1-1-2004

Checklists and illustrative financial statements for health and welfare benefit plans : a financial accounting and reporting Practice aid, July 2004 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Linda Delahanty

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A Financial Accounting and Reporting Practice Aid

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

ISSN 1549-9545

ISBN 0-87051-509-8

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New Employee Benefit Plan Audit Quality Center

The AICPA launched the Employee Benefit Plan Audit Quality Center (the Center) this year, a firm-based voluntary membership center for accounting firms that audit employee benefit plans. The Center's primary purpose is to promote the quality of employee benefit plan audits. More than 500 firms have already joined the center. For more information about the Center and how to join visit http://www.aicpa.org/ebpaqc.

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.
- Postemployment benefits such as salary continuation, supplemental unemployment benefits, severance, disability-related job training and counseling.

.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 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. (See FSP section 10,000.23–.26 for a discussion of the Form 5500.)

Financial Accounting and Reporting Standards

.08 The AICPA Statement of Position (SOP) 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, as amended by SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, and SOP 01-2, *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 *Employee Benefit Plans* (the Guide) provides guidance on auditing and reporting on the financial statements of employee benefit plans. Plans should follow the accounting and disclosure requirements set forth in chapter 4 of the Guide.

.09 SOP 01-2 amends chapter 4 of the Guide, and SOP 92-6. SOP 01-2—

- Specifies the presentation requirements for benefit obligations information. (Specifically, it allows information about the benefit obligations to be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to the financial statements.)
- Requires disclosure of information about retirees' relative share of the plan's estimated cost of providing postretirement benefits.
- Clarifies the measurement date for benefit obligations.
- Establishes standards of financial accounting and reporting for postemployment benefits provided by health and welfare benefit plans.
- Requires disclosure of the discount rate used for measuring the plan's obligation for postemployment benefits.
- Requires the identification of investments representing 5 percent or more of the net assets available for benefits.

.10 SFAS 112, *Employers' Accounting for Postemployment Benefits*, establishes standards of financial accounting and reporting by employers for certain postemployment benefits provided to former or inactive employees after employment but before retirement. Benefits provided may include salary continuation, supplemental unemployment benefits, severance, disability-related job training and counseling, and continuation of health care and life insurance. While SFAS 112 does not apply to health and welfare benefit plans, SOP 01-2 adopted certain measurement concepts of SFAS 112. Also, terminology used in discussing postemployment benefits in SOP 01-2 is intended to follow that in SFAS 112.

.11 SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, as amended by SOP 99-3, specifies the accounting and reporting for health and welfare plans for investment contracts.

.12 SFAS 35,[1] *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 35.

.13 SFAS 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 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 106.

.14 SOP 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*, specifies the accounting for and disclosure of 401(h) features of defined benefit pension plans, by both defined benefit pension plans and health and welfare benefit plans. SOP 99-2 has been integrated into chapters 2, 4, and Appendices D and F of the Guide.

.15 SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, simplifies disclosures for certain investments and supersedes AICPA Practice Bulletin 12, *Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans* (PB 12). More specifically, SOP 99-3—

a. Eliminates the previous requirement for a defined contribution plan to present plan investments by general type for participant-directed investments in the statement of net assets available for benefits.

b. Eliminates the requirement for a defined contribution plan to disclose participant-directed investment programs and eliminates the requirement to disclose the total number of units and the net asset value per unit during the period, and at the end of the period, by defined contribution pension plans that assign units to participants.

c. Requires a defined contribution plan to identify nonparticipant-directed investments that represent 5 percent or more of net assets available for benefits.

d. Eliminates the requirement for defined contribution plans, including both health and welfare benefit plans and pension plans, to disclose benefit-responsive investment contracts by investment fund option.

SOP 99-3 has been integrated into chapters 3, 4, and Appendix E of the Guide.

.16 The nonauthoritative technical questions and answers (TPA) found in the publication AICPA *Technical Practice Aids*, are based on selected practice matters identified by the staff of the AICPA's technical hotline and various other bodies within the AICPA. In May 2004 the following TPA was issued relating to employee benefit plans.

TPA 6930.05—Sale of Real Estate Investments Held by Employee Benefit Plans and Discontinued Operations

[1] The FASB is currently working on an interpretation of SFAS 87, *Employers' Accounting for Pensions*. In May of 2004, the FASB decided to expand the scope of this project to amend SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Be alert to developments on this project at the FASB Web site at www.fasb.org.

Inquiry: Many employee benefit plans invest directly in real estate (for example, a building) that generates rental income and operating expenses for the plan. Generally, these plans are defined benefit plans but certain defined contribution plans may also hold these investments.

Paragraph 41 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides that a "component of an entity" comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

Paragraph 42 of FASB Statement No. 144 provides that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations in accordance with paragraph 43 of FASB Statement No. 144 if both of the following are met:

- The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Paragraph 43 of FASB Statement No. 144 states that in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement of a business enterprise (or statement of activities of a not-for-profit organization) for current and prior periods shall report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of FASB Statement No. 144, in discontinued operations.

Because employee benefit plans are not specifically scoped out of FASB Statement No. 144, if an employee benefit plan invests in real estate that generates rental income and operating expenses for the plan and then sells that property, is the sale of the real estate investment considered a discontinued operation of the plan?

Reply: No. For many entities, after evaluating the conditions in paragraph 42 of FASB Statement No. 144, an investment in real estate (such as a building) that generates rental income and operating expenses would be considered to meet the definition of a "component of an entity" (as defined in FASB Statement No. 144) and, therefore, any gains or losses relating to the disposal of that "component" would be reported in discontinued operations. However, employee benefit plan financial statements show financial status or net assets available for benefits and changes in financial status or net assets available for benefits. Because they do not show a statement of operations or activities, there is no reason to distinguish between continuing and discontinued operations. Rather, real estate in an employee benefit plan should be treated as an investment carried at fair value and the related income/expenses and net appreciation/depreciation should be included in the statement of changes in financial status or statement of changes in net assets available for benefits. No distinction should be made between continuing and discontinued operations.

[Source: TPA 6930.05—*Sale of Real Estate Investments Held by Employee Benefit Plans and Discontinued Operations*]

Accounting and Reporting by Health and Welfare Benefit Plans

.17 The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP[2] 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.

[2] Financial statements prepared on an "Other Comprehensive Basis of Accounting" (OCBOA) should disclose information regarding benefit obligations in the notes to the financial statements. (See the Guide, pars. 13.20–13.22 for further guidance.)

- 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.

.18 SOP 92-6, as amended by SOP 01-2, requires information about the benefit obligations to be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location.

.19 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.

.20 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.

.21 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, as amended) at contract value. Assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

Practice Tip

SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities* amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraphs 4 or 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

.22 Whether or not a plan is subject to ERISA, insurance contracts, as defined by SFAS 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.

.23 In addition to the reporting requirements of SOP 92-6, as amended (and chapter 4 of the Guide, as appropriate), health and welfare benefit plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Department of Labor (DOL), Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) have released the 2003 Form 5500 return/reports, schedules, and instructions to be used by employee benefit plans for plan year 2003 filings. The IRS has also released the Form 5500-EZ return and instructions to be used by certain one-participant retirement plans for plan year 2003 filings.

.24 The agencies have also released tips to avoid common filing errors and frequently asked questions (FAQs) for small pension plans that use the audit exception to assist filers in complying with their reporting obligations. The tips and FAQs will help plans avoid basic filing errors and explain the conditions that small pension plans must meet to be eligible for a waiver of the annual audit requirement. The FAQs also include model summary annual report language for the required participant notice under the small plan audit exception. This guidance may be found in Appendixes D and E of the Audit Risk Alert *Employee Benefit Plans Industry Developments—2004* (product no. 022414) and on the EBSA Web site at www.dol.gov/ebsa.

.25 The Form 5500 and Form 5500-EZ for plan year 2003 are essentially unchanged from 2002. Certain modifications have been made to reflect changes in the law or regulations, to improve forms processing, and to clarify the instructions. The Audit Risk Alert *Employee Benefit Plans Industry Developments—2004* (product no. 022414) summarizes the modifications to the 2003 Form 5500 Annual Report. Filers should note that, beginning this year, the Forms 5500 and 5500-EZ booklets with the official hand-print forms and instructions will not be automatically mailed to filers of record. A postcard will be mailed instead to remind filers of the filing obligation.

