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Accounting and reporting by defined contribution plans and employee health and welfare benefit plans : proposed accounting chapters, Audits of employee benefit plans ;Audits of employee benefit plans; Exposure draft (American Institute of Certified Public Accountants), 1982, Jan. 15

American Institute of Certified Public Accountants. Employee Benefit Plans and ERISA Committee

EXPOSURE DRAFT

ACCOUNTING AND REPORTING BY DEFINED CONTRIBUTION PLANS AND EMPLOYEE HEALTH AND WELFARE BENEFIT PLANS

PROPOSED ACCOUNTING CHAPTERS

AUDITS OF EMPLOYEE BENEFIT PLANS

JANUARY 15, 1982

PREPARED BY THE EMPLOYEE BENEFIT PLANS AND ERISA COMMITTEE
AUDITING STANDARDS DIVISION
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
FOR COMMENT FROM PERSONS INTERESTED IN ACCOUNTING AND REPORTING

COMMENTS SHOULD BE RECEIVED BY MARCH 19, 1982
AND ADDRESSED TO AUDITING STANDARDS DIVISION, FILE 3820,
AICPA, 1211 AVENUE OF THE AMERICAS, NEW YORK, NY 10036

M815107

SUMMARY

This exposure draft is the proposed accounting chapters of the audit guide, Audits of Employee Benefit Plans. An exposure draft of the proposed auditing sections of that audit guide was issued for comments on June 30, 1980.

FASB Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans, issued in March 1980, established generally accepted accounting principles for defined benefit pension plans. The accounting guidance in this exposure draft for defined contribution plans and employee health and welfare benefit plans is intended to be consistent with the principles in FASB Statement No. 35 to the extent they are relevant. This exposure draft describes the form of financial statements, provides for the reporting of plan investments at fair value, and describes additional financial statement disclosures.

The chapter on employee health and welfare benefit plans replaces the accounting and reporting principles and practices specified in the 1972 audit guide, Audits of Employee Health and Welfare Benefit Funds. The chapter does not, however, significantly change the 1972 guide regarding the accounting for plan liabilities.

AICPA

American Institute of Certified Public Accountants
1211 Avenue of the Americas New York, New York 10036 (212) 575-6200

January 15, 1982

An exposure draft of the accounting chapters of the proposed audit guide, Audits of Employee Benefit Plans, accompanies this letter. This exposure draft provides accounting and reporting guidance for defined contribution plans and employee health and welfare benefit plans, and it includes illustrative financial statements for those types of plans. This exposure draft was prepared by the AICPA Employee Benefit Plans and ERISA Committee.

An exposure draft of the auditing chapters of Audits of Employee Benefit Plans was issued for comments on June 30, 1980, and the comments on the auditing guidance have been considered by the Committee. That exposure draft did not include accounting and reporting guidance for defined contribution plans and employee health and welfare benefit plans, but it indicated that comments would be separately solicited on those matters. After comments on the accounting chapters are considered, the Committee plans to issue a complete, final audit guide.

Comments or suggestions on issues in this exposure draft will be appreciated. The Committee's consideration of responses will be helped if comments refer to a specific paragraph, explain the problem, and include supporting reasons for any suggestions or comments.

Responses should be addressed to the AICPA Auditing Standards Division, File 3820, in time to be received by March 19, 1982. Written comments on the exposure draft will become part of the public record of the AICPA Auditing Standards Division and will be available for public inspection at the offices of the American Institute of Certified Public Accountants after April 30, 1982.

Sincerely,

Andrew J. Capelli
Andrew J. Capelli
Chairman
Employee Benefit Plans and
ERISA Committee

Dennis R Beresford
Dennis R. Beresford
Chairman
Accounting Standards Executive Committee

CHAPTER 3

ACCOUNTING AND REPORTING BY DEFINED CONTRIBUTION PLANS

3-1. Defined contribution pension plans provide for individual accounts for each participant representing benefits based on (a) amounts contributed to the participants' accounts by the employer or employee, (b) investment experience on those amounts, and, sometimes, (c) forfeitures allocated to the account.

3-2. Under a defined contribution plan, the contribution rate is generally determined by the participant's compensation, profits of the employer, or both. In some plans, the contribution may be periodically determined at the discretion of the employer. When a participant retires or withdraws from the plan, the amount allocated to the participant's account (if fully vested) represents his accumulated benefit, and it may be paid to the participant or used to purchase a retirement annuity. The amount of benefits a participant will ultimately receive is generally not determined until the time of payment. By contrast, in a defined benefit pension plan, benefits are determinable, and the contribution necessary to provide those benefits is actuarially calculated. In other respects, defined contribution plans are generally similar to defined benefit plans.

