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Checklists and illustrative financial statements for employee health and welfare benefit plans : a financial accounting and reporting Practice aid, June 1997 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

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AICPA

American Institute of Certified Public Accountants

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A Financial Accounting and Reporting Practice Aid

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

JUNE 1997 EDITION

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR EMPLOYEE HEALTH AND WELFARE BENEFIT PLANS

A Financial Accounting and Reporting Practice Aid

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

TABLE OF CONTENTS

PAGE

FSP Section 10,000

Checklists and Illustrative Financial Statements for Health and Welfare Benefit Plans

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Health and welfare benefit plans include plans that provide:

- Medical, dental, visual, psychiatric, or long-term health care; life insurance (offered separately from a pension plan); certain severance benefits; or accidental death or dismemberment benefits.
- Benefits for unemployment, disability, vacations, or holidays.
- Other benefits such as apprenticeships, tuition assistance, day care, dependent care, housing subsidies, or legal services.

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

.03 Defined-contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits of a plan participant are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements.

.04 Plan participants may be active or terminated employees (including retirees), as well as covered dependents and beneficiaries, of a single employer or group of employers. Employer contributions may be voluntary or required under the terms of a collective bargaining agreement negotiated with one or more labor organizations. Plans may require contributions from employers and participants (contributory plans) or from employers only (noncontributory plans). During periods of unemployment, a noncontributory plan may require contributions by participants to maintain their eligibility for benefits. Benefits may be provided through insurance contracts paid for by the plan (an insured plan), from net assets accumulated in a trust established by the plan (a self-funded plan), or both.

.05 A health and welfare plan may process benefit payments directly or it may retain a third-party administrator. In either case, a plan that is fully or partially self-funded is obligated for the related benefits.

Regulatory Requirements

.06 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.07 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA.

Financial Accounting and Reporting Standards

.08 The AICPA Statement of Position (SOP) 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans,* establishes generally accepted accounting principles (GAAP) for health and welfare benefit plans. The AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide) provides guidance on auditing and reporting on the financial statements of employee benefit plans. Plans that have adopted the provisions of SOP 92-6 (see the transition section below) should follow the accounting and disclosure requirements set forth in chapter 4A of the Guide. Plans that have not adopted the provisions of SOP 92-6 (see the transition section below) should follow the accounting and disclosure requirements set forth in chapter 4B of the Guide.

.09 SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans,* specifies the accounting and reporting for health and welfare plans for investment contracts. This SOP is effective for financial statements for plan years beginning after December 15, 1994, except that the application of this SOP to investment contracts entered into before December 31, 1993, is delayed to plan years beginning after December 15, 1995.

.10 FASB Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting by Defined Benefit Pension Plans,* does not apply to health and welfare benefit plans. However, the methods of valuing plan investments and the requirements for financial statement disclosures are generally the same as those specified in SFAS No. 35.

.11 SFAS No. 106, *Employers' 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 to a participant during retirement. While SFAS No. 106 does not apply to health and welfare benefit plans, the Guide adopted certain of its measurement concepts. Also, terminology used in discussing postretirement benefits in the Guide follows the usage and definitions provided in SFAS No. 106.

Accounting and Reporting by Health and Welfare Benefit Plans

.12 The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year.
- A statement of changes in net assets available for benefits for the year then ended.
- Information regarding the plan's benefit obligations as of the end of the plan year.

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

.13 Information regarding the benefit obligations may be presented on the face of one or more financial statements. Note disclosure is not appropriate.

.14 The financial statements of a defined-contribution health and welfare plan prepared in accordance with GAAP should be prepared on the accrual basis and should include the following:

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

.15 Because a defined-contribution plan's obligation to provide benefits is limited to the amounts accumulated in an individual's account, information regarding benefit obligations is not applicable.

.16 Plan investments should be reported at their fair value except a defined-contribution health and welfare plan should report investment contracts with fully benefit-responsive features (as defined in SOP 94-4) at contract value. Assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.17 Whether or not a plan is subject to ERISA, insurance contracts, as defined by SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, are to be included in plan assets in the manner required by ERISA's annual reporting requirements and are to be reported in a manner consistent with the requirements of DOL Form 5500 or 5500-C.

.18 In addition to the reporting requirements of SOP 92-6 (and chapters 4A and 4B of the Guide, as appropriate) health and welfare benefit plans may have reporting requirements under ERISA. Schedules required by ERISA include the following:

- Line 27a—Schedule of Assets Held for Investment Purposes
- Line 27b—Schedule of Loans or Fixed Income Obligations
- Line 27c—Schedule of Leases in Default or Classified as Uncollectible
- Line 27d—Schedule of Reportable Transactions
- Line 27e—Schedule of Nonexempt Transactions
- Line 27f—Schedule of Nonexempt Transactions

Please refer to the Instructions to Form 5500 for schedule requirements.

Transition

.19 SOP 92-6 is effective for audits of financial statements of single employer plans for plan years beginning after December 15, 1992, except that the application of SOP 92-6 to plans of single employers with no more than 500 participants in the aggregate is effective for plan years beginning after December 15, 1994. SOP 92-6 is effective for audits of financial statements of multiemployer plans for plan years beginning after December 15, 1995. Earlier application is encouraged.

.20 On March 13, 1997, the DOL published in the *Federal Register* a notice and request for comment on an annual enforcement policy pursuant to which the DOL would not reject the Form 5500 annual report, filed for the 1996 and 1997 plan years, of a multiemployer welfare benefit plan solely because the accountant's opinion accompanying such report is qualified or adverse due to a failure to account and report for postretirement benefit obligations in accordance with the financial statement disclosure requirements of SOP 92-6. If a plan does not adopt all of the provisions of SOP 92-6, including presenting the postretirement benefit obligation amount in the statement of plan's benefit obligations, which is required to fairly present the plan's financial statements in conformity with GAAP, the auditor should consider the effect of this departure from GAAP on his or her report.

> *Note:* All questions marked with an asterisk (*) apply only to those plans that have adopted SOP 92-6. If the plan has adopted SOP 92-6, all questions in the checklist, including those marked with an asterisk, should be completed, as applicable. If the plan has not adopted SOP 92-6, answer all questions in the checklist except those marked with an asterisk (*).

Note: This publication was extracted from sections 10,000 through 10,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 10,100
Instructions

Purpose

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids to be used as a memory jogger to aid in the audit of financial statements of health and welfare benefit plans. This section includes a financial statement disclosure checklist, an auditor's report checklist, and illustrative auditor's reports and financial statements for health and welfare benefit plans.

The checklists have been updated to include guidance relevant to employee benefit plans contained in official pronouncements through:

- FASB Statement of Financial Accounting Standards No. 129, *Disclosure of Information about Capital Structure*
- FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power*
- FASB Technical Bulletin No. 94-1, *Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*
- AICPA Statement on Auditing Standards No. 82, *Consideration of Fraud in a Financial Statement Audit*
- AICPA Statement of Position No. 96-1, *Environmental Remediation Liabilities*
- AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1997)
- AICPA Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes*
- FASB EITF consensuses adopted up to and including the March 13, 1997 Emerging Issues Task Force meeting.

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.02 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "yes" if the disclosure has been appropriately made, "no" if the disclosure has not been made, or "n/a" if the disclosure is not applicable to the client. The auditor should consider the effect of a "no" answer on his/her report. A "no" answer that is material to the financial statements may warrant a departure from an unqualified opinion (see paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–.63]). If a "no" answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable work papers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.03 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for health and welfare benefit plans are not included in this document. The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

.04 If you have further questions, call the AICPA Technical Hotline 1-800-TO-AICPA.

FSP Section 10,200
Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1997)
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
SOP =	AICPA Statement of Position
AC =	Reference to section number in FASB *Accounting Standards—Current Text*
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
ERISA =	Employee Retirement Income Security Act of 1974
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the health and welfare benefit plan. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the plan has not or is not being terminated, place a check by Other Financial Statement Disclosures, Section H, "Plan Terminations," and skip this section when completing the checklist.