.26 The Form 5500 continues to require that certain supplemental schedules be attached to the annual form 5500 filing. Such schedules include:

- Schedule H, line 4i—Schedule of Assets (Held at End of Year)[3]
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions[4]

The following schedules are required to be reported on Schedule G:

- Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Schedule of Nonexempt Transactions

Practice Tip

One change to note relates to the reporting of delinquent participant contributions. Schedule H and Schedule I—Information concerning delinquent participant contributions reported on line 4a is no longer required to be reported again on line 4d (or Schedule G). See the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA Web site at http://www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

Please refer to the Instructions to Form 5500 for schedule requirements. Information copies of the forms, schedules and instructions are available on EBSA's Web site at www.efast.dol.gov. Filers may also order forms and IRS publications twenty-four hours a day, seven days a week, by calling 800-TAX-FORM (800-829-3676).

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

[3] **Practice Tip** — Historical cost information is not required on Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

[4] **Practice Tip** — Participant- or beneficiary-directed transactions are not required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

FSP Section 10,100
Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of health and welfare benefit plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited health and welfare benefit plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating full sets of health and welfare benefit plan financial statements.

.02 The checklists and illustrative financial statements have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of health and welfare benefit plans.

The financial statements and notes checklists and auditor's report checklist have been updated to include guidance relevant to employee benefit plans contained in pronouncements issued through:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity,* and Revised FASB Statements issued from March 1, 2003 through May 1, 2004, including:

  FASB Statement No. 132 (revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*
- FASB Interpretation (FASBI) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Emerging Issues Task Force (EITF) consensuses adopted through the March 2004 EITF meeting
- AICPA Statement on Auditing Standards (SAS) No. 101, *Auditing Fair Value Measurements and Disclosures*
- AICPA Statement of Position (SOP) 03-5, *Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide* Audits of Investment Companies
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes*
- AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2004)

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

.03 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 engagement. 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.

.04 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.

.05 If you have further questions, call the AICPA Technical Hotline 1-888-777-7077.

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 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2004)
AC =	Reference to section number in FASB *Accounting Standards—Current Text*
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
FASBI =	FASB Interpretation
SAS =	AICPA Statement on Auditing Standards
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	AICPA Statement of Position

.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 that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section "Changes in Accounting" and complete that section of the checklist. On the other hand, if the plan did not have a change in accounting principle, do not place a check mark by "Changes in Accounting" and skip that section when completing the checklist.

	Place ✓ by Applicable Sections
• General	
A. Titles and References	______
B. Comparative Financial Statements	______
• Statement of Net Assets Available for Benefits	
A. General	______
B. Investments	______
C. Assets Held in 401(h) Account	______
D. Contributions Receivable	______
E. Deposits With and Receivables From Insurance Companies and Other Service Providers	______

	Place ✓ by Applicable Sections
F. Operating Assets	_____
G. Cash	_____
H. Liabilities	_____
• Statement of Changes in Net Assets Available for Benefits	_____
• Statement of Plan's Benefit Obligations	_____
• Postemployment Benefits	_____
• Statement of Changes in Plan's Benefit Obligations	
A. General	_____
B. Claims Paid Through 401(h) Account	_____
C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations	_____
• Summary of Significant Accounting Policies	
A. Accounting Policies	_____
B. Certain Significant Estimates	_____
• Other Financial Statement Disclosures	
A. Changes in Accounting	_____
B. Commitments and Contingencies	_____
C. Current Vulnerabilities Due to Certain Concentrations	_____
D. Description of Health and Welfare Benefit Plans	_____
E. Description of Plan Amendments	_____
F. Financial Instruments	_____
G. Income Tax Status	_____
H. Plan Terminations	_____
I. Related-Party Transactions	_____
J. Subsequent Events	_____
K. Transfers and Servicing of Financial Assets and Securitizations	_____
L. 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 and Auditor's Reports	_____

	Yes	*No*	*N/A*

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

	Yes	No	N/A
a. For Defined Benefit Health and Welfare Benefit Plans:			
(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, par. 4.20; SOP 92-6, as amended, par. 20]	____	____	____
(2) A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, par. 4.20; SOP 92-6, as amended, par. 20]	____	____	____
(3) Information regarding the plan's benefit obligations as of the end of the plan year? [AAG, par. 4.20; SOP 92-6, as amended, par. 20]	____	____	____
(4) Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations? [AAG, par. 4.20; SOP 92-6, as amended, 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. 4.23; SOP 92-6, as amended, par. 23]	____	____	____
2. For defined-benefit health and welfare plans, is information regarding benefit obligations presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements? (Regardless of the format selected, do the plan financial statements present the benefit obligations information in its entirety in the same location?) [AAG, par. 4.20; SOP 92-6, as amended, 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. 4.20; SOP 92-6, as amended, 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. 4.11; SOP 92-6, as amended, par. 11]	____	____	____
5. Is each financial statement suitably titled? [Generally Accepted]	____	____	____
6. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	____	____	____
B. Comparative Financial Statements			
1. Are comparative statements presented, if appropriate?[1] [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102); AAG, par. 4.19, fn. 1; SOP 92-6, as amended, par. 19, fn. 3]	____	____	____

[1] ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form.

	Yes	No	N/A
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) 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 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)]	____	____	____

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. 4.65; SOP 92-6, as amended, par. 64]	____	____	____

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, par. 4.32; SOP 92-6, as amended, par. 32]	____	____	____
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/collective trust funds?	____	____	____
h. Master trusts?	____	____	____
i. Investment contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts? [Generally Accepted; App. F, Exs. F-1 and F-9]	____	____	____
3. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? [AAG, par. 7.49*c*]	____	____	____
4. Are investments that represent 5 percent or more of the net assets available for benefits as of the end of the year separately identified in the financial statements or notes thereto? [AAG, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____

	Yes	No	N/A
5. 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. 4.65; SOP 92-6, as amended, par. 64]	___	___	___
6. If fully benefit-responsive investment contracts are held by a defined-contribution health and welfare plan, is the following information disclosed in the aggregate:			
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 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?	___	___	___

Note: This disclosure is optional when the plan is a nonpublic entity, its total assets are less than $100 million at the financial statement date, and the plan has no instruments (in whole or in part) that are accounted for as derivative instruments under SFAS 133 during the reporting period.
[SFAS 126, par. 2; SFAS 133, par. 537]

	Yes	No	N/A
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? [AAG, par. 4.65; SOP 92-6, as amended, par. 64]	___	___	___

C. Assets Held in 401(h) Account

	Yes	No	N/A
1. Are the 401(h) assets and liabilities shown either as a single line item on the face of the statements of net assets available for plan benefits, or included in individual asset and liability line items with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items? [AAG, par. 4.56; SOP 99-2, par. 11; SOP 92-6, par. 55]	___	___	___
2. Do the notes to the financial statements disclose:			
a. The fact that retiree health benefits are funded partially through a 401(h) account of the defined benefit pension plan (if applicable)?	___	___	___
b. The fact that the assets in the 401(h) account are available only to pay retiree health benefits?	___	___	___

	Yes	No	N/A
c. The significant components of net assets and changes in net assets of the 401(h) account? [AAG, pars. 4.56 and 4.57; SOP 99-2, par. 15; SOP 92-6, pars. 55 and 56]	____	____	____
3. Do the notes include a reconciliation of amounts reported in the financial statements to the amounts reported in the Form 5500? [AAG, par. 4.57; SOP 92-6, par. 56]	____	____	____

D. Contributions Receivable

	Yes	No	N/A
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, par. 4.33; SOP 92-6, as amended, par. 33]	____	____	____
2. Do contributions receivable include an allowance for uncollectible amounts? [AAG, par. 4.33; SOP 92-6, as amended, par. 33]	____	____	____

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

	Yes	No	N/A
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, par. 4.34; SOP 92-6, as amended, par. 34]	____	____	____
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, par. 4.35; SOP 92-6, as amended, par. 35]	____	____	____

F. Operating Assets

	Yes	No	N/A
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	____	____	____
b. Balances of major classes of depreciable assets by nature or function?	____	____	____
c. Accumulated depreciation, either by major classes of assets or in total?	____	____	____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, pars. 5a–d (AC D40.105a–d)]	____	____	____
2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with			

	Yes	No	N/A
SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraphs 25–27, 33, and 42–48?[2] [SFAS 144, pars. 25–27, 33, and 42–48 (ACI08.160 and 161, AC D60.104 and 110, ACI14.102–106, and AC D60.118–121)]	___	___	___

