
American Institute of Certified Public Accountants. Technical Information Division

Jack Hauptman
Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans

A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID
CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements:
Checklist Supplement and Illustrative Financial Statements for Construction Contractors
Checklist Supplement and Illustrative Financial Statements for Oil and Gas Producing Companies
Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures
Checklist Supplement and Illustrative Financial Statements for Investment Companies

Checklist of Emerging Issues Task Force Consensuses

Industry Checklists and Illustrative Financial Statements
Checklists and Illustrative Financial Statements for Agricultural Cooperatives
Checklists and Illustrative Financial Statements for Banks
Checklists and Illustrative Financial Statements for Colleges and Universities
Checklists and Illustrative Financial Statements for Credit Unions
Checklist and Illustrative Financial Statements for Defined Benefit Plans
Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans
Checklists and Illustrative Financial Statements for Finance Companies
Checklists and Illustrative Financial Statements for Health Care Providers
Checklists and Illustrative Financial Statements for Nonprofit Organizations
Checklist and Illustrative Financial Statements for Personal Financial Statement Engagements
Checklists and Illustrative Financial Statements for Prospective Financial Statement Engagements
Checklists and Illustrative Financial Statements for Savings and Loan Associations
Checklists and Illustrative Financial Statements for State and Local Governmental Units
Checklists and Illustrative Financial Statements for Stock Life Insurance Companies
Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans
A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID

Edited by
Jack Hauptman, CPA
Technical Manager
Technical Information Division

Checklists for Employee Health and Welfare Benefit Plans and Illustrative Financial Statements has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and has no official or authoritative status.
These checklists and the accompanying illustrative financial statements were developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids.

Users of the checklists should take into consideration the following:

- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

- The checklists address accounting, disclosures and auditing issues associated with employee health and welfare benefit plans. The checklists include references to relevant Statements of Financial Accounting Standards, Statements on Auditing Standards, the Audit and Accounting Guide entitled, Audits of Employee Benefit Plans and other technical pronouncements as appropriate. The checklists considered all technical pronouncements issued as of February 1, 1991.

- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, and generally accepted auditing standards.

- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent the disclosure is relevant to the statements being examined.

The editor would like to thank the members of the 1990-1991 Employee Benefit Plans Committee for their assistance in developing these checklists, and his colleague, Arthur Kappel, who is a consultant on this project.

Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

John F. Hudson
Vice President
Technical Standards & Services
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INTRODUCTION

The accounting and financial reporting requirements of employee health and welfare benefit plans are set forth in the AICPA Industry Audit Guide, Audits of Employee Benefit Plans. FASB Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans, does not apply to health and welfare benefit plans. However, the method of valuing plan investments and requirements for financial statement disclosures are generally the same as those specified in FASB No. 35.

The nature, timing and extent of auditing procedures to be applied are a matter of professional judgment and will vary depending on the size, structure, and type of plan, and should consider the existing internal control structure as well as other factors. (Refer to the AICPA Audit and Accounting Guide, Audits of Employee Benefit Plans for additional guidance regarding the audits of employee health and welfare benefit plans.)

DESCRIPTION

Employee health and welfare benefit plans include plans that provide --

a. Medical, dental, visual, hearing, prescription drug or psychiatric care; life insurance; or accidental death or dismemberment benefits.

b. Benefits during periods of unemployment or disability.

c. Benefits during vacations or holidays.

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

e. Certain severance benefits.

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 with 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 or after retirement. Benefits either are paid from a fund's accumulated contributions and income (a self-funded plan) and/or are provided through purchase of insurance from an insurance company (an insured plan). Health and welfare benefit plans generally are subject to ERISA fiduciary standards and certain reporting and disclosure requirements. They are not, however, subject to the minimum vesting, funding and accrual requirements of ERISA and the Internal Revenue Code.
ERISA'S Reporting and Disclosure Requirements

As noted above, employee health and welfare benefit plans are subject to certain provisions of the Employee Retirement Income Security Act ("ERISA"). Employee health and welfare benefit plans subject to ERISA are required to report certain information annually on Form 5500 Series (Form 5500 or 5500-c/r) to government agencies such as Department of Labor (DOL) and the Internal Revenue Service (IRS). These plans are also subject to ERISA's audit requirement unless they are otherwise exempt due to the number of participants in the plan, or if they are deemed to be unfunded and/or fully insured and only employee contributions are used solely to pay insurance premiums to an insurance company (DOL Reg. 2520.104-44). Any such plans subject to ERISA are also required to provide certain summary plan documents regarding the plan and summaries of material modifications to the plan.

Under ERISA, the DOL and the IRS have the authority to issue regulations on various regulatory reporting and disclosure requirements. It also gives them certain administrative responsibilities and enforcement powers.
The financial statements of all employee health and welfare benefit plans should be prepared on the accrual basis, at fair value, although other comprehensive bases of accounting are allowed, and should consist of the following:

(a) Statement of Net Assets and  
(b) Statement of Changes in Net Assets

Generally ERISA plans with 100 or more participants where plan assets/trust exists, must file an annual report on Form 5500 series containing financial statements and notes, separate schedules, and an independent qualified public accountant's report.

