipment, net	29,850,000	30,400,000
Receivables		
Employer contributions, net of allowance of $350,000 (20X1) and $227,000 (20X0)	1,730,000	2,250,000
Grant income	350,000	-

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

	20X1	20X0
Due from related organizations	800	700
Total receivables	2,080,800	2, 250,700
Prepaid expenses	127,000	211,900
Cash—noninterest bearing	1,800,000	1,500,000
Total assets	50,157,800	51,662,600
Liabilities		
Training expenses payable	1,109,000	1,000,000
Administrative expenses payable	52,000	55,000
Refundable apprenticeship fees	310,000	300,000
Total liabilities	1,471,000	1,355,000
Net assets available for benefits	$48,686,800	$50,307,600

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

Exhibit Z-2

Steamrollers Training Fund
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 20X1

Additions	<u>*20X1*</u>

Investment income	
Net appreciation in fair value of investments	$317,000
Interest and dividends	300,000
	617,000
Less investment expenses	(3,000)
Investment income, net	614,000
Employer contributions, net	20,650,000
Apprenticeship fees	140,000
Grant income	350,000
Training expense subsidy	60,000
Rental income, net	138,000
Total additions	21,952,000
Deductions	
Training expenses	21,000,000
Administrative expenses	2,572,800
Total deductions	23,572,800
Net (decrease)	(1,620,800)
Net assets available for benefits	
Beginning of year	50,307,600

End of year	$48,686,800

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

Exhibit Z-3

STEAMROLLERS TRAINING FUND
NOTES TO FINANCIAL STATEMENTS

Note 1. Description of the Plan

The following description of the Steamrollers Training Fund (the Plan) provides general information only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

Steamrollers Training Fund is a multiemployer apprenticeship plan established and operated under an *Agreement and Declaration of Trust* pursuant to a collective bargaining agreement (CBA) between the Steamrollers Contractors Association, Inc., which represents the participating employers and the Local Union of the Steamrollers Workers (the Local Union). The purpose of the Plan is to provide for the development of skills of apprentices or journeymen, or both, in the steamrollers industry, which provides a program of combined training school education and on-the-job training for accepted applicants. All applicants must meet specific requirements, including vocational aptitude, as determined by appropriate testing. An *applicant* is defined as an individual authorized to work in the United States of America, is at least 17 years of age, a high school graduate (or possesses an equivalent GED certificate) has a valid driver's license, who applies and desires to be considered for a training or apprenticeship program under the Plan. *Covered participants* include those applicants who satisfy these requirements and are selected by the Plan's Joint Apprenticeship and Training Committee to participate as a trainee or apprentice in any program, as well as journeymen who either meet the apprenticeship qualifications and requirements as established by the Joint Apprenticeship and Training Committee and are conferred a Certificate of Completion of Apprenticeship or any person who has acquired the necessary skills, knowledge, and experience of a journeyman as required by the Joint Apprenticeship and Training Committee. Apprentices pay application, class, and other educational fees during the apprenticeship program. The Plan is administered by a joint board of trustees consisting of equal representation from the participating employers and the Local Union. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting - The accompanying financial statements have been prepared using the accrual basis of accounting.

Investment Valuation and Income Recognition - The 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 Investment Committee determines the Plan's valuation policies and procedures and reports to the Plan's board of trustees. See Note 5 for discussion of fair value measurements.

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

Employer Contributions Receivable – Contributions from participating employers due but not received at year-end are recorded as contributions receivable, net of amounts determined to be uncollectible.

Property and Equipment - Property and equipment are carried at cost, less accumulated depreciation. Major additions are capitalized, whereas replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed by the straight-line method over the following estimated useful lives of the related assets:

Building and improvements	15–40 years
Machinery and training equipment	5–10 years
Office furniture and fixtures	3–12 years
Cars and trucks	3–5 years
Promotional trailer	5 years

Benefit Obligations - Due to the nature of the benefits provided, the Plan has no current benefit obligations. Plan management's policy is to record unpaid training expenses as an accrued liability.

Apprenticeship Fees - Certain fees paid by the apprentices are refundable upon satisfactory completion of the program. Fees collected are recorded as refundable apprenticeship fees in the statement of net assets available for benefits and are only reported as revenue when the participant does not complete the program.

