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Checklists and illustrative financial statements for employee health and welfare benefit plans : a financial accounting and reporting Practice aid, May 1993 edition

American Institute of Certified Public Accountants. Technical Information Division

Jack Hauptman

May 1993 Edition

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

A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID

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A FINANCIAL ACCOUNTING AND REPORTING PRACTICE AID

Edited by

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Technical Information Division

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

These checklists and the accompanying illustrative financial statements have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids.

Users of the checklists should take into consideration the following:

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

- The checklists address accounting disclosures and auditing issues associated with employee health and welfare benefit plans. The checklists include references to relevant Statements of Financial Accounting Standards, Statements on Auditing Standards, the Audit and Accounting Guide entitled *Audits of Employee Benefit Plans*, and other technical pronouncements as appropriate. The checklists considered all technical pronouncements issued as of December 1992.

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

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

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

The editor would like to thank the members of the 1992-1993 Employee Benefit Plans Committee for their assistance in developing these checklists, and his colleague, Arthur Kappel, who is a consultant on this project.

Susan L. Menelaides
Director
Technical Information

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

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[1] Multiemployer plan that displays the benefit obligations information in a separate financial statement.

[2] Single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information.

INTRODUCTION

The accounting and financial reporting requirements of employee health and welfare benefit plans are set forth in the AICPA Industry Audit and Accounting Guide Audits of Employee Benefit Plans, and AICPA Statement of Position (SOP) No. 92-6. FASB Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans, and FASB Statement No. 110, Reporting by Defined Benefit Pension Plans of Investment Contracts, do not apply to health and welfare benefit plans. However, the method of valuing plan investments and requirements for financial statement disclosures are generally the same as those specified in FASB Nos. 35 and 110.

The nature, timing and extent of auditing procedures to be applied are a matter of professional judgment and will vary depending on the size, structure, and type of plan, and should consider the existing internal control structure as well as other factors. (Refer to the AICPA Audit and Accounting Guide Audits of Employee Benefit Plans and SOP No. 92-6 for additional guidance regarding the audits of employee health and welfare benefit plans).

Description

Employee health and welfare benefit plans include plans that provide:

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

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 as 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 sponsor. Even when a plan is funded pursuant to agreements that specify a fixed rate of employer contributions (for example, 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.

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 a plan participant will receive are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account.

The participants in health and welfare benefit plans may be employees of a single employer or of a group of employers. Contributions by an employer may be voluntary or may be required under the terms of a collective bargaining agreement negotiated with one or more labor organizations. Contributions may be required from employers and participants during periods of unemployment (contributory plans) or from employers only (noncontributory plans). During periods of unemployment a noncontributory plan may provide for contributions by participants to maintain their eligibility for benefits. Benefits either are paid from a fund's accumulated contributions and income (a self-funded plan) and/or are provided through purchase of insurance from an insurance company (an insured plan) or both. Health and welfare benefit plans generally are subject to certain fiduciary, reporting, and other requirements of the Employee Retirement Income Security Act of 1974 (ERISA)and Internal Revenue Code. Plans that are unfunded (that is, those whose benefits are paid solely and directly out of the general assets of the employer), are fully insured (through the direct payment of premiums to the insurance company by the employer, or are certain combinations thereof (for example, self-funded plans with stop-loss coverage) may not be required to include financial statements in their ERISA filings. An understanding of the health and welfare benefit plan is needed to determine its accounting and reporting requirements. It is also important to consider the new forms of funding vehicles that are emerging, particularly with respect to postretirement health benefits.

The checklist and illustrative financial statements focus on generally accepted accounting principles (GAAP) and not on a comprehensive basis of accounting other than GAAP; however, the presentation of a plan's benefit obligation information in GAAP-basis financial statements is consistent with disclosures required in financial statements prepared on such bases as the cash basis or modified cash basis, as defined by the requirements of financial reporting to the Department of Labor (DOL).

ERISA Reporting and Disclosure Requirements

As noted above, employee health and welfare benefit plans are subject to certain provisions of ERISA. Employee health and welfare benefit plans subject to ERISA are required to report certain information annually on Form 5500 Series (Form 5500 or 5500-C/R) to government agencies such as DOL and the Internal Revenue Service (IRS). These plans are also subject to ERISA's audit requirement unless they are (a) otherwise exempt due to the number of participants in the plan at the beginning of the plan year, or (b) meet all of the following conditions:

* pay benefits solely from the general assets of the employer or employee organization maintaining the plan, or (2) provide benefits exclusively through insurance contracts or policies issued by a qualified insurance company or through a qualified HMO, the premiums of which are paid directly out of the general assets of the employer or employee organization, or partly from general assets and partly from employee or member contributions, or (3) provide benefits partly from the general assets of the employer or employee organization and partly through insurance (stop-loss coverage); and

* forward any employee contributions to the insurance company within three months of receipt; and

* pay any employee refunds to employees within three months of receipt [ref: DOL Reg. 29 CFR 2520.104-44(b)(1)].

Any such plans subject to ERISA are also required to provide certain summary plan documents regarding the plan and summaries of material modifications to the plan.

Under ERISA, the DOL and the IRS have the authority to issue regulations on various regulatory reporting and disclosure requirements. It also gives them certain administrative responsibilities and enforcement powers.

Financial Reporting

The financial statements of all employee health and welfare benefit plans prepared in accordance with GAAP should be prepared on the accrual basis of accounting, at fair value, although other comprehensive bases of accounting are allowed.

The financial statements of a defined-benefit health and welfare plan prepared in accordance with GAAP should include:

a. A statement of net assets available for benefits as of the end of the plan year.

b. A statement of changes in net assets available for benefits for the year then ended.

c. Information regarding the plan's benefit obligations as of the end of the plan year.

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

The financial statements of a defined-contribution health and welfare plan prepared in accordance with GAAP should include:

a. A statement of net assets available for benefits of the plan as of the end of the plan year.