ERISA requires the statement of net assets available to pay benefits of an employee health and welfare benefit plan financial statements to be presented in comparative form showing the end of the current plan year and the end of the prior plan year.

The alternative method if compliance requires employees' health and welfare benefit plan financial statements be presented in comparative form between the beginning and end of the current plan year.

The IRS, DOL and PBGC have consolidated their reporting requirements into the Form 5500 series to minimize the filing burden for plan administrators. The consolidated report is filed with the IRS, which processes it for itself and other agencies and transmits certain information to the DOL for enforcement purposes.

ERISA regulations permit a plan administrator to limit the scope of an auditor's examination with regard to certain plan's investments. If the plan has assets which are held by an insurance carrier, bank or similar institution, which is regulated and subject to periodic request the auditor to perform a limited-scope examination as compared to a full-scope audit examination. This information must be prepared and certified by the related institution.

Note: Legislation has been introduced to eliminate the limited-scope audit exemption. The AICPA supports this initiative.
Authoritative Guidance

- SFAS No. 102  

Pursuant to SFAS No. 102, a statement of cash flows is generally not required for employee health and welfare benefit plans. However, SFAS Statement No. 102 encourages employee benefit plans to include a statement of cash flows in their 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.

- SFAS No. 105  
  Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk (Effective for financial statements issued for fiscal years ending after June 15, 1990.)

- SFAS No. 106  
  Employer's Accounting for Postretirement Benefits Other than Pensions, establishes standards of financial accounting and reporting by employers for health and welfare benefits expected to be provided after a participant's retirement. The Statement generally does not apply to health and welfare benefit plans. However, the AICPA exposed an SOP on accounting and reporting for health and welfare benefit plans which incorporates many of the principles noted in SFAS No. 106.

- Audit and Accounting Guide  
Proposed SOP  

An SOP is presently pending that will amend chapter 4 of the 1991 Audit and Accounting Guide, *Audits of Employee Benefit Plans*. The reader should be alert and refer to it when issued.
Checklists--General Discussion

Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statement of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins and Interpretations thereof. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums.

Checklists generally are accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

- The checklists are not all-inclusive and are not intended to presented minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in this edition.
Auditor's Reports Checklist

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and accordingly, the discussion on page 6 is incorporated herein by reference.

Explanation of references:

SAS = Statement on Auditing Standards  
AU = Reference to section number in AICPA Professional Standards (Vol. 1)  
DOL = Department of Labor  
CFR = Code of Federal Regulations

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Auditor's Reports Checklist

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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I. Auditor's Reports Checklist

1. Does the auditor's report include appropriate:
   
   a. Addressed?  
      [SAS 58, par. 9 (AU 508.089)]

   b. Date (or dual dates) of the report?  
      [SAS 1, sec. 530 (AU 530); SAS 58, pars. 46 and 74 (AU 508.46 and .74)]

   c. A title that includes the word independent?  
      [SAS 58, par. 8 (AU 508.08)]

      Note: DOL Regulations require the auditor's report to be dated and manually signed and to identify city and state where issued.

2. If the auditor is not independent, has the appropriate disclaimer of opinion been expressed?  
   [SAS 26 (AU 504.09)]

3. Does the reporting language conform with the auditor's standard report on:
a. Financial statements of a single year or period?
[SAS 58, par. 8 (AU 508.08)]

b. Comparative financial statements?
[SAS 58, par. 8 (AU 508.08)]

c. Comparative financial statements with differing opinions?
[SAS 58, pars. 74-76 (AU 508.74-.76)]

4. Does the auditor's report conform to SAS 58 and include appropriate language as set forth in the 1991 audit guide as follows:

a. Auditor's Report on Financial Statements of a Health and Welfare Benefit Plan (See Exhibit A)

b. Supplemental Schedules Relating to ERISA and DOL regulations (see Exhibit B)

c. Auditor's Report on Financial Statements - Limited-Scope Audits Under DOL Regulations (see Exhibit C)

Note: The 1991 audit guide includes additional auditor reports with respect to "financial statements of a trust" and also "inadequate procedures to value investments."

