Industry Developments and Alerts

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AN AICPA INDUSTRY AUDIT GUIDE

AUDITS OF EMPLOYEE HEALTH AND WELFARE BENEFIT FUNDS

Prepared by the Committee on Health, Welfare and Pension Funds of the American Institute of CPAs

NOTICE TO READERS

This audit guide is published for the guidance of members of the Institute in examining and reporting on financial statements of employee health and welfare benefit funds. It represents the considered opinion of the Committee on Health, Welfare and Pension Funds and as such contains the best thought of the profession as to the best practices in the industry. Members should be aware that they may be called upon to justify departures from the Committee's recommendations.

Committee on Health, Welfare and Pension Funds (1970-71)

AUDITS OF EMPLOYEE HEALTH AND WELFARE BENEFIT FUNDS

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Preface

This guide has been prepared to provide direction to independent auditors engaged to examine and report upon financial statements of employee health and welfare benefit funds. Pension funds are intended to be the subject of a separate audit guide.

Generally accepted auditing standards and, for the most part, generally accepted accounting principles for commercial enterprises are applicable to employee health and welfare benefit funds covered in this guide. Not all of these standards and principles are discussed herein; rather, the guide deals with those accounting, auditing, and reporting matters unique to such funds.

Committee on Health, Welfare and Pension Funds

February 1972

General

Growth of Employee Health and Welfare Benefit Plans

Prior to the 1940's, plans to provide employees with fringe benefits were established voluntarily by employers, and it was common practice for the employees to contribute to funds created by the plans. Federal income tax laws permitting employer tax deductions for the cost of such benefits without accompanying taxation to employee beneficiaries gave rise to the growth of these plans. The National Labor Relations Act of 1947, in acknowledging that health and welfare benefits were a valid subject of collective bargaining, gave impetus to the growth of benefit plans negotiated by labor unions and management representatives. As employee benefit plans continue to grow in number, it may be expected that a wider variety of benefits will be made available to participants and their dependents.

Governmental and Other Influences on Financial Reporting of Health and Welfare Funds

In 1957, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) issued a "Code of Ethical Practices" stressing, among other things, the need for maintenance of adequate accounting records and for examinations of financial statements by independent accountants.

The 1958 Welfare and Pension Plans Disclosure Act, as amended, requires most Employee Health and Welfare Benefit

Funds to file the following reports with the U.S. Department of Labor:

1. An initial description of the plan (Form D-1)
2. A description of any subsequent amendments to the plan (Form D-1A)
3. An annual report on the fund's financial and nonfinancial activities (Form D-2)

The Internal Revenue Code generally exempts employee health and welfare benefit funds from federal income taxes, but requires the filing of annual information returns. Such funds may also be subject to state regulations and reporting requirements. The independent auditor should familiarize himself with applicable federal and state regulations to determine the necessary reporting requirements for funds which he will be auditing.

Description of Employee Health and Welfare Benefit Plans

The plans covered in this guide provide benefits which are usually funded by contributions made to a separate trust fund. Participants in these plans may, under specified conditions, continue their participation following termination of employment. Such plans may also provide benefits to participants' dependents.

A description of the more common types of plans covered by this guide are as follows:

1. Health plans providing for hospital expenses, diagnostic X-ray and laboratory fees, surgical and medical fees, medicines and drugs, major medical insurance, life insurance, and accidental death and dismemberment benefits. Such plans may also provide for dental care, visual care, psychiatric care, and preventive medical examinations.
2. Disability plans providing benefits during periods of inability to work because of physical incapacity from illness or injury.
3. Vacation and holiday plans providing for cash benefits to cover time off for vacation purposes.
4. Apprenticeship, educational, and similar plans.

The participants in such plans may be those of a single employer or of several employers. Contributions by an employer may be voluntary or may be required under the terms of a collective bargaining agreement negotiated between one or more employers and one or more labor organizations.

Contributions may be required from employers and participants (contributory plans) or from employers only (noncontributory plans). A noncontributory plan may contain a provision for self-payment of contributions by participants to maintain their eligibility for benefits during periods of unemployment.

Benefits are either paid out of a fund of accumulated contributions and income (a self-insured fund) or are provided through insurance with an insurance company (an insured fund).

Administration of Employee Health and Welfare Benefit Funds

The employee health and welfare benefit fund operates as a separate legal and tax entity. When established pursuant to the terms of a collective bargaining agreement, the fund will generally be administered under a declaration of trust providing for administration by a joint board of trustees composed of an equal number of employer and union representatives.

Under the Welfare and Pension Plans Disclosure Act, the term "administrator" is defined to mean "(1) the person or persons designated by the terms of the plan or the collective bargaining agreement with responsibility for the ultimate control, disposition, or management of the money received or contributed; or (2) in the absence of such designation, the person or persons actually responsible for the control, disposition, or management of the money received or contributed, irrespective of whether such control, disposition, or management is exercised directly or through an agent or trustee designated by such person or persons" (Sec. 5(b) of the Act of Congress).

The board has the continuing responsibility for operation of the fund in accordance with the collective bargaining agreement, trust instrument, operational guidelines as set forth in minutes of board meetings, and all applicable federal and state laws.

It is the responsibility of the board to formulate the scale of benefits and the specific benefit program to be made available. An insured program of benefits, a self-insured program, or a combination of both may be adopted. The trustees also determine when the participant and their dependents are eligible for benefits. There are any number of variations in eligibility rules which may be set forth in the plan agreements, insurance contracts, or in the minutes of meetings of the board of trustees. Insurance consultants and other advisors are frequently retained to assist the board in determining benefit scales and eligibility rules.

The board also has overall responsibility for administering the collection of contributions, payment of benefits, safeguarding the fund's cash and investments, maintaining appropriate fund records, and preparing necessary reports.

While retaining responsibility for the overall direction of the fund, the board of trustees generally delegates the fund's day-to-day administration to one of the following:

- An insurance consultant and/or insurance carrier
- A bank trust department
- An independent contractual administrator
- An employed administrator

A combination of administrative facilities may be used. An administrator may collect the contributions, certify to the claimant's eligibility, and perform other administrative functions, while an insurance consultant or insurance company pays the claims. In other cases, the administrative office, acting as agent for the insurance company, may pay claims by issuing checks drawn on the insurance company's bank account.

Administrative fees should be authorized by the board of trustees pursuant to a written agreement. These administrative fees may be based on a percentage of contributions received and/or claims paid, based on a specified amount per eligible member per month, or on some other basis.

An administrative office may manage several trust funds for a single industry; for example, an employee health and welfare benefit fund, a vacation fund, and a pension fund. In this instance, some provision must be made for an equitable allocation of administrative expenses among the several trust funds, all of which are independent entities having their own assets, records, and reporting requirements.