3-3. The basic types of defined contribution plans are--

a. Profit sharing plans, which provide for required or discretionary employer contributions from current or accumulated profits as specified by the plan.

b. Money-purchase pension plans, which base employer contributions on criteria other than profits, for example, on compensation, units produced, length of service, or hours worked.

c. Stock bonus plans, employee stock-ownership plans (ESOPs), and tax reform act stock-ownership plans (TRASOPs), which use contributions primarily to purchase stock of the employer company. Employer contributions need not depend on the company's profits.

d. Thrift or savings plans, which provide for periodic employee contributions matched in whole or in part by contributions by the employer.

Regulatory Reporting Requirements

3-4. The Employee Retirement Income Security Act of 1974 (ERISA) established annual reporting requirements for employee benefit plans, including defined contribution plans. Those requirements are described in Appendix A of this proposed audit guide. The financial statements ERISA requires for pension plans are a statement of assets and liabilities and a statement of changes in net assets available for plan benefits.

3-5. Certain defined contribution plans, such as certain employee stock-purchase, savings, and similar plans, are required to register and report to the Securities and Exchange Commission. Regulation S-X prescribes the form of the statements of financial condition and statements of income and changes in plan equity that those plans must file with the SEC.

3-6. The Internal Revenue Service requires that accumulated benefits under defined contribution plans be calculated at least annually. In addition, proposed regulations of the Department of Labor require that each participant have the right to receive a statement of his vested and nonvested accrued benefits at least annually.

3-7. There are no authoritative pronouncements that specifically describe accounting and reporting by defined contribution plans. FASB Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans, issued in March 1980, applies only to defined benefit pension plans. However, as noted in paragraph 3-2 above, except for differences in determining plan benefits, defined contribution plans are similar to defined benefit plans, and the guidance in this chapter is consistent with the accounting and reporting standards in FASB Statement No. 35 to the extent that they are relevant.

Scope

3-8. This chapter describes generally accepted accounting principles for financial reporting by defined contribution plans. Existing generally accepted accounting principles other than those discussed in this chapter may also apply. The principles described are those that are particularly important to defined contribution plans or that differ from existing generally accepted accounting principles for other types of entities.

FINANCIAL STATEMENTS

3-9. The primary objective of a defined contribution plan's financial statements is to provide information about (a) plan resources and how the stewardship responsibility for those resources has been discharged, (b) the results of transactions and events that affect the information about those resources, and (c) other factors necessary for users to understand the information provided.

3-10. The financial statements of a defined contribution plan should include--

a. A statement that includes information regarding net assets available for benefits of the plan as of the financial statement date.

b. A statement that includes information regarding the changes during the period in net assets available for benefits of the plan.

An appendix to this chapter provides illustrative financial statements for a defined contribution plan.

NET ASSETS AVAILABLE FOR BENEFITS

3-11. The accrual basis of accounting should be used in preparing information regarding net assets available for benefits and related changes. The information should be presented in such reasonable detail as necessary to identify the plan's net assets available for benefits.

Investments

3-12. Plan investments, whether equity or debt securities, real estate, or other (excluding contracts with insurance companies) should be presented at their fair value at the financial statement date.[1] The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale

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1. The accrual basis requires that purchases and sales of securities be recorded on a trade-date basis. However, if the settlement date is after the reporting date and (a) the fair value of the securities purchased or sold just before the reporting date does not change significantly from the trade date to the reporting date, and (b) the purchases or sales do not significantly affect the composition of the plan's assets available for benefits, accounting on a settlement-date basis for such sales and purchases is acceptable.

between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value should be measured by the market price if there is an active market for the investment. If there is no active market for an investment but there is a market for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided the expected cash flows are discounted at a rate commensurate with the risk involved.[2]

3-13. Contracts with insurance companies should be presented in the same manner as that contained in the annual report filed by the plan with certain governmental agencies pursuant to ERISA.[3] A plan not subject to ERISA should present its contracts with insurance companies as if the plan were subject to the reporting requirements of ERISA.

3-14. Information regarding a plan's investments should be presented in enough detail to identify the types of investments and should indicate whether reported fair values have been measured by quoted prices in an active market or are fair values otherwise determined. Paragraphs 3-20f and 3-20g specify certain additional disclosures related to investments.