5. Does the auditor's report include appropriate language with respect to any of the following situations:

a. Part of the audit was made by other independent auditors and the principal auditor is indicating a division of responsibility for the examination in his report?
[SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]

b. Departure from a promulgated accounting principle when conformity would result in a misleading presentation?
[SAS 58, pars. 14-15 (AU 508.14-.15)]

c. Updating of a previously issued opinion
6. Has an explanatory paragraph been added to the standard auditor's report if:

   a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report?
      [SAS 58, pars. 16-33 (AU 508.16-.33)]

   b. There has been a material change between periods in accounting principles or in the method of their application?
      [SAS 58, pars. 34-36 (AU 508.34-.36)]

   c. A matter regarding the financial statements that should be emphasized?
      [SAS 58, par. 37 (AU 508.37)]

Note: DOL Regulation Section CFR 2520.103-1 (iv) requires that the auditor clearly identify any matters to which he takes exception in his report. (See V. ERISA Reporting Requirements)

7. Has a qualified opinion or disclaimer of opinion been expressed if scope limitations precluded the application of one or more auditing procedures considered necessary in the circumstances (e.g., the inability to ascertain the fair value of investments)?
   [SAS 58, pars. 40-45 (AU 508.40-.45)]

8. Has a qualified or disclaimer opinion pursuant to DOL Regulation 29 CFR 2520.103-8 - limited scope exemption, been issued?

9. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:

   a. Departure from generally accepted accounting principles?
      [SAS 58, pars. 49-66 (AU 508.49-.66)]

   b. Inadequate disclosure?
      [SAS 58, pars. 55-58 (AU 508.55-.58)]
c. Unresolved matters involving specialists?
   [SAS 11, par. 9 (AU 336.09)]
   [Yes] [No] [N/A]

d. Material errors or irregularities in the financial statements which have not been revised?
   [SAS 53, par. 26 (AU 316.26)]
   [Yes] [No] [N/A]

e. Illegal acts by clients?
   [SAS 54, par. 18 (AU 317.18)]
   [Yes] [No] [N/A]

f. Material misstatement of the financial statements?
   [SAS 47, par. 31 (AU 312.31)]
   [Yes] [No] [N/A]

g. Financial statements issued before the effective date of a Statement of Financial Accounting Standards (SFAS) when disclosure is not made of the effect of a restatement which will be required in the future as a result of the SFAS?
   [Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]
   [Yes] [No] [N/A]

h. Plan's representations and disclosures about related party transactions and parties-in-interest transactions cannot be substantiated?
   [SAS 45, par. 12 (AU 334.12) AAG, pars. 11.15; A.31]
   [Yes] [No] [N/A]

10. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed?
    [SAS 58, pars. 39, 68 and 71 (AU 508.39, .68, and .71)]
    [Yes] [No] [N/A]

11. Has the auditor's opinion been modified as deemed applicable; qualified opinion, disclaimer of opinion, or explanatory paragraph for the following:

   a. Conditions that precluded application of necessary auditing procedures to long-term investments?
      [SAS 58, par. 42 (AU 508.42)]
      [Yes] [No] [N/A]

   *Note:* Section CFR 2520.103-8 of the DOL's Rules and Regulations permit a
"limited-scope" audit with respect to certain investments of the plan. Refer to Exhibit C of this checklist for an example of the auditor's report.

b. Client's refusal to provide written representation?
   [SAS 19, par. 11 (AU 333.11)]

c. Limitations on scope of lawyer's response?
   [SAS 12, pars. 12-14 (AU 337.12-.14)]

12. If additional information not required under GAAP (e.g., supplemental schedules required by the DOL) is to accompany the basic financial statements and auditor's report in a document submitted by the auditor to the client, does the auditor's report:
   a. State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?
      [SAS 29, par. 6 (AU 551.06a)]

   b. Specifically identify the accompanying information?
      [SAS 29, par. 6 (AU 551.06b)]

   c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?
      [SAS 29, par. 6 (AU 551.06c, footnote 3)]

   d. State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements or whether the auditor disclaims an opinion?
      [SAS 29, par. 6 (AU 551.06d)]

   e. Express an opinion on whether the accompanying information is fairly stated in relation to the basic financial statements?
      [SAS 29, par. 6 (AU 551.06d)]

13. If the auditor has expressed a qualified opinion on the basic financial statements, has the effect of the modification been taken into consideration when reporting on the
accompanying information?  
[SAS 29, par. 10 (AU 551.10 and 551.14)]  

14. Has the auditor considered the consistency of "other information" in documents (e.g., Form 5500) containing audited financial statements?  
(AAG, par. 12.12-12.14)  

15. If an auditor-submitted document with accompanying information is co-existing with a document that includes just the basic financial statements and auditor's report:  

a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles?  
[SAS 29, par. 21 (AU 551.21)]  

16. If a separate report on internal control structure is to be issued is the appropriate form of report used for:  

a. A report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on documentation made as part of an audit of financial statements?  
[SAS 60, par. 10 (AU 325.10)]  

b. A report on all or part of an entity's internal control structure for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria?  
[SAS 30, pars. 54-59 (AU 642.54-.59)]  

c. Other special purpose reports on all or parts of the entity's internal control structure for restricted use of management, specified regulatory agencies, or other specified third parties?  
[SAS 30, pars. 60-61 (AU 642.60-.61)]  

Note: Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the
board of directors or its audit committee. (SAS 60)

17. If the auditor is reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, has the auditor considered whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used? [SAS 62, pars. 3-6 (AU 623.03-.06)]
ILLUSTRATION OF AUDITOR'S REPORT ON
FINANCIAL STATEMENTS OF A
HEALTH AND WELFARE BENEFIT PLAN

(The following is an illustration of an auditor's report with an
unqualified opinion on the financial statements of an employee health
and welfare benefit plan.)