	Place ✓ by Sections Not Applicable
• General	
A. Financial Statements	________
B. Comparative Financial Statements	________
C. Titles and References	________
• Statement of Net Assets Available for Benefits	
A. General	________
B. Investments	________
C. Contributions Receivable	________
D. Deposits With and Receivables From Insurance Companies and Other Service Providers	________
E. Operating Assets	________

Place ✓ by Sections Not Applicable

F. Cash ____
G. Liabilities ____

- Statement of Changes in Net Assets Available for Benefits ____
- Statement of Plan's Benefit Obligations ____
- Statement of Changes in Plan's Benefit Obligations
  A. General ____
  B. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations ____
- Other Financial Statement Disclosures
  A. Description of Health and Welfare Benefit Plans ____
  B. Disclosure of Accounting Policies ____
  C. Description of Plan Amendments ____
  D. Accounting Changes ____
  E. Related-Party Transactions ____
  F. Contingencies and Commitments ____
  G. Subsequent Events ____
  H. Plan Terminations ____
  I. Income Tax Status ____
  J. Financial Instruments ____
  K. Derivatives ____
  L. Risks and Uncertainties ____
  M. Other Matters ____
- ERISA Reporting Requirements
  A. Form 5500 Series Report ____
  B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA ____
  C. Required Financial Statements and Supporting Schedules ____
- Auditors' Report Checklist ____
- Illustrative Financial Statements

Yes *No* *N/A*

General

A. Financial Statements

1. Do the financial statements of the plan include:

   a. For Defined Benefit Health and Welfare Benefit Plans:[1]

   (1) A "Statement of Net Assets Available for Benefits" as of the end of the plan year? [ERISA requires that this statement be presented in comparative form.] [AAG, pars. 4.18 and 4.84; SOP 92-6, par. 20] ____ ____ ____

[1] If SOP 92-6 has not yet been adopted, the financial statements include comparative "Statements of Net Assets" and "Statements of Changes in Net Assets."

	Yes	No	N/A
(2) A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, pars. 4.18 and 4.84; SOP 92-6, par. 20]	___	___	___

Note: All questions marked with an asterisk (*) apply only to those plans that have adopted SOP 92-6. If the plan has adopted SOP 92-6, all questions in the checklist should be completed, including those marked with an asterisk, as applicable. If the plan has not adopted SOP 92-6, answer all questions in the checklist except those marked with an asterisk, as applicable.

	Yes	No	N/A
* (3) A "Statement of Plan's Benefit Obligations" as of the end of the plan year? [AAG, par. 4.18; SOP 92-6, par. 20]	___	___	___
* (4) A "Statement of Changes in Plan's Benefit Obligations"? [AAG, par. 4.18; SOP 92-6, par. 20]	___	___	___
b. For Defined Contribution Health and Welfare Benefit Plans:			
* (1) A "Statement of Net Assets Available for Benefits" of the plan as of the end of the plan year? [ERISA requires that this statement be presented in comparative form.]	___	___	___
* (2) A "Statement of Changes in Net Assets Available for Benefits" of the plan for the year then ended? [AAG, par. 4.21; SOP 92-6, par. 23]	___	___	___
* 2. For defined-benefit health and welfare plans, is information regarding benefit obligations presented on the face of one or more financial statements? [AAG, par. 4.18; SOP 92-6, par. 20]	___	___	___
* 3. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in such reasonable detail as is necessary to identify the nature and classification of the obligations? [AAG, par. 4.18; SOP 92-6, par. 20]	___	___	___
* 4. For ERISA plans, are separate reports prepared for each plan where assets of more than one plan are held in a Voluntary Employees' Beneficiary Association trust (VEBA)? [AAG, par. 4.09; SOP 92-6, par. 11]	___	___	___
B. Comparative Financial Statements			
1. Are comparative statements presented, if appropriate?[2] [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102); AAG, pars. 4.17, fn. 14 and 4.83, fn. 39; SOP 92-6, par. 19, fn. 3]	___	___	___
2. Are the notes and other disclosures included in the financial statements of the prior year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	___	___	___
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	___	___	___

[2] ERISA requires that the "Statement of Net Assets" available be presented in comparative form. [AAG, par. 4.83, fn. 39]

Yes *No* *N/A*

C. **Titles and References**

1. Are the financial statements suitably titled?
[SAS 62, par. 7 (AU 623.07)]

2. Does each statement include a general reference that the notes are an integral part of the financial statements?
[Generally Accepted]

Statement of Net Assets Available for Benefits

A. **General**

* 1. Do disclosures include restrictions, if any, on plan assets (e.g., legal restrictions on multiple trusts)?
[AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]

B. **Investments**

1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or have been otherwise determined?
[AAG, pars. 4.30 and 4.92; SOP 92-6, par. 27, as amended by SOP 94-4]

2. Are the following investments reported as separate line items in the "Statements of Net Assets Available for Benefits":

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?

i. Investment contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts?
[Generally Accepted]

3. Are investments that represent 5 percent or more of total plan assets separately identified in the financial statements or notes thereto?
[AAG, pars. 4.57 and 4.108*f*; SOP 92-6, par. 58, as amended by SOP 94-4]

* 4. Has consideration been given to disclosing provisions of insurance contracts included as plan assets that could cause an impairment of the asset value upon liquidation or other occurrence (for example, surrender charges and market value adjustments)?
[AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]

	Yes	No	N/A
5. If fully benefit-responsive investment contracts are held by a defined-contribution health and welfare plan, is the following information disclosed in the aggregate by investment option:			
a. The average yield for each period for which a statement of net assets available for benefits is presented?	___	___	___
b. The crediting interest rate as of the date of each statement of net assets available for benefits is presented?	___	___	___
c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit worthiness of the contract issuer or third party guarantor)?	___	___	___
d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107, as amended?	___	___	___
e. A general description of the basis and frequency of determining crediting interest-rate resets and any minimum crediting interest rate under the terms of the contracts and any limitations on related liquidity guarantees (for example, plant closings, layoffs, plan termination, and mergers)?	___	___	___
f. For ERISA-covered plans in which a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500 but is reported in the financial statements at contract value and the contract value does not approximate fair value, a statement explaining the differences between amounts reported in the financial statements and DOL Form 5500? [SOP 92-6, par. 58, as amended by SOP 94-4; SOP 94-4, pars. 15 and 16; AAG, pars. 4.57 and 4.108*i–k*]	___	___	___

C. Contributions Receivable

1. Are the following contributions receivable separately identified and accrued as of the date of the financial statements:			
a. Receivables from employer(s)?	___	___	___
b. Receivables from participants?	___	___	___
c. Other sources of funding (i.e., state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements? [AAG, pars. 4.31 and 4.93; SOP 92-6, par. 33, as amended by SOP 94-4]	___	___	___
* 2. Do contributions receivable include an allowance for uncollectible amounts? [AAG, par. 4.31; SOP 92-6, par. 33, as amended by SOP 94-4]	___	___	___

D. Deposits With and Receivables From Insurance Companies and Other Service Providers

1. Premium deposits and premium stabilization reserves should be reported as assets of the plan until such time as they are used to pay premiums. Is the nature of this type of deposit or reserve disclosed? [AAG, pars. 4.32 and 4.98; SOP 92-6, par. 34, as amended by SOP 94-4]	___	___	___

	Yes	No	N/A
2. If the policy year does not coincide with the plan's fiscal year and it is probable that a refund is due and the amount cannot be reasonably estimated, is this fact disclosed? [AAG, pars. 4.33 and 4.99; SOP 92-6, par. 35, as amended by SOP 94-4]	___	___	___

E. Operating Assets

	Yes	No	N/A
1. Are plan assets used in plan operations, such as buildings, equipment, furniture and fixtures, and leasehold improvements, presented at cost less accumulated depreciation or amortization? [AAG, pars. 4.35 and 4.94; SOP 92-6, par. 37, as amended by SOP 94-4]	___	___	___
2. Do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period? [APB 12, par. 5a (AC D40.105a)]	___	___	___
b. Balances of major classes of depreciable assets by nature or function? [APB 12, par. 5b (AC D40.105b)]	___	___	___
c. Accumulated depreciation, either by major classes of assets or in total? [APB 12, par. 5c (AC D40.105c)]	___	___	___
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)]	___	___	___
3. If an impairment loss is recognized for assets to be held and used, do disclosures include:			
a. A description of the impaired assets and the facts and circumstances leading to the impairment?	___	___	___
b. The amount of the impairment loss and how fair value was determined?	___	___	___
c. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?	___	___	___
4. If assets to be disposed of are accounted for in accordance with paragraphs 15–17 of SFAS 121, do disclosures include:			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets?	___	___	___
b. The loss resulting from applying paragraph 15 of SFAS 121?	___	___	___
c. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from applying paragraph 17 of SFAS 121?	___	___	___
d. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the gains or losses in Steps 3.*b.* and 3.*c.* are aggregated if those gains or losses are not presented as a separate caption or reported parenthetically on the face of the statement?	___	___	___
e. The results of operations for assets to be disposed of to the extent that those results are included in the plan's results of operations for the period and can be identified? [SFAS 121, par. 19 (AC I08.138)]	___	___	___