Contributions Receivable

3-15. Contributions receivable are the amounts due as of the financial statement date to the plan from the employer(s), participants, and other sources of funding (for example, state subsidies or federal grants--which should be separately identified). Amounts due include those pursuant to formal commitments as well as legal or contractual requirements. With respect to an employer's contributions, evidence of a formal commitment may include (a) a resolution by the employer's governing body approving a specified contribution, (b) a consistent pattern of making payments after the plan's year-end pursuant to an established contribution policy that attributes such subsequent payments to the preceding plan year, (c) a deduction of a contribution for federal

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2. For an indication of the factors to be considered in determining the discount rate, see paragraphs 13 and 14 of APB Opinion No. 21, Interest on Receivables and Payables. If significant, the fair value of an investment should reflect the brokerage commissions and other costs normally incurred in a sale. (See also paragraphs 2-7 and 2-8 of this guide.)

3. Currently, the pertinent governmental reporting requirements relate to item 13 of either Form 5500 or Form 5500-C.

tax purposes for periods ending on or before the financial statement date, or (d) the employer's recognition as of the financial statement date of a contribution payable to the plan.

Operating Assets

3-16. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be presented at cost less accumulated depreciation or amortization.

CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

3-17. Information regarding changes in net assets available for benefits should be presented in enough detail to identify the significant changes during the period. The minimum disclosures should include--

a. The net appreciation (depreciation) in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined. Realized gains and losses on investments that were both bought and sold during the period should be included.

b. Investment income (excluding (a), above).

c. Contributions from the employer(s), 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 sponsor.

e. Contributions from other identified sources, for example, state subsidies or federal grants.

f. Benefits paid to participants.

g. Payments to insurance companies to purchase contracts that are excluded from plan assets.

h. Administrative expenses.

3-18. The minimum disclosures should be made to the extent they apply to the plan. The list of minimum disclosures is not intended to limit the amount of detail or the manner of presenting the information, and subclassifications or additional classifications may be useful.

ADDITIONAL FINANCIAL STATEMENT DISCLOSURES

3-19. Disclosure of the plan's accounting policies should include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies (if any).[4]

3-20. The financial statements should also disclose, if applicable--

a. A brief, general description of the plan agreement including, but not limited to, vesting and allocation provisions and the disposition of forfeitures. If the basis used to allocate asset values to participants' accounts differs from the basis used to record investments in the financial statements, the amount of unallocated investments should be disclosed. If a plan agreement or a description providing this information is otherwise published and made available, this description may be omitted from the financial statements provided that reference to the other source is made.

b. The basis for determining contributions by the employer(s) and, for a contributory plan, the method of determining participants' contributions.[5] Plans subject to the minimum funding requirements of ERISA, such as certain money-purchase plans, should disclose whether those requirements have been met. If a minimum funding waiver has been granted by the Internal Revenue Service or if a request for a waiver is pending before the IRS, that fact should be disclosed.

c. A description of significant plan amendments adopted during the period. The effects of such amendments on net assets that are significant either individually or in the aggregate should be identified.

d. The policy regarding the purchase of contracts with insurance companies that are excluded from plan assets.

e. The federal income tax status of the plan, if a favorable letter of determination has not been obtained or maintained.

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4. See APB Opinion No. 22, Disclosure of Accounting Policies (AC section 2045).

5. If costs of plan administration are paid by the employer, that fact should be disclosed.

f. Identification of investments that represent 5 percent or more of the net assets available for benefits.

g. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the employer(s), or the employee organization(s).

h. Investments pledged to secure debt of the plan and a description of the provisions regarding the release of such investments from the pledge and the amounts of investments released from the pledge in the last period.

i. Guarantees by others of debt of the plan.

j. The amount of net assets at the end of the period and changes in net assets during the period allocated to separate funds if the plan provides for separate investment programs with separate funds and if the allocation of net assets and changes in net assets to the separate funds is not shown in the financial statements in columnar form or by separate financial statements for each fund. If the plan provides for self-directed investment programs for individual participants, amounts relating to those individual programs should be aggregated as a separate fund and shown either in the financial statements or in the related disclosures.

k. For plans that assign units to participants, the total number of units and the net asset value per unit during the period (for example, monthly or quarterly depending on the plan's provisions for calculating the unit values) and at the end of the period.

l. Amounts allocated to accounts of persons who have withdrawn from participation in the earnings and operations of the plan.

m. Unusual or infrequent events or transactions occurring after the financial statement date but before issuance of the financial statements that might significantly affect the usefulness of the financial statements in an assessment of the plan's financial status. If reasonably determinable, the effects of such events or transactions should be disclosed. If such effects are not quantified, the reasons why they are not reasonably determinable should be disclosed.