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

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

Generally ERISA plans with 100 or more participants must file an annual report on Form 5500 series containing financial statements and notes, separate schedules, and a report of an independent public accountant.

The financial statements required by ERISA are a statement of assets and liabilities and a statement of changes in net assets available for benefits in comparative form. The schedules required by ERISA include assets held for investment purposes, transactions with parties in interest, loans or fixed-income obligations due that are in default or uncollectible, leases that are in default or uncollectible, and reportable transactions.

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

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

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

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

Authoritative Guidance

- o SFAS No. 102 *Statement of Cash Flows - Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale* (an amendment of SFAS No. 95)

  Pursuant to SFAS No. 102, a statement of cash flows is generally not required for employee health and welfare benefit plans. However, SFAS Statement No. 102 encourages employee benefit plans to include a statement of cash flows in their financial statements when such a statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid or obtains financing for investments).

- o SFAS No. 105 *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*

- o SFAS No. 106 *Employer's Accounting for Postretirement Benefits Other Than Pensions*, establishes standards of financial accounting and reporting by employers for health and welfare benefits expected to be provided after a participant's retirement. The Statement generally does not apply to health

		and welfare benefit plans. SOP 92-6, however, adopts certain of its measurement concepts.
o	Audit and Accounting Guide	*Audits of Employee Benefit Plans* (1992 edition)
o	Statement of Position 92-6	*Accounting and Reporting by Health and Welfare Benefit Plans* (Effective for audits of financial statements of single employer plans for plan years beginning after December 15, 1992, except for single employers with no more than 500 participants in the aggregate effective for plan years beginning after December 15, 1994; for multiemployer plans the effective date is beginning after December 15, 1995. Earlier application is encouraged.)
o	Financial Reporting Alert	The Employee Benefit Plan Committee has initiated a project that may modify the reporting of investment contracts held by Health and Welfare Benefit Plans. Auditors should be alert as to any new guidance on the subject matter.

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

If the benefit plan has not yet adopted SOP 92-6, all applicable questions in the checklist should be completed except those marked with an asterisk(*). If the benefit plan has adopted SOP 92-6, all applicable questions in the checklist should be completed.

Checklists--General

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

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

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

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

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

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

- Users should modify the checklists for any pronouncements issued subsequent to those mentioned in the checklists.

Financial Statements and Notes Checklist

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and accordingly, the discussion on page 7 is incorporated herein by reference.

Explanation of References:

ARB = Accounting Research Bulletin
APB = Accounting Principles Board Opinion
SFAS = Statement of Financial Accounting Standards
SAS = Statement on Auditing Standards
AC = Reference to section number in FASB Accounting Standards Current Text
AU = Reference to section number in AICPA Professional Standards (Vol. 1)
ERISA = Employee Retirement Income Security Act of 1974
DOL = Department of Labor
PBGC = Pension Benefit Guaranty Corporation
IRS = Internal Revenue Service
AAG = Audit and Accounting Guide - Audits of Employee Benefit Plans (1991)
CFR = Code of Federal Regulations
SOP = Statement of Position

Checklist Questionnaire

	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?			
a. Defined Benefit Plan:			
(1). A statement of net assets available for benefits as of the end of the plan year. [SOP 92-6, par. 20]	____	____	____
(2). A statement of changes in net assets available for benefits for the year then ended. [SOP 92-6, par. 20]	____	____	____
(3). Information regarding the plan's benefit			

	Yes	No	N/A
obligations as of the end of the plan year. [SOP 92-6, par. 20]	____	____	____
(4). Information regarding the effects, if significant, of certain factors affecting the year-to-year change in the plan's benefit obligations. [SOP 92-6, par. 20]	____	____	____
b. Defined Contribution Plan			
(1). A statement of net assets available for benefits of the plan as of the end of the plan year. [SOP 92-6, par. 23]	____	____	____
(2). A statement of changes in net assets available for benefits of the plan for the year then ended. [SOP 92-6, par. 23]	____	____	____
2. For ERISA plans, have separate reports been prepared for each plan where assets of more than one plan are held in a Voluntary Employees' Beneficiary Association trust? [SOP 92-6, par. 11]	____	____	____
3. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	____	____	____
4. Does each financial statement include a general reference to the notes indicating that they are an integral part of the financial statement presentation? (Generally accepted)	____	____	____
B. Disclosure of Significant Accounting Policies in the Notes to Financial Statements			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	____	____	____
2. Does the disclosure of significant accounting policies include important judgments as to appropriateness of principles concerning the recognition of income? [APB 22, par. 12 (AC A10.105)]	____	____	____

	Yes	No	N/A
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere in the statements and notes, so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	____	____	____
4. Does the disclosure of the plan's significant accounting policies include a description of the method(s) and assumptions used to determine the fair value of investments and the reported value of insurance contracts. [SOP 92-6, par. 52]	____	____	____

Note: Insurance contracts as described in SFAS Nos. 60 and 97 can be valued at either fair value or at the amounts determined by the insurance companies. [SFAS No. 110, pr. 7(b) (AC PE 5.111)]

	Yes	No	N/A
5. Is a description of significant actuarial assumptions used to determine the plan's liabilities? Any significant changes of assumptions between financial statement dates should be described. [SOP 92-6, par. 52]	____	____	____

C. Other Disclosures in the Notes to the Plan's Financial Statements

1. Do disclosures include, when applicable: [SOP 92-6, par. 53]

	Yes	No	N/A
a. A brief general description of the plan agreement, including, but not limited to, participants covered, vesting, and benefit provisions? If a plan agreement or a description thereof providing this information is otherwise published or made available, the description in the financial statement disclosures may be omitted, provided that a reference to the other source is made.	____	____	____
b. A description of significant plan amendments adopted during the period as well as the significant effects on plan liabilities of such factors as plan amendments, changes in the nature of the plan (for example, a plan spin-off or merger with another plan), and changes in actuarial assumptions?	____	____	____

Yes No N/A

c. The funding policy and any changes in the policy made during the plan year? If the benefit obligations exceed the net assets of the plan, the method of funding this deficit, as provided for in the plan agreement or collective bargaining agreement, also should be disclosed. For a contributory plan, the disclosure should state the method of determining participants' contributions.