INDEPENDENT AUDITOR'S REPORT

Addressee:

We have audited the accompanying statement of net assets of Bizco
Corporation Employee Health and Welfare Benefit Plan as of December
31, 19X1, and the related statement of changes in net assets for the
year then ended. These financial statements are the responsibility
of the Plan's management. Our responsibility is to express an opinion
on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing
standards. Those standards require that we plan and perform the
audit to obtain reasonable assurance about whether the financial
statements are free of material misstatement. An audit includes
examining, on a test basis, evidence supporting the amounts and
disclosures in the financial statements. An audit also includes
assessing the accounting principles used and significant estimates
made by management, as well as evaluating the overall financial
statement presentation. We believe that our audit provides a
reasonable basis for our opinion.

In our opinion, the financial statements referred to above present
fairly, in all material respects, the net assets of the plan as of
December 31, 19X1, and the changes in net assets for the year then
ended in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]
[Date]

EXHIBIT A
SUPPLEMENTAL SCHEDULES RELATING TO
ERISA AND DOL REGULATIONS

(WHEN THE AUDITOR'S REPORT COVERS ADDITIONAL INFORMATION AND THE
AUDITOR HAS APPLIED AUDITING PROCEDURES AND IS EXPRESSING AN OPINION
ON THE ADDITIONAL INFORMATION, A SEPARATE PARAGRAPH OF THE REPORT
MIGHT BE WORDED AS FOLLOWS:)

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statement but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

EXHIBIT B
ILLUSTRATION OF AUDITOR'S REPORT
ON FINANCIAL STATEMENTS—
LIMITED-SCOPE AUDITS UNDER DOL REGULATIONS

INDEPENDENT AUDITOR'S REPORT

Addressee:

We were engaged to audit the financial statements and supplemental schedules of Bizco Corporation Employee Health and Welfare Benefit Plan as of December 31, 19X1 and for the year then ended. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the plan, except for comparing the information with the related information included in the 19X1 financial statements and supplemental schedules. We have informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 19X1 that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

__________________________
[Signature of Firm]

[City and State]
[Date]

EXHIBIT C
Financial Statements and Notes Checklist

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and accordingly, the discussion on page 6 is incorporated herein by reference.

Explanation of references:

ARB = Accounting Research Bulletin
APB = Accounting Principles Board Opinion
SFAS = Statement of Financial Accounting Standards
SAS = Statement on Auditing Standards
AC = Reference to section number in FASB Accounting Standards Current Text
AU = Reference to section number in AICPA Professional Standards (Vol. 1)
ERISA = Employee Retirement Income Security Act of 1974
DOL = Department of Labor
IRS = Internal Revenue Service
CFR = Code of Federal Regulations

Yes No N/A

I. Notes to the Financial Statements

A. General

1. Does each financial statement include a general reference to the notes indicating that the notes are an integral part of the financial statement presentation? [AU 431.02] [Suggested Practice]

B. Disclosure of Significant Accounting Policies in the Notes to Financial Statements

1. Is a description of all significant accounting policies of the plan presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]

2. Does the disclosure of significant accounting policies include important judgments as to appropriateness of principles concerning the recognition of income? [APB 22, par. 12 (AC A10.105)]
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere in the statements and notes, so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]

4. Does the disclosure of the plan's significant accounting policies include a description of the method(s) and assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies? (AAG par. 4.25)

5. Is 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. (AAG par. 4.25)

C. Other Disclosures in the Notes to Financial Statements (AAG par. 4.25)

1. Do the notes include 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.

2. Is there a description of significant plan amendments adopted during the period as well as the significant effects on plan liabilities of such factors 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?

3. Is disclosure made as to the funding policy, and any changes in the policy during the plan year, and, if there is a deficit in net assets of the plan, the method of funding the deficit as provided for in the plan agreement or collective bargaining.
agreement? For a contributory plan, the disclosure should state the method of determining participants' contributions.

4. Is the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets disclosed?

5. Is there disclosure as to the federal income tax status of the plan, if a favorable letter of determination has not been obtained or maintained?

6. Is there an identification of investments that represent 5 percent or more of total plan assets?

7. Is there disclosure as to significant real estate or other transactions in which the plan and any of the following parties are jointly involved the sponsor, the plan administrator, employers, or employee organizations?