Accounting Records

As with any commercial enterprise, the records of a fund should be designed to produce information necessary for effective management as well as to provide detailed information required for financial reporting. The basic accounting records for such funds normally conform to conventional methods adopted by other organizations; however, certain additional records which are peculiar to employee health and welfare benefit funds are generally required to be maintained. A description of these records follows:

1. *Employers' contribution records.* Periodic contribution reports and payments are due from employers pursuant to the collective bargaining agreement in the case of negotiated plans. Separate contribution records on a cash basis are maintained for each employer for the purpose of recording all payments, determining delinquencies, and accumulating the total annual contribution to be reported for each employer on Form D-2. Records are also generally maintained to follow up on delinquent contributions, contribution reports submitted without payment, and payments received without contribution reports.
2. *Participants' self-payment records.* If the plan has a self-payment provision for unemployed participants, a record must be maintained to control such self-payments.
3. *Participants' eligibility records.* Employer contribution reports list the participants for whom contributions are submitted. Whether eligibility is determined by hours worked or dollars earned or contributed, separate records must be maintained for each participant to determine his eligibility for benefits.
4. *Claim payment records.* Claim payment records fall into two categories: (1) a record of all claims paid during a period in order to permit statistical breakdown of types of claims and amounts paid and (2) a summary record of claims paid to each claimant to ascertain that benefit limits, if any, provided by the plan are not exceeded.

In the case of an insured plan, these records are memorandum records and not part of the accounting system. For a self-insured plan the information in (1) can be part of a separate claims cash disbursements record, with the information in (2) being part of the supporting detail of claims paid.

Vacation Funds

Amounts received from employers by a vacation fund are generally allocated directly to the participants for whom the contributions were made. Therefore, they are not generally regarded as revenue of the fund but as liabilities to the participants.

Contributions received will be accumulated in and benefits paid will be charged to a separate account for each year.

Expenses of administration are generally provided for by investment income. Accounts should be established for investment income and administrative expenses. Any excess of investment income over administrative expenses may be either carried forward to subsequent years, or distributed on some pro rata basis to participants, depending on action of the board of trustees.

Balances may remain in vacation fund accounts from prior years because of participants' failure to claim vacation benefits. Disposition of such balances will be governed by state laws and by action of the board of trustees based upon the advice of the fund's legal counsel.

Generally Accepted Accounting Principles

Generally accepted accounting principles for commercial enterprises are for the most part applicable to employee health and welfare benefit funds. The following discussions relate to those principles which are of particular importance to such funds.

Methods of Accounting

Many employee health and welfare benefit funds typically report on the cash or modified cash basis of accounting. In many cases, these methods result in an incomplete presentation since significant assets and liabilities, and their effect on results of operations, are excluded from the financial statements. This exclusion precludes the user from determining the proper financial position and results of operations. The fund's ability to provide benefits can best be determined by use of accrual basis accounting. The inclusion in the financial statements of such items as *contributions receivable*, premium deposits, accrued experience rating adjustments, insurance premiums payable, liabilities for accumulated eligibility credits, and liabilities for unpaid benefits will result in the reporting of significant information regarding financial position and results of operations not available under the cash basis of accounting.

Accounting Changes

The committee believes that in requiring the accrual method of accounting it has clarified generally accepted accounting principles for employee health and welfare benefit funds. The committee further believes that a fund should recognize this change in accounting principle by applying retroactively the accrual method and restating the financial statements of prior periods which are presented. Reference should be made to paragraphs 27 and 28 of APB Opinion No. 20 for a description of how to report an accounting change by retroactively restating the financial statements of prior periods.

In some cases, accrual basis assets and liabilities may be difficult to determine. However, these items normally can be either determined or reasonably estimated from the records of the fund or obtained from an insurance company, insurance consultants, or actuaries. In the event that reasonable estimates of accrued assets and liabilities cannot be made, the independent auditor may be precluded from expressing an unqualified opinion on the financial statements.

Estimates for all types of enterprises are necessary in accounting. Any revisions of estimates which are required in subsequent periods should be accounted for in accordance with paragraphs 31 through 33 of APB Opinion No. 20, "Accounting Changes."

Investments

Investments of most employee health and welfare benefit funds are generally short term in nature to preclude liquidity problems when there are major fluctuations in employer contributions or benefit payments.

Investments should be carried at cost, and gains and losses should be recognized in the year of sale. This method is in conformity with generally accepted accounting principles and is the one currently followed by most employee health and welfare benefit funds.

The accounting for marketable securities not having a fixed maturity date is currently under study by the Accounting Principles Board. Any future APB pronouncements on this subject may be applicable to investments of employee health and welfare benefit funds.

Contributions Receivable

Contributions due from employers at the balance sheet date should be reflected in the financial statements of employee health and welfare benefit funds.

Most employer contributions are on a self-assessment basis and are generally received the month after they accrue; that is, the employer is paying the contribution due for the work performed by the participant in the preceding month. For funds in which a limited number of employers are involved, it is relatively easy to determine the amount of the contributions due at month end. Determination of contributions receivable at any month end may require estimates if a fund has a large number of contributing employers. This estimate may be based primarily on contributions received by the fund in the subsequent months and may also include an amount for contributions known to be delinquent, together with the related penalties that may be imposed. An adequate allowance should be provided for estimated uncollectible amounts.

Premium Deposits

Premium deposits should be reported as assets of the employee health and welfare benefit fund until applied against future premiums or refunded. In the event that the insurance company can apply the deposit as payment of possible future contingent premiums, a determination should be made as to whether or not the deposit is an asset as of the balance sheet date. Disclosure of the nature of this type of deposit should be made in the financial statements.

Accrued Experience Rating Adjustments

Certain group insurance contracts covering employee benefit funds include a provision for the refund, at the end of the policy year, of the excess of premiums paid over paid claims, reserves required by the insurance company, and the insurance company's retention (fee). Often such experience rating refund (or dividend) is not determined by the insurance company for several months after year end. In this event, and in cases where the policy year does not coincide with the fund's fiscal year, it will be necessary to estimate the refund due, if any, at the balance sheet date.

Experience ratings, determined by the insurance company or by estimates, may also result in a premium deficit which should be recorded as a liability only in the event that the deficit will be applied against the amounts of future premium or experience rating refunds.

Property and Equipment

Buildings, equipment, furniture and fixtures, and leasehold improvements used in the operations of an employee health and welfare benefit fund represent costs chargeable to future periods. Therefore, they should be carried at cost and depreciated or amortized over their useful lives.

The financial statements should disclose the carrying basis of the properties, the nature of the assets by major class, the amount of accumulated depreciation and amortization, the method of depreciation and amortization used for each major class of assets, and the depreciation expense for the period.

Claims Reported But Not Paid and Claims Incurred But Not Reported

In an insured employee health and welfare benefit fund, claims reported but not paid and claims incurred but not reported will be paid by the insurance company, and therefore will not appear as a liability in the financial statements. The financial statements of a self-insured employee health and welfare benefit fund should include a liability for each of these items.