G. **Cash**

	Yes	No	N/A
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	___	___	___
2. Are restrictions on cash properly disclosed? [SFAS 5, par. 18 (AC C59.120)]	___	___	___

H. **Liabilities**

	Yes	No	N/A
1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses) deducted in arriving at net assets available for benefits? [AAG, par. 4.39; SOP 92-6, as amended, par. 38]	___	___	___
2. Consider stating separately:			
a. Due to broker for securities purchased?	___	___	___
b. Accounts payable?	___	___	___
c. Accrued expenses? [AAG, par. 4.39 and App. F, Exs. F-1, F-9, and F-14)]	___	___	___
3. Net assets related to the 401(h) account must be deducted before arriving at the total of net assets available for pension benefits:			
a. In deducting those net assets, are the amounts relating to 401(h) features presented as a separate line item in the liabilities section of the statement of net assets available for pension benefits?	___	___	___
b. Does the financial statement caption clearly denote that the net assets held in the 401(h) account relate to obligations of the health and welfare plan or arrangement? [AAG, pars. 2.41 and 4.56; SOP 99-2, par. 8; SOP 92-6, par. 55]	___	___	___

Statement of Changes in Net Assets Available for Benefits

	Yes	No	N/A
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)?	___	___	___

[2] SFAS 144 establishes accounting and reporting for the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The required disclosures of SFAS 144 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to health and welfare benefit plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 144, pars. 25–27, 33, and 42–48 for the disclosure requirements. See FSP section 10,000.16 for a discussion of the applicability of SFAS 144 as it relates to the sale of real estate investments held by employee benefit plans and discontinued operations. (Also found in AICPA *Technical Practice Aids*, section 6930.05.)

	Yes	No	N/A
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?	____	____	____

Practice Tip

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. 4.40, fn. 10; SOP 92-6, as amended, par. 39, fn. 13]

	Yes	No	N/A
e. Investment income, excluding the net appreciation or depreciation?	____	____	____
f. Income taxes paid or payable, if applicable?	____	____	____
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? [AAG, par. 4.40; SOP 92-6, as amended, par. 39]	____	____	____
2. If the 401(h) account assets and liabilities are shown as a single line item in the statement of net assets, are the changes in net assets also shown as a single line item on the health and welfare benefit plan's statement of changes in net assets? [AAG, par. 4.56; SOP 99-2, par. 11; SOP 92.6, par. 55]	____	____	____
3. If the 401(h) account assets and liabilities are included in individual asset and liability line items in the statement of net assets, are the changes in individual 401(h) amounts included in the changes in the individual line items in the statement of changes in net assets, with separate disclosure in the footnotes about the 401(h) amounts included in those individual line items? [AAG, par. 4.56; SOP 99-2, par. 11; SOP 92.6, par. 55]	____	____	____

Statement of Plan's Benefit Obligations

Practice Tip

Information about the benefit obligations should be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. (Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location.) [AAG, par. 4.20]

	Yes	No	N/A
1. Do benefit obligations for single-employer, multiple-employer, and multiemployer defined-benefit health and welfare benefit plans include the actuarial present value, as applicable, of the following:			
a. Claims payable, claims IBNR, and premiums due to insurance companies?	____	____	____

Yes	No	N/A

Practice Tip

Claims IBNR may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, the claims IBNR for retirees are included in the postretirement benefit obligation. Aggregating claims payable and claims IBNR is often appropriate if adequate time has passed to provide sufficient data on costs incurred and the actuarially determined expected cost of long-term medical claims is insignificant. Benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment should not be included. [AAG, par. 4.42 and fn. 13; SOP 01-2, par. 21 and fn. †; SOP 92-6, as amended, par. 41 and fn. 16]

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

c. Postretirement benefits for the following groups of participants:

(1) Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR? ____ ____ ____

(2) Other plan participants fully eligible for benefits? ____ ____ ____

(3) Plan participants not yet fully eligible for benefits? ____ ____ ____
[AAG, par. 4.42; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41]

2. Are benefit obligations reported as of the end of the plan year? ____ ____ ____
[AAG, par. 4.42; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41]

Practice Tip

The effect of plan amendments should be included in the computation of the expected and accumulated postretirement benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods. [AAG, par. 4.42; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41]

3. To the extent they exist, are the amounts of benefit obligations in each of the three major classifications listed in Question 1*c* above shown as separate line items in the financial statements or notes to the financial statements? ____ ____ ____

a. Regardless of the format selected, do the plan financial statements present the benefit obligations information in its entirety in the same location? ____ ____ ____

b. For negotiated plans, are benefit obligations due during a plan's contract period disclosed? (Optional) ____ ____ ____
[AAG, par. 4.43; SOP 01-2, par. 21; SOP 92-6, as amended, par. 42]

4. 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. 4.55; SOP 92-6, as amended, par. 54]

5. Is consideration given to separately disclosing each significant benefit (e.g., medical and death) for each classification listed in Question 4 above, as appropriate? ____ ____ ____
[AAG, par. 4.55; SOP 92-6, as amended, par. 54]

	Yes	No	N/A
6. 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 included 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. 4.48; SOP 92-6, as amended, par. 47]	____	____	____
7. Are 401(h) obligations reported in the health and welfare benefit plan's statement of benefit obligations as required by SOP 92-6, as amended? [AAG, par. 4.56; SOP 99-2, par. 11; SOP 92-6, par. 55]	____	____	____

Postemployment Benefits

Practice Tip

Plans that provide postemployment benefits should recognize a benefit obligation for current participants, based on amounts expected to be paid in subsequent years, if all the conditions listed in SOP 92-6, paragraph 58, as amended, are met. See SOP 92-6, paragraphs 58–60, as amended, and AAG, paragraphs 4.59–4.61 for guidance on accounting for and reporting of postemployment benefits. [AAG, pars. 4.59–4.61; SOP 92-6, pars. 58–60, as amended]

	Yes	No	N/A
1. If an obligation for postemployment benefits is not recognized in accordance with AAG paragraphs 4.59 and 4.60 only because the amount cannot be reasonably estimated, do the financial statements disclose that fact? [AAG, par. 4.61; SOP 01-2, par. 23; SOP 92-6, as amended, par. 60]	____	____	____
2. Is disclosure made of the weighted-average assumed discount rate used to measure the plan's obligation for postemployment benefits? [AAG, par. 4.65; SOP 01-2, par. 29; SOP 92-6, as amended, par. 64]	____	____	____

Statement of Changes in Plan's Benefit Obligations

Practice Tip

Like the benefit obligation information, the changes in each of the three major classifications of benefit obligations should be presented in the body of the financial statements or in the notes to the financial statements; the information may be presented in either a reconciliation or narrative format. [AAG, par. 4.62; SOP 92-6, as amended, par. 61]

A. General

	Yes	No	N/A
1. Are changes in benefit obligations presented in the following categories:			
a. Claims payable, claims IBNR, and premiums due to insurance companies?	____	____	____
b. Accumulated eligibility credits and postemployment benefits, net of amounts currently payable?	____	____	____
c. Postretirement benefits for retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR; other plan participants fully eligible for benefits; and plan participants not yet fully eligible for benefits? [AAG, par. 4.62; SOP 92-6, as amended, par. 61]	____	____	____

	Yes	No	N/A

B. Claims Paid Through 401(h) Account

1. Does the health and welfare benefit plan's statement of changes in benefit obligations include claims paid through the 401(h) account? [AAG, par. 4.56; SOP 99-2, par. 11; SOP 92-6, par. 55] ____ ____ ____

C. Minimum Disclosure Requirements Regarding Changes in Benefit Obligations

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Practice Tip

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. 4.63; SOP 92-6, as amended, par. 62]

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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)? ____ ____ ____
   c. Changes in actuarial assumptions (health care cost-trend rate or interest rate)?[3] ____ ____ ____
   [AAG, par. 4.63; SOP 92-6, as amended, par. 62]
2. Are significant effects of other factors identified, for example, benefits accumulated,[4] the effects of the time value of money (for interest), and benefits paid? ____ ____ ____
   [AAG, par. 4.63; SOP 92-6, as amended, par. 62]

Practice Tip

Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations. [AAG, pars. 4.20, fn. 2, and 13.20–.22; SOP 92-6, par. 5]