Grant Income **-** Revenue from cost reimbursement type grants is recognized as grant-related costs are incurred.

Training Expense Subsidy – The Plan has an agreement with the International Steamrollers Institute to subsidize certain apprentice school expenses. The Plan records subsidy income when the International Steamrollers Institute has approved the reimbursement of expenses to the Plan.

Rental Income **-** Rental income from property is recognized as earned. The income from rental operations is shown net of building operating expenses incurred by the property on the accompanying statement of changes in net assets available for benefits.

Expenses - Expenses incurred in connection with the administration of the Plan are recorded as deductions in the accompanying statement of changes in net assets available for benefits. Certain investment-related expenses are included in net appreciation or depreciation in fair value of investments.

Training expenses represent those costs directly related to the training and education of apprentices or journeyman, or both, and any other programs carried out by the Plan. Administrative expenses represent costs not directly related to training or education but are associated with the general operation of the Plan. A summary of expenses paid by the Plan is presented in Note 14.

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, [*benefit obligations and changes therein, if applicable*] and disclosures of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates.

Subsequent Events - Subsequent events have been evaluated through [*date*], which is the date the financial statements were available to be issued.

Note 3. Funding Policy

The Plan is funded primarily by contributions from participating employers as specified in the collective bargaining agreement. Participant contributions are not permitted. The predominant hourly participating employer contribution rates during the year ended December 31, 20X1 were as follows:

January 1, 20X1 – May 31, 20X1	$ 2.00
June 1, 20X1 – December 31, 20X1	$ 2.10

Note 4. Grant Income

During the year ended December 31, 20X1, the Plan was awarded a grant from the International Union for financial assistance to increase education and training for apprentices and journeymen under the Plan's Special Training Program. The grant totaled $350,000 and consisted of $200,000 in cash and $150,000 in training equipment purchased by the International Union. Although such

assets were received subsequent to year-end, the Plan had incurred the costs related to the grant during the year ended December 31, 20X1.

Note 5. 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:

Basis of Fair Value Measurement

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 following tables set forth, by level within the fair value hierarchy, the Plan's investment assets at fair value as of December 31, 20X1 and 20X0. As required, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets at Fair Value as of December 31, 20X1

	Level 1	*Level 2*	*Level 3*	*Total*
Mutual funds	$16,300,000	—	—	$16,300,000
Total investments, at fair value	**$16,300,000**	**$ —**	**$ —**	**$16,300,000**

Assets at Fair Value as of December 31, 20X0

	Level 1	*Level 2*	*Level 3*	*Total*
Mutual funds	$17,300,000	—	—	$17,300,000
Total investments, at fair value	**$17,300,000**	**$ —**	**$ —**	**$17,300,000**

The shares of the mutual funds are 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.

Note 6. Property and Equipment

Property and equipment at December 31, 20X1 and 20X0 consisted of the following:

	20X1	20X0
Land	$2,500,000	$2,500,000
Building and improvements	30,840,000	30,500,000
Machinery and training equipment	5,600,000	5,500,000
Office furniture and fixtures	2,150,000	2,200,000
Cars and trucks	450,000	400,000

Promotional trailer	810,000	800,000
Total	42,350,000	41,900,000
Less accumulated depreciation	(12,500,000)	(11,500,000)
Net property and equipment	$29,850,000	$30,400,000

The depreciation expense, included in both training and administrative expenses, was $1,000,000 in 20X1. Classroom and training programs are carried out in the building owned by the Plan. The Plan leases other office space for its general administration purposes.

Note 7. Related Parties and Parties in Interest

Description of Related Organizations

The Plan is related through common governance to several organizations, including the Local Union, the Steamrollers Health and Welfare Plan (the Welfare Plan), the Steamrollers Pension Plan (the Pension Plan) and the Steamrollers Annuity Plan (the Annuity Plan).

A portion of the training facility property owned by the Plan is leased to the Local Union and the Welfare Plan for use in their operations. Separately, the Plan leases office space in the building owned by the Local Union.