8. Is there disclosure of 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.

9. Are any deviations from GAAP adequately disclosed as an integral part of the financial statements?

D. Accounting Changes

1. For an accounting change, does disclosure in the period of change include:

   a. Nature of the change?
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tr>
<td>b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable?</td>
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<td>c. Effect on earnings of the plan?</td>
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<td>[APB 20, par. 17 (AC A06.113)]</td>
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<td>2. Is correction of an error shown as a prior period adjustment with disclosure of the following in the period of correction:</td>
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<tr>
<td>a. Nature of the error?</td>
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<tr>
<td>b. Effect of its correction on and net assets of the plan?</td>
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<td></td>
</tr>
<tr>
<td>c. Are the resulting effects on the change in net assets of prior periods disclosed in the financial statements for the year in which the adjustments are made?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. If the financial statements are presented only for a single period, are the effects of the restatement on the balance of net assets at the beginning of the period and on the change in net assets of the immediately preceding period disclosed?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. If financial statements for more than one period are presented, are the effects disclosed for each period included in the statements? [APB 9, pars. 18 and 26, APB 20, par. 37 (AC A35.105-.107)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. If there were any changes in accounting estimates:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Are the effects of changes in accounting estimates accounted for either in (1) the period of change, if the change affects that period only, or (2) the period of change and future periods, if the change affects both? [APB 20, par. 31 (AC A06.130)]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets of the current period disclosed? [APB 20, par. 33 (AC A06.132)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
c. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change?  
[APB 20, par. 38 (AC A06.133)]

E. Related Party Transactions

Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest?  
[(AAG, A.19d, V. ERISA Reporting Requirements)]

Note: ERISA generally defines a party-in-interest to include such parties as a fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee association whose members are covered by the plan, a person who owns 50% or more of such an employer or employee association, or relatives of a person described above. See ERISA Sections 3(14) and 406 for a complete definition.  
[AAG A.31, footnote 5; ERISA Sections 3(14) and 406]

F. Contingencies and Commitments

1. Are the nature and amount of accrued loss contingencies disclosed?  
[SFAS No. 5, par. 9 (AC C59.108)]

2. For loss contingencies not accrued, do disclosures indicate:
   a. Nature of the contingency?
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?  
[SFAS No. 5, par. 10 (AC C59.109 and .111)]

3. Are gain contingencies disclosed with care to avoid any misleading implication about
likelihood of realization?
[SFAS No. 5, par. 17 (AC C59.118)]

Yes No N/A

4. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness) disclosed?
[SFAS No. 5, par. 12 (AC C59.113)]

Yes No N/A

G. Subsequent Events

1. Are the financial statements adjusted for any changes resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the statement of net assets (i.e., abnormal disposal or purchase of investments since year end; changes in plan commitments or contingent liabilities)?
[SFAS No. 5, par. 8 (AC C59.105);
(AU 560.03-.04); AAG, par. 11.9d]

Yes No N/A

2. Are the subsequent events that provide evidence with respect to conditions that did not exist at the date of the statement of net assets but arose subsequent to that date adequately disclosed (i.e., amendments to plan and trust instruments and insurance contracts)?
[SFAS No. 5, par. 11 (AC C59.112);
(AU 560.05-.07)]

Yes No N/A

H. Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk [SFAS No. 105]

1. This statement is effective for financial statements issued for fiscal years ending after June 15, 1990.
[SFAS No. 105, par. 22]

Yes No N/A

2. When preparing comparative financial statements, in the year of transition only, these disclosures are not required for fiscal years ending before the effective date of this statement.
[SFAS No. 105, par. 22]

Yes No N/A

3. For subsequent fiscal years, the information required by SFAS No. 105 will be presented
for each year for which a statement of financial position is presented.
[SFAS No. 105, par. 22]

4. If not otherwise disclosed, for financial instruments with off-balance sheet risk (e.g., participating contracts), has the following information been disclosed either in the body of the financial statements or in the notes:

a. The contract amount and the nature and terms of the contract?

b. The cash requirements of those contracts?

c. The amount of accounting loss the entity (plan) would incur if any party to the financial instrument (contract) failed completely to perform according to the contract or if the amount due proved to be of no value to the entity?
[SFAS No. 105, par. 18]

5. Do the financial statements disclose all significant concentrations of credit risk arising from all financial instruments?
[SFAS No. 105, par. 7 and par. 20]

I. Plan Terminations

If there is a present intention to terminate the plan, is this disclosed in the financial statements?
For applicable guidance as to the auditor's reporting responsibilities with respect to terminating plans (AU 9508.33-.38)

II. Financial Statements - General

A. Do the annual financial statements of the plan include:

1. A "Statement of Net Assets" as of the end of the plan year?

2. A "Statement of Changes in the Net Assets" during the year?

B. If comparative financial statements are presented in accordance with ARB 43:
1. Are notes, explanations, and opinion qualifications that appeared on the statements for the preceding years repeated or referred to in the comparative statements to the extent that they continue to be significant?  