Summary of Significant Accounting Policies

A. Accounting Policies

1. Is a description of all significant accounting policies of the plan presented as either a separate "summary of significant accounting policies" preceding the notes to the financial statements or as the initial note? ____ ____ ____
   [APB 22, par. 15 (AC A10.108)]
2. Does the 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? ____ ____ ____

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[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. 4.63, SOP 92-6, as amended, par. 62]

[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. 4.63, fn. 20; SOP 92-6, as amended, par. 62, fn. 23]

	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. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	____	____	____
5. 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, par. 4.64; SOP 92-6, as amended, par. 63]	____	____	____
6. 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, par. 4.64; SOP 92-6, as amended, par. 63]	____	____	____
7. Are any significant changes in assumptions between financial statement dates described? [AAG, par. 4.64; SOP 92-6, as amended, par. 63]	____	____	____
8. Are the effects of any significant changes in actuarial assumptions made between financial statement dates described? [AAG, par. 4.64; SOP 92-6, as amended, par. 63]	____	____	____
9. If administrative expenses expected to be paid by the plan (but not those paid directly by the plan's participating employer(s)) that are associated with providing the plan's benefits are reflected by reducing the discount rate(s) used in measuring the benefit obligation, is the resulting reduction in the discount rate(s) disclosed? [AAG, par. 4.42, fn. 12; SOP 01-2, par. 21; SOP 92-6, as amended, par. 41, fn. 15]	____	____	____
10. 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. 4.65]	____	____	____

B. Certain Significant Estimates

1. If known information available before the financial statements are issued indicates that: (*a*) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:

	Yes	No	N/A
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	____	____	____

Yes No N/A

b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made? ____ ____ ____

c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? ____ ____ ____
[SOP 94-6, pars. 13 and 14; AAG, par. 4.71]

Other Financial Statement Disclosures

A. Changes in Accounting

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

   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 net additions (deductions) to the plan's net assets? ____ ____ ____
   [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 and 25 (AC A06.115–.118)]

3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:

   a. Are all financial statements of prior periods presented restated? ____ ____ ____
   [APB 20, par. 27 (AC A06.123)]

   b. Is the effect on net assets available for benefits for all prior periods presented shown? ____ ____ ____
   [APB 20, par. 28 (AC A06.124)]

4. 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)]

5. For changes in accounting estimates:

   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)]

6. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the

Yes | No | N/A

"Statement of Changes in Net Assets," and are the nature of the change and the reason for it disclosed?
[APB 20, pars. 34 and 35 (AC A35.112 and .113)] ____ ____ ____

B. Commitments and Contingencies

1. Is disclosure made of the nature of estimated loss contingencies accrued when (*a*) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (*b*) the amount of loss can be reasonably estimated? ____ ____ ____
[SFAS 5, par. 9 (AC C59.108)]

2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in Question 1 above disclosed? ____ ____ ____
[SFAS 5, par. 9 (AC C59.108)]

3. For loss contingencies not accrued because one or both of the conditions in Question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, 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, par. 10 (AC C59.109)]

4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about the likelihood of realization? ____ ____ ____
[SFAS 5, par. 17 (AC C59.118)]

5. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? ____ ____ ____
[SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114); EITF 85-20]

6. Is there adequate disclosure of commitments, including material lease commitments and other commitments? ____ ____ ____
[SFAS 5, pars. 18 and 19 (AC C59.120); AAG, par. 4.65; SOP 92-6, as amended, par. 64]

C. Current Vulnerabilities Due to Certain Concentrations

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (*a*) the concentration existed at the date of the financial statements, (*b*) made the enterprise vulnerable to the risk of a near-term severe impact, and (*c*) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? ____ ____ ____
[SOP 94-6, pars. 21 and 22; AAG, par. 4.72]

	Yes	No	N/A

D. Description of Health and Welfare Benefit Plans

1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, participants covered, vested, and benefit provisions? [AAG, par. 4.65; SOP 92-6, as amended, par. 64; SOP 94-6, par. 10] ____ ____ ____

Practice Tip

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, par. 4.65; SOP 92-6, as amended, par. 64]

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2. Does the description of the plan include the termination provisions of the plan and priorities for distribution of assets, if applicable? [AAG, par. 4.65; SOP 92-6, as amended, par. 64] ____ ____ ____

E. Description of Plan Amendments

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, par. 4.65; SOP 92-6, as amended, par. 64] ____ ____ ____

F. Financial Instruments

Practice Tip

SFAS 149, *Amendment of Statement 133 on Derivative Investments and Hedging Activities*, amends SFAS 133 to say that a contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended, is not subject to SFAS 133. Similarly, a contract that is accounted for under either paragraphs 4 or 5 of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, is not subject to SFAS 133. Those exceptions apply only to the party that accounts for the contract under SFAS 35, SFAS 110, or SOP 94-4. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions as described in SFAS 149, and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively.

Derivative Instruments and Hedging Activities

1. If a plan holds or issues derivative instruments (or non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives? ____ ____ ____
2. Does the description distinguish between derivative instruments (and non-derivative instruments) designated as fair value hedging instruments, derivative instruments (and non-derivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives? ____ ____ ____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged? ____ ____ ____

	Yes	No	N/A
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	____	____	____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is **encouraged, but not required,** to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133, par. 44 (AC D50)]	____	____	____
6. For every reporting period for which a complete set of financial statements is presented, has the plan disclosed the following:			
Fair Value Hedges			
a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, *Foreign Currency Translation,* that have not been designated and have qualified as fair value hedging instruments and for the related hedged items:			
(1) The net gain or loss recognized in the investment income during the reporting period representing (*a*) the amount of the hedges' ineffectiveness and (*b*) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of changes in net assets available for benefits?	____	____	____
(2) The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge? [SFAS 133, par. 45a (AC D50.142)]	____	____	____
Hedges of the Net Investment in a Foreign Operation			
b. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133, par. 45c (AC D50.142)]	____	____	____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or non-financial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? ***(Encouraged, but not required.)*** [SFAS 133, par. 45 (AC D50.142)]	____	____	____
Disclosures About Fair Value of Financial Instruments			
8. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended, been followed for financial instruments of the plan? [SFAS 107, pars. 10–14 (AC F25.115–115F and 115J); AAG, pars. 4.67–4.68]	____	____	____

	Yes	No	N/A
Disclosure About Concentrations of Credit Risk of All Financial Instruments			
9. Except as indicated in paragraph 15B[5] of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counterparties (*Group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? [SFAS 107, par. 15A; SFAS 133, par. 531d (AC F25)]	___	___	___
10. Has the plan made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	___	___	___
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, 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?	___	___	___
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? [SFAS 107, par. 15A, as amended; SFAS 133, par. 531d (AC F25); AAG, par. 4.69; SOP 92-6, par. 68]	___	___	___
11. Has the plan disclosed quantitative information[6] about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? ***(Encouraged but not required.)*** [SFAS 107, par. 15C, as amended; SFAS 133, par. 531d (AC F25.116C)]	___	___	___

[5] SFAS 107, paragraph 15B provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
2. The financial instruments described in paragraphs 8(a), 8(c), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Post-Employment Benefits*, SFAS 123, *Accounting for Stock Based Compensation*, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

[6] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (*a*) more details about current positions and perhaps activity during the period, (*b*) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (*c*) a gap analysis of interest rate re-pricing or maturity dates, (*d*) the duration of the financial instruments, or (*e*) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

	Yes	No	N/A

G. Income Tax Status

1. Do disclosures include the federal income tax status of the plan? [AAG, par. 4.65; SOP 92-6, as amended, par. 64] ____ ____ ____

Practice Tip

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.