	Yes	No	N/A

5. If an impairment loss is recognized, is it reported as a component of net assets available for benefits? [SFAS 121, pars. 13 and 18 (AC I08.137)] ___ ___ ___

F. Cash

1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)] ___ ___ ___

G. Liabilities

1. Are liabilities other than for benefits (such as insurance premiums payable, accrued experience rating adjustments, claims, securities purchased, income taxes payable, and accumulated eligibility credits) deducted to arrive at net assets available for benefits? [AAG, par. 4.37; SOP 92-6, par. 38, as amended by SOP 94-4] ___ ___ ___

2. Consider stating separately:

   a. Due to broker for securities purchased? ___ ___ ___

   b. Accounts payable? ___ ___ ___

   c. Accrued expenses? [AAG, par. 4.37 and App. F, exhibits F-1 and F-6)] ___ ___ ___

Statement of Changes in Net Assets Available for Benefits

1. Is the statement of changes in net assets available for benefits presented in enough detail to identify the significant changes during the year including, as applicable:

   a. Contributions from employers, segregated between cash and noncash contributions (a noncash contribution should be reported at fair value at the date of the contribution; the nature of noncash contributions should be described either parenthetically or in a note)? ___ ___ ___

   b. Contributions from participants, including those collected and remitted by the sponsor? ___ ___ ___

   c. Contributions from other identified sources (e.g., state subsidies or federal grants)? ___ ___ ___

   d. The net appreciation or depreciation in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined? ___ ___ ___

Note: Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period. Ordinarily, information regarding the net appreciation or depreciation in the fair value of investments is found in the notes to the financial statements. [AAG, par. 4.38, fn. 24; SOP 92-6, par. 39, fn. 13, as amended by SOP 94-4]

   e. Investment income, excluding the net appreciation or depreciation? ___ ___ ___

   f. Income taxes paid or payable, if applicable? ___ ___ ___

	Yes	No	N/A
g. Payments of claims, excluding payments made by an insurance company pursuant to contracts that are excluded from plan assets?	____	____	____
h. Payments of premiums to insurance companies to purchase contracts that are excluded from plan assets?	____	____	____
i. Operating and administrative expenses?	____	____	____
j. Other changes (such as transfers of assets to or from other plans), if significant?	____	____	____
k. Changes during the period in liabilities for benefits by major types? [This disclosure is not required under SOP 92-6.] [AAG, pars. 4.38 and 4.105; SOP 92-6, par. 39, as amended by SOP 94-4]	____	____	____

* Statement of Plan's Benefit Obligations

Note: Information regarding benefit obligations should be presented on the face of one or more financial statements and may be presented in either a separate statement or with other information on another financial statement. However, all the information must be located in one place. [AAG, par. 4.41]

* 1. Do benefit obligations of defined-benefit health and welfare benefit plans include the actuarial present value of the following:

	Yes	No	N/A
a. Claims payable and currently due for active and retired participants?	____	____	____
b. Premiums due under insurance arrangements?	____	____	____
c. Claims incurred but not reported to the plan for active participants?	____	____	____

Note: Claims incurred by eligible participants but not yet reported to the plan (IBNR) may be computed in the aggregate for active participants and retirees. When the IBNR for retirees is not included in the postretirement benefit obligation, it may be included in claims incurred but not reported. [AAG, par. 4.40, fn. 27; SOP 92-6, par. 41, fn. 16]

	Yes	No	N/A
d. Accumulated eligibility credits for active participants?	____	____	____
e. Postretirement benefits for:			
(1) Retired participants, including their beneficiaries and covered dependents?	____	____	____
(2) Active or terminated participants who are fully eligible to receive benefits?	____	____	____
(3) Active participants not yet fully eligible to receive benefits? [AAG, par. 4.40; SOP 92-6, par. 41, as amended by SOP 94-4]	____	____	____

Note: Postretirement benefit obligations should be determined as of the end of the plan year or, if used consistently from year to year, as of a date not more than three months prior to that date, in accordance with paragraph 72 of SFAS 106. [AAG, par. 4.40, fn. 28; SOP 92-6, par. 41, fn. 17]

	Yes	No	N/A
* 2. Does the postretirement benefit obligation information include the following classifications:			
a. Obligations related to retired plan participants, including their beneficiaries and covered dependents?	___	___	___
b. Obligations related to active or terminated participants who are fully eligible to receive benefits?	___	___	___
c. Obligations related to other plan participants not yet fully eligible for benefits? [AAG, par. 4.53; SOP 92-6, par. 54, as amended by SOP 94-4]	___	___	___
* 3. Is consideration given to separately disclosing each significant benefit (e.g., medical and death) for each classification listed in Step 2 above, as appropriate? [AAG, par. 4.53; SOP 92-6, par. 54, as amended by SOP 94-4]	___	___	___
* 4. Premium deficits should be included in benefit obligations if (*a*) it is probable that the deficit will be applied against the amounts of future premiums or future experience-rating refunds and (*b*) the amount can be reasonably estimated. If no obligation is accrued for a premium deficit because either or both of the conditions listed above are *not* met, or if an exposure to loss exists in excess of the amount accrued, is disclosure of the premium deficit made if it is reasonably possible that a loss or an additional loss has been incurred? [AAG, par. 4.46; SOP 92-6, par. 47, as amended by SOP 94-4]	___	___	___

* Statement of Changes in Plan's Benefit Obligations

Note: Like the benefit obligation information, the changes should be presented within the body of the financial statements.
[AAG, par. 4.54; SOP 92-6, par. 55, as amended by SOP 94-4]

* A. General

	Yes	No	N/A
1. Are changes in benefit obligations presented in the following categories:			
a. Claims payable and premiums due to insurance companies?	___	___	___
b. IBNR and eligibility credits?	___	___	___
c. Postretirement obligations? [AAG, par. 4.54; SOP 92-6, par. 55, as amended by SOP 94-4]	___	___	___

* B. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations

Note: If only the minimum disclosure is presented, presentation in a statement format will necessitate an additional unidentified "other" category to reconcile the initial and ultimate amounts.
[AAG, par. 4.55; SOP 92-6, par. 56, as amended by SOP 94-4]

	Yes	No	N/A
1. Is information provided with respect to the significant effects of:			
a. Plan amendments?	___	___	___
b. Changes in the nature of the plan (mergers or spinoffs)?	___	___	___

	Yes	No	N/A
c. Changes in actuarial assumptions (health care cost-trend rate or interest rate)?[3] [AAG, par. 4.55; SOP 92-6, par. 56, as amended by SOP 94-4]	___	___	___
2. Are significant effects of other factors identified as, for example, benefits accumulated,[4] the effects of the time value of money (for interest), and benefits paid? [AAG, par. 4.55; SOP 92-6, par. 56, as amended by SOP 94-4]	___	___	___

Note: Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations.
[AAG, par. 4.17, fn. 15, and 13.22; SOP 92-6, par. 5]

Other Financial Statement Disclosures

A. Description of Health and Welfare Benefit Plans

	Yes	No	N/A
1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vested, and benefit provisions? [AAG, pars. 4.57 and 4.108*a*; SOP 92-6, par. 58, as amended by SOP 94-4; SOP 94-6, par. 10]	___	___	___

Note: If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted provided that a reference to the other source is made.
[AAG, pars. 4.57 and 4.108*a*; SOP 92-6, par. 58, as amended by SOP 94-4]

	Yes	No	N/A
2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___

B. Disclosure of Accounting Policies

	Yes	No	N/A
1. Is a description of all significant accounting policies of the plan presented in a separate "summary of significant accounting policies" preceding the notes to the financial statements or as the initial note? [APB 22, pars. 8 and 15 (AC A10.102)]	___	___	___
2. Does disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations including instances in which there:			
a. Is a selection from existing acceptable alternatives?	___	___	___
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	___	___	___