EFFECTIVE DATE AND TRANSITION

3-21. The accounting principles and practices in chapter 3 are effective for plan years beginning after ______________. Earlier application is encouraged. Accounting changes adopted to conform to the principles and practices of this chapter should be made retroactively. Financial statements of prior plan years should be restated to comply with this guide only if presented together with financial statements for plan years beginning after _______________. If accounting changes are necessary to conform to this guide, that fact should be disclosed when financial statements for the year in which this guide is first applied are presented either alone or only with financial statements of prior plan years.

APPENDIX

Illustration of Financial Statements

3-22. This appendix illustrates certain applications of the requirements of this chapter that apply for the 19X1 annual financial statements of a hypothetical plan, the XYZ Company Profit Sharing Plan. It does not illustrate other requirements of this chapter that might apply in circumstances other than those assumed in this example. The formats presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations.

XYZ Company Profit Sharing Plan

Statement of Net Assets Available for Plan Benefits

	December 31 19X1
Assets	
Investments, at fair value (notes B and C)	
U.S. government securities	$ 455,000
Corporate bonds and debentures	3,900,000
Common stock	3,822,000
Deposit with insurance company, at contract value (note D)	1,000,000
Total investments	9,177,000
Receivables	
Employer's contribution	14,000
Employees' contributions	52,000
Due from broker for securities sold	403,000
Accrued interest and dividends	77,000
	546,000
Cash	280,000
Total assets	10,003,000
Liabilities	
Accounts payable	10,000
Accrued expenses	100,000
Due to broker for securities purchased	75,000
Total liabilities	185,000
Net Assets Available for Plan Benefits	$9,818,000

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

XYZ Company Profit Sharing Plan

Statement of Changes in Net Assets Available for Plan Benefits

	Year Ended December 31 19X1
Investment Income	
Net appreciation in fair value of investments (note C)	$ 269,000
Interest	449,000
Dividends	165,000
	883,000
Less investment expenses	(50,000)
	833,000
Contributions	
Employer	1,014,000
Employees	585,000
	1,599,000
Total additions	2,432,000
Benefits paid to participants	1,050,000
Administrative expenses	105,000
Total deductions	1,155,000
Net increase in net assets available for benefits	1,277,000
Beginning net assets--January 1, 19X1	8,541,000
Ending net assets--December 31, 19X1	$9,818,000

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

XYZ Company Profit Sharing Plan

Notes to Financial Statements
December 31, 19X1

Note A--Description of Plan

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

General

The plan is a defined contribution plan covering all full-time employees of the company who have one year of service and are age 25 or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

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

Participant Accounts

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

Vesting

Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100 percent vested after ten consecutive years of service.

Payment of Benefits

On termination of service, a participant may elect to receive either a lump sum amount equal to the value of his or her account, or annual installments over a ten-year period.

Note B--Summary of Accounting Policies

Valuation of Investments

If available, quoted market prices are used to value investments. The amounts shown in note C for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Note C--Investments

Except for its deposit with an insurance company (note D), the plan's investments are held by a bank-administered trust fund. The following table presents the fair values of investments. Investments that represent 5 percent or more of the plan's net assets are separately identified.

Investments at fair value as determined by quoted market price	December 31, 19X1 Number of shares or principal amount	Fair Value
U.S. government securities		$ 455,000
Corporate bonds and debentures		
National Automotive 7% bonds due 2000	$1,000,000	875,000
Other		2,775,000
Common stocks		
XYZ Company	100,000	950,000
Other		2,497,000
		7,552,000
Investments at estimated fair value		
Corporate bonds		250,000
Common stocks		375,000
		625,000
Total Investments		$8,177,000

During 19X1, the plan's investments (including investments bought, sold, and held during the year) appreciated in value by $269,000 as follows:

Net Appreciation (Depreciation) in Fair Value

	Year ended December 31 19X1
Investments at fair value as determined by quoted market price	
U.S. government securities	$ (15,000)
Corporate bonds and debentures	(175,000)
Common stocks	439,000
	249,000
Investments at estimated fair value	
Corporate bonds and debentures	(5,000)
Common stocks	25,000
Total appreciation in fair value	$269,000

Note D--Deposit With Insurance Company

In 19X0, the plan entered into a deposit contract with the National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with actual earnings on the underlying investments (principally bank certificates of deposit) and charged for plan withdrawals and administration expenses charged by National. The contract is included in the financial statements at the December 31, 19X1 contract value as reported to the plan by National.