   Note: If significant plan administration or related costs are being borne by the employer, that fact should be disclosed. [SOP 92-6, footnote 26] ____ ____ ____

d. The federal income tax status of the plan? There is no determination letter program for health and welfare plans; however a 501(c)(9) Voluntary Employees' Beneficiary Association trust must obtain a determination letter to be exempt from taxation. ____ ____ ____

e. The policy regarding the purchase of insurance contracts that are excluded from plan assets? Consideration should be given to disclosing the type and extent of insurance coverage, as well as the extent to which risk is transferred (for example, coverage period and claims reported or claims incurred). ____ ____ ____

f. Identification of investments that represent 5 percent or more of total plan assets? Consideration should be 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). ____ ____ ____

g. 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. ____ ____ ____

h. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: the sponsor, the

	Yes	No	N/A
plan administrator, employers, or employee organizations.	____	____	____
i. Unusual or infrequent events or transactions occurring after the financial statement date, but before issuance of the financial statements, that might significantly affect the usefulness of the financial statements in an assessment of the plan's present and future ability to pay benefits.	____	____	____
j. Material lease commitments, other commitments, or contingent liabilities.	____	____	____
k. 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 that rate is expected to be achieved.	____	____	____
l. For health and welfare benefit plans providing postretirement health care benefits, 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.	____	____	____
m. 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.	____	____	____
n. Termination provisions of the plan and priorities for distribution of assets, if applicable.	____	____	____
o. Restrictions, if any, on plan assets (for example, legal restrictions on multiple trusts).	____	____	____

D. Accounting Changes

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

	Yes	No	N/A
a. Nature of the change?	____	____	____
b. Justification for the change and a clear explanation of the newly adopted principle and why it is preferable? [APB 20, pars. 17-18 (AC A06.113); SFAS 111, par. 7b (AC A06.112)]	____	____	____
c. Effect on earnings of the plan? [APB 20, par. 17 (AC A06.113)]	____	____	____
2. Is correction of an error shown as a prior period adjustment with disclosure in the period of its discovery and correction of:			
a. Nature of the error.	____	____	____
b. Effect of its correction on income and net assets of the plan.	____	____	____
c. The resulting effects on the change in net assets of prior periods in the financial statements for the year in which the adjustments are made.	____	____	____
d. For single-period financial statements, the effects of the restatement on the balance of net assets at the beginning of the period and on the change in net assets of the immediately preceding period.	____	____	____
e. For comparative financial statements, the effects of the error disclosed for each period included in the statements. [APB 9, pars. 18 and 26, APB 20, par. 37 (AC A35.105-.107)]	____	____	____
3. Are the following disclosed for changes in accounting estimates?			
a. Are the effects of changes in accounting estimates accounted for either in (1) the period of change, if the change affects that period only, or (2) the period of change and future periods, if the change affects both? [APB 20, par. 31 (AC A06.130)]	____	____	____
b. If a change in an accounting estimate affects several future periods, is its effect on the			

Yes No N/A

change in net assets of the current period disclosed?
[APB 20, par. 33 (AC A06.132)] ____ ____ ____

c. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change?
[APB 20, par. 38 (AC A06.133)] ____ ____ ____

E. Related-Party Transactions

Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest?
[AAG, A.42] ____ ____ ____

Note: ERISA generally defines a party-in-interest to include such parties as a fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee association whose members are covered by the plan, a person who owns 30% or more of such an employer or employee association, or relatives of a person described above. See ERISA Sections 3(14) for a complete definition.
[AAG A.72, footnote 78; ERISA Sections 3(14)]

F. Contingencies and Commitments

1. Are the nature and amount of accrued loss contingencies disclosed?
[SFAS No. 5, pars. 9 and 34 (AC C59.108 and 140)] ____ ____ ____

2. For loss contingencies not accrued, do disclosures indicate:
[SFAS 5, pars. 10 and 34-39 (AC C59.109, .111, and .139-.145)]

a. Nature of the contingency? ____ ____ ____

b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? ____ ____ ____

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

Yes No N/A

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

G. Subsequent Events

1. Are the financial statements adjusted for any changes resulting from subsequent events that provide additional evidence about conditions that existed at the date of the statement of net assets available for benefits (i.e., abnormal disposal or purchase of investments since year end; changes in plan commitments or contingent liabilities)? [SFAS No. 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, .07 and 561.01-.09 (AU secs, 560.03-.04, .07 and 561.01-.09)] ____ ____ ____

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 (i.e., amendments to plan and trust instruments and insurance contracts)? [SFAS No. 5, par. 11 (AC C59.112); SAS 1. secs. 560.05-.07, .09 and 561.01-.09 (AU secs. 560.05-.07, .09 and 561.01-.09)] ____ ____ ____

H. Disclosure of Information about Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

1. Have the following disclosures been made about financial instruments with off-balance-sheet credit risk? (Example, repurchase securities sold, outstanding commitments to purchase or sell financial instrument at predetermined prices future contracts, and interest-rates and foreign-currency swaps)? [SFAS No. 105, pars. 17-19 (AC F25.112-114); SOP 92-6, pars. 55 and 56]

   a. The face or contract amount (or notional principal amount if there is no face or contract amount). ____ ____ ____

   b. The nature and terms, including, at a minimum, a discussion of (a) the credit and market risk