[3] Changes in actuarial assumptions are to be considered as changes in accounting estimates and therefore previously reported amounts should not be restated. [AAG, par. 4.55, SOP 92-6, par. 56, as amended by SOP 94-4]

[4] Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than separately disclosed. If the effects of changes in actuarial assumptions cannot be separately determined, those effects should be included in benefits accumulated and described accordingly. [AAG, par. 4.55, fn. 33; SOP 92-6, par. 56, fn. 22, as amended by SOP 94-4]

	Yes	No	N/A
c. Are unusual or innovative applications of GAAP? [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 thereto), so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	___	___	___
4. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumption(s) used to determine the fair value of investments and the reported value of insurance contracts? [AAG, pars. 4.56 and 4.107*a*; SOP 92-6, par. 57, as amended by SOP 94-4]	___	___	___
5. Does the disclosure of significant accounting policies include a description of the method and significant actuarial assumptions used to determine the plan's benefit obligations? [AAG, pars. 4.56 and 4.107*b*; SOP 92-6, par. 57, as amended by SOP 94-4]	___	___	___

Note: This disclosure requirement is similar under the Guide and SOP 92-6. If the plan has not adopted SOP 92-6 delete the words "methods and" and the phrase "plan's benefit obligations" should be replaced with **"plan's liabilities."**

	Yes	No	N/A
6. Are any significant changes in assumptions between financial statement dates described? [AAG, pars. 4.56 and 4.107*b*; SOP 92-6, par. 57, as amended by SOP 94-4]	___	___	___
* 7. Are the effects of any significant changes in actuarial assumptions made between financial statement dates described? [AAG, par. 4.56; SOP 92-6, par. 57, as amended by SOP 94-4]	___	___	___
* 8. Do disclosures include the adjustment of the assumed rates of return for administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated benefit obligations? [AAG, par. 4.40, fn. 26; SOP 92-6, par. 41, fn. 15]	___	___	___
* 9. For defined-contribution health and welfare plans, does the disclosure of significant accounting policies include the accounting policy for, and the amount and disposition of forfeited nonvested accounts? (Specifically, identification of whether those amounts will be used to reduce future employer contributions or will be allocated to participants accounts.) [AAG, par. 4.57]	___	___	___

C. Description of Plan Amendments

	Yes	No	N/A
1. If applicable, do disclosures include a description of significant plan amendments adopted during the period, as well as significant changes in the nature of the plan (e.g., a plan spin-off or merger with another plan) and changes in actuarial assumptions? [AAG, pars. 4.57 and 4.108*b*; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___

D. Accounting Changes

1. For all changes in accounting principles, are disclosures made in the year of the change as to the:

	Yes	No	N/A
a. Nature of the change?	___	___	___
b. Justification for the change including a clear explanation of why the newly adopted accounting principle is preferable?	___	___	___
c. Effect on earnings of the plan? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	___	___	___
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed? [APB 20, pars. 19–22, 25, and 26 (AC A06.115–.118 and .121)]	___	___	___
3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	___	___	___
b. Effect of its correction on the changes in the net assets available for benefits and plan benefit obligations? [APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]	___	___	___
4. For changes in accounting estimate:			
a. If a change in accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	___	___	___
b. If a change in 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

	Yes	No	N/A
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved?	___	___	___
b. For each period for which a statement of changes in net assets is presented:			
(1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	___	___	___
(2) Other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	___	___	___
(3) The dollar amount of transactions?	___	___	___
(4) The effects of any changes in the method of establishing the terms from that used in the preceding period?	___	___	___
c. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	___	___	___

	Yes	No	N/A
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, par. 4 (AC R36.104)]	___	___	___
3. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	___	___	___
4. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, App. A, par. A.51*c*]	___	___	___

Note: ERISA defines a party-in-interest generally as any 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 percent or more of such an employer or employee association, or relatives of a person described above.
[AAG, par. 11.01 and App. A, par. A.85, fn. 103; ERISA sec. 3(14)]

F. Contingencies and Commitments

	Yes	No	N/A
1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, pars. 9 and 34 (AC C59.108 and .140)]	___	___	___
2. For loss contingencies not accrued when there is at least a reasonable possibility that a loss may have been incurred or an exposure to loss exists in excess of the amount accrued for a loss contingency, including those related to litigation, claims, and assessments, 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 5, pars. 10 and 33–39 (AC C59.109, .111, and .139–.145)]	___	___	___
3. Are gain contingencies disclosed with care to avoid any misleading implications about the likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	___	___	___
4. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness of others) disclosed? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114)]	___	___	___
5. Do disclosures include material lease commitments and other commitments? [SFAS 5, pars. 18 and 19 (AC C59.120); AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___

G. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence

	Yes	No	N/A
about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	___	___	___
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed (e.g., a decision to terminate the plan after the year end but before the year-end financial statements have been issued)?[5] [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05–.07 and .09 (AU 560.05–.07 and .09); AAG, par. 4.71; SOP 92-6, par. 63, as amended by SOP 94-4]	___	___	___
3. Do disclosures include any unusual or infrequent events or transactions occurring after the financial statement date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [AAG, pars. 4.57 and 4.108*h*; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
4. For those unusual or infrequent events or transactions identified in Step 3 above, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [AAG, pars. 4.57 and 4.108*h*; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
H. Plan Terminations			
1. If a decision is made to terminate the plan or a wasting trust exists, are all relevant circumstances disclosed? [AAG, par. 4.71; SOP 92-6, par. 63, as amended by SOP 94-4]	___	___	___
2. If a decision is made to terminate the plan before the date of the plan financial statements, have all benefits been determined on a liquidation basis? [AAG, par. 4.71; SOP 92-6, par. 63, as amended by SOP 94-4]	___	___	___
I. Income Tax Status[6]			
1. Do disclosures include the federal income tax status of the plan? [AAG, pars. 4.57 and 4.108*e*; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___

Note: If the Plan has not adopted SOP 92-6 and a determination letter has been obtained for a 501(c)(9) VEBA trust, the disclosure in Step I.1 above is not required.

J. Financial Instruments (General—See also steps for specific areas)

1. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105 (AC F25)), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument:[7]

[5] Also consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

[6] There is no determination letter program for health and welfare plans however a 501(c)(9) VEBA trust must obtain a determination letter to be exempt from taxation.

[7] *Category of financial instrument* refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the plan should also describe for each category the classes of financial instruments included in that category.

	Yes	No	N/A
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	____	____	____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	____	____	____
(2) The cash requirements of those instruments?	____	____	____
(3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SOP 92-6, par. 61, as amended by SOP 94-4]	____	____	____
2. Do the disclosures noted in Steps 1.*a.* and 1.*b.* distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? [SFAS 105, par. 17, as amended by SFAS 119, par. 14(d) (AC F25.112A); AAG, pars. 4.60 and 4.111]	____	____	____
3. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument:			
a. The amount of accounting loss the plan would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the plan?	____	____	____
b. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, pars. 17 and 18, as amended by SFAS 119, par. 14(b) (AC F25.112 and .113); AAG, pars. 4.60 and 4.111; SOP 92-6, par. 61, as amended by SOP 94-4]	____	____	____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	____	____	____
b. The amount of the accounting loss due to credit risk the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	____	____	____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115); AAG, pars. 4.61 and 4.112; SOP 92-6, par. 61, as amended by SOP 94-4]	____	____	____

	Yes	No	N/A

Note: SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, an amendment of FASB Statement No. 107,* amends SFAS 107, *Disclosures about Fair Value of Financial Instruments,* to make the disclosures prescribed in SFAS 107 optional for entities that meet all of the following criteria:

a. The entity is nonpublic.
b. The entity's total assets are less than $100 million on the date of the financial statements.
c. The entity has not held or issued any derivative financial instruments, as defined in SFAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments,* other than loan commitments, during the reporting period.

This Statement is effective for fiscal years ending after December 15, 1996, with earlier application permitted in financial statements that have not been issued previously.