Note E--Plan Termination

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

CHAPTER 4

Accounting and Reporting by Employee Health and Welfare Benefit Plans

4-1. Employee health and welfare benefit plans include plans that provide--

a. Medical, dental, visual, or psychiatric care, life insurance, or accidental death or dismemberment benefits.

b. Benefits during periods of layoffs or disability.

c. Benefits during vacations or holidays.

d. Benefits such as apprenticeships, scholarships, day care centers, or legal services.

4-2. The participants in health and welfare benefit plans may be employees of a single employer or of a group of employers. Contributions by an employer may be voluntary or may be required under the terms of a collective bargaining agreement negotiated between one or more labor organizations. Contributions may be required from employers and participants (contributory plans) or from employers only (noncontributory plans). A noncontributory plan may provide for self-payment of contributions by participants to maintain their eligibility for benefits during periods of unemployment. Benefits either are paid from a fund's accumulated contributions and income (a self-insured plan) or are provided through insurance with an insurance company (an insured plan). Health and welfare benefit plans generally are subject to the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

Present Standards

4-3. The 1972 industry audit guide, Audits of Employee Health and Welfare Benefit Funds, prepared by the AICPA Committee on Health, Welfare, and Pension Funds, described generally accepted accounting principles for health and welfare benefit funds. FASB Statement No. 32, Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters, designates the specialized accounting and reporting principles in the 1972 audit guide as preferable for purposes of applying APB Opinion No. 20, Accounting Changes.

4-4. In March 1980, the FASB issued Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans. Statement No. 35 does not apply to health and welfare benefit plans, but it establishes certain standards that differ from those in the 1972 audit guide, primarily relating to the valuation of plan investments and additional financial statement disclosures.

Scope

4-5. This chapter describes generally accepted accounting principles for financial statements of health and welfare benefit plans. This chapter replaces the accounting and reporting principles and practices specified in the 1972 audit guide, Audits of Employee Health and Welfare Benefit Funds, and changes certain of those principles and practices regarding the valuation of plan investments (paragraphs 4-9 through 4-11), minimum disclosures in the statement of changes in net assets (paragraphs 4-23 and 4-24), additional financial statement disclosures (paragraphs 4-25 and 4-26), and illustrative financial statements (appendix). The chapter does not change the principles and practices in the 1972 guide regarding plan liabilities (paragraphs 4-17 through 4-22).

4-6. Existing generally accepted accounting principles other than those discussed in this chapter may also apply. The principles described in this chapter are those that are particularly important to health and welfare benefit plans or that differ from existing generally accepted accounting principles for other types of entities.

FINANCIAL STATEMENTS

4-7. The primary objective of a health and welfare benefit plan's financial statements is to provide information about (a) plan resources and obligations and how the stewardship responsibility for those resources and obligations has been discharged, (b) the results of transactions and events that affect the information about those resources and obligations, and (c) other factors necessary for users to understand the information provided.

4-8. The financial statements of a health and welfare benefit plan should include a statement of net assets of the plan presenting assets and liabilities as of the end of the period and a statement of changes in net assets during the period. The accrual basis of accounting should be used in preparing a plan's financial statements. The appendix provides illustrative financial statements of a health and welfare benefit plan.

STATEMENT OF NET ASSETS

Investments

4-9. Plan investments, whether equity or debt securities, real estate, or other investments (excluding contracts with insurance companies) should be presented at their fair value at the financial statement date.[1] The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value should be measured by the market price if there is an active market for the investment. If there is no active market for an investment but there is a market for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided the expected cash flows are discounted at a rate commensurate with the risk involved.[2]

4-10. Contracts with insurance companies should be presented in the same manner as that contained in the annual report filed by the plan with certain governmental agencies pursuant to ERISA.[3] A plan not subject to ERISA should present its contracts with insurance companies as if the plan were subject to the reporting requirements of ERISA.

4-11. Information regarding a plan's investments should be presented in enough detail to identify the types of investments and should indicate whether reported fair values have been measured by quoted prices in an active market or are fair values otherwise determined. Paragraphs 4-26f and 4-26g specify certain additional disclosures related to investments.