2. Are exceptions to comparability disclosed?  
   [ARB 43, Chapt. 2A (AC F43.101-.103)]

III. Statement of Net Assets

A. General

1. Is the accrual basis of accounting used in preparing the statement of net assets?  
   [AAG, par. 4.8]

2. Have the purchases and sales of securities been recorded on a trade-date basis in accordance with the accrual basis of accounting?  
   [AAG, par 4.8]

   Note: The accrual basis requires that purchases and sales of securities be recorded on a trade-date basis. If the settlement date is after the financial statement date, however, 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 accounting on a settlement-date basis for such sales and purchases is acceptable.

B. Valuation and Classification of Investments

1. Are plan investments, whether equity or debt securities, real estate or other (except contracts with insurance companies) presented at their fair value at the financial statement date?  
   [AAG, par. 4.9]

2. If significant, does the fair value of an investment include the brokerage commissions
Yes  No  N/A

and other costs normally incurred in a sale?
[AAG, par 4.9]

3. Are the plan's investments presented in
eough detail to identify the types of
vestments and the method of valuation?
[AAG, par 4.11]

4. Is it disclosed whether the reported fair
values of investments have been measured by
oted prices in an active market or by
other method?
[AAG, par 4.9]

5. Are the following investments reported as
parate line items in the Statement of Net
sets:

a. Government securities?

b. Short-term securities?

c. Corporate bonds?

d. Common stocks?

e. Mortgages?

f. Real estate?

g. Investments in bank common and commingled
trust funds?

h. Master trusts?

6. Are investments and securities that
represent 5% or more of the plan's net
sets, separately identified in the
ancial statements or notes thereto?
[AAG, par. 4.26f]

C. Contracts with Insurance Companies

1. Contracts may be presented in the same
manner as that contained in the annual
port filed by the plan with certain
governmental agencies pursuant to ERISA.
A plan not subject to ERISA may present its
tracts as if the plan was subject to the
orting requirements of ERISA.
(AAG, par. 4.10)
2. Have premium deposits been reported as assets of the plan until they are refunded to the plan or it becomes probable that the insurance company will apply the deposit as payment of premiums? (AAG, par 4.16)

Note 1: EITF Issue No. 89-1 addresses the following: (a) guaranteed investment contract negotiated with an insurance company (GIC), (b) bank investment contract (BICs) and (c) savings and loan investment contract (SLICs), however, a consensus has not been reached.

Note 2: Plans funded solely with certain types of insurance contracts are not required under ERISA to prepare financial statements or engage an independent auditor. [AAG, par. 7.16, footnote 2; CFR 2520.104-44; and the instructions to Form 5500 Series Report]

Note 3: Disclosure of the nature of this type of deposit should be made in the financial statements.

D. Contributions Receivable and Uncollectible Amounts

1. Are contributions receivable properly accrued as of the date of the financial statements, including but not limited to:

   a. receivables from employer(s)?
   
   b. receivables from participants?

   and

   c. other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [AAG, par. 4.12]
2. Are the amount and method of determining participants, contributions disclosed in the financial statements or notes thereto? (AAG, par 4.26c)   

3. If there is a deficit in net assets at the end of the plan year, is disclosure made as to method of funding the deficit? (AAG, par 4.26c)

E. Cash

1. If cash is held in trusts under a trust agreement or under an insurance contract, is this disclosed?  

2. Are restrictions on cash appropriately disclosed? [SFAS No. 5, pars. 18-19 (AC C59.120)]

F. Are plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) presented at cost less accumulated depreciation or amortization? (AAG, par. 4.13)

G. Liabilities

1. Have liabilities been deducted in arriving at net assets [including insurance premiums payable, accrued experience rating adjustments, claims and accumulated eligibility credits (including death benefits)]? [AAG, par. 4-14, 4.15, 4.17-4.22]

2. If accrued experience rating adjustments are not accrued because the amount cannot be reasonably estimated has that fact been disclosed?

3. Have claims reported to the plan but not paid and claims incurred but not reported to the plan been:
   a. excluded from plan assets of an insured plan?
   b. included in plan assets of a self-insured plan?
4. Have benefit amounts due to retirees been reflected?  

IV. Statement of Changes in Net Assets

A. General

1. Does the "statement of changes in net assets" (or the notes to the financial statements) illustrate the net change (appreciation or depreciation) in the fair value (or estimated fair value) of each significant type of investment, segregated between investments whose fair values have been determined by quoted market prices and those whose fair values have been otherwise determined?  

2. At a minimum, does the statement of changes in net assets disclose the following?  

a. Other investment income (exclusive of changes in fair value)?

b. Contributions from employers segregated between cash and noncash contributions?

c. Contributions from participants?

d. Contributions from other sources?

e. Benefits paid to participants?

f. Payments of premiums to insurance companies?

g. Administrative expenses?

h. Changes during the period in net assets?

3. For each significant type of investment are realized and unrealized gains and losses on investments that were both bought and sold during the year included in the net change in fair value?  

4. Does the statement list other components of
investment income, where applicable?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Interest income?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

b. Dividends?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

c. Rents?