	Yes	No	N/A
of those instruments, (b) the cash requirements of those instruments, and (c) the related accounting policy pursuant to the requirements of APB Opinion 22.	____	____	____
c. The amount of the accounting loss the plan would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity.	____	____	____
d. 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.	____	____	____
2. Have the following disclosures been made about financial instruments with concentrations of credit risk? [SFAS No. 105, par. 20 (AC F25.115); SOP 92-6, par. 56]			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration.	____	____	____
b. The amount of the accounting loss due to credit risk the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan.	____	____	____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments.	____	____	____

Yes No N/A

I. Terminating Plans

1. If there is a present intention to terminate the plan, is this disclosed in the financial statements?
[SOP 92-6, par. 58] ____ ____ ____

* 2. If the decision to terminate the plan is made before the end of the plan year, have the plan's year-end financial statements been prepared on the liquidation basis of accounting?
[SOP 92-6, par. 58] ____ ____ ____

3. If the decision is made after year end but before the year-end financial statements have been issued, the decision is generally a type-two subsequent event requiring disclosure described in SAS No. 1, sec. 560.05. Has such disclosure been made?
[SOP 92-6, par. 58] ____ ____ ____

* 4. Has consideration been given upon plan termination whether any or all benefits are vested?
[SOP 92-6, par. 60] ____ ____ ____

Financial Statements

A. General

1. If comparative financial statements are presented in accordance with ARB 43, are notes and explanations that appeared on the statements for the preceding years repeated or referred to in the comparative statements to the extent that they continue to be significant?
[ARB No. 43 Chapter 2, par. 2 (AC F43.102)] ____ ____ ____

2. Are exceptions to comparability disclosed?
[ARB No. 43, Chapter. 2A (AC F43.101-.103)] ____ ____ ____

Statement of Net Assets Available for Benefits

A. General

1. Is the accrual basis of accounting used in preparing the statement of net assets?
[SOP 92-6, pars. 20 and 23] ____ ____ ____

Yes No N/A

2. Have the purchases and sales of securities been recorded on a trade-date basis in accordance with the accrual basis of accounting? Under certain conditions, however, recording the transaction on a settlement basis is acceptable. [SOP 92-6, footnote 9] ____ ____ ____

B. Valuation and Classification of Investments

1. Are plan investments, whether equity or debt securities, real estate or other (except insurance contracts, see Step C.1.) presented at their fair value at the financial statement date? [SOP 92-6, par. 25] ____ ____ ____

2. If significant, is the fair value of an investment reported net of brokerage commissions and other costs normally incurred in a sale? [SOP 92-6, par. 25, footnote 10] ____ ____ ____

3. Are the plan's investments presented in enough detail to identify the types of investments and the method of valuation? [SOP 92-6, par. 7] ____ ____ ____

4. Is it disclosed whether the reported fair values of investments have been measured by quoted prices in an active market or by another method? [SFAS No. 107 pars. 10 and 11 (AC F25.115c and d); SOP 92-6, par. 25] ____ ____ ____

5. Are the following investments reported as separate line items in the statements of net assets available for benefits: [SOP 92-6, par. 27]

   a. Government securities? ____ ____ ____

   b. Short-term securities? ____ ____ ____

   c. Corporate bonds and debentures? ____ ____ ____

   d. Common stocks? ____ ____ ____

   e. Mortgages? ____ ____ ____

   f. Real estate? ____ ____ ____

	Yes	No	N/A
g. Investments in bank common and commingled trust funds?	____	____	____
h. Master trusts?	____	____	____
6. Are investments and securities that represent 5% or more of the plan's net assets, separately identified in the financial statements or notes thereto? [SOP 92-6, par. 53]	____	____	____
C. Contracts With Insurance Companies			
1. Have unallocated insurance contracts been included in plan assets? Contracts may be presented in the same manner as that contained in the annual report filed by the plan with certain governmental agencies pursuant to ERISA (that is, either at fair value or amounts determined by the insurance enterprise). A plan not subject to ERISA may present its contracts as if the plan were subject to the reporting requirements of ERISA. [SFAS No. 110, par. 7(b) (AC PE 5, par. 111); (AAG par. 7.25-7.27)]	____	____	____
2. Have premium deposits and premium stabilization reserves been reported as assets of the plan until such time as they are used to pay premiums? [SOP 92-6, par. 29]	____	____	____
3. 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 can reasonably be determined and the refund is reported as a plant asset, has this been disclosed? [SOP 92-6, par. 30]	____	____	____
D. Receivables			
1. Have the following contributions receivable been separately identified and accrued as of the date of the financial statements? [SOP 92-6, par. 28]			
a. Receivables from employer(s).	____	____	____
b. Receivables from participants.	____	____	____

	Yes	No	N/A
*c. Accrued interest and dividends receivable.	____	____	____
d. Other sources of funding (e.g., state subsidies or federal grants) pursuant to formal commitments as well as legal or contractual requirements.	____	____	____
E. Cash			
1. Are restrictions on cash appropriately disclosed? [SFAS No. 5, pars. 18-19 (AC C59.120)]	____	____	____
F. Property and Equipment			
1. Are plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) presented at cost less accumulated depreciation or amortization? [SOP 92-6, par. 32]	____	____	____
G. Liabilities			
1. Have liabilities been deducted in arriving at net assets [including insurance premiums payable, accrued experience rating adjustments, claims, securities purchased, income taxes payable, and accumulated eligibility credits (including death benefits)]? [SOP 96-2, par. 33]	____	____	____
2. Have claims reported to the plan but not paid and claims incurred but not reported to the plan been: [SOP 92-6, par. 38]			
a. Excluded from plan liabilities of an insured plan?	____	____	____
b. Included in plan liabilities of a self-insured plan?	____	____	____