Claims reported but not paid may be determined from the records of the fund. The estimated liability for claims incurred but not reported is generally determined by the fund's insurance consultants or actuaries.

If a self-insured fund provides death benefits, the financial statements should also include an estimated liability for such benefits based upon determinations by the fund's insurance consultants or actuaries.

The estimated liability for claims reported but not paid, claims incurred but not reported, and the liability for future death benefits should be shown separately in the financial statements.

Insurance Premiums Payable

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

If the insurance policy contains a requirement for payment of additional contingent premiums in the event the loss ratio exceeds a specified percentage, provision for the estimated additional liability should be made in the financial statements.

Liability for Accumulated Eligibility Credits

The eligibility rules of some employee health and welfare benefit funds generally provide for the payment of insurance premiums or benefits for a period of time subsequent to the balance sheet date for those participants who have accumulated a sufficient number of eligibility credits or hours. Such rules permit eligible participants insurance coverage or benefits during periods of unemployment when employer contributions to the fund would not be sufficient to provide coverage or benefits. At the balance sheet date such accumulated eligibility credits represent a liability of the fund that has been incurred because of prior employer contributions and should be provided for in the financial statements.

The liability for accumulated eligibility credits determined under currently prevailing eligibility rules should be shown in the balance sheet as an obligation of the fund and not as a segregation of fund equity. Any change in the amount of the obligation from the last balance sheet date is a direct result of employer contributions earned during the year and should be either charged or credited to operations. The segregation of the obligation in the equity section of the balance sheet would preclude reflecting the required change in the statement of operations, and therefore would not permit a proper matching of revenue and expense.*

Fund Balance

The excess of the assets over liabilities of the employee health and welfare benefit fund should be classified in the financial statements as the fund balance. If the fund consists of several plans such as medical care, dental care, psychiatric care, and so forth, consideration should be given to segregating the respective fund balances. The changes in the fund balances should include only results of operations for the period and prior period adjustments.

If all or a portion of the fund balances have been restricted by the trustees for a purpose other than to provide benefits to the participants under the terms of the "declaration of trust," the restrictions should be disclosed in the financial statements.

Other Financial Statement Disclosures

1. *Nature of activities.* The financial statements of the employee health and welfare benefit fund may include a footnote de-

* Mr. Kingsbery dissents to the issuance of the Guide because he believes the accounting principles set forth in the Guide and illustrative financial statements are improper in two respects. It is his view that certain estimated future employee benefits (such as "future payment of benefits based on members' accumulated eligibility arising from hours accumulated," "retired participants' benefits," and "future death benefits") are not *liabilities* of the fund, but are allocations of fund balance. He believes the relationship between the fund (usually a trust) and the employee beneficiaries is not that of debtor and creditors; rather it is that of trustee and beneficiaries. Accordingly, it is his opinion that generally the fund has no *liability* at the statement date for future employee benefits, only a fiduciary responsibility under trust agreements to disburse available trust assets to beneficiaries at the time bona fide claims are made. Such estimated future benefits should, in his view, be segregated and designated as allocations of fund balance to the extent required, with any remaining fund balance designated as "unallocated." To the extent fund balance is inadequate at the statement date to cover estimated future benefit amounts, footnotes to financial statements should disclose the deficiency with that amount determined by reference to fair value of fund assets. Mr. Kingsbery also believes that the position set forth in the Guide that assets should be valued *at cost* is inconsistent with the principle of valuing estimated future employee benefits at their *present fair value* as required by the Guide. Since prior practice has not required quantification of future employee benefits at fair value, he believes this inconsistency may result in confusion to users of the fund's financial statements and believes the Guide should have required valuation of fund assets at *fair value* at the statement date.

scribing the fund's activities as well as any significant changes in the plan.

2. *Income tax status.* In the event that an exemption certificate has not been obtained, a footnote to the financial statements should disclose the tax status of the fund.

3. *Other matters.* The financial statements should include disclosure of any other matters necessary to fairly present the financial statements of a particular fund. Such disclosures might include a description of long-term lease commitments or other agreements and transactions which may involve conflicts of interest.

Internal Control

The basic principles of internal control have been effectively described in accounting literature and will not be discussed in detail. The principles of internal control for an employee health and welfare benefit fund are not dissimilar from those found in a commercial enterprise; however, there are certain unique internal control features that warrant special discussion and should be considered by the administrators of a well-managed fund.

Contributions

Contributions from employers, on a self-assessed basis, will represent the majority of the fund's receipts. Contributions are generally determined by the number of hours or days worked or gross earnings of the participant at a standard contribution rate. Many funds have standard preprinted forms that are supplied to the employers for reporting contributions which generally show the employer's name, participant's name, social security number, and the bases upon which the contributions are made. Initial accountability over the reporting forms should be established when received; the forms should be controlled throughout the processing operation, from the time of receipt of funds to final postings to the participants' eligibility records and employers' contribution records.

Many funds permit a participant who has not worked a sufficient number of hours to "self-pay" the difference between the contributions received directly by the fund and the minimum amount required for eligibility. Procedures should be established to indicate which participants are required to make a "self-pay" contribution and the amount of the contribution due.

The fund should adopt internal control procedures which are adequate for disclosing and following up delinquent employer reports and contributions as well as employer over- or underpayments. Such internal control procedures may include the auditing of employers' records on a systematic or exception basis, the mailing of periodic statements requesting participants to report any discrepancies in hours and/or contributions reported on their behalf by employers, or a reconciliation of employee status reports furnished to the fund by the union with employer contribution reports.

Generally, contributions are received at the fund's office or are mailed to a bank for credit to the fund's account. When currency is received at the fund office, prenumbered receipt forms should be utilized. The numerical sequence of the forms and subsequent depositing of the cash in the bank should be subjected to internal review and checking. The fund should not utilize cash contributions for payment of fund expenses. It is important that contributions received are deposited intact on a timely basis.

One of the methods used to obtain good internal control over the receipt and deposit of contributions is the adoption of a "lock box" system. Under this system the remittances and contribution reports are mailed by the employers to a bank. The bank deposits all receipts, prepares a record of the deposit, and forwards the deposit record and contribution reports to the fund for further processing.

Where an office has been established to serve more than one fund, proper controls are necessary to insure that remittances are deposited to the proper accounts. The controls established should include an audit trail which can be traced through to the general ledger postings.

A cumulative record of employers' contributions should be kept since the fund must report annually on Form D-2 contributions made by employers. The totals of records maintained for cumulative employer contributions and participants' eligibility should be periodically reconciled to the cash receipts book.

Claims

The majority of fund disbursements will represent claims for benefits filed by the participants; therefore, it is important that effective internal accounting controls and procedures be established over the processing of claims.