Contributions Receivable

4-12. Contributions receivable are the amounts due as of the financial statement date to the plan from the employer(s),

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1. The accrual basis requires that purchases and sales of securities be recorded on a trade-date basis. However, if the settlement date is after the financial statement date and (a) the fair value of the securities purchased or sold just before the financial statement date does not change significantly from the trade date to the financial statement date, and (b) the purchases or sales do not significantly affect the composition of the plan's assets available for benefits, accounting on a settlement-date basis for such sales and purchases is acceptable.

2. For an indication of the factors to be considered in determining the discount rate, see paragraphs 13 and 14 of APB Opinion No. 21, Interest on Receivables and Payables. If significant, the fair value of an investment should reflect the brokerage commissions and other costs normally incurred in a sale. (See also paragraphs 2-7 and 2-8 of this guide).

3. Currently, the pertinent governmental reporting requirements relate to item 13 of either Form 5500 or 5500-C.

participants, and other sources of funding (for example, state subsidies or federal grants, which should be separately identified). Amounts due include those pursuant to formal commitments as well as legal or contractual requirements. With respect to an employer's contributions, evidence of a formal commitment may include (a) a resolution by the employer's governing body approving a specified contribution, (b) a consistent pattern of making payments after the plan's year-end pursuant to an established funding policy that attributes such subsequent payments to the preceding plan year, (c) a deduction of a contribution for federal tax purposes for periods ending on or before the financial statement date, or (d) the employer's recognition as of the financial statement date of a contribution payable to the plan.

Premium Deposits

4-13. Many insurance companies require that a deposit be maintained that can be applied against possible future losses in excess of current premiums. Premium deposits should be reported as assets of the plan either until they are refunded to the plan or it is probable that the insurance company will apply the deposit as payment of premiums. Disclosure of the nature of this type of deposit should be made in the financial statements.

Accrued Experience Rating Adjustments

4-14. Certain group insurance contracts covering health and welfare benefit plans include a provision for the refund, at the end of the policy year, of the excess of premiums paid over paid claims, reserves required by the insurance company, and the insurance company's retention (fee). Often such experience rating refunds (or dividends) are not determined by the insurance company for several months after the year-end. In this event, and in cases when the policy year does not coincide with the plan's fiscal year, the refund due as of the financial statement date should be recorded if the amount can be reasonably estimated. If the amount of the refund cannot be reasonably estimated, that fact should be disclosed.

4-15. Experience ratings, determined by the insurance company or by estimates, may also result in a premium deficit. Premium deficits should be recorded as a liability of the plan if it is probable that the deficit will be applied against the amounts of future premiums or experience rating refunds and the amount can be reasonably estimated. If no accrual is made for a premium deficit because one or both of the conditions are not met or if an exposure to loss exists in excess of the amount accrued, disclosure of the premium deficit should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

Operating Assets

4-16. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be presented at cost less accumulated depreciation or amortization.

Claims

4-17. In an insured health and welfare benefit plan, claims reported but not paid and claims incurred but not reported will be paid by the insurance company and, therefore, will not appear in the financial statements as liabilities of the plan. The financial statements of a self-insured plan should present the amounts of each of those liabilities.

4-18. Claims reported but not paid may be determined from the records of the fund. The estimated liability for claims incurred but not reported is generally determined by the plan's insurance consultant or actuary.

4-19. If a self-insured plan provides death benefits, the financial statements should present the estimated liability for those benefits based on determinations by the fund's insurance consultant or actuary.

Insurance Premiums Payable

4-20. Group insurance contracts for health and welfare plans are usually written for a one-year period, although the contract may provide for annual renewal. Among other things, the contract may specify the schedule of benefits, eligibility rules, premium rate per eligible participant, and the date that premiums are due. The plan's financial statements should include a liability for premiums due but not paid.

4-21. If the insurance policy requires payment of additional contingent premiums when the loss ratio exceeds a specified percentage, a liability for the estimated additional premiums should be presented (see paragraph 4-15).

Accumulated Eligibility Credits

4-22. The eligibility rules of some plans provide for the payment of insurance premiums or benefits for a period of time subsequent to the financial statement date for those participants who have accumulated a sufficient number of eligibility credits or hours. Such rules permit eligible participants insurance coverage or benefits during periods of unemployment when employer contributions to the fund would otherwise not provide coverage or benefits. At the financial statement date, such accumulated eligibility credits represent a liability of the plan arising from prior employee service for which employer contributions have been received. The liability is generally determined by applying current insurance premium rates to accumulated eligibility credits or, for a self-insured plan, by applying the average cost of benefits per eligible participant.