[AAG, par. 7.35-.36]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

B. Contributions

1. Are employer contributions segregated between cash and noncash contributions? [AAG, par. 4.23c]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Are noncash contributions recorded at fair value? [AAG, par 4.23c]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Is the nature of noncash contributions described, either parenthetically or in a footnote? [AAG, par. 4.23c]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Are contributions from other sources (i.e., state subsidies or federal grants) separately identified in the financial statements or notes thereto? [AAG, par. 4.23e]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

C. Benefits Paid to Participants

1. Are benefits paid directly to participants, segregated from benefit payments to participants made by an insurance company in accordance with a contract that is excluded from plan assets? [AAG, par. 4.23f]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

D. Transfer of Assets to or from Other Plans

1. If the transfer of assets to or from other plans is significant, are they disclosed in the financial statements?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year where plan
assets\trust exists file an annual report (Form 5500) containing financial statements prepared in accordance with GAAP, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, Appendix A]

2. Did the auditor review the DOL's regulations for subsequent changes to the reporting requirements in the Form 5500 Series Report?

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the Employee Health and Welfare Benefit Plan are filed under the "alternative method" pursuant to DOL Regulations Section CFR 2520.103-1(a)(2), do the disclosures in the financial statements include:

a. A description of accounting principles and variances from Generally Accepted Accounting Principles?

b. A description of the plan, including significant changes in the plan and the effect of the changes on benefits?

c. The funding policy and changes in the funding policy from the prior year?

d. A description of material lease commitments, and other commitments and contingent liabilities?

e. A description of any agreements and transactions with persons known to be parties-in-interest?

f. A general description of priorities in the event of plan termination?

g. Whether or not a tax ruling or determination letter has been obtained?
h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500?
   [AAG, Appendix A]
   ____ ____ ____

2. Is the following additional information included in the financial statements and covered by the auditor's report:

   a. Schedule of plan assets and liabilities by category at fair value and in comparative form?
   ____ ____ ____

   b. Information concerning plan income, expenses and changes in net assets during the plan year?
   [AAG, Appendix A]
   ____ ____ ____

3. Pursuant to DOL regulations, are the following separate schedules included with the financial statements of the plan and covered by the auditor's report:

   a. Investment assets (one schedule of assets held at plan year-end and one schedule of certain assets acquired and disposed of within the plan year) showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held?
   ____ ____ ____

   b. Transactions with non-exempt parties-in-interest?
   ____ ____ ____

   c. Loans or fixed income obligations which are in default or uncollectible?
   ____ ____ ____

   d. Leases in default or uncollectible?
   ____ ____ ____

   e. Reportable transactions (that is, transactions that exceed 3 percent (statute) or 5 percent (regulations) of the current value of plan assets at the beginning of the year)?

   Note: Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent
of the fair value of plan assets at beginning of the year while plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the initial contribution to the plan.

4. Pursuant to DOL regulations:

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Is the auditor's report dated and manually signed?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Does it indicate the city and state where issued?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Does it identify the statements and schedules covered?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Does the auditor's report:

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. State clearly the auditor's opinion of the financial statements and schedules by the report, and the accounting principles and practices reflected therein?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [DOL Regulations Sec. 29 CFR 2520]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Illustrative Financial Statements and Notes to the Financial Statements
Employee Health and Welfare Benefit Plan
Bizco Corporation Employee Health and Welfare Benefit Plan
Statement of Net Assets

<table>
<thead>
<tr>
<th>December 31</th>
<th>19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value (Notes B and D)</td>
<td></td>
</tr>
<tr>
<td>U.S. government securities</td>
<td>$1,171,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>360,000</td>
</tr>
<tr>
<td>Common stock</td>
<td>219,000</td>
</tr>
<tr>
<td>Total investments</td>
<td>1,750,000</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
</tr>
<tr>
<td>Employer’s Contributions (Note A)</td>
<td>562,000</td>
</tr>
<tr>
<td>Employees’ contributions (less allowance for doubtful accounts of $4,000)</td>
<td>138,000</td>
</tr>
<tr>
<td>Accrued interest and dividends</td>
<td>25,000</td>
</tr>
<tr>
<td>Due from broker for securities sold</td>
<td>31,000</td>
</tr>
<tr>
<td>Total receivables</td>
<td>756,000</td>
</tr>
<tr>
<td>Cash</td>
<td>58,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>2,564,000</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Health claims payable</td>
<td>402,000</td>
</tr>
<tr>
<td>Estimated health claims incurred but not reported</td>
<td>182,000</td>
</tr>
<tr>
<td>Estimated future benefits based on participant’s accumulated eligibility (Note A)</td>
<td>592,000</td>
</tr>
<tr>
<td>Estimated future benefits to retired participants</td>
<td>385,000</td>
</tr>
<tr>
<td>Estimated future death benefits</td>
<td>315,000</td>
</tr>
<tr>
<td>Due to broker for securities purchased</td>
<td>35,000</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>38,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,949,000</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$615,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
# Bizco Corporation Employee Health and Welfare Benefit Plan