Upon receiving a claim for benefits the fund should first verify the eligibility of the claimant and determine whether the benefits claimed are covered by the benefit schedule. Individuals processing claims should be familiar with the coverage provided by the benefit schedule and, where pertinent, with medical terminology.

Procedures employed for processing claim payments should include an independent review and approval by individuals not involved in the original claim processing procedures. These individuals should determine that: (1) the claim is clerically accurate, (2) adequate supporting data (such as doctors' invoices, hospital statements, and so forth) accompany the claim, (3) the amounts to be paid are within the benefit schedule provided by the plan, (4) the participant is eligible for the benefits claimed, and, if appropriate, (5) the benefits are not covered for reimbursement under state, federal, and other insurance programs.

In an insured fund, claim disbursements are often made at the fund's office by issuing drafts drawn against the insurance company's accounts. Even though the disbursements are charged against the insurance company's accounts, the same degree of care should be exercised as if the disbursement were made directly by the fund, since all claims will affect the fund's loss experience ratio, future premium payments, and experience rating adjustments.

The internal control procedures may include the mailing of requests to claimants to report any discrepancies between the benefits reported as paid and the benefits received.

Bonding Requirements

The Welfare and Pension Plans Disclosure Act specifies minimum amounts of fidelity bond coverage for trustees, administrators, and other employees of a fund. The fund must, by law, meet the minimum bonding levels required by the Act.

The fund may request employers to provide, at their own expense, a performance bond or other security to cover the payment of contributions in the event of insolvency. Performance bonds or other security should be periodically reviewed for adequacy.

Investments

The fund's investment policy and the responsibility for custody of its securities should be determined by the board of trustees; significant security transactions should be approved by the board or by an appropriate committee. In establishing its investment policies, the trustees should abide by any restrictions that may be imposed by the trust agreement or state regulations.

Administrative Expenses

The trustees are responsible for the approval of all administrative expenses; however, the responsibility for approving routine expenses is usually delegated to the administrator or other responsible employees. Because of their fiduciary responsibility, the trustees should make certain that the internal control procedures for administration expenses are adequate. The board of trustees will generally retain the authority to approve any expenditures for administrative expense which exceed a stated amount.

Contract or professional administrators are paid according to various criteria, such as the number of participants, employer's reports, claims paid, and so forth. Therefore, it is important that the fund's records provide the information necessary to determine the reasonableness of such payments.

Auditing

Generally accepted auditing standards apply to audits of an employee health and welfare benefit fund to the same extent they apply to the audits of a commercial enterprise. These standards are summarized and explained in Statement on Auditing Procedure No. 33 and subsequent statements issued by the American Institute of Certified Public Accountants.

The second of the general standards as defined by the Institute states that "in all matters relating to the assignment independence in mental attitude is to be maintained by the auditor or auditors." It is generally not considered an infringement upon independence if a CPA is also the independent auditor for the union whose members are participants in the employee health and welfare benefit plan, or is an independent auditor for one of the contributing employers. However, each situation dealing with independence should be carefully weighed on its own merits. An auditor would not be independent if he acted in the capacity of trustee or administrator of the fund.

The examination of the financial statements of an employee health and welfare benefit fund presents certain unique problems to the independent auditor. This section is intended to outline the unusual features of such examinations.

Contributions

The basic objective in auditing contributions is to determine that amounts due the fund have been received and properly recorded and that employer records and participant records (eligibility or vacation contribution) are being properly maintained. In connection with this objective, the independent auditor may wish to obtain an official list of contributors, as at the beginning of the period under examination. The list should indicate any changes (additions and terminations) during the period. The extent of the tests of contribution revenue and of the related records should be determined by an evaluation of the system of internal control. The auditing procedures employed should normally include, but are not necessarily limited to, the following:

1. Total cash receipts shown by the cash receipts book for a selected period should be reconciled to the total amount credited to the general ledger contribution accounts, to the total amount posted to the employer's record, and to deposits shown by the bank statements.

2. Selected individual employer contribution payments as shown by the cash receipts book should be compared to the amount shown on the employer's contribution report and to the amount posted to the individual employer's contribution record. Selected postings to the employer's record during the test period should be traced to the cash receipts book and to the employer's contribution report.

3. For a selected number of employers' contribution reports, it should be determined that the reports are arithmetically accurate and that the correct contribution rate was used. In conjunction with the review of contribution reports, a test of the postings to participants' records should be made. Entries on the participants' records should be traced to the contribution reports on a test basis.

4. The total participants' credits posted to the records for a selected period should be reconciled to the total credits shown by employers' contribution reports.

5. Where a central bank account is used for the deposit of employer contributions to several related fringe benefit funds, the amounts transferred to the appropriate fund's bank account should be tested.

6. To determine the reasonableness of the estimated contribution receivable at the balance sheet date, the auditor should

compare the total thereof to collections received in subsequent months and review on a test basis the related employer contribution reports to ascertain that such receipts apply to the year under examination.

7. Contributions recorded as received or receivable during the period under audit should be confirmed on a test basis by direct correspondence with selected employers.

   The extent of confirmation procedures and the type of request (positive or negative) to be used are a matter of judgment. The auditor must select the accounts to be confirmed and must be sure that the preparation and mailing of the requests are adequately controlled.

   All exceptions reported in the confirmation replies should be carefully investigated by the auditor. Where positive confirmations have been used and no reply received, the auditor should use alternate auditing procedures to provide evidence as to the validity and accuracy of significant non-responding accounts.

8. Tests should be employed as deemed appropriate in the circumstances to assure the independent auditor that the system of internal control designed to disclose delinquent or unreported contributions is being properly maintained.

9. The adequacy of the allowance for doubtful accounts should be reviewed.

Payroll Audits

There may be circumstances in which the independent auditor is engaged to conduct audits of employers' payroll records to determine the propriety of the contributions made. The following paragraphs outline certain procedures which should be considered in the audits of employers selected:

1. The collective bargaining agreement should be reviewed to determine that the employer has complied with the applicable provisions.

2. The total gross earnings shown by the employees' earnings records should be reconciled with total wages shown by the general ledger and the payroll tax reports.

3. Information shown on the employer's contribution reports for a selected number of participants should be compared with the data shown on the employees' earnings records. In addition, a selected group of participants' earnings records should be compared with the employer's contribution reports to ascertain that they have been properly included or excluded from the reports.
4. The employer's general cash disbursements book should be reviewed to ascertain whether any payments not recorded as compensation have been made to employees.
5. For a selected period of time and for a selected group of employees, the data shown in the payroll journal should be compared to the employee earnings records and time records, and the related payroll checks should be examined.

All exceptions to the foregoing tests should be cleared to the independent auditor's satisfaction.

The independent auditor should not overlook the possibility of obtaining at the union office additional information which might be helpful in performing the payroll audit.

Bonding

The independent auditor should determine whether the fund maintains at least the required minimum amount of fidelity insurance in accordance with provisions of the Welfare and Pension Plans Disclosure Act.