STATEMENT OF CHANGES IN NET ASSETS

4-23. The statement of changes in net assets during the period should be presented in enough detail to identify the significant changes during the period. The minimum disclosures should include--

a. The net appreciation (depreciation) in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined. Realized gains and losses on investments that were both bought and sold during the period should be included.

b. Investment income (excluding (a), above).

c. Contributions from the employer(s), 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 sponsor.

e. Contributions from other identified sources, for example, state subsidies or federal grants.

f. Benefits paid to participants. This should not include benefit payments made by an insurance company in accordance with a contract that is excluded from plan assets.

g. Payments of premiums to insurance companies.

h. Changes during the period in liabilities for benefits by major types.

i. Administrative expenses.

j. Change during the period in net assets.

4-24. The minimum disclosures should be made to the extent they apply to the plan. The list of minimum disclosures is not intended to limit the amount of detail or the manner of presenting the information, and subclassifications or additional classifications may be useful.

ADDITIONAL FINANCIAL STATEMENT DISCLOSURES

4-25. Disclosure of a health and welfare benefit plan's accounting policies should include the following:[4]

a. A description of the methods and significant assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies (if any).

b. A description of significant actuarial assumptions used to determine the plan's liabilities. Any significant changes of assumptions between financial statement dates should be described.

4-26. The plan's financial statements should include the following additional disclosures, if applicable--

a. A brief, general description of the plan agreement, including, but not limited to, vesting and benefit provisions. If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted provided that the reference to the other source is made.

b. A description of significant plan amendments adopted during the period and the significant effects on plan liabilities of factors such as plan amendments, changes in the nature of the plan (for example, a plan spin-off or merger with another plan), and changes in actuarial assumptions.

c. The funding policy and any changes in such policy during the plan year.[5] For a contributory plan, the disclosure should state the method of determining participants' contributions.

d. The policy regarding the purchase of contracts with insurance companies that are excluded from plan assets.

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4. See APB Opinion No. 22, Disclosure of Accounting Policies.

5. If costs of plan administration are paid by the employer, that fact should be disclosed.

e. The federal income tax status of the plan, if a favorable letter of determination has not been obtained or maintained.

f. Identification of investments that represent five percent or more of plan assets.

g. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the employer(s), or the employee organization(s).

h. Unusual or infrequent events or transactions occurring after the financial statement date but before issuance of the financial statements that might significantly affect the usefulness of the financial statements in an assessment of the plan's present and future ability to pay benefits. For example, a plan amendment adopted after the latest financial statement date that significantly increases future benefits that are attributable to employee's service rendered before that date should be disclosed. If reasonably determinable, the effects of such events or transactions should be disclosed. If such effects are not quantified, the reasons why they are not reasonably determinable should be disclosed.

EFFECTIVE DATE AND TRANSITION

4-27. The accounting principles and practices in chapter 4 are effective for plan years beginning after ______________. Earlier application is encouranged. Accounting changes adopted to conform to the principles and practices of this chapter should be made retroactively. Financial statements of prior plan years should be restated to comply with this guide only if presented together with financial statements for plan years beginning after ____________. If accounting changes were necessary to conform to this guide, that fact should be disclosed when the financial statements for the year in which this guide is first applied are presented either alone or only with financial statements of prior years.

APPENDIX

Illustration of Financial Statements

4-28. This appendix illustrates certain applications of the requirements of this chapter that apply for the 19X1 annual financial statements of a hypothetical plan, the SOP Company Employee Health and Welfare Benefit Plan. It does not illustrate other requirements of this chapter that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations.

SOP Company Employee Health and Welfare Benefit Plan

Statement of Net Assets

	December 31 19X1
Assets	
Investments, at fair value (notes B and D)	
U.S. government securities	$1,171,000
Corporate bonds and debentures	360,000
Common stock	219,000
Receivables	
Employer's contributions (note A)	562,000
Employees' contributions (less allowance for doubtful accounts of $4,000)	138,000
Accrued interest and dividends	25,000
Due from broker for securities sold	31,000
Cash	58,000
Total assets	2,564,000
Liabilities	
Health claims payable	$402,000
Estimated health claims incurred but not reported	182,000
Estimated future benefits based on participants' accumulated eligibility	592,000
Estimated benefits to retired participants	385,000
Estimated future death benefits	315,000
Due to broker for securities purchased	35,000
Other liabilities	38,000
Total plan liabilities	1,949,000
Net Assets	$ 615,000