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. 4.75; SOP 92-6, as amended, par. 69] ____ ____ ____

2. If a decision is made to terminate the plan before the end of the year, have all benefits been determined on a liquidation basis? [AAG, par. 4.75; SOP 92-6, as amended, par. 69] ____ ____ ____

3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 4.75] ____ ____ ____

I. Related-Party Transactions

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 gain 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)] ____ ____ ____

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, pars. 2–4 (AC R36.102–.104)] ____ ____ ____

3. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)] ____ ____ ____

	Yes	No	N/A
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	____	____	____
5. 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*]	____	____	____

Practice Tip

ERISA defines a party-in-interest to include fiduciaries or employees of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization 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.95, fn. 27; ERISA sec. 3(14)]

J. Subsequent Events

	Yes	No	N/A
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence 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)?[7] [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05–.07 and .09 (AU 560.05–.07 and .09); AAG, par. 4.75; SOP 92-6, as amended, par. 69]	____	____	____
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, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
4. For those unusual or infrequent events or transactions identified in Question 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, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____

K. Transfers and Servicing of Financial Assets and Securitizations

	Yes	No	N/A
1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? [SFAS 140, par. 17a (AC F39.110a)]	____	____	____

2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during

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

	Yes	No	N/A
the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? [SFAS 140, par. 17d (AC F39.110b)]	____	____	____
3. For all servicing assets and servicing liabilities are the following disclosures made:			
a. The amounts of servicing assets or liabilities recognized and amortized during the period?	____	____	____
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	____	____	____
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140?	____	____	____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140, par. 17e (AC F35.102a)]	____	____	____
4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?	____	____	____
c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	____	____	____
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?	____	____	____
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price,			

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

	Yes	No	N/A
prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	____	____	____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under *b* above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	____	____	____
d. For the securitized assets and any other financial assets that it manages together with them:*			
(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	____	____	____
(2) Delinquencies at the end of the period?	____	____	____
(3) Credit losses, net of recoveries, during the period?	____	____	____
Disclosure of average balances during the period is **encouraged, but not required.** [SFAS 140, par. 17f-g (AC F39.110c–d)]			
Collateral			
6. *a.* If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140, par. 17a(2) (AC F39.110a)]	____	____	____
b. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140, par. 17a(3) (AC F39.110a)]	____	____	____
c. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140, par. 17(a)(3) (AC F39.110a)]	____	____	____
L. 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. 4.19 and 4.21; SOP 92-6, as amended, pars. 19 and 22]	____	____	____
2. Do disclosures include the funding policy of the plan and any changes in such policy during the plan year? [AAG, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____

* Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

	Yes	No	N/A
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, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
b. For a contributory plan, does the disclosure on funding policy state the method of determining participants' contributions? [AAG, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
c. If significant plan administration or related costs are being borne by the employer, is that fact disclosed? [AAG, par. 4.65, fn. 24; SOP 92-6, as amended, par. 64, fn. 27]	____	____	____
3. Is a description included of the portion of the plan's estimated cost of providing postretirement benefits funded by retiree contributions for each year for which a year-end statement of net assets available for benefits is presented?	____	____	____

Practice Tip

The plan's estimated cost of postretirement benefits is the plan's expected claims cost for the year. It excludes benefit costs paid by Medicare and costs, such as deductibles and copayments, paid directly to the medical provider by participants. The portion of the plan's estimated cost that is funded by retiree contributions is determined at the beginning of the year based on the plan sponsor's cost-sharing policy. In determining that amount, the retirees' required contribution for the year should be reduced by any amounts intended to recover a shortfall (or increased by amounts intended to compensate for an overcharge) in attaining the desired cost-sharing in prior year(s). [AAG, par. 4.65, fn. 25; SOP 92-6, as amended, par. 64, fn. 28]

	Yes	No	N/A
a. If the plan terms provide that a shortfall in attaining the intended cost sharing in the prior year(s) is to be recovered by increasing the retiree contribution in the current year, is that incremental contribution separately disclosed?	____	____	____
b. If the plan terms provide that participant contributions in the current year are to be reduced by the amount by which participant contributions in prior year exceeded the amount needed to attain the desired cost-sharing, is the resulting reduction in the current year contribution separately disclosed?	____	____	____
c. Is the information about retiree contributions provided for each significant group of retired participants to the extent their contributions differ? [AAG, par. 4.65; SOP 01-2, par. 25; SOP 92-6, as amended, par. 64]	____	____	____
4. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? [AAG, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
5. 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. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
6. 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. 4.65; SOP 92-6, as amended, par. 64]	____	____	____

	Yes	No	N/A
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, par. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
7. 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. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
8. 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. 4.65; SOP 92-6, as amended, par. 64]	____	____	____
9. 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. 4.65; SOP 92-6, as amended, par. 64]	____	____	____

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. 13.19 and App. A, par. A.23]	____	____	____

Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category ("large plan"or "small plan") as was filed for the previous year. The Form 5500 is filed with the EBSA in Lawrence, Kansas, in accordance with the instructions to the form. (See FSP section 10,000.23–.26 for a discussion about the Form 5500.)

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?	____	____	____

	Yes	No	N/A
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, pars. A.50*a* and A.51*c*]	____	____	____

Practice Tip

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan and not as assets of the health and welfare benefit plan, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. Additionally, any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year) and Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan. [SOP 99-2, par. 16; AAG, par. 4.58; SOP 92-6, par. 57]

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. The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting is standardized in that some of these schedules are required to be reported on Schedule G, "Financial Transactions Schedules" of Form 5500. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

Practice Tip

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

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a. The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown here and is it clearly labeled Schedule H, line 4i—Schedule of Assets (Held at End of Year)? (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 year.) [AAG, App. A, Exhibit A-1]	____	____	____

Yes No N/A

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value

Practice Tip

Participant loans may be aggregated and presented with a general description of terms and interest rates. In column (d), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

b. The Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year) (see 2520.103-11). Is the schedule clearly labeled Schedule H, line 4i— Schedule of Assets (Acquired and Disposed of Within the Plan Year) and does it use the following format? [AAG, App. A, Exhibit A-1] ____ ____ ____

(a) Identity of issue, borrower, lessor or similar party	(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(c) Cost of acquisitions	(d) Proceeds of dispositions

Practice Tip

In column (c), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

c. The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled Schedule H, line 4j—Schedule of Reportable Transactions and does it use the following format? [AAG, App. A, Exhibit A-1] ____ ____ ____

(a) Identity of party involved	(b) Description of asset (include interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)

Practice Tip

Participant or beneficiary directed transactions under an individual account plan should not be taken into account for purposes of preparing this schedule. The current value of all assets of the plan, including those resulting from participant direction, should be included in determining the 5 percent figure for all other transactions.

d. Are the following schedules reported on Schedule G, *Financial Transactions Schedules*, of the Form 5500:

(1) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible? ____ ____ ____

(2) Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible? ____ ____ ____

(3) Schedule G, Part III—Nonexempt Transactions? [AAG, App. A, Exhibit A-1] ____ ____ ____

Yes *No* *N/A*

Practice Tips

Beginning with the 2003 Form 5500, information on delinquent participant contributions reported on Line 4a is no longer also reported on Line 4d or Schedule G. This will simplify reporting of information on delinquent participant contributions. It does not, however, change the fact that all delinquent participant contributions required to be reported on Line 4a, except those for which the DOL VFCP requirements have been met and the conditions of PTE 2002-51 have been satisfied, are nonexempt prohibited transactions.

The requirement may be satisfied by including an attachment in the Form 5500 report labeled "Line 4a—Schedule of Delinquent Participant Contributions" that sets forth the information on Line 4a regarding total aggregate delinquency for the plan year and the subtotal that constitutes nonexempt prohibited transactions. As noted above, in calculating this subtotal, plan administrators and IQPAs should understand that all delinquent participant contributions required to be reported on Line 4a are nonexempt prohibited transactions unless the delinquency has been corrected under the VFCP and the conditions of PTE 2002-51 have been satisfied. Further, the IQPA's report must include a statement on whether Line 4a and the scheduled information are presented fairly in all material respects in relation to the basic financial statements taken as a whole.