Statement of Changes in Net Assets Available for Benefits

A. Contributions and Investment Income

	Yes	No	N/A
1. Has the statement of changes in net assets available for benefits been presented in enough detail to identify the significant changes during the year including, as applicable? [SOP 92-6, par. 34]	____	____	____
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 no cash 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 (for example, state subsidies or federal grants).	____	____	____
d. The net appreciation or depreciation in fair value for each significant class of investments, segregated between investments whose fair values have been measured by quoted prices in an active market and those whose fair values have been otherwise determined. Note: Net appreciation or depreciation includes realized gains and losses on investments that were both purchased and sold during the period. Ordinarily, information regarding the net appreciation or depreciation in the fair value of investments is found in the notes to the financial statements. [SOP 92-6, footnote 13]			
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.	____	____	____

	Yes	No	N/A
i. Operating and administrative expenses.	____	____	____
j. Other changes (such as transfers of assets to or from other plans), if significant.	____	____	____
k. Changes during the period in liabilities for benefits by major types? [AAG, par. 4.23]	____	____	____

Statements of Plan's Benefit Obligations

A. Benefit Obligations

1. Have the following health benefit obligations been included at actuarial present value? [SOP 92-6, par. 36]

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

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

	Yes	No	N/A
d. Accumulated eligibility credits for active participants.	____	____	____

e. Postretirement benefits for:

	Yes	No	N/A
(1). Retired participants, including their beneficiaries and covered dependents.	____	____	____
(2). Active or terminated participants who are fully eligible to receive benefits.	____	____	____

(3). Active participants not yet fully eligible to receive benefits.

Note: Postretirement benefit obligations

	Yes	No	N/A
should be determined as of the end of the plan year or, if used consistently from year to year, as of a date not more than three months prior to that date, in accordance with paragraph 72 of FASB Statement No. 106. [SOP 92-6, footnote 17]	____	____	____
2. Have benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment been excluded? [SOP 92-6, par. 36]	____	____	____
3. Have the effects of plan amendments been 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 in future periods? [SOP 92-6, par. 36]	____	____	____
4. Have claims reported to the plan but not paid and claims incurred but not reported to the plan that will be paid by the insurance company been excluded from benefit obligations of the plan? [SOP 92-6, par. 38]	____	____	____
5. Are premium deficits included in the benefit obligations if (a) it is probable that the deficit will be applied against the amount of future premiums or future experience-rating funds and (b) the amount can be reasonably estimated? [SOP 92-6, par. 42]	____	____	____
Note: This determination should consider (a) the extent to which the insurance contract requires payment of such deficits and (b) the plan's intention, if any, to transfer coverage to another insurance company. [SOP 92-6, footnote 19]			
6. If no obligation is included in premium deficit because the above conditions are not met, or if an exposure to loss exists in excess of the amount accrued, has this been disclosed if it is reasonably possible that the loss or an additional loss has been incurred? [SOP 92-6, par. 42]	____	____	____

Yes No N/A

7. If the plan provides for postretirement benefits to participants, has an estimated amount been included in the benefit obligation? [SOP 92-6, par. 44] ____ ____ ____

***Statement of Changes in Plan's Benefit Obligations**

A. General

1. Have changes in benefit obligations within a plan period been presented to identify significant factors affecting year-to-year changes in benefit obligations? [SOP 92-6, par. 50] ____ ____ ____

2. Have these changes been presented in the body of the financial statements in categories of (a) claims payable and premiums due to insurance companies, (b) IBNR and eligibility credits, and (c) post-retirement obligations. [SOP 92-6, par. 50] ____ ____ ____

B. Minimum Disclosure Requirements Regarding Benefit Obligations

1. Has information been provided with respect to: [SOP 92-6, par. 51]

   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)? ____ ____ ____

2. Have significant effects of other factors been identified as, for example, benefits accumulated, the effect of the time value of money (for interest), and benefits paid? [SOP 92-6, par. 51] ____ ____ ____

   Note: Financial statements prepared on a comprehensive basis of accounting other than GAAP should disclose information regarding benefit obligations.

ERISA Reporting Requirements

	Yes	No	N/A
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 GAAP, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, Appendix A]	____	____	____
B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Health and Welfare Benefit Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA			
1. If the financial statements are filed under the "alternative method" pursuant to DOL Regulations Section CFR 2520.103-1(a)(2), do the disclosures in the financial statements include:			
a. A description of accounting principles and variances from GAAP?	____	____	____
b. A description of the plan, including significant changes in the plan and the effect of the changes on benefits?	____	____	____
c. The funding policy and changes in the funding policy from the prior year?	____	____	____
d. A description of material lease commitments, and other commitments and contingent liabilities?	____	____	____
e. A description of any agreements and transactions with persons known to be parties-in-interest?	____	____	____
f. A general description of priorities in the event of plan termination?	____	____	____
g. If applicable, 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, Appendix A)	____	____	____

	Yes	No	N/A
2. For plans filing under both the statutory and alternative methods, is the following additional information included in the financial statements and covered by the auditor's report?			
a. Schedule of plan assets and liabilities by category at fair value and in comparative form.	____	____	____
b. Information concerning plan income, expenses, and changes in net assets during the plan year. (AAG, Appendix A)	____	____	____
3. Pursuant to DOL regulations, are the following separate schedules included with the financial statements of the plan and covered by the auditor's report?			
a. Investment assets (one schedule of assets held at plan year-end and one schedule of certain assets acquired and disposed of within the plan year) showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held.	____	____	____
b. Transactions with parties-in-interest.	____	____	____
c. Loans or fixed income obligations that are in default or uncollectible.	____	____	____
d. Leases in default or uncollectible.	____	____	____
e. Reportable transactions (that is, transactions that exceed 3 percent (statute) or 5 percent (regulations) of the current value of plan assets at the beginning of the year).			

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

	Yes	No	N/A
amount applies to the initial contribution to the plan.	____	____	____

Auditors' Reports Checklist

This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid and, accordingly, the discussion on page 7 is incorporated herein by reference.