Premium Deposits and Refunds

When reviewing the transactions with the insurance company in an insured employee health and welfare benefit fund, one of the audit objectives should be to determine that there has been a proper matching of revenue and expense.

Many insurance companies require that a deposit be maintained which can be applied against possible future losses not covered by the current premiums. Some companies will also grant retrospective refunds based on the experience rating of the group being covered. The amounts receivable from the insurance company for any retrospective refunds at the end of any policy year may be substantial. The actual amount of the advance deposit or the computation of the retrospective refund is usually based on computations made by the insurance companies.

The independent auditor should obtain direct confirmation from the insurance company of the amount of any retrospective refund to be received along with the amount of any premium deposits. In addition, the independent auditor should request data from the insurance company showing in reasonable detail the computation of the retrospective refund. This data may also serve as a further verification of the premiums paid and the claims reported to the insurance company and will aid the independent auditor in determining the reasonableness of the insurance company's computation. The fund's insurance consultant should also be requested to review this data.

Insurance Premium Payments and Related Liabilities

During the examination, the independent auditor should determine that the proper dollar amount of premiums have been remitted to the insurance company, and that any liability for unpaid insurance premiums has been properly recorded.

Monthly insurance premium payments are generally determined from the participants' eligibility records and the premium rates in the insurance contract. A test of the premium payments should be made by comparing the number of eligible participants, as shown by the eligibility records, to the premium computation, and by tracing the applicable premium rates to the insurance contract. A sample of the participants listed on the premium computation list should also be traced to the eligibility records. A comparison of the monthly premiums paid should be made, and the reason for any significant changes should be investigated. The independent auditor should request direct confirmation from the insurance company of the total amount of the premiums paid during the year, premium payments due, and other liabilities and assets at year end.

Any premium payment due the insurance company at the end of the year, including retrospective deficits, to be paid to the insurance company, should be recorded. The basis for the computation of this liability should be closely reviewed and, where possible, traced to subsequent payments.

Insurance contracts should be reviewed to determine if supplemental premium payments may be due under certain circumstances, such as an unfavorable current loss ratio.

Claim Payments

The basic objective in auditing claim payments should be to determine that the payments were made for eligible participants, for benefits covered by the plan, and for the correct amount. The extent of the test of claim payments should be determined by the evaluation of internal control and should be supplemented by an analytical review of claim payments.

The method of testing the claim payments should depend on the manner in which the fund maintains its basic records. A sample of completed individual claim files can be selected, reviewed for propriety, and traced to the claim payment record and related disbursement checks, or a sample can be made from the payment record or disbursement checks, and traced to the individual claim folder. The latter approach is preferred since, in a self-insured fund, the amount of the claim payments reflected in the financial statements arises directly from cash disbursements; the independent auditor should be alert for any possible overpayments.

An audit of the selected claims should include a review of the claimant's eligibility by reference to the eligibility records, a review of the various medical documents supporting the claim, an independent computation of the amount paid, and a determination that the claimed benefits are provided by the plan and that payment limits, if any, have not been exceeded.

In a self-insured fund, claim payment checks should be available for inspection. In some insured funds, claim payments will be made using a draft drawn directly against the insurance company's accounts. Normally the draft is retained by the insurance company, with only a copy of the draft available for inspection. In order to determine that the disbursements are correct, a confirmation of the total claims paid by the insurance company should be requested. A selected number of draft payments should be confirmed by direct correspondence with the recipients.

An insured fund may be subject to a claim audit conducted by the insurance company's auditors. Even though such audits are conducted, the independent auditor should include as part of his examination appropriate tests and reviews of claim payments to assure himself that the internal controls and procedures established are operating effectively, and to determine the propriety of total claim payments. The extent of claim audits performed by others may be taken into consideration when the independent auditor determines the extent of his audit tests.

Liability for Claims

In self-insured funds, claims reported to the fund office but not paid are liabilities of the fund. A trial balance of these claims should be obtained for further testing. Individual claims should be compared with the trial balance, and the nature of the claim and the documentary support reviewed for propriety. Payments subsequent to the date of the financial statements should be reviewed to determine that all claims reported have been properly included in the trial balance.

As of the balance sheet date, there will be certain claims incurred but not yet reported to the fund, and some of these may not be reported for an extended period of time. Claims of this nature cannot be determined on an individual basis, but the aggregate amount of such claims should be subject to reasonable estimation based on past loss experience and actuarial determination. Direct confirmations of the amount of this liability should be requested from the actuary. The confirmation should also include a request for data supporting, in reasonable detail, the basis of the computation. (See also the discussion on actuarial reports.)

Liability for Accumulated Eligibility Credits

The eligibility rules for many funds provide for accumulation of eligibility credits for participants. The liability arising therefrom is generally determined by applying to accumulated eligibility credits current insurance premium rates or, in the case of a self-insured fund, the average cost of benefits per eligible participant. The accrued liability should be reviewed and tested for adequacy and reasonableness. Such tests should include a comparison of the employer's contributions with the participants' eligibility records, a test of the arithmetical accuracy of the accumulated credits, and a review of the overall computation of the estimated liability.

Actuarial Reports

Many employee health and welfare benefit funds provide benefits that require an actuarial determination of the fund's liability at the balance sheet date. The independent actuary generally determines such liabilities based upon data furnished by the fund relating to participants' ages, number of dependents, contribution credits, and so forth.

In reviewing the actuary's report, the independent auditor should be satisfied as to the fairness of the data furnished the actuary and as to whether the actuarial assumptions are reasonable in the circumstances. He should also determine whether there have been any significant changes in the actuarial assumptions that may require disclosure in the financial statements and possibly a consistency qualification of his opinion. Direct confirmation should be obtained from the actuary as to the amount of the actuarially determined liabilities and as to whether or not there have been significant changes in the actuarial assumptions.

Restrictions on Fund Balance and Contingencies

There may be various contingencies encountered which would place some restrictions on fund balance. During the course of the audit, consideration should be given to any contingencies that may require disclosure in the financial statements, such as pending amendments to the benefits provided, law suits, or judgments.

The nature of these contingencies should be determined by inquiries of the fund's trustees, administrator, and legal counsel. The independent auditor may wish to obtain written representations as to the existence or absence of any contingencies. Such representations may be incorporated in a comprehensive representation letter obtained from the client. (See Other Audit Considerations.)

Administrative Expenses

In addition to a normal test of expenses, the independent auditor should review the board of trustees' minutes to determine whether the expenses were properly authorized. Where the fund employs a contract administrator, the basis of the contract payment should be determined and a test made to ascertain the propriety and reasonableness of the payments.

Allocation of Expenses

One office may function as a service organization for several funds, which requires the allocation of administrative expenses not directly associated with a specific fund. Such allocation may be based on the number of participants serviced, the amount of contributions received by the funds, or some other method or combination of methods. The method selected should be approved by the board of trustees.