For further guidance see the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA Web site at http://www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

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, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 15 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year. [AAG, App. A, par. A.51, fn. 20]

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 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2004)
AR =	Reference to section number in AICPA *Professional Standards* (vol. 2)
AU =	Reference to section number in AICPA *Professional Standards* (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
SAS =	AICPA Statement on Auditing Standards
PCAOB =	Public Company Accounting Oversight Board

.03 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	____	____	____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	____	____	____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	____	____	____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	____	____	____
5. Does the auditor's report include:			
a. A title that includes the word independent? [SAS 58, par. 8a (AU 508.08*a*)]	____	____	____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08*b*)]	____	____	____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08*c*)]	____	____	____

	Yes	No	N/A
d. **(Audits of Non-Public Companies Only)** A statement that the audit was conducted in accordance with generally accepted auditing standards and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted audited standards)? [SAS 58, as amended, par. 8d (AU 508.08*d*)]	____	____	____
e. **(Audits of Public Companies Only—Including 11-K Filings)** A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)? [PCAOB Auditing Standard No. 1, App., par. 3]	____	____	____
f. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08*e*)]	____	____	____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08*f*)]	____	____	____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08*g*)]	____	____	____
i. An opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America? [SAS 58, as amended, par. 8h (AU 508.08*h*)]	____	____	____
or			
j. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:			
(1) Does the report include a paragraph that:			
(i) States the basis of presentation and refers to the note to the financial statements that describes the basis?	____	____	____
(ii) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?	____	____	____
(iii) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	____	____	____
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(i) Disclose (in an explanatory paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	____	____	____

	Yes	No	N/A
(ii) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [SAS 62, par. 5d and e (AU 623.05*d* and *e*)]	____	____	____
k. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08*i*)]	____	____	____
l. The date (or dual dates)[1] of the audit report? [SAS 58, par. 8j (AU 508.08*j*)]	____	____	____

Practice Tip

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

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the related financial statements, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, as amended, pars. 3–5 (AU 530.03–.05)]	____	____	____
7. If the accountant is not independent, is a compilation report indicating the lack of independence issued **(Non-public companies only)**? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	____	____	____
8. 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)]	____	____	____
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. 13.08–13.18]	____	____	____

Practice Tip

The Guide 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]

Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	____	____	____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11*a*, .12, and .13)]	____	____	____
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated			

[1] If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]

	Yes	No	N/A
by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11*b* and .15)]	____	____	____
11. If there is substantial doubt about the plan's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	____	____	____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the plan's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11*c*); SAS 59, as amended, par. 12 (AU 341.12)]	____	____	____

Practice Tips

During the audit of an employee benefit plan, the auditor may become aware that the plan sponsor may not be able to continue as a going concern. Although the employee benefit plan's going concern assessment is not automatically affected by the plan sponsor's financial adversities, the auditor should address whether those difficulties pose any imminently potential impact on the plan.
[AAG, par. 5.62]

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 an example. [SAS 59, as amended, par. 13 (AU 341.13)]

	Yes	No	N/A
12. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	____	____	____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended, pars. 11d and 16 (AU 508.11*d* and .16)]	____	____	____
c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? (***Note***: A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.) [SAS 88, par. 8 (AU 420.08)]	____	____	____

Practice Tip

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. [Interpretation 10 of SAS 1, sec. 420 (AU 9420.64 and .65); AAG, par. 13.24]

	Yes	No	N/A
13. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	____	____	____

	Yes	No	N/A
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	____	____	____
(2) The type of opinion previously expressed?	____	____	____
(3) The circumstances or events that caused the auditor to express a different opinion?	____	____	____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended, pars. 11e and 69 (AU 508.11*e* and .69)]	____	____	____
14. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	____	____	____
(2) The date of the predecessor auditor's report?	____	____	____
(3) The type of report issued by the predecessor auditor?	____	____	____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	____	____	____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended, pars. 11e and 74 (AU 508.11*e* and .74)]	____	____	____
15. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11*g*); SAS 52, par. 8 (AU 558.08)]	____	____	____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11*h*); SAS 8, par. 4 (AU 550.04)]	____	____	____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	____	____	____

	Yes	No	N/A
18. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG, par. 13.38]	____	____	____
b. If the financial statements are presented along with the financial statements for a period prior to the adoption of the liquidation basis, does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis? [AAG, par. 13.38; Interpretation 8 of SAS 58 (AU 9508.35)]	____	____	____

Practice Tip

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
19. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? [SAS 58, as amended, par. 22 (AU 508.22)]	____	____	____
20. If a qualified opinion is to be expressed because of a scope limitation:			
a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*?	____	____	____
c. Is the situation described and referred to in both the scope and opinion paragraphs?	____	____	____
d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? [SAS 58, as amended, pars. 22–27 (AU 508.22–.27)]	____	____	____

Practice Tips

Scope limitations include situations in which 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, par. 31 (AU 508.31)]

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan's information system, and the service organization's controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation. [SAS 70, as amended, par. 10 (AU 324.10)]

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
21. If an opinion is disclaimed because of a scope limitation:			
a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?	____	____	____
b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?	____	____	____
c. Does the report avoid identifying procedures that were performed?	____	____	____
d. Is the scope paragraph omitted?	____	____	____
e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended, par. 63 (AU 508.63)]	____	____	____
22. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion?[2] [SAS 58, as amended, par. 35 (AU 508.35)]	____	____	____
23. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of* and a reference to the explanatory paragraph?	____	____	____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended, pars. 37 and 38 (AU 508.37 and .38)]	____	____	____
24. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	____	____	____
c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP? [SAS 58, as amended, pars. 58 and 59 (AU 508.58 and .59)]	____	____	____

[2] 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, pars. 46–49 (AU 508.46–.49)]

	Yes	No	N/A
25. 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. 13.25–13.29]	____	____	____

Practice Tip

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.

	Yes	No	N/A
26. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States 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. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	____	____	____
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [SAS 29, par. 6 (AU 551.06)]	____	____	____
e. State that the supplemental schedules are the responsibility of the plan's management? (***Recommended but not a required disclosure.***) [AAG, par. 13.10]	____	____	____

Practice Tip

Question 26 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103–8. In these situations, see Question 25 above and AAG, paragraph 13.25.

	Yes	No	N/A
27. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed? [AAG, App. A, par. A.50*a*, fn. 18]	____	____	____
b. Does it indicate the city and state where issued? [AAG, App. A, par. A.50*a*, fn. 18]	____	____	____
c. Does it identify the statements and schedules covered? [AAG, App. A, par. A.50*a*, fn. 18]	____	____	____
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 the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG, App. A, par. A.50*a*; DOL Regulations, sec. 29 CFR 2520]	____	____	____

	Yes	No	N/A
g. 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]	____	____	____

Practice Tip

SAS 87, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

FSP Section 10,400

Illustrative Financial Statements and Auditor's Reports

.01 This section contains illustrations of the following auditor's reports:

- Health and Welfare Benefit Plan—Unqualified Opinion
- Health and Welfare Benefit Plan—Limited-Scope Audit

.02 This section also illustrates certain applications of the provisions of chapter 4 of the Audit and Accounting Guide *Employee Benefit Plans* (the Guide), as amended by SOP 99-2, *Accounting and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans*, and SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans*, that apply for the annual financial statements of the following hypothetical pension plans:

- Allied Industries Health Care Benefit Plan—a multiemployer defined benefit health and welfare plan that provides an example of financial reporting where retirees contribute a portion of the cost for their medical coverage
- Classic Enterprises Benefit Plan—a single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information
- C&H Company Welfare Benefit Plan—a health and welfare benefit plan that includes retiree health benefits that are funded partially through a 401(h) account in the plan sponsor's defined benefit pension plan
- ABC Company Supplemental Unemployment Benefit Plan—a multiemployer plan that provides postemployment benefits to covered employees

It does not illustrate other provisions of chapter 4 of the Guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133, as amended.

.03 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.04 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor.

The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of a Health and Welfare Benefit Plan.

.05

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 Health Care Benefit Plan as of December 31, 20X1 and 20X0, 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, 20X1. 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 auditing standards generally accepted in the United States of America. 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, 20X1 and 20X0, and the changes in its financial status for the year ended December 31, 20X1 in conformity with accounting principles generally accepted in the United States of America.

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. These supplemental schedules are the responsibility of the Plan's management. 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.[1]

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG, pars. 13.07, 13.10, and 13.11]

[1] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

.06

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 Health Care Benefit Plan as of December 31, 20X1 and 20X0, and for the years then ended, as listed in the accompanying index. These financial statements and supplemental 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 (or custodian) 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 (or custodian) 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, 20X1 and 20X0, 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 supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America 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 are illustrative financial statements for a multi-employer health and welfare benefit plan that has adopted SOP 92-6, as amended by SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans.* These illustrative financial statements display a health and welfare benefit plan where the retirees contribute a portion of the cost for their medical coverage.

.07

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statements of Net Assets Available for Benefits[2]

December 31, 20X1 and 20X0

	20X1	*20X0*
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.

.08

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 20X1

	20X1
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.

.09

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statements of Plan's Benefit Obligations

December 31, 20X1 and 20X0

	20X1	*20X0*
Amounts currently payable		
Claims payable, claims incurred but not reported, and premiums due to insurers	$ 1,200,000	$ 1,050,000
Postemployment benefit obligations, net of amounts currently payable		
Death and disability benefits for inactive participants	1,350,000	1,000,000
Postretirement benefit obligations, net of amounts currently payable		
Retired participants	2,000,000	1,900,000
Other participants fully eligible for benefits	4,000,000	3,600,000
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.