Explanation of References:

SAS = Statement on Auditing Standards
AU = Reference to section number in AICPA Professional Standards (Vol. 1)
AAG = Audit and Accounting Guide - Audits of Employee Benefit Plans (1991)
DOL = Department of Labor
CFR = Code of Federal Regulations

Checklist Questionnaire

	Yes	No	N/A
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	____	____	____
b. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 29, par. 5 (AU 530.05)]	____	____	____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	____	____	____
2. If the auditor is not independent, has the appropriate disclaimer of opinion been expressed regardless of the extent of services provided? [SAS 26, pars. 5, 9-10 (AU 504.05, .09-.10)]	____	____	____
3. Does the reporting language conform with the auditor's standard report on:			
a. Unqualified auditor's report on financial statements of a health and welfare benefit plan? {AAG 13.07]	____	____	____
b. Supplemental schedules relating to ERISA and DOL regulations?	____	____	____
c. Auditor's report on financial statements--			

	Yes	No	N/A
limited-scope audits under DOL Regulations? [AAG 13.22]	____	____	____

Note: AAG chapter 13 includes additional auditor reports with respect to financial statements of a trust, nonreadily marketable investments and also terminating plans.

4. Does the auditor's report include appropriate explanatory language with respect to the following?

		Yes	No	N/A
a.	The auditor's opinion is based in part on the report of another auditor. [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12-13 (AU 508.12-.13)]	____	____	____
b.	Departure from a promulgated accounting principle that, if followed, could lead to misleading financial statements. [SAS 58, pars. 14-15 (AU 508.14-.15)]	____	____	____
c.	Opinion on prior-period financial statements is different from the opinion previously expressed. [SAS 58, pars. 77-78 (AU 508.77-.78)]	____	____	____
d.	Predecessor auditor's report is reissued. [SAS 58, pars. 80-82 (AU 508.80-.82)]	____	____	____
e.	The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation. [SAS 58, pars. 16-33 (AU 508.16-.33)]	____	____	____
f.	The auditor concludes that there is substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time, and that conclusion is expressed through the use of the phrase "substantial doubt about its (the plan's) ability to continue as a going concern." [SAS 64, par. 1 (AU 341.12)]	____	____	____
g.	There has been a material change between periods in accounting principles or in the method of their application. [SAS 58, pars. 34-36 (AU 508.34-.36)]	____	____	____
h.	A matter regarding the financial statements that should be emphasized. [SAS 58, par. 37 (AU 508.37)]	____	____	____

	Yes	No	N/A
i. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements. [SAS 8, par. 4 (AU 550.04)]	____	____	____
j. The updating of the report on comparative financial statements, including events affecting and adequacy of informational disclosures affecting the prior year's financial statements. [SAS 58, pars. 74-75 (AU 508.74-.75)]	____	____	____
k. Comparative financial statements are presented and the current opinion on the prior year's financial statements is different from the opinion previously expressed. [SAS 58, pars. 77-78 (AU 508.77-.78)]	____	____	____
l. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, disclaimer or an explanatory paragraph on one or more financial statements for one or more periods. [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]	____	____	____
m. Audited and unaudited financial statements in comparative form. [SAS 26, pars. 14-17 (AU 504.14-.17)]	____	____	____
5. If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor indicated in the introductory paragraph:			
a. That the financial statements of the prior period were audited by another auditor?	____	____	____
b. The date of the predecessor's report?	____	____	____
c. The type of report issued by the predecessor auditor?	____	____	____
d. If the report was other than a standard report, the substantive reasons therefor?	____	____	____
e. If the prior year's financial statements audited by a predecessor auditor have been restated, does the introductory paragraph indicate that a predecessor auditor reported on the financial statements before restatement?	____	____	____

Yes No N/A

f. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself or herself as to the appropriateness of the restatement adjustments, did he or she report on them in accordance with SAS No. 64, par. 2? [SAS 58, par. 83 (AU 508.83)] ____ ____ ____

6. Has a qualified or disclaimer opinion pursuant to DOL Regulation 29 CFR 2520.102-8--limited scope exemption been issued? [AAG 13.22] ____ ____ ____

7. Has a qualified opinion or disclaimer of opinion been expressed if:

a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit? [SAS 48, pars. 20-23 (AU 326.20-23); SAS 58, pars. 40-48 (AU 508.40-.48)] ____ ____ ____

b. Conditions exist that preclude application of necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)] ____ ____ ____

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

8. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present?

a. An uncertainty is not adequately disclosed in the financial statements. [SAS 58, par. 20 (AU 508.20)] ____ ____ ____

b. The accounting principles used cause the financial statements to be materially misstated. [SAS 58, par. 21 (AU 508.21)] ____ ____ ____

c. Unreasonable accounting estimates that cause the financial statements to be misstated. [SAS 58, par. 22 (AU 508.22)] ____ ____ ____

d. The financial statements contain a material

	Yes	No	N/A
departure from GAAP, inadequate disclosure or an accounting change. [SAS 58, pars. 49-66 (AU 508.49-.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]	____	____	____
e. The financial statements contain a material misstatement. [SAS 47, par. 31 (AU 312.31)]	____	____	____
f. Client voluntarily includes supplementary information that has not been audited. [SAS 52, par. 3 (AU 558.03)]	____	____	____
g. Plan's representations and disclosures about related party transactions and parties-in-interest transactions cannot be substantiated. [SAS 45, par. 12 (AU 334.11-.12)]	____	____	____
9. If a qualified opinion , adverse opinion , or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer of opinion disclosed? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]	____	____	____
b. Is the reporting language clear and appropriate for the:			
(1). Qualified opinion? [SAS 58, pars. 38-66 (AU 508.38-.66)]	____	____	____
(2). Adverse opinion? [SAS 58, pars. 67-69 (AU 508.67-.69)]	____	____	____
(3). Disclaimer of opinion? [SAS 58, pars. 70-72 (AU 508.70-.72)]	____	____	____
10. Has a piecemeal opinion been avoided? [SAS 58, par. 73 (AU 508.73)]	____	____	____
11. If additional information not required under GAAP (e.g., supplemental schedules required by the DOL) is to accompany the basic financial statements and auditor's report in a document submitted by the auditor to the client, does the auditor's report: [SAS 29, pars. 6-11 (AU 551.06-.11); SAS 52, pars. 8-10 (AU 558.08-.10)]			