5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107), disclosed together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the "Statement of Net Assets Available for Benefits"?[8] ____ ____ ____
[SFAS 107, par. 10, as amended by SFAS 119, par. 15a and b (AC F25.115C); AAG, pars. 4.62 and 4.113]

6. Do the disclosures noted in Step 5 distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? ____ ____ ____
[SFAS 107, par. 10, as amended by SFAS 119, par. 15c (AC F25.115C)]

7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? ____ ____ ____
[SFAS 107, par. 10, as amended by SFAS 119, par. 15c (AC F25.115C); AAG, pars. 4.63 and 4.114]

8. If it is not practicable to estimate the fair market value of a financial instrument, do disclosures include:

   a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity? ____ ____ ____

   b. The reasons why it is not practicable to estimate fair value? ____ ____ ____
   [SFAS 107, par. 14 (AC F25.115J)]

9. In disclosing the fair value of a derivative financial instrument, does the plan *not*:

   a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument? ____ ____ ____

[8] If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

	Yes	No	N/A
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13, as amended by SFAS 119, par. 15d (AC F25.115I)]	___	___	___
10. For all fiscal years subsequent to the year of transition, are SFAS 105 and SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 105, par. 22; SFAS 107, par. 17]	___	___	___
K. Derivatives			
1. For options held and other derivative financial instruments not within the scope of SFAS 105 because they do not have off balance sheet risk, are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?[9]	___	___	___
b. The nature and terms, including, at a minimum, a discussion of:			
(1) Credit and market risk?	___	___	___
(2) Cash requirements?	___	___	___
(3) Related accounting policy as required by APB 22?	___	___	___
c. Do disclosures in Steps 1.*a.* and 1.*b.* above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	___	___	___
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9 (AC F25.115L and M); AAG, pars. 4.65 and 4.116]	___	___	___
2. If a plan that holds or issues derivative financial instruments for trading purposes has it disclosed:			
a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	___	___	___
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the "Statement of Changes in Net Assets Available for Benefits":			
(1) If the disaggregation is other than by class, did the plan also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	___	___	___

[9] Unless, as described in footnote 2 of SFAS 119, the disclosure of the face or contract amount would be misleading because the instruments are leveraged and the leverage features are not adequately disclosed.

	Yes	No	N/A
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets (this disclosure is encouraged but not required)? [SFAS 119, par. 10 (AC F25.115N)]	___	___	___
3. If the plan holds or issues derivative financial instruments for purposes other than trading has it disclosed:			
a. A description of:			
(1) The objectives for holding or issuing?	___	___	___
(2) The context needed to understand those objectives?	___	___	___
(3) The strategies for achieving those objectives?	___	___	___
(4) The classes of derivative financial instruments used?	___	___	___
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	___	___	___
(2) When recognized, where the instruments and related gains and losses are reported?	___	___	___
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	___	___	___
(2) A description of the classes of derivative financial instruments used to hedge?	___	___	___
(3) The amount of explicitly deferred hedging gains and losses?	___	___	___
(4) A description of the transaction or events that result in the recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11 (AC F25.115O)]	___	___	___
4. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	___	___	___
b. Foreign exchange?	___	___	___
c. Commodity price?	___	___	___
d. Other market risks consistent with management's strategies?	___	___	___
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments?[10] [SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]	___	___	___

[10] Suggested methods of disclosure of the above include:

a. Additional details about current positions and period activity.
b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.
c. Gap analysis of interest rate repricing or maturity dates.
d. Duration of financial instruments.
e. The entity's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
f. Any other helpful information disclosures.
[SFAS 119, par. 13 (AC F25.115Q)]

	Yes	No	N/A
L. Risks and Uncertainties			
1. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statement? [SOP 94-6, par. 11]	____	____	____
2. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that the following criteria is met:			
a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events?	____	____	____
b. The effect of the change would be material to the financial statements? [SOP 94-6, par. 13]	____	____	____
3. Does the disclosure in Step 2 above indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?[11] [SOP 94-6, par. 14]	____	____	____
4. If the estimate in Step 2 above involves a loss contingency covered by SFAS 5, *Accounting for Contingencies,* do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? [SOP 94-6, par. 14]	____	____	____
5. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 are met. [SOP 94-6, pars. 21 and 22]	____	____	____
M. Other Matters			
1. Do the plan's financial statements provide information about plan resources and the manner in which the stewardship responsibility for those resources has been discharged? [AAG, pars. 4.17 and 4.83; SOP 92-6, par. 22]	____	____	____
2. Do disclosures include the funding policy of the plan and any changes in such policy during the plan year? [AAG, pars. 4.57 and 4.108*c*; SOP 92-6, par. 58, as amended by SOP 94-4]	____	____	____
a. If the benefit obligations exceed the net assets of the plan, is the method of funding this deficit, as provided for in the plan agreement or collective bargaining agreement, disclosed? [AAG, pars. 4.57 and 4.108*c*; SOP 92-6, par. 58, as amended by SOP 94-4]	____	____	____
b. For a contributory plan, does the disclosure on funding policy state the method of determining participants' contributions? [AAG, pars. 4.57 and 4.108*c*; SOP 92-6, par. 58, as amended by SOP 94-4]	____	____	____

[11] If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

	Yes	No	N/A
c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed? [AAG, pars. 4.57, fn. 37, and 4.108, fn. 48; SOP 92-6, par. 58, as amended by SOP 94-4, fn. 26]	___	___	___
3. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? [AAG, pars. 4.57 and 4.108*d*; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
* 4. With respect to contracts with insurance companies that are excluded from plan assets, is consideration given to disclosing the type and extent of insurance coverage, as well as the extent to which risk is transferred (e.g., coverage period and claims reported or claims incurred)? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
5. Do disclosures include:			
* *a.* The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
b. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the plan administrator, employers, or employee organizations? [AAG, pars. 4.57 and 4.108g; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
* 6. Do disclosures include the assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when the rate is expected to be achieved? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
7. For health and welfare benefit plans providing postretirement health care benefits, is the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation disclosed? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___
* 8. Do disclosures include any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan's financial statements? [AAG, par. 4.57; SOP 92-6, par. 58, as amended by SOP 94-4]	___	___	___

ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, par. 13.20 and App. A, par. A.18]	___	___	___

	Yes	No	N/A

Note: Pursuant to DOL Regulation 29 CFR 2520.103–1(d), a plan that covers between 80 and 120 participants at the beginning of the plan year may elect to file the same report that was filed the previous year. Plans that file the Form 5500-C/R pursuant to the 80/120 rule are not required to have an audit of their financial statements.
[DOL Reg. 29 CFR 2520.104–46]

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

1. If the financial statements 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 GAAP? ___ ___ ___

   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 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, App. A, par. A.51*c*]

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor's report:

   a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year? ___ ___ ___

   b. Separate or combined statements of plan income and expenses and of changes in net assets? ___ ___ ___
   [AAG, App. A, par. A.51*a*]

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

Note: The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

   a. Assets held for investment purposes (if filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan

	Yes	No	N/A
year), showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held:			
(1) Is the schedule clearly labeled "Line 27a—Schedule of Assets Held for Investment Purposes"?	___	___	___
b. Loans or fixed income obligations that are in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27b—Schedule of Loans or Fixed Income Obligations"?	___	___	___
c. Leases in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27c—Schedule of Leases in Default or Classified as Uncollectible"?	___	___	___
d. Reportable transactions, including all individual security transactions that exceed 5 percent (regulations)[12] of the fair value of plan assets at the beginning of the year:			
(1) Is the schedule clearly labeled "Line 27d—Schedule of Reportable Transactions"?	___	___	___
e. Non-exempt transactions with parties-in-interest:			
(1) Is the schedule clearly labeled "Line 27e—Schedule of Non-exempt Transactions" and/or "Line 27f—Schedule of Non-exempt Transactions"? [AAG, App. A, par. A.51*b*]	___	___	___

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 the 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.

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12 Three percent statute.

FSP Section 10,300
Auditors' Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1997)
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA *Professional Standards* (vol. 2)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Does the auditor's report include the appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	____	____	____
b. Date (or dual dates)[1] of the report? [SAS 1, sec. 530.05 (AU 530.05)]	____	____	____
c. A title that includes the word independent? [SAS 58, par. 8a (AU 508.08)]	____	____	____

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

	Yes	*No*	*N/A*
2. If the auditor is not independent, is a compilation report that indicates lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	____	____	____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	____	____	____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	____	____	____
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 33 and 34 (AU 508.33 and .34)]	____	____	____

[1] If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered.