.10

ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Statement of Changes in Plan's Benefit Obligations

Year Ended December 31, 20X1

	20X1
Amounts currently payable	
Balance at beginning of year	$ 1,050,000
Claims reported and approved for payment, including benefits reclassified from benefit obligations	16,920,000
Claims paid	(16,770,000)
Balance at end of year	1,200,000
Postemployment benefit obligations, net of amounts currently payable	
Balance at beginning of year	1,000,000
Increase (decrease) in postemployment benefits attributable to:	
Benefits earned	600,000
Benefits reclassified to amounts currently payable	(450,000)
Interest	90,000
Changes in actuarial assumptions and other actuarial gains and losses	110,000
Balance at end of year	1,350,000
Postretirement benefit obligations, net of amounts currently payable	
Balance at beginning of year	9,665,000
Increase (decrease) in postretirement benefits attributable to:	
Benefits earned	1,150,000
Benefits reclassified to amounts currently payable	(650,000)
Interest	750,000
Plan amendment	(175,000)
Changes in actuarial assumptions and other actuarial gains and losses	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.

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ALLIED INDUSTRIES HEALTH CARE BENEFIT PLAN

Notes to Financial Statements

Note 1: Description of Plan

The following description of the Allied Industries Health Care 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 20X1 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, 20X2. The amendment will not affect participating employers' contributions to the Plan in 20X2 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, 20X5). Employees may contribute specified amounts, determined periodically by the Plan's actuary, to extend coverage to eligible dependents. The costs of the postretirement benefit plan are shared by the Plan's participating employers and retirees. In addition to deductibles and copayments, participant contributions in the current (and prior, if applicable) year were as follows:

Participants Retiring	*20X1 Retiree Contribution*	*20X0 Retiree Contribution*
(1) Pre-1990	(1) None	(1) None
(2) 1990–1994	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits*	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits
(3) 1995–1999	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 60% of the estimated cost)	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 50% of the estimated cost)
(4) 2000 and after	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits

* Excluding $15 per month per capita increase in 20X1 due to adverse claims experience in 20X0.

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, liabilities, benefit obligations, and changes therein, IBNR, eligibility credits, claims payable, and disclosure of contingent assets and liabilities. 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 amount reported as the postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed by the terms of the plan to employees' service rendered to the date of the financial statements, reduced by the actuarial present value of contributions expected to be received in the future from current plan participants. Postretirement benefits include future benefits expected to be paid to or 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 participating employers. The postretirement benefit obligation represents the amount that is to be funded by contributions from the plan's participating employers and from existing plan assets. 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 20X2; the rate was assumed to decrease gradually to 8.0 percent for 20X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 20X1.

The following were other significant assumptions used in the valuations as of December 31, 20X1 and 20X0.

Weighted-average discount rate	8.0%—20X1; 8.25%—20X0
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, 20X1 and 20X0, relates primarily to the postretirement benefit obligation, the funding of which is not covered by the contribution rate provided by the current 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, 20X1 and 20X0, 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 20X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 as follows:

	20X1		*20X0*
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*	*Fair Value at End of Year*
Fair value as determined by quoted market price:			
U.S. government securities	$200,000	$5,000,000	$4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	1,375,000
Common stocks	100,000	1,000,000	600,000
	275,000	7,750,000	$5,975,000
Fair value as estimated by Plan's board of trustees:			
Corporate bonds	25,000	250,000	225,000
	$300,000	$8,000,000	$6,200,000

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

	20X1	*20X0*
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 20X6 ($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	
	20X1	*20X0*
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, 20X1
Benefits paid to participants per the financial statements	$16,770,000
Add: Amounts currently payable at December 31, 20X1	1,200,000
Less: Amounts currently payable at December 31, 20X0	(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.

Note 7: Risks and Uncertainties

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

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

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

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CLASSIC ENTERPRISES BENEFIT PLAN

Statements of Benefit Obligations and Net Assets Available for Benefits

December 31, 20X1 and 20X0

	20X1	*20X0*
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.

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CLASSIC ENTERPRISES BENEFIT PLAN

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

Year Ended December 31, 20X1

	20X1
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 20X0 received on 20X1	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.

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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 20X1 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, 20X1. The amendment is not expected to significantly affect the Sponsor's contribution to the Plan in 20X2.

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, liabilities, benefit obligations, and changes therein, IBNR, eligibility credits, claims payable, and disclosure of contingent assets and liabilities. 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, 20X1, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X2; the rate was assumed to decrease gradually to 8.0 percent for 20X7 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 20X0.

The following were other significant assumptions used in the valuations as of December 31, 20X1 and 20X0.

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, 20X1 and 20X0, principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

	20X1	*20X0*
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, 20X1 and 20X0, 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 20X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 as follows:

	20X1		20X0
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*	*Fair Value at End of Year*
Fair value as determined by quoted market price:			
U.S. government securities	$200,000	$5,000,000	$4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	1,375,000
Common stocks	100,000	1,000,000	600,000
	275,000	7,750,000	$5,975,000
Fair value as estimated by			
Classic Enterprise Benefits Plan Investment Committee:			
Corporate bonds	25,000	250,000	225,000
	$300,000	$8,000,000	$6,200,000

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

	20X1	*20X0*
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 20X6 ($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,	
	20X1	*20X0*
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, 20X1
Insurance premiums paid per the financial statements	$16,815,000
Add: Amounts due insurance companies at December 31, 20X1	1,200,000
Less: Amounts due insurance companies at December 31, 20X0	(1,000,000)
Insurance premiums paid for participants per the Form 5500	$17,015,000

Note 7: Risks and Uncertainties

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

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

Paragraphs .15–.19 illustrate certain applications of the provisions of SOP 99-2 that apply for the annual financial statements of a hypothetical health and welfare benefit plan that is funded in part through a 401(h) feature of a defined benefit pension plan.

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C&H COMPANY WELFARE BENEFIT PLAN

Statement of Net Assets Available for Plan Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value		
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
Net assets held in C&H Company defined benefit plan—restricted for 401(h) account (Notes A and E)	1,072,000	966,000
Receivables		
Employer contribution	500,000	430,000
Employee contributions	100,000	80,000
Accrued interest and dividends	50,000	40,000
Total receivables	650,000	550,000
Cash	110,000	115,000
Total assets	9,832,000	7,831,000
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 plan benefits	$9,557,000	$7,566,000

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

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C&H COMPANY WELFARE BENEFIT PLAN

Statement of Changes in Net Assets Available for Plan Benefits

	For the Year Ended December 31, 20X1
Additions	
Contributions	
Employer contributions	$15,000,000
Employee contributions	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 expense	15,000
Net investment income	835,000
Net increase in 401(h) account (Note E)	106,000
Total additions	18,941,000
Deductions	
Benefits paid directly to participants:	
Health care	16,000,000
Disability and death	770,000
Total benefits paid	16,770,000
Administrative expenses	180,000
Total deductions	16,950,000
Net increase during the year	1,991,000
Net assets available for benefits:	
Beginning of year	7,566,000
End of year	$ 9,557,000

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

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C&H COMPANY WELFARE BENEFIT PLAN

Statement of Benefit Obligations

	For the Year Ended December 31, 20X1	*For the Year Ended December 31, 20X0*
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
Total amounts currently payable	1,200,000	1,050,000
Other obligations for current benefit coverage, at present value of estimated amounts		
Claims incurred but not reported	425,000	390,000
Long-term disability benefits	925,000	610,000
Total other obligations for current benefit coverage	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
Total postretirement benefit obligations	11,000,000	9,665,000
Total benefit obligations	$13,550,000	$11,715,000

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

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C&H COMPANY WELFARE BENEFIT PLAN

Statement of Changes in Benefit Obligations

	For the Year Ended December 31, 20X1
Amounts currently payable to or for participants, beneficiaries, and dependents	
Balance, beginning of year	$ 1,050,000
Claims reported and approved for payment	16,930,000
Claims paid (including disability)	(16,770,000)
Claims paid through 401(h) account (Note E)	(10,000)
Balance, end of year	1,200,000
Other obligations for current benefit coverage, at present value of estimated amounts	
Balance, beginning of year	1,000,000
Net change during year:	
Long-term disability benefits	315,000
Other	35,000
Balance, end of year	1,350,000
Total obligations other than postretirement benefit obligations	2,550,000
Postretirement benefit obligations	
Balance, 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, end of year	11,000,000
Total benefit obligations, end of year	$ 13,550,000

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

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C&H COMPANY WELFARE BENEFIT PLAN

Notes to Financial Statements

Note A: 401(h) Account

Effective January 1, 20X0, the [*Company's defined benefit pension plan*] was amended to include a medical-benefit component in addition to normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with Section 401(h) of the Internal Revenue Code (IRC). A separate account has been established and maintained in the [*defined benefit pension plan*] for such contributions. In accordance with IRC Section 401(h), the Plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. The related obligations for health benefits are not included in the [*defined benefit pension plan's*] obligations in the statement of accumulated plan benefits but are reported as obligations in the financial statements of the [*health and welfare benefit plan*].