Yes No N/A

a. State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole? ___ ___ ___

b. Specifically identify the accompanying information? ___ ___ ___

c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements? ___ ___ ___

d. State whether the additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and whether the appropriate expressions or disclaimer of opinion is included? ___ ___ ___

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

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

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

14. Are any additional comments or explanations by the auditor consistent with the description of the scope of the audit in the auditor's standard (or modified) report?
[SAS 29, par. 20 (AU 551.20)] ___ ___ ___

15. If a report is to be issued on reportable conditions identified during an audit of financial statements and that must be communicated, preferably in writing, to the audit committee or the board of directors, does the report disclose:

a. That the purpose of the audit was to report on the

	Yes	No	N/A
financial statements and not to provide assurance on the internal control structure?	____	____	____
b. The definition of reportable conditions?	____	____	____
c. Restrictions on distribution to the audit commmittee, management, or other internal persons?	____	____	____
d. Conditions that are material weaknesses? [SAS 60, pars. 11 and 15 (AU 325.11 and .15)]	____	____	____
16. If a report expressing an opinion on a plan's system of internal accounting control is issued, does it contain:			
a. A description of the scope of the engagement?	____	____	____
b. The date to which the opinion relates?	____	____	____
c. A statement that the establishment and maintenance of the system is the responsibility of management?	____	____	____
d. A brief explanation of the broad objectives and inherent limitations of internal accounting control?	____	____	____
e. The accountant's opinion on whether the system taken as a whole was sufficient to meet the broad objectives of internal accounting control insofar as those objectives pertain to the determination or detection of errors or irregularities in amounts that would be material in relation to the financial statements? [SAS, par. 38 (AU 642.38)]	____	____	____
17. Auditor's Report Requirements Under DOL regulations:			
a. Is the auditor's report dated and manually signed? [AAG 41 (footnote 62)]	____	____	____
b. Does it indicate the city and state where issued? [AAG 41 (footnote 62)]	____	____	____
c. Does it identify the statements and schedules covered? [AAG, Appendix A and 29 CFR 2520.103-2]	____	____	____
d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	____	____	____

	Yes	No	N/A
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?	____	____	____
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? [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? [DOL Regulations Sec. 29 CFR 2520]	____	____	____

Illustrative Financial Statements
and
Notes to Financial Statements
(Under SOP 92–6)

ILLUSTRATION OF AUDITOR'S REPORT ON FINANCIAL STATEMENTS

(THE FOLLOWING IS AN ILLUSTRATION OF AN AUDITOR'S REPORT WITH AN UNQUALIFIED OPINION ON THE FINANCIAL STATEMENTS OF AN EMPLOYEE HEALTH AND WELFARE BENEFIT PLAN.)

Independent Auditor's Report

[*Addressee*]

We have audited the accompanying statements of net assets available for benefits of Allied Industries Benefit Plan as of December 31, 19X2 and 19X1, and the related statements of changes in net assets available for benefits for the years then ended, and statements of plan's benefit obligations as of December 31, 19X2 and 19X1, and the related statements of changes in plan's benefit obligations for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits as of December 31, 19X2 and 19X1, and the changes therein for the years then ended, and its benefit obligations as of December 31, 19X2 and 19X1, and changes therein for the years then ended in conformity with generally accepted accounting principles.

[*Signature of Firm*]

[*City and State*]
[*Date*]

EXHIBIT A

SUPPLEMENTAL SCHEDULES RELATING TO
ERISA AND DOL REGULATIONS

(THE FOLLOWING IS AN EXAMPLE OF AN ADDITIONAL PARAGRAPH REQUIRED IN THE AUDITOR'S REPORT ON SUPPLEMENTAL SCHEDULES REQUIRED BY ERISA AND DOL.)

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

EXHIBIT B

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

Independent Auditor's Report

[*Addressee*]

We were engaged to audit the financial statements and supplemental schedules of Allied Industries Benefit Plan as of December 31, 19X2 and 19X1, and for the years then ended, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103–8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the years ended December 31, 19X2 and 19X1, that the information provided to the plan administrator by the trustee is complete and accurate.

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

[*Signature of Firm*]

[*City and State*]
[*Date*]

EXHIBIT C

Allied Industries Benefit Plan

Statements of Net Assets Available for Benefits[1]

December 31, 19X2 and 19X1

Assets	*19X2*	*19X1*
Investments, at fair value (see note 3)		
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.

[1] A multiemployer plan that displays the benefit obligation information in separate financial statements.

Allied Industries Benefit Plan

Statements of Changes in Net Assets Available for Benefits[1]
Years Ended December 31, 19X2 and 19X1

	19X2	*19X1*
Contributions		
Participating employers	$15,000,000	$14,500,000
Participants	3,000,000	2,800,000
Total contributions	18,000,000	17,300,000
Investment income		
Net appreciation in fair value of investments	300,000	200,000
Interest	500,000	450,000
Dividends	50,000	50,000
	850,000	700,000
Less—investment expenses	15,000	25,000
Net investment income	835,000	675,000
TOTAL ADDITIONS	18,835,000	17,975,000
Benefits paid to participants		
Health care	16,000,000	15,750,000
Disability and death	770,000	750,000
	16,770,000	16,500,000
Administrative expenses	150,000	175,000
TOTAL DEDUCTIONS	16,920,000	16,675,000
NET INCREASE DURING YEAR	1,915,000	1,300,000
Net assets available for benefits		
Beginning of year	6,600,000	5,300,000
End of year	$ 8,515,000	$ 6,600,000

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

[1] A multiemployer plan that displays the benefit obligation information in separate financial statements.