	Yes	No	N/A
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]			
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.10–13.18]			

Note: AAG includes additional auditor reports with respect to "financial statements of a trust" and "inadequate procedures to value investments." [AAG, pars. 13.30 and 13.35]

	Yes	No	N/A
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. There is substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about the plan's ability to continue as a going concern?"[2] [SAS 59, par. 13, as amended by SAS 64 and 77 (AU 341.12 and .13); AAG, par. 13.41]			
b. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 16–18, as amended by SAS 79 (AU 508.16–.18)]			

Note: Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report.
[AU 9420.64 and .65; AAG, par. 13.24]

	Yes	No	N/A
c. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 68, 69, 72, and 73, as amended by SAS 79 (AU 508.68, .69, .72, and .73)]			
d. The prior-period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 58, par. 74, as amended by SAS 64 and 79 (AU 508.74)]			
e. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12 and 13 (AU 508.12 and .13)]			
f. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14 and 15 (AU 508.14 and .15)]			
g. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]			

[2] In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for sample wording. [SAS 59, par. 13, as amended by SAS 64 and 77]

	Yes	No	N/A
h. The auditor decides to emphasize a matter in the report? [SAS 58, par. 19, as amended by SAS 79 (AU 508.19); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	____	____	____

Note: DOL Regulation section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

Departures From Unqualified Opinions

	Yes	No	N/A
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances?[3] [SAS 58, pars. 22–27, as amended by SAS 79 (AU 508.22–.27); SAS 19, par. 12 (AU 333.12); AAG, par. 13.28]	____	____	____

Note: Consult the Topical Index to the AICPA *Professional Standards* under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

	Yes	No	N/A
7. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103–8, is a disclaimer of opinion expressed? [AAG, pars. 13.25–.29]	____	____	____
8. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present?[4] [SAS 58, pars. 35–60, as amended by SAS 79 (AU 508.35–.60); SAS 32, par. 3 (AU 431.03); AAG, par. 13.23]	____	____	____
9. Is a qualified or adverse opinion expressed due to a departure from GAAP if all of the provisions of SOP 92-6 have not been adopted, including not presenting the postretirement benefit obligation amount in the "Statement of Plan's Benefit Obligations" and "Statement of Changes in Plan's Benefit Obligations"?[5] [May 1997 CPA letter, *Department of Labor Takes a Nonenforcement Position on SOP 92-6.*]	____	____	____

Note: Consult the Topical Index to the AICPA *Professional Standards* under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

[3] This includes when the auditor is unable to obtain sufficient evidential matter to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31 (AU 508.31)]

[4] The auditor should express a qualified or an adverse opinion if the auditor concludes that (*a*) a matter involving a risk or an uncertainty is not adequately disclosed, (*b*) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (*c*) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended by SAS 79, pars. 46–49 (AU 508.46–.49)]

[5] See FSP section 10,400 for an illustration of an auditor's adverse opinion in a full scope audit of a health and welfare benefit plan when the auditor concludes that the plan's financial statements taken as a whole are not fairly presented in accordance with GAAP because the financial statements do not present the postretirement benefit obligations in accordance with SOP 92-6.

	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 and is the reporting language appropriately modified? [SAS 58, pars. 21, 59, 60, and 62 (AU 508.21, .59, .60, and .62)]	___	___	___
11. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	___	___	___
b. Specifically identify the accompanying information?	___	___	___
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	___	___	___
d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	___	___	___

Note: Step 11 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103–8. In these situations, see Step 7 above and AAG, par. 13.25.

	Yes	No	N/A
12. Is the reporting form and content of SAS 60, paragraphs 9–19, followed when communicating internal control related matters noted in an audit?[6] [SAS 60, pars. 9–19 (AU 325.09–.19)]	___	___	___
13. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed? [AAG (fn. 90)]	___	___	___
b. Does it indicate the city and state where issued? [AAG (fn. 90)]	___	___	___
c. Does it identify the statements and schedules covered? [AAG (fn. 90)]	___	___	___
d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	___	___	___
e. State clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?	___	___	___
f. 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? [29 CFR 2520.103–1(iv)]	___	___	___
(1) Are the exceptions, if any, further identified as (*a*) those that are the result of DOL regulations and (*b*) all others? [AAG, App. A, par. A.50*a*; DOL Regulations, sec. 29 CFR 2520]	___	___	___

[6] Reportable conditions in internal control that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

	Yes	No	N/A
g. A description of accounting principles and practices reflected in the financial statements and, if applicable, variances from GAAP and an explanation of differences, if any, between the information contained in the separate financial statements and the net assets, liabilities, income, expense, and changes in net assets as required to be reported on the Form 5500. [AAG, App. A, par. A.50*a*; DOL Regulations, sec. 29 CFR 2520]	___	___	___

FSP Section 10,400
Illustrative Financial Statements

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 assuming adoption of SOP 92-6.

.01

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for benefits and of plan benefit obligations of Allied Industries Benefit Plan as of December 31, 19X1 and 19X0, and the related statement of changes in net assets available for benefits and of changes in plan benefit obligations for the year ended December 31, 19X1. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the plan as of December 31, 19X1 and 19X0, and the changes in its financial status for the year ended December 31, 19X1 in conformity with generally accepted accounting principles.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG, par. 13.08]

.02

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, following the opinion paragraph, may be added to the auditor's standard report or appear separately in the auditor-submitted document. Such a paragraph/report may be worded as follows:

Our audits were performed 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 statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audits 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.

[*Signature of Firm*]

[*City and State*]

[*Date*]

.03

**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 Allied Industries Benefit Plan as of December 31, 19X1 and 19X0, and for the years then ended, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103–8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been 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 years ended December 31, 19X1 and 19X0, 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 not, 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 or custodian, 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*]

[AAG, par. 13.25]

The following presents an illustration of an auditor's adverse opinion in a full-scope audit of a health and welfare benefit plan when the auditor concludes that the plan's financial statements taken as a whole are not fairly presented in accordance with GAAP because the financial statements do not present the postretirement benefit obligations in accordance with SOP 92-6.

.04

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for benefits and of plan benefit obligations of ABC Multiemployer Health and Welfare Plan as of December 31, 19X2 and 19X1, and the related statements of changes in net assets available for benefits and of changes in plan benefit obligations for the year ended December 31, 19X2. 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note X to the financial statements, the Plan's financial statements do not present the plan's obligations to provide health and welfare benefits to participants after retirement (postretirement benefit obligations). Generally accepted accounting principles require that a plan's statement of benefit obligations and statement of changes in benefit obligations include the postretirement benefit obligations.

The Plan administrator has not quantified the amount of, or change in, the Plan's postretirement benefit obligation, and in the absence of an actuarial determination, such amounts are not reasonably determinable. However, the effects of the omission of the postretirement benefit obligation information on the Plan's financial statements are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial status of the Plan as of December 31, 19X2 and 19X1, and the changes in its financial status for the year ended December 31, 19X2.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[May 1997 *CPA Letter*, "Department of Labor Takes a Nonenforcement Position on SOP 92-6"]

The following presents an illustration of an auditor's adverse opinion (with disclaimer of opinion on accompanying supplemental schedules required by ERISA[1]) in a full-scope audit of a health and welfare benefit plan when the auditor concludes that the plan's financial statements taken as a whole are not fairly presented in accordance with GAAP because the financial statements do not present the postretirement benefit obligations in accordance with SOP 92-6.

.05

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying financial statements and supplemental schedules of ABC Multiemployer Health and Welfare Plan as of December 31, 19X2 and 19X1, and for the year ended December 31, 19X2 as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note X to the financial statements, the Plan's financial statements do not present the plan's obligations to provide health and welfare benefits to participants after retirement (postretirement benefit obligations). Generally accepted accounting principles require that a plan's statement of benefit obligations and statement of changes in benefit obligations include the postretirement benefit obligations.

The Plan administrator has not quantified the amount of, or change in, the Plan's postretirement benefit obligation, and in the absence of an actuarial determination, such amounts are not reasonably determinable. However, the effects of the omission of the postretirement benefit obligation information on the Plan's financial statements are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial status of the Plan as of December 31, 19X2 and 19X1, and the changes in its financial status for the year ended December 31, 19X2. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 19X2; however, because the basic financial statements are not presented fairly in conformity with generally accepted accounting principles, we do not express an opinion on any of the supplemental schedules.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[May 1997 *CPA Letter*, "Department of Labor Takes a Nonenforcement Position on SOP 92-6"]

[1] AU 551.10 of the AICPA *Professional Standards* (vol. 1) states that when the auditor expresses an adverse opinion or disclaims an opinion on the basic financial statements, he or she should not express an opinion on any accompanying supplemental information. An expression of an opinion in these circumstances would be inappropriate because, like a piecemeal opinion, it may tend to overshadow or contradict the adverse opinion or disclaimer of opinion on the basic financial statements.