The independent auditor should satisfy himself that the method of allocating the expenses is appropriate in the circumstances.

Application of Statistical Sampling to Examinations of Employee Health and Welfare Benefit Funds

In 1962, the Committee on Statistical Sampling of the American Institute of Certified Public Accountants issued a report containing its opinion that the use of statistical sampling is permitted under generally accepted auditing standards. In 1963, the Committee on Auditing Procedure issued SAP No. 33, "Auditing Standards and Procedures," which further sanctioned the use of statistical sampling techniques in determining the extent of audit tests.

In audits of employee health and welfare benefit funds, there are a number of auditing procedures which may lend themselves to statistical sampling. These would include tests of contributions, participants' eligibility, benefit payments, and so forth. The independent auditor may wish to consider using statistical sampling in these and other areas.

Other Audit Considerations

The independent auditor's program of examination should contemplate any extension of the scope of audit where a special report on Form D-2 is requested by the client.

The independent auditor should review tax returns and other reports filed pursuant to federal and state regulations.

The independent auditor should acquaint himself with the collective bargaining agreement and the declaration of trust and be alert to any transactions that require the approval of the board of trustees.

It is desirable that, immediately prior to the completion of the field work, the independent auditor obtain a letter of representation worded to fit the individual circumstances of the engagement. The letter should be signed by an appropriate official(s) of the fund.

The Independent Auditor's Report

The foregoing sections of this guide have stressed the use of accrual-basis accounting in the preparation of financial statements for employee health and welfare benefit funds. The reporting requirements of SAP No. 33 and subsequent statements on auditing procedure are applicable to financial statements of employee health and welfare benefit funds. Therefore, when an examination has been made in accordance with generally accepted auditing standards, when the financial statements of the fund have been prepared in conformity with generally accepted accounting principles, and when such principles have been applied on a basis consistent with the preceding period, a standard short-form opinion is appropriate.

The fourth standard of reporting requires that the independent auditor's report contain a clear-cut indication of the character of his examination and the degree of responsibility he is taking. Accordingly, when circumstances require a qualified or adverse opinion or a disclaimer of opinion, the guidelines set forth in Chapter 10 of SAP No. 33 should be followed.

The following discussion is devoted to some areas peculiar to employee health and welfare benefit funds which may require deviation from the standard short-form opinion. Examples of the wording of opinions which might be used in such instances are also included.

In a typical multi-employer benefit plan, employers generally determine their liability to the fund and submit reports and contributions to the fund on a self-assessment basis. It is the board of trustees' responsibility to ascertain whether the employers' contributions are being determined and made in accordance with the provisions of the applicable agreement. The contributions of employers are the principal source of revenue received by such funds; therefore, an important aspect of the fund's system of internal control involves the establishment of effective procedures to determine the propriety of employer contributions. The inadequacy or absence of such procedures may prevent the independent auditor from satisfying himself that contribution revenue is fairly presented in the financial statements. In instances where there is an inadequacy or absence of such internal procedures and where alternative audit procedures do not result in the necessary assurances, are impractical, or have been limited by the client, the independent auditor should disclaim an opinion on the financial statements. An illustration of the wording of such a disclaimer of opinion follows:

> To the Board of Trustees of
> The Special Welfare Fund
>
> We have examined the Balance Sheet of The Special Welfare Fund as of December 31, 19–, and the related statements of operations and fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraph.
>
> The internal control procedures adopted by the Fund are not adequate to assure the propriety of employer contributions to the Fund, and it was not practicable to attempt to satisfy ourselves with respect to such contributions by means of other auditing procedures.
>
> Because such contributions enter materially into the determination of financial position, results of operations, and changes in financial position of the Fund, we do not express an opinion on the accompanying financial statements.

In addition, since claim payments in a self-insured fund or insurance premiums paid in an insured fund usually represent a substantial portion of fund expenses, omission of claims auditing would generally require a qualification or disclaimer of opinion.

Special Reports

It will not be uncommon to find that financial reports of employee health and welfare benefit funds, upon which independent auditors are asked to report, have been prepared on a cash basis or other incomplete basis for special purposes. In these situations, the standard short-form opinion is not appropriate. In such case the requirements of SAP No. 33, as set forth in Chapter 13, "Special Reports," apply.

One type of special-purpose report is the annual report (Form D-2) to be filed with the U.S. Department of Labor. The information contained therein must be attested to by the plan administrator or reported upon by an independent auditor. Upon completion of the examination of the financial statements, the independent auditor should be in a position to render an opinion on the financial statements and schedules included in Form D-2, leaving the non-financial sections of the report to be attested to by the plan administrator.

Form D-2 requires a statement of assets and liabilities (accrual-basis) and several financial schedules including a schedule of receipts and disbursements in lieu of the customary operating statement. The independent auditor's opinion issued in connection with the financial information contained in Form D-2 may be worded as follows:

> We have examined the statement of assets and liabilities of JMM Employee Health and Welfare Benefit Fund as of December 31, 19–, and the statement of receipts and disbursements and other related financial schedules appearing on pages – through – of its Annual Report (Form D-2) for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the accompanying statement of assets and liabilities presents fairly the financial position of JMM Employee Health and Welfare Benefit Fund at December 31, 19–, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.
>
> Further, in our opinion, the accompanying statement of receipts and disbursements and related financial schedules appearing on pages – through – present fairly in all material respects the information shown therein for the year ended December 31, 19 –.

Illustrative Financial Statements for:

An Insured Fund

A Self-Insured Fund

A Vacation Fund

An Insured Fund

To the Board of Trustees
PAM Employee Health and Welfare Benefit Fund

We have examined the balance sheet of PAM Employee Health and Welfare Benefit Fund as of April 30, 19X2, and the related statements of operations and fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the above mentioned financial statements present fairly the financial position of PAM Employee Health and Welfare Benefit Fund at April 30, 19X2, the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Signature

City, State
Date

	April 30 19X2	April 30 19X1
Assets		
Cash	$ 322,400	$ 69,000
Receivables:		
Estimated employers' contributions (less allowance for doubtful accounts of $8,000 in 19X2 and 19X1)	700,000	645,000
Accrued interest and dividends	3,000	4,500
Total	703,000	649,500
Investments—at Cost:		
United States Government bonds and notes (approximate quoted market value $921,000 in 19X2 and $570,000 in 19X1)	949,000	567,000
Corporate bonds and notes (approximate quoted market value $485,000 in 19X2 and $652,000 in 19X1)	487,000	653,000
Common stocks (approximate quoted market value $109,000 in 19X2 and $112,000 in 19X1)	83,000	102,000
Total	1,519,000	1,322,000
Equipment—at Cost: (Less accumulated depreciation of $121,000 in 19X2 and $110,000 in 19X1)	328,300	324,600
Other Assets:		
Prepaid expenses	3,000	4,000
Advance deposit with insurance carrier	22,000	22,000
Miscellaneous	5,000	20,000
Total	30,000	46,000
Total Assets	$2,902,700	$2,411,100

See Notes to Financial Statements.