Shared Office Space and Administrative Expenses

The Plan shares administrative expenses with the Welfare Plan on a direct and pro-rata basis. These expenses are paid by the Welfare Plan and are allocated periodically to the Plan based on estimated time, utilization, and actual costs. Shared administrative expenses allocated for the year ended December 31, 20X1 were $27,000. At December 31, 20X1 and 20X0, the Welfare Plan owed the Plan $800 and $700, respectively, for these expenses.

The Plan shares office space used for administrative purposes with the Welfare Plan and has jointly executed an operating lease with the Local Union that commenced on January 1, 20X1 and is set to expire on December 31, 20X3. The Welfare Plan initially pays the Local Union monthly rental payments of $10,000 required under the lease. The Plan's allocated portion of rental expense, as a result of the lease, for the year ended December 31, 20X1 was $6,000. The Plan's allocated portion of future minimum payments required under this lease totaled approximately $12,000 as of December 31, 20X1.

Other

Certain improvements of the Plan's facilities were performed by contributing employers. Also, the Plan occasionally receives training supplies and used or obsolete equipment that is donated for training purposes from participating employers. The estimated fair value of these donated items totaled $5,000 during the year ended December 31, 20X1. Due to the nature of the amount, these donations were included with employer contributions on the statement of changes in net assets available for benefits. These transactions qualify as party in interest transactions that are exempt from the prohibited transaction rules of ERISA.

Note 8. Operating Leases as Lessor

The Plan leases office space in its training facility to the Local Union under a two-year lease agreement through December 31, 20X2, generating monthly rental income of $6,800. Rent received by the Plan under this lease for the year ended December 31, 20X1 was $81,600.

During the year ended December 31, 20X1, the Plan began leasing office space to the Welfare Plan. Lease terms are through April 30, 20X4. The Welfare Plan paid the Plan monthly rental payments of $12,000. Rent received by the Plan under this lease for the year ended December 31, 20X1 was $96,000.

The Plan leases office space to an unrelated tenant under a five-year lease agreement through December 31, 20X4, generating monthly rental income of $1,650. Rent received by the Plan under this arrangement for the year ended December 31, 20X1 was $19,800.

Future minimum rental receipts under these lease agreements are summarized as follows:

	Local Union	Welfare Plan	Other	Total
Year ending December 31,				
20X2	$ 81,600	$ 96,000	$ 19,800	$ 197,400
20X3	-	96,000	19,800	$ 115,800
20X4	-	48,000	19,800	$ 67,800
Total	$ 81,600	$ 240,000	$ 59,400	$ 381,000

Rental income on the statement of changes in net assets available for benefits is shown net of rental expenses of $59,400 for the year ended December 31, 20X1.

Note 9. Priorities upon Termination

The Trustees expect and intend to continue the Plan indefinitely but reserve the right to amend or terminate the Plan as provided for by the applicable Trust Agreement and Plan provisions. If the Plan is terminated, trust assets will be used to pay all expenses under the terms of the Plan in the order of priority specified by the Plan and as otherwise required by law.

Note 10. Participation in Multiemployer Plans

The Plan provides benefits to its employees through participation agreements with various multiemployer plans.

Defined Benefit Pension Plan

The Plan's office employees and instructors are covered by the Pension Plan, a multiemployer defined benefit pension plan. The risk of participating in multiemployer defined benefit pension plans is different from single employer plans. Assets contributed to a multiemployer defined benefit pension plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers.

The Plan's participation in a multiemployer defined benefit pension plan for the year ended December 31, 20X1 is outlined in the following table. The "EIN/PN" column provides the Employer Identification Number (EIN) and the three-digit plan number (PN). The most recent Pension Protection Act (PPA) zone status provides an indication of the financial health of the Plan. Among other factors, plans in the red zone are below 65 percent funded; plans in the yellow zone are between 65 and 80 percent funded; and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a funding improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented. The last column specifies the year-end date of the Plan to which the annual report (Form 5500) relates.

Pension Fund	EIN/PN	Pension Protection Act Zone Status	FIP/RP Status Pending/ Implemented	Contributions	Most Recently Available Annual Report (Form 5500)
Steamrollers Pension Plan	xx-xxxxxxx/ 001	Green as of 1/1/X1	N/A	$700,000	12/31/20X0

Contributions are made monthly under the terms of a participation agreement, which does not have an expiration date. The Plan's contributions do not represent more than 5 percent of total contributions to the Pension Plan as indicated in the Pension Plan's most recently available annual report.