Note E: 401(h) Account

A portion of the Plan's obligations are funded through contributions to the Company's [*defined benefit pension plan*] in accordance with IRC Section 401(h). The following table presents the components of the net assets available for such obligations and the related changes in net assets available.

Net Assets Available for Postretirement
Health and Welfare Benefits in 401(h) Account

	December 31,	
	20X1	*20X0*
Investments at fair value:		
U.S. government securities	$ 140,000	$ 150,000
Money market fund	900,000	800,000
	1,040,000	950,000
Cash	20,000	10,000
Employer's contribution receivable[3]	20,000	15,000
Accrued interest	7,000	6,000
Total assets	1,087,000	981,000
Accrued administrative expenses	(15,000)	(15,000)
Net assets available	$1,072,000	$ 966,000

Changes in Net Assets in 401(h) Account

	For the Year Ended December 31, 20X1
Net appreciation in fair value of investments:	
U.S. government securities	$10,800
Interest	80,200
	91,000
Employer contributions	40,000
Health and welfare benefits paid to retirees	(10,000)
Administrative expenses	(15,000)
Net increase in net assets available	$106,000

[3] A receivable from the employer must meet the requirements of paragraph 10 of SFAS 35, *Accounting and Reporting by Defined Pension Plans.*

Note H: Reconciliation of Financial Statements to Form 5500[4]

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

Net assets available for benefits per the financial statements	$ 9,557,000
Claims payable	(1,200,000)
Net assets held in defined benefit plan-401(h) account	(1,072,000)
Net assets available for benefits per Form 5500	$ 7,285,000

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

Claims paid per the financial statements	$16,770,000
Add: Amounts payable at December 31, 20X1	1,200,000
Less: Amounts payable at December 31, 20X0	(1,050,000)
Claims paid per Form 5500	$16,920,000

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

Total additions per financial statements	$18,941,000
Less: Net increase in 401(h) net assets available	(106,000)
Net additions per Form 5500	$18,835,000

[4] The reconciliation of amounts reported in plan financial statements to amounts reported in Form 5500 is required by ERISA.

Paragraphs .20–.22 illustrate the financial statements of a multiemployer health and welfare benefit plan that provides postemployment benefits to covered employees. These illustrative financial statements are from SOP 01-2, *Accounting and Reporting by Health and Welfare Benefit Plans.*

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SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN FOR EMPLOYEES OF ABC COMPANY ESTABLISHED PURSUANT TO AGREEMENT WITH UNITED WORKERS OF AMERICA

Statements of Net Assets Available for Benefits

December 31, 20X1 and 20X0

	December 31,	
	20X1	*20X0*
Assets		
Investments	$10,605	$ 80,750
Cash and cash equivalents	1,025	19,400
Accrued interest receivable	100	125
Total assets	11,730	100,275
Liability		
Accrued investment trustee fees	265	265
Net assets available for benefits	$11,465	$100,010

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

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SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN FOR EMPLOYEES OF ABC COMPANY ESTABLISHED PURSUANT TO AGREEMENT WITH UNITED WORKERS OF AMERICA

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 20X1

Additions	
Contributions	$1,366,065
Interest income	1,960
Total additions	1,368,025
Deductions	
Benefit payments	1,455,460
Investment trustee fees	1,110
Total deductions	1,456,570
Net decrease during the year	(88,545)
Net assets available for benefits	
Beginning of year	100,010
End of year	$ 11,465

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

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SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN FOR EMPLOYEES OF ABC COMPANY ESTABLISHED PURSUANT TO AGREEMENT WITH UNITED WORKERS OF AMERICA

Notes to Financial Statements

Note 1: Description of Plan

In connection with a negotiated contract, the Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America (the Plan) provides for payment of supplemental unemployment benefits to covered employees who have completed two years of continuous service. Payments are made to (*a*) employees on layoff and (*b*) certain employees who work less than 32 hours in any week. The following description is provided for general information purposes. The Plan document should be referred to for specific information regarding benefits and other Plan matters.

Note 2: Summary of Accounting Policies

Basis of Accounting. The financial statements of the Plan are prepared under the accrual method of accounting.

Investment Valuation. The Plan's investments consist of shares of a money market portfolio. The investments are reported at fair value.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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.

Benefit Obligations. The Plan's obligation for accumulated eligibility credits is discounted using a weighted-average assumed rate of 7½ percent.

Note 3: Funding and Operation of the Plan

Funding of the Plan. Contributions funded by ABC Company, the Plan's sponsor, pursuant to the Plan are invested in assets held in a trust fund (the Fund). General Bank, the trustee of the Fund (the Trustee), invests the Fund's money as set forth in the Plan document. Investments consist of money market funds and are reported in the accompanying financial statements at fair value. Interest income from investments is recognized when earned.

Administration. The ABC Company Benefit Plan Administrative Committee has responsibility for administering the Plan. The ABC Company Benefit Plan Asset Review Committee has responsibility for the management and control of the assets of the Trust.

Benefits Under the Plan. The Plan provides for the payment of weekly and short-week supplemental unemployment benefits. The benefits payable are reduced by any state unemployment benefits or any other compensation received. Also, a "waiting-week" benefit of $100 will be payable if a participant fails to receive a state unemployment benefit solely because of the state's waiting-week requirement. Benefits paid for any week for which the employee received state unemployment benefits are limited to $180. Benefits paid for all other weeks are limited to $235. The Plan provides for a possible reduction of weekly benefits for employees with less than twenty years of service based upon a percentage determined generally by dividing the net assets of the Plan, as defined in the Plan document, by the "maximum financing" (see "ABC's Obligations Under the Plan"). Employees earn one-half credit unit for each week in which hours are worked or, in some situations, in which hours are not worked (vacation, disability, serving on grievance committee, and so on) up to a maximum of fifty-two credit units for employees with less than twenty years of service and 104 credit units for employees with twenty or more years of service. Generally, one credit unit is canceled for each weekly benefit paid and one-half credit unit is canceled for each short-week benefit paid.

ABC's Obligations Under the Plan. The "maximum financing" of the Plan at any month end is the lesser of (*a*) the product of \$.40 and the number of hours worked by covered employees during the first twelve of the fourteen months next preceding the first day of the month and (*b*) 100 times the sum of the monthly benefits paid for the sixty of the preceding sixty-two months divided by sixty. ABC's monthly contribution to the Plan is computed as the lesser of (*a*) the product of \$.175 and the number of hours worked by covered employees in the month and (*b*) the amount that, when added to the net assets of the Plan, as defined by the Plan document, as of the end of the preceding month, will equal the "maximum financing." In addition, ABC contributes an income security contribution of \$.25 per hour worked by covered employees in the month. In the event of a plan deficit, ABC intends to make sufficient contributions to fund benefits as they become payable.

The following tables present the components of the plan's benefit obligations and the related changes in the plan's benefit obligations.

Benefit Obligations
December 31, 20X1 and 20X0

	20X1	*20X0*
Accumulated eligibility credits and total benefit obligations	\$1,107,777	\$1,095,620

Changes in Benefit Obligations
Year Ended December 31, 20X1

Benefit obligations, beginning of year	\$1,095,620
Benefits earned	1,390,330
Interest	77,287
Claims paid	(1,455,460)
Benefit obligations, end of year	\$1,107,777

Plan Expenses. ABC bears all administrative costs, except trustee fees, that are paid by the Plan.

Note 4: Tax Status

The Plan obtained its latest determination letter in 1990, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. Plan management and Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Note 5: Transactions with Parties in Interest

ABC provides to the Plan certain accounting and administrative services for which no fees are charged.

Note 6: Termination of the Plan

Under certain conditions, the Plan may be terminated. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Plan then in effect and shall be used until exhausted to pay benefits to employees in the order of their entitlement.

Note 7: Risks and Uncertainties

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

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

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