Benefit Fund Balance Sheet

19X2 and 19X1

Liabilities and Fund Balance	April 30 19X2	April 30 19X1
Liabilities:		
Accounts payable and accrued expenses	$ 38,000	$ 31,000
Group insurance premium payable	863,000	800,000
Estimated liability for future group insurance premiums based on participants' accumulated eligibility, arising from hours accumulated	430,000	275,000
Estimated liability for retired participants' benefits	385,000	300,000
Estimated liability for future death benefits	615,000	500,000
Total	2,331,000	1,906,000
Fund Balance	571,700	505,100
Total Liabilities and Fund Balance	$2,902,700	$2,411,100

PAM Employee Health and Welfare Benefit Fund
Statement of Operations and Fund Balance
For the Years Ended April 30, 19X2 and 19X1

	Year Ended April 30	
	19X2	*19X1*
Revenues:		
Contributions:		
Employers	$9,700,000	$9,850,000
Employees	600,000	400,000
Interest and dividends	110,000	81,000
Gain on the sale of investments – net	42,600	1,000
Total Revenues	10,452,600	10,332,000
Expenses:		
Group insurance premiums	9,932,800	9,974,000
Retired participants' benefits	162,200	53,000
Death benefits	190,000	136,000
Administrative expenses	101,000	113,900
Total Expenses	10,386,000	10,276,900
Excess of Revenues Over Expenses	66,600	55,100
Fund Balance:		
Beginning of year	505,100	450,000
End of year	$571,700	$ 505,100

See Notes to Financial Statements.

PAM Employee Health and Welfare Benefit Fund
Statement of Changes in Financial Position
For the Years Ended April 30, 19X2 and 19X1

	Year Ended April 30	
	19X2	*19X1*
Increases in Cash Resulted From:		
Excess of revenues over expenses	$ 66,600	$ 55,100
Add expenses not requiring outlay of operating funds:		
Provision for future group insurance premiums, retired participants' benefits and death benefits	587,600	226,000
Depreciation	11,000	10,500
Total from operations	665,200	291,600
Cost of investments sold or redeemed	310,000	285,000
Increase in accounts payable, accrued expenses and group insurance premium payable	70,000	50,000
Total	1,045,200	626,600
Decreases in Cash Resulted From:		
Payment of group insurance premiums based on participants' accumulated eligibility, death benefits, and benefits to retired participants	232,600	273,000
Purchases of investments	507,000	438,000
Equipment additions	14,700	17,400
Increase in receivables and other assets—net	37,500	10,000
Total	791,800	738,400
Increase (Decrease) in cash	$ 253,400	$ (111,800)

See Notes to Financial Statements.

PAM Employee Health and Welfare Benefit Fund
Notes to Financial Statements
Year Ended April 30, 19X2

General. The PAM Employee Health and Welfare Benefit Fund was formed in 19XX under an agreement between the Contractors' Association and the Labor Union. The agreement provides, among other things, for employers of members of the Union to contribute X cents for each hour worked.

A plan of insurance provides for accident, hospital, medical, surgical, and disability benefits for eligible members as specified in the Plan.

Death benefits are provided for eligible members from contributions in excess of hours required for current coverage. The amount segregated for death benefits has been determined by application of the unit risk rates computed in accordance with actuarial principles.

Group Insurance. The group insurance contract with the insurance carrier provides that to the extent premiums paid exceed the sum of the claims paid and provided for and the insurance carrier's retention, a refund of premiums is to be made to the Fund. If the sum of the claims paid and provided for and the insurance carrier's retention exceed the premiums paid, such excess is carried forward to the succeeding policy years in the determination of the premium refunds, if any, to be paid to the Fund. As of April 30, 19X2, no significant adjustment of premium liability or refund is anticipated.

Group insurance premiums payable reflect the estimated cost of group insurance premiums to be paid subsequent to April 30, 19X2, based upon hours worked and contributions recorded prior to that date.

Depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the equipment. Depreciation charged to administrative expenses was $11,000 in 19X2 and $10,500 in 19X1.

Estimated Liability for Future Benefits. The Fund provides benefits to certain active and retired members, if such members have accumulated in the current or prior years credit amounts (expressed in hours) in excess of the hours required for current insurance coverage.

Under the Plan, accumulated credits equal to approximately one year's insurance coverage may be carried forward, and any credits in excess of approximately one year's insurance coverage are converted into specified amounts of paid-up death benefits.

Lease Commitments. The Fund operates in premises leased from the local labor union requiring annual rental payments of $10,000 through 19XX.

A Self-Insured Fund

To the Board of Trustees
SCS Employee Health and Welfare Benefit Fund

We have examined the balance sheet of SCS Employee Health and Welfare Benefit Fund as of April 30, 19X2, and the related statements of operations and fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the above mentioned financial statements present fairly the financial position of SCS Employee Health and Welfare Benefit Fund at April 30, 19X2, the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Signature

City, State
Date

	April 30 19X2	April 30 19X1
Assets		
Cash	$ 322,400	$ 69,000
Receivables:		
Estimated employers' contributions (less allowance for doubtful accounts of $8,000 in 19X2 and 19X1)	700,000	645,000
Accrued interest and dividends	3,000	4,500
Total	703,000	649,500
Investments—at Cost:		
United States Government bonds and notes (approximate quoted market value $921,000 in 19X2 and $570,000 in 19X1)	949,000	567,000
Corporate bonds and notes (approximate quoted market value $485,000 in 19X2 and $652,000 in 19X1)	487,000	653,000
Common stocks (approximate quoted market value $109,000 in 19X2 and $112,000 in 19X1)	83,000	102,000
Total	1,519,000	1,322,000
Equipment—at Cost: (Less accumulated depreciation of $121,000 in 19X2 and $110,000 in 19X1)	328,300	324,600
Other Assets:		
Prepaid expenses	15,000	14,000
Miscellaneous	15,000	32,000
Total	30,000	46,000
Total Assets	$2,902,700	$2,411,100

See Notes to Financial Statements.