Defined Contribution Retirement Plan

The Plan's instructors are covered by the Annuity Plan, a multiemployer defined contribution retirement plan. Contributions to the Annuity Plan are based upon hours worked and are made monthly under the terms of a participation agreement. Contributions to the Annuity Plan for the year ended December 31, 20X1 totaled $1,000,000.

Welfare Plan that Provides Postretirement Benefits

The Plan's office employees and instructors are also covered by the Welfare Plan, a multiemployer welfare plan that provides health benefits to eligible employees and their dependents and retirees. Contributions to the Welfare Plan are made monthly under the terms of a participation agreement. Contributions to this Welfare Plan for the year ended December 31, 20X1 totaled $2,000,000.

Note 11. Tax Status

The trust funding the Plan has received an exemption letter from the IRS dated September 17, 2001, stating that the trust is tax exempt under the provisions of [*identify section number*] of the Internal Revenue Code (IRC). The Plan and trust are required to operate in conformity with the IRC to maintain the tax-exempt status of the trust. The Trustees believe that the Plan, as amended, is being operated in compliance with the applicable requirements of the IRC and, therefore, believe the related trust is tax exempt.

Accounting principles generally accepted in the United States of America require the Plan 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 tax authorities. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Note 12. General Litigation

The Plan is involved in various legal actions arising in the normal course of its operations. In the opinion of management, such matters will not have a material effect upon the financial position of the Plan.

Note 13. Risks and Uncertainties

Investments

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, currency, 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 statements of net assets available for benefits.

Significant Contributing Employers

Contributions from two participating employers accounted for approximately 19 percent and 15 percent, respectively, of total employer contributions collected for the year ended December 31, 20X1. In the event these participating employers were to suspend contributions, the Plan would retain the risk of meeting current fixed training and administrative expenses until the appropriate adjustments were made, such as additional funding from participating employers, program adjustments, and expense reductions.

Concentration of Cash

Cash consists of monies held in noninterest bearing accounts. The Plan places its cash with a financial institution deemed to be creditworthy. Balances are insured by the FDIC up to $250,000. At December 31, 20X1, the Plan's cash exceeded federally insured limits by approximately $1,550,000.

Note 14. Training and Administrative Expenses

A summary of expenses incurred by the Plan during the year ended December 31, 20X1 follows:

	Training	Administrative	Total
Apprentice school materials	$ 5,000,000	$ -	$ 5,000,000
Computer	-	150,000	150,000
Conferences and meetings	60,000	-	60,000
Depreciation	700,000	300,000	1,000,000
Drug screening	100,000	-	100,000
Employee benefits	3,400,000	300,000	3,700,000
Insurance	150,000	50,000	200,000
Legal and other professional fees	-	76,000	76,000

Maintenance and supplies	2,400,000	-	2,400,000
Office, printing, and postage	-	295,000	295,000
Payroll taxes	900,000	151,800	1,051,800
Promotion	190,000	-	190,000
Real estate taxes	300,000		300,000
Salaries	5,000,000	1,200,000	6,200,000
Telephone and utilities	400,000	50,000	450,000
Training and educational materials	2,400,000	-	2,400,000
	$ 21,000,000	$ 2,572,800	$ 23,572,800

Note 15. 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	$ 48,686,800	$ 50,307,600
Difference between fair value of fixed assets and net book value of property and equipment	10,660,000	10,875,000
Net assets available for benefits per the Form 5500	$ 59,346,800	$ 61,182,600

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

	Year ended December 31, 20X1
Net decrease in net assets available for benefits per the financial statements	$ (1,620,800)
Add: Depreciation expense of property and equipment	1,000,000
Less: Net change in fair value of property and equipment	(1,215,000)
Net loss per the Form 5500	$ (1,835,800)

Under accounting principles generally accepted in the United States of America, property and equipment used in plan operations are recorded at cost less accumulated depreciation, whereas the Form 5500 reporting requires all plan assets to be reported at fair value. This fair value was established through independent appraisals and estimates made by Plan management.