## Statement of Changes in Net Assets

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>19X1</th>
</tr>
</thead>
</table>

### Additions to plan assets attributed to:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>$12,000</td>
</tr>
<tr>
<td>Net appreciation in fair value of investments (Note D)</td>
<td>$12,000</td>
</tr>
<tr>
<td>Interest</td>
<td>$165,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>$7,000</td>
</tr>
<tr>
<td><strong>Less investment expenses</strong></td>
<td>$173,000</td>
</tr>
<tr>
<td><strong>Employer’s contributions (Notes A and C)</strong></td>
<td>$2,320,000</td>
</tr>
<tr>
<td><strong>Employees’ contributions</strong></td>
<td>$833,000</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>$3,326,000</td>
</tr>
</tbody>
</table>

### Deductions from plan assets attributed to:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for—</td>
<td></td>
</tr>
<tr>
<td>Health claims</td>
<td>$2,683,000</td>
</tr>
<tr>
<td>Retired participants’ benefits</td>
<td>$173,000</td>
</tr>
<tr>
<td>Death benefits</td>
<td>$112,000</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>$2,968,000</td>
</tr>
</tbody>
</table>

### Additions to liabilities for—

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health claims (Note C)</td>
<td>$134,000</td>
</tr>
<tr>
<td>Participants’ accumulated eligibility</td>
<td>$75,000</td>
</tr>
<tr>
<td>Future benefits to retired participants</td>
<td>$29,000</td>
</tr>
<tr>
<td>Death benefits</td>
<td>$12,000</td>
</tr>
<tr>
<td><strong>Administrative expenses</strong></td>
<td>$166,000</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>$3,384,000</td>
</tr>
<tr>
<td><strong>Net decrease</strong></td>
<td>$(58,000)</td>
</tr>
</tbody>
</table>

### Net assets

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$673,000</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td><strong>$615,000</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Bizco Corporation Employee Health and Welfare Benefit Plan
Notes to Financial Statements

A. Description of the Plan

The following description of the Bizco Corporation (Corporation) Employee Health and Welfare Benefit Plan (Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.


2. Benefits. The Plan provides health benefits (hospital, surgical, major medical, and long-term disability) covering full-time employees of the Corporation 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 year or prior year 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.

3. Contributions. The plan agreement provides that the Corporation make quarterly contributions to the Plan of a specified amount for each hour worked (approximately x cents per hour on 19X1) to provide benefits for employees. The employer's contribution rate is determined annually by the Plan's actuary. Beginning in 19X2, the Corporation's contribution is expected to increase approximately 7 percent (to y 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.

B. Summary of Accounting Policies

1. 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.

2. Plan Benefits. Plan liabilities for health claims incurred but not reported, future benefits to retired participants 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.

C. Plan Amendment

Effective July 1, 19X1, the plan was amended to increase major medical coverage from 60 to 75 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 7 percent in the Corporation's contribution in 19X2.

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 total plan assets are separately identified.
## Fair Value of Investments

<table>
<thead>
<tr>
<th>Numbers of Shares or Principal Amount</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government securities</td>
<td>$1,171,000</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
<td>$200,000</td>
</tr>
<tr>
<td>Commonwealth Power 9% bonds due 19X4</td>
<td>172,000</td>
</tr>
<tr>
<td>Other</td>
<td>74,000</td>
</tr>
<tr>
<td>Commonwealth Power 9% bonds due 19X4</td>
<td>30,500</td>
</tr>
<tr>
<td>Other</td>
<td>110,000</td>
</tr>
</tbody>
</table>

### Investments at Estimated Fair Value

<table>
<thead>
<tr>
<th>Amount</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate bonds</td>
<td>$150,000</td>
</tr>
<tr>
<td>Common stocks</td>
<td>78,500</td>
</tr>
<tr>
<td></td>
<td>192,500</td>
</tr>
<tr>
<td>Total investments at fair value</td>
<td>$1,750,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year Ended December 31 19X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments at Fair Value as Determined by Quoted Market Price</td>
</tr>
<tr>
<td>U.S. government securities</td>
</tr>
<tr>
<td>Corporate bonds and debentures</td>
</tr>
<tr>
<td>Common stocks</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Investments at Estimated Fair Value</td>
</tr>
<tr>
<td>Corporate bonds</td>
</tr>
<tr>
<td>Common stocks</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value</td>
</tr>
</tbody>
</table>

### E. Income Tax

The Internal Revenue Service has ruled that the Plan qualifies under Section [applicable code section] of the Internal Revenue Code (IRC) and is, therefore, not subject to tax under present income tax law. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Health and Welfare Benefit Plan Administrative Committee is not aware of any course of action or series of events that have occurred that might adversely affect the Plan’s qualified status.
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