The following are illustrative financial statements for a multi-employer health and welfare benefit plan that has adopted SOP 92-6 and displays the benefit obligation information in separate financial statements.

.06

ALLIED INDUSTRIES BENEFIT PLAN

Statements of Net Assets Available for Benefits[2]

December 31, 19X1 and 19X0

	19X1	*19X0*
Assets		
Investments, at fair value (see Note 4)		
U.S. government securities	$5,000,000	$4,000,000
Corporate bonds and debentures	2,000,000	1,600,000
Common stock	1,000,000	600,000
Total investments	8,000,000	6,200,000
Receivables		
Participating employers' contributions	500,000	430,000
Participants' contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	650,000	550,000
Cash	140,000	115,000
Total assets	8,790,000	6,865,000
Liabilities		
Due to broker for securities purchased	250,000	240,000
Accounts payable for administrative expenses	25,000	25,000
Total liabilities	275,000	265,000
Net assets available for benefits	$8,515,000	$6,600,000

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

[2] These financial statements are to be used for guidance purposes only and do not contain all disclosures required by GAAP.

.07

ALLIED INDUSTRIES BENEFIT PLAN

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 19X1

Additions	
Contributions	
Participating employers	$15,000,000
Participants	3,000,000
Total contributions	18,000,000
Investment income	
Net appreciation in fair value of investments	300,000
Interest	500,000
Dividends	50,000
Total investment income	850,000
Less investment expenses	15,000
Net investment income	835,000
Total additions	18,835,000
Deductions	
Benefits paid to participants	
Health care	16,000,000
Disability and death	770,000
Total benefits paid	16,770,000
Administrative expenses	150,000
Total deductions	16,920,000
Net increase during year	1,915,000
Net assets available for benefits	
Beginning of year	6,600,000
End of year	$ 8,515,000

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

.08

ALLIED INDUSTRIES BENEFIT PLAN

Statement of Plan's Benefit Obligations

December 31, 19X1 and 19X0

	19X1	*19X0*
Amounts currently payable to or for participants, beneficiaries, and dependents		
Health claims payable	$ 1,100,000	$ 975,000
Death and disability benefits payable	100,000	75,000
	1,200,000	1,050,000
Other obligations for current benefit coverage, at present value of estimated amounts		
Claims incurred but not reported	350,000	290,000
Accumulated eligibility credits	200,000	225,000
Long-term disability benefits	800,000	485,000
	1,350,000	1,000,000
Total obligations other than postretirement benefit obligations	2,550,000	2,050,000
Postretirement benefit obligations		
Current retirees	3,900,000	3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Other participants not yet fully eligible for benefits	5,000,000	4,165,000
	11,000,000	9,665,000
Plan's total benefit obligations	$13,550,000	$11,715,000

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

.09

ALLIED INDUSTRIES BENEFIT PLAN

Statement of Changes in Plan's Benefit Obligations

Year Ended December 31, 19X1

Amounts currently payable to or for participants, beneficiaries, and dependents	
Balance at beginning of year	$ 1,050,000
Claims reported and approved for payment	16,920,000
Claims paid (including disability)	(16,770,000)
Balance at end of year	1,200,000
Other obligations for current benefit coverage, at present value of estimated amounts	
Balance at beginning of year	1,000,000
Net change during year:	
Long-term disability benefits	315,000
Other	35,000
Balance at end of year	1,350,000
Total obligations other than postretirement benefit obligations	2,550,000
Postretirement benefit obligations	
Balance at beginning of year	9,665,000
Increase (decrease) during the year attributable to:	
Benefits earned and other changes	1,250,000
Plan amendment	(175,000)
Changes in actuarial assumptions	260,000
Balance at end of year	11,000,000
Plan's total benefit obligations at end of year	$13,550,000

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

.10

ALLIED INDUSTRIES BENEFIT PLAN

Notes to Financial Statements

Note 1: Description of Plan

The following description of the Allied Industries Benefit Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General. The Plan provides health and other benefits covering all participants in the widgets industry in the Greater Metropolis area. The Plan and related trust were established on May 8, 1966, pursuant to a collective bargaining agreement between the Allied Employers' Trade Association and the Allied Union, Local 802. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Benefits. The Plan provides health benefits (medical, hospital, surgical, major medical, and dental), life insurance coverage, long-term disability benefits, and death benefits to full-time participants (with at least 450 hours of work in the industry during a consecutive three-month period) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health benefits (in excess of Medicare coverage) provided they have attained at least age sixty-two and have fifteen years of service with participating employers before retirement.

The Plan also provides health benefits to participants during periods of unemployment, provided they have accumulated in the current year or in prior years credit amounts (expressed in hours) in excess of the hours required for current coverage. Accumulated eligibility credits equal to one year's coverage may be carried forward.

Health, disability, and death claims of active participants, dependents, and beneficiaries are processed by the Administrator Group, but the responsibility for payments to participants and providers is retained by the Plan.

In 19X1 the board of trustees amended the Plan to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 19X2. The amendment will not affect participating employers' contributions to the Plan in 19X2 under the current collective bargaining agreement.

Contributions. Participating employers contribute 5.5 percent of wages pursuant to the current collective bargaining agreement between employers and the union (expiring February 19, 19X5). Employees and retirees may contribute specified amounts, determined periodically by the Plan's actuary, to extend coverage to eligible dependents.

Other. The Plan's board of trustees, as Sponsor, has the right under the Plan to modify the benefits provided to active employees. The Plan may be terminated only by joint agreement between industry and union, subject to the provisions set forth in ERISA.

Note 2: Summary of Accounting Policies

A. Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Valuation of Investments. The Plan's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Plan's board of trustees has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

C. **Postretirement Benefits.** The postretirement benefit obligation represents the total actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31. Postretirement benefits include future benefits expected to be paid for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with the participating employers. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service in the industry rendered to the valuation date.

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

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X2; the rate was assumed to decrease gradually to 8.0 percent for 19X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X0.

The following were other significant assumptions used in the valuations as of December 31, 19X1 and 19X0.

Weighted-average discount rate	8.0%—19X1; 8.25%—19X0
Average retirement age	60
Mortality	1971 Group Annuity Mortality Table

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

D. **Other Plan Benefits.** Plan obligations at December 31 for health claims incurred by active participants but not reported at that date, for accumulated eligibility of participants, and for future disability payments to members considered permanently disabled at December 31 are estimated by the Plan's actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statement of the Plan's benefit obligations at present value, based on an 8.0 percent discount rate. Health claims incurred by retired participants, but not reported at year end, are included in the postretirement benefit obligation.

Note 3: Benefit Obligations

The Plan's deficiency of net assets over benefit obligations at December 31, 19X1 and 19X0, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current bargaining agreement. It is expected that the deficiency will be funded through future increases in the collectively bargained contribution rates.

The weighted-average health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased by one percentage point in each year, it would increase the obligation as of December 31, 19X1 and 19X0, by $2,600,000 and $2,500,000, respectively.

Note 4: Investments

The Plan's investments are held by a bank-administered trust fund. During 19X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 as follows:

	19X1	
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*
Fair value as determined by quoted market price:		
U.S. government securities	$200,000	$5,000,000
Corporate bonds and debentures	(25,000)	1,750,000
Common stocks	100,000	1,000,000
	275,000	7,750,000
Fair value as estimated by Plan's board of trustees:		
Corporate bonds	25,000	250,000
	$300,000	$8,000,000

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows:

	19X1	*19X0*
Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)	$475,000	$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 19X6 ($360,000 face amount)		350,000

Note 5: Other Matters

The trust established under the Plan to hold the Plan's assets is intended to qualify pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the trust's net investment income is exempt from income taxes. The Plan has obtained a favorable tax determination letter from the Internal Revenue Service, and the Plan sponsor believes that the Trust, as amended, continues to qualify and to operate in accordance with applicable provisions of the internal revenue code.