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

SOP Company Employee Health and Welfare Benefit Plan

Statement of Changes in Net Assets

	Year Ended December 31 19X1
Increases in plan assets attributed to:	
Investment income	
Net appreciation in fair value of investments (note D)	$ 12,000
Interest	165,000
Dividends	7,000
	184,000
Less investment expenses	(11,000)
	173,000
Employer's contributions (notes A and C)	2,320,000
Employees' contributions	833,000
Total increases	3,326,000
Decreases in plan assets attributed to:	
Payments for--	
Health claims	2,683,000
Retired participants' benefits	173,000
Death benefits	112,000
	2,968,000
Additions to liabilities for--	
Health claims (note C)	134,000
Participants' accumulated eligibility	75,000
Benefits for retired employees	29,000
Death benefits	12,000
Administrative expenses	166,000
Total decreases	3,384,000
Net decrease in net assets	(58,000)
Beginning net assets--January 1, 19X1	673,000
Ending net assets--December 31, 19X1	$615,000

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

SOP Company Employee Health and Welfare Benefit Plan

Notes to Financial Statements
December 31, 19X1

Note A--Description of the Plan

The following description of the SOP Company (company) Employee Health and Welfare Benefit Plan (plan) provides only general information. Participants should refer to the plan agreement for more complete information.

General

The plan provides health and death benefits covering substantially all employees of the company. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Benefits

The plan provides health benefits (hospital, surgical, major medical, and long-term disability) covering full-time employees of the company with 1000 hours of service each year. The plan also provides health benefits to certain active and retired employees if they have accumulated in the current or prior years credit amounts (expressed in hours) in excess of hours required for current coverage. Accumulated eligibility credits equal to approximately one year's coverage may be carried forward, and any credits in excess of approximately one year's coverage are converted into specified amounts of paid-up death benefits.

Contributions

The plan agreement provides that the company make quarterly contributions to the plan of a specified amount for each hour worked (approximately _ cents per hour in 19X1) to provide benefits for employees. The employer's contribution rate is determined annually by the plan's actuary. Beginning in 19X2, the company's contribution is expected to increase approximately seven percent (to _ cents per hour) to provide for the increase in benefits attributable to the plan amendment effective July 1, 19X1 (note C).

An employee may contribute specified amounts, determined annually by the plan's actuary, to extend coverage to eligible dependents of the employee.

Note B--Summary of Accounting Policies

Valuation of Investments

If available, quoted market prices are used to value investments. The amounts shown in note D for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Plan Benefits

Plan liabilities for health claims incurred but not reported, benefits to retired employees, and accumulated eligibility of participants as of December 31, 19X1, are estimated by the Plan's actuary in accordance with accepted actuarial principles. The liability for death benefits has been determined by the application of the unit risk rates computed in accordance with actuarial principles and discounted to present value assuming an average investment return rate of 7.5 percent.

Note C--Plan Amendment

Effective July 1, 19X1, the plan was amended to increase major medical coverage from sixty to eighty percent of costs after $100 deductible. The plan's actuary estimates that the amendment has resulted in an increase in health benefits payable under the plan of $115,000 in 19X1, and that the amendment will result in an increase of seven percent in the company's contribution in 19X2.

Note D--Investments

The plan's investments are held by a bank-administered trust fund. The following table presents the fair values of investments. Investments that represent 5 percent or more of the plan's assets are separately identified.

Investments at fair value as determined by quoted market price	December 31, 19X1 Number of shares or principal amount	Fair value
U.S. government securities		$1,171,000
Corporate bonds and debentures		
Commonwealth Power 9% bonds due 19X4	$200,000	172,000
Other	$100,000	74,000
Common stocks		
SOP Company	2,000	30,500
Other		110,000
		1,557,500
Investments at estimated fair value		
Corporate bonds	$150,000	114,000
Common stocks		78,500
Total investments		$1,750,000

During 19X1, the plan's investments (including investments bought, sold, and held during the year) appreciated in value by $12,000 as follows:

Net Appreciation (Depreciation) in Fair Value

	Year ended December 31 19X1
Investments at fair value as determined by quoted market price	
U.S. government securities	($15,000)
Corporate bonds and debentures	(7,000)
Common stocks	31,000
	9,000
Investments at estimated fair value	
Corporate bonds	(2,000)
Common stocks	5,000
Total appreciation in fair value	$12,000