Benefit Fund Balance Sheet

19X2 and 19X1

Liabilities and Fund Balance	*April 30* 19X2	*April 30* 19X1
Liabilities:		
Accounts payable and accrued expenses	$ 38,000	$ 31,000
Claims payable	300,000	370,000
Estimated liability for claims incurred but not reported	563,000	430,000
Estimated liability for future payment of benefits based on participants' accumulated eligibility, arising from hours accumulated	430,000	275,000
Estimated liability for retired participants' benefits	385,000	300,000
Estimated liability for future death benefits	615,000	500,000
Total	2,331,000	1,906,000
Fund Balance	571,700	505,100
Total Liabilities and Fund Balance	$2,902,700	$2,411,100

SCS Employee Health and Welfare Benefit Fund
Statement of Operations and Fund Balance
For the Years Ended April 30, 19X2 and 19X1

	Year Ended April 30	
	19X2	*19X1*
Revenues:		
Contributions:		
Employers	$ 9,700,000	$ 9,850,000
Employees	600,000	400,000
Interest and dividends	110,000	81,000
Gain on the sale of investments—net	42,600	1,000
Total Revenues	10,452,600	10,332,000
Expenses:		
Claims	9,932,800	9,974,000
Retired participants' benefits	162,200	53,000
Death benefits	190,000	136,000
Administrative expenses	101,000	113,900
Total Expenses	10,386,000	10,276,900
Excess of Revenues Over Expenses	66,600	55,100
Fund Balance:		
Beginning of year	505,100	450,000
End of year	$ 571,700	$ 505,100

See Notes to Financial Statements.

SCS Employee Health and Welfare Benefit Fund
Statement of Changes in Financial Position

For the Years Ended April 30, 19X2 and 19X1

	Year Ended April 30	
	19X2	*19X1*
Increases in Cash Resulted From:		
Excess of revenues over expenses	$ 66,600	$ 55,100
Add expenses not requiring outlay of operating funds:		
Provision for claims incurred but not reported, future benefits, retired participants' benefits, and death benefits	687,600	226,000
Depreciation	11,000	10,500
Total from operations	765,200	291,600
Cost of investments sold or redeemed	310,000	285,000
Total	1,075,200	576,600
Decreases in Cash Resulted From:		
Decrease (Increase), in accounts payable, accrued expenses, and claims payable	63,000	(50,000)
Payment of benefits based on participants' accumulated eligibility, death benefits, and benefits to retired participants	199,600	273,000
Purchases of investments	507,000	438,000
Equipment additions	14,700	17,400
Increase in receivables and other assets—net	37,500	10,000
Total	821,800	688,400
Increase (Decrease) in Cash	$ 253,400	$ (111,800)

See Notes to Financial Statements.

SCS Employee Health and Welfare Benefit Fund
Notes to Financial Statements
Year Ended April 30, 19X2

General. The SCS Employee Health and Welfare Benefit Fund was formed in 19XX under an agreement between the Contractors' Association and the Labor Union. The agreement provides, among other things, for employers of members of the Union to contribute X cents for each hour worked.

The Plan provides for accident, hospital, medical, surgical, and disability benefits for eligible members as specified in the Plan.

Death benefits are provided for eligible participants from contributions in excess of hours required for current coverage. The amount segregated for death benefits has been determined by application of the unit risk rates computed in accordance with actuarial principles.

Depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the equipment. Depreciation charged to administrative expenses was $11,000 in 19X2 and $10,500 in 19X1.

Estimated Liability for Future Benefits. The Fund is required to provide benefits to certain active and retired members, if such members have accumulated in the current or prior years credit amounts (expressed in hours) in excess of the hours required for current coverage.

Under the Plan, accumulated credits equal to approximately one year's coverage may be carried forward, and any credits in excess of approximately one year's coverage are converted into specified amounts of paid-up death benefits.

Lease Commitments. The Fund operates in premises leased from the local labor union requiring annual rental payments of $10,000 through 19XX.

A Vacation Fund

To the Board of Trustees
TCMT Vacation Trust Fund

We have examined the balance sheet of TCMT Vacation Trust Fund as of April 30, 19X2, and the related statements of operations and fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the above mentioned financial statements present fairly the financial position of TCMT Vacation Trust Fund at April 30, 19X2, the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Signature

City, State
Date

TCMT Vacation Trust Fund
Balance Sheet
April 30, 19X2 and 19X1

	April 30 19X2	April 30 19X1
Assets		
Cash	$ 17,000	$ 5,500
Certificates of Deposit	1,500,000	943,000
Contributions Receivable	152,000	146,000
Interest Receivable	9,000	8,200
Prepaid Expenses	9,000	7,300
Total Assets	$1,687,000	$1,110,000
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 17,000	$ 13,500
Vacation benefits payable:		
19X0 and prior Plan Years	25,000	47,000
19X1 Plan Year	31,000	1,013,000
19X2 Plan Year	1,600,000	
Total vacation benefits payable	1,656,000	1,060,000
Total Liabilities	1,673,000	1,073,500
Fund Balance	14,000	36,500
Total Liabilities and Fund Balance	$1,687,000	$1,110,000

See Notes to Financial Statements.

TCMT Vacation Trust Fund
Statement of Operations and Fund Balance
For the Years Ended April 30, 19X2 and 19X1

	Year Ended April 30	
	19X2	*19X1*
Revenues:		
Interest	$ 70,000	$ 48,500
Other	500	500
Total Revenues	70,500	49,000
Expenses:		
Administrative fees	76,000	70,000
Professional fees	9,000	8,500
Insurance	2,000	2,000
Trustees' expenses	1,000	1,000
Corporate trustee fees	5,000	5,000
Total Expenses	93,000	86,500
Excess of Expenses Over Revenues	22,500	37,500
Fund Balance:		
Beginning of year	36,500	74,000
End of year	$ 14,000	$ 36,500

See Notes to Financial Statements.

TCMT Vacation Trust Fund
Statement of Changes in Financial Position
For the Years Ended April 30, 19X2 and 19X1

	Year Ended April 30	
	19X2	*19X1*
Increases in Cash and Certificates of Deposit Resulted From:		
Increase in accounts payable	$ 3,500	$ 1,000
Increase in vacation benefits payable represented by employers' contributions:		
Plan Year 19X0 and prior years		20,000
Plan Year 19X1	10,000	1,018,000
Plan Year 19X2	1,653,000	
Total	1,666,500	1,039,000
Decreases in Cash and Certificates of Deposit Resulted From:		
Excess of expenses over revenues	22,500	37,500
Increase in receivables and prepaid expenses	8,500	1,000
Decrease in vacation benefits payable represented by vacation benefits paid to participants:		
Plan Year 19X0 and prior years	22,000	850,000
Plan Year 19X1	992,000	5,000
Plan Year 19X2	53,000	
Total	1,098,000	893,500
Increase in Cash and Certificates of Deposit	$ 568,500	$ 145,500

See Notes to Financial Statements.

TCMT Vacation Trust Fund
Note to Financial Statements
Year Ended April 30, 19X2

The TCMT Vacation Trust Plan was formed in 19XX under an agreement between the Contractors' Association and the Labor Union. The agreement provides, among other things, for employers of the labor union members to deduct from each member's wages X cents for each hour worked.

Contributions received are added to vacation accounts of employees. The amounts accumulated in each vacation account as of April 30 of each year are paid on or after June 1 to the members unless the member elects to continue to hold such amount in his vacation account.