Note 6: Reconciliation of Financial Statements to Form 5500

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

	December 31	
	19X1	*19X0*
Net assets available for benefits per the financial statements	$8,515,000	$6,600,000
Benefit obligations currently payable (health claims, death and disability benefits)	1,200,000	1,050,000
Net assets available for benefits per the Form 5500	$7,315,000	$5,550,000

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

	Year ended December 31, 19X1
Benefits paid to participants per the financial statements	$16,700,000
Add: Amounts currently payable at December 31, 19X1	1,200,000
Less: Amounts currently payable at December 31, 19X0	(1,050,000)
Benefits paid to participant per the Form 5500	$16,920,000

Amounts currently payable to or for participants, dependents and beneficiaries are recorded on the Form 5500 for benefits claims that have been processed and approved for payment prior to December 31, but not yet paid as of that date.

The following are illustrative financial statements for a single-employer health and welfare benefit plan that has adopted SOP 92-6 that displays the benefit obligation information on the face of the financial statements along with the net asset information.

.11

CLASSIC ENTERPRISES BENEFIT PLAN

Statements of Benefit Obligations and Net Assets Available for Benefits

December 31, 19X1 and 19X0

	19X1	*19X0*
Benefit Obligations (see Note 3)		
Amounts due insurance companies	$ 1,200,000	$ 1,000,000
Postretirement benefit obligations	11,000,000	9,665,000
Total benefit obligations	12,200,000	10,665,000
Net Assets		
Assets		
Investments at fair value (see Note 4)		
U.S. government securities	5,000,000	4,000,000
Corporate bonds and debentures	2,000,000	1,600,000
Common stock	1,000,000	600,000
Total investments	8,000,000	6,200,000
Receivables		
Sponsor's contributions	500,000	430,000
Participants' contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	650,000	550,000
Cash	75,000	60,000
Insurance premium deposits	65,000	55,000
Total assets	8,790,000	6,865,000
Liabilities		
Due to broker for securities purchased	250,000	240,000
Accounts payable for administrative expenses	25,000	25,000
Total liabilities	275,000	265,000
Net assets available for benefits	8,515,000	6,600,000
Excess of benefit obligations over net assets available for benefits	$ 3,685,000	$ 4,065,000

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

.12

CLASSIC ENTERPRISES BENEFIT PLAN

Statement of Changes in Benefit Obligations and Net Assets Available for Benefits

Year Ended December 31, 19X1

	19X1
Net Increase in Benefit Obligations	
Increase (Decrease) during the year attributable to:	
Benefits earned and other changes	$ 1,510,000
Additional amounts payable to insurance company	200,000
Plan amendment	(175,000)
	1,535,000
Net Increase in Net Assets Available for Benefits	
Additions	
Contributions	
Sponsor	15,000,000
Participants	3,000,000
Total contributions	18,000,000
Investment income	
Net appreciation in fair value of investments	300,000
Interest	500,000
Dividends	50,000
	850,000
Less investment expenses	15,000
Net investment income	835,000
Total additions	18,835,000
Deductions	
Insurance premiums paid for health benefits, net of experience-rating adjustments of $250,000 for 19X0 received on 19X1	16,035,000
Insurance premiums paid for death benefits	780,000
	16,815,000
Administrative expenses	105,000
Total deductions	16,920,000
Net increase	1,915,000
Decrease in excess of benefit obligations over net assets available for benefits	(380,000)
Excess of Benefit Obligations Over Net Assets Available for Benefits	
Beginning of year	4,065,000
End of year	$ 3,685,000

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

.13

CLASSIC ENTERPRISES BENEFIT PLAN

Notes to Financial Statements

Note 1: Description of Plan

The following description of the Classic Enterprises Benefit Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General. The Plan provides health and death benefits covering substantially all active and retired employees of Classic Enterprises (the Sponsor). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Benefits. The Plan provides health benefits (medical, hospital, surgical, major medical, and dental) and death benefits to full-time employees of the Sponsor (with at least 1,000 hours of service each year) and to their beneficiaries and covered dependents. Retired employees are entitled to similar health and death benefits provided they have attained at least age fifty-five and have at least ten years of service with the Sponsor.

Current health claims of active and retired participants and their dependents and beneficiaries are provided under group insurance contracts with ABC Carrier, which are experience rated after the anniversary dates of the policies (generally March 31). Death benefits are covered by a group-term policy with DEF Carrier.

Contributions. The Sponsor's policy is to contribute the maximum amounts allowed as a tax deduction by the Internal Revenue Code. Under present law, the Sponsor is not permitted to deduct amounts for future benefits to current employees and retirees.

Employees and retirees may contribute specified amounts, determined periodically by the Plan's insurance companies, to extend coverage to eligible dependents.

In 19X1 the Plan was amended to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 19X1. The amendment is not expected to significantly affect the Sponsor's contribution to the Plan in 19X2.

Other. Although it has not expressed any intention to do so, the Sponsor has the right under the Plan to modify the benefits provided to active employees, to discontinue its contributions at any time, and to terminate the Plan subject to the provisions set forth in ERISA.

Note 2: Summary of Accounting Policies

A. Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Valuation of Investments. The Plan's investments are stated at fair value. Securities traded on the national securities exchanges are valued at the last reported sales price on the last business day of the plan year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, the Classic Enterprises Benefits Committee has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings.

C. Plan Benefits. The postretirement benefit obligation (see note 3) represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31. Postretirement benefits include future benefits expected to be paid to or for (i) currently retired employees and their beneficiaries and dependents and (ii) active employees and their beneficiaries and dependents after retirement from service with the Sponsor. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

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

For measurement purposes at December 31, 19X1, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X2; the rate was assumed to decrease gradually to 8.0 percent for 19X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X0.

The following were other significant assumptions used in the valuations as of December 31, 19X1 and 19X0.

Weighted-average discount rate	8.0%
Average retirement age	60
Mortality	1971 Group Annuity Mortality Table

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

Note 3: Benefit Obligations

Health costs incurred by participants and their beneficiaries and dependents are covered by insurance contracts maintained by the Plan. It is the present intention of the Sponsor and the Plan to continue obtaining insurance coverage for benefits. As stated in note 1, the Sponsor is not permitted under present tax law to deduct amounts for future benefits (beyond one year). Insurance premiums for future years in respect of the Plan's postretirement benefit obligation will be funded by Sponsor contributions to the Plan in those later years.

The postretirement benefit obligation at December 31, 19X1 and 19X0, principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

	19X1	*19X0*
Current retirees	$ 3,900,000	$3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Participants not yet fully eligible for benefits	5,000,000	4,165,000
	$11,000,000	$9,665,000

The health care cost-trend rate assumption (see note 2B) has a significant effect on the amounts reported. If the assumed rates increased by one percentage point in each year, that would increase the obligation as of December 31, 19X1 and 19X0, by $2,600,000 and $2,500,000 respectively.

Note 4: Investments

The Plan's investments are held by a bank-administered trust fund. During 19X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 as follows:

	19X1	
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*
Fair value as determined by quoted market price:		
U.S. government securities	$200,000	$5,000,000
Corporate bonds and debentures	(25,000)	1,750,000
Common stocks	100,000	1,000,000
	275,000	7,750,000
Fair value as estimated by		
Classic Enterprise Benefits Plan Investment Committee:		
Corporate bonds	25,000	250,000
	$300,000	$8,000,000

The fair value of individual investments that represent 5.0 percent or more of the Plan's net assets are as follows:

	19X1	*19X0*
Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)	$475,000	$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 19X6 ($360,000 face amount)		350,000

Note 5: Other Matters

The trust established under the Plan to hold the Plan's net assets is qualified pursuant to Section 501(c)9 of the Internal Revenue Code, and, accordingly, the Trust's net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service and the Sponsor believes that the Trust, as amended, continues to qualify and to operate as designed.

Note 6: Reconciliation of Financial Statements to Form 5500

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

	December 31	
	19X1	*19X0*
Net assets available for benefits per the financial statements	$8,515,000	$6,600,000
Amounts due insurance companies	1,200,000	1,000,000
Net assets available for benefits per the Form 5500	$7,315,000	$5,600,000

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

	Year ended December 31, 19X1
Insurance premiums paid per the financial statements	$16,815,000
Add: Amounts due insurance companies at December 31, 19X1	1,200,000
Less: Amounts due insurance companies at December 31, 19X0	(1,000,000)
Insurance premiums paid for participants per the Form 5500	$17,015,000

Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA, Accounting and Auditing Publications, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: ____

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