Allied Industries Benefit Plan

Statements of Plan's Benefit Obligations[1]

December 31, 19X2 and 19X1

	19X2	*19X1*
Amounts currently payable to or for participants, beneficiaries, and dependents		
Health claims payable	$ 1,100,000	$ 975,000
Death and disability benefits payable	100,000	75,000
	1,200,000	1,050,000
Other obligations for current benefit coverage, at present value of estimated amounts		
Claims incurred but not reported	350,000	290,000
Accumulated eligibility credits	200,000	225,000
Long-term disability benefits	800,000	485,000
	1,350,000	1,000,000
Total obligations other than postretirement benefit obligations	2,550,000	2,050,000
Postretirement benefit obligations		
Current retirees	3,900,000	3,500,000
Other participants fully eligible for benefits	2,100,000	2,000,000
Other participants not yet fully eligible for benefits	5,000,000	4,165,000
	11,000,000	9,665,000
PLAN'S TOTAL BENEFIT OBLIGATIONS	$13,550,000	$11,715,000

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

[1] A multiemployer plan that displays the benefit obligation information in separate financial statements.

Allied Industries Benefit Plan

Statements of Changes in Plan's Benefit Obligations[1]

Years Ended December 31, 19X2 and 19X1

	19X2	*19X1*
Amounts currently payable to or for participants, beneficiaries, and dependents		
Balance at beginning of year	$ 1,050,000	$ 850,000
Claims reported and approved for payment	16,920,000	16,700,000
Claims paid (including disability)	(16,770,000)	(16,500,000)
Balance at end of year	1,200,000	1,050,000
Other obligations for current benefit coverage, at estimated amounts		
Balance at beginning of year	1,000,000	925,000
Net change during year:		
Long-term disability benefits	315,000	50,000
Other	35,000	25,000
Balance at end of year	1,350,000	1,000,000
Total obligations for current benefit coverage	2,550,000	2,050,000
Postretirement benefit obligation		
Balance at beginning of year	9,665,000	8,665,000
Increase (decrease) during the year attributable to:		
Benefits earned and other changes	1,250,000	1,000,000
Plan amendment	(175,000)	—
Changes in actuarial assumptions	260,000	—
Balance at end of year	11,000,000	9,665,000
PLAN'S TOTAL BENEFIT OBLIGATIONS AT END OF YEAR	$ 13,550,000	$ 11,715,000

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

[1] A multiemployer plan that displays the benefit obligation information in a separate financial statement.

Allied Industries Benefit Plan

Notes to Financial Statements

NOTE 1: DESCRIPTION OF PLAN

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

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

Benefits. The Plan provides health benefits (medical, hospital, surgical, major medical, and dental), permanent 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 and retired 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 19X2 the board of trustees amended the Plan to increase the deductible under major medical coverage from $100 to $300 and to extend dental coverage to employees retiring after December 31, 19X2. The amendment will not affect participating employers' contributions to the Plan in 19X3 under the current collective bargaining agreement.

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

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

NOTE 2: SUMMARY OF ACCOUNTING POLICIES

A. 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.

B. Postretirement Benefits. The postretirement benefit obligation 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 (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with the participating employers. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service in the industry rendered to the valuation date.

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

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X3; the rate was assumed to decrease gradually to 8.0 percent for 19X8 and to remain at that level thereafter. These assumptions are consistent with those used to measure the postretirement benefit obligation at December 31, 19X1.

The following were other significant assumptions used in the valuations as of December 31, 19X2 and 19X1.

Weighted-average discount rate	8.0%—19X2; 8.25%—19X1
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 value of the postretirement benefit obligation.

C. 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: INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. During 19X2 and 19X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 and $200,000, respectively, as follows:

	19X2		*19X1*	
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*	*Net Increase (Decrease) in Value During Year*	*Fair Value at End of Year*
Fair value as determined by quoted market price:				
U.S. government securities	$200,000	$5,000,000	$ (75,000)	$4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	50,000	1,375,000
Common stocks	100,000	1,000,000	200,000	600,000
	275,000	7,750,000	175,000	5,975,000
Fair value as estimated by Plan's board of trustees:				
Corporate bonds	25,000	250,000	25,000	225,000
	$300,000	$8,000,000	$200,000	$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:

	19X2	*19X1*
Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)	$475,000	$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 19X6 ($360,000 face amount)		350,000

NOTE 4: BENEFIT OBLIGATIONS

The Plan's deficiency of net assets over benefit obligations at December 31, 19X2 and 19X1, 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, 19X2 and 19X1, by $2,600,000 and $2,500,000, respectively.

NOTE 5: OTHER MATTERS

The trust established under the Plan to hold the Plan's 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 Plan has obtained a favorable tax determination letter from the Internal Revenue Service, and the Plan sponsor believes that the Plan, as amended, continues to qualify and to operate as designed.

Classic Enterprises Benefit Plan

Statements of Benefit Obligations and Net Assets Available for Benefits[2]
December 31, 19X2 and 19X1

	19X2	19X1
Benefit Obligations (see note 4)		
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		
Investments at fair value (see note 3)		
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's 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.

[2] Single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information.

Classic Enterprises Benefit Plan

Statements of Changes in Benefit Obligations and Net Assets Available for Benefits[2]

Years Ended December 31, 19X2 and 19X1

	19X2	*19X1*
Net Increase in Benefit Obligations		
Increase (Decrease) during the year attributable to:		
Benefits earned and other changes	$1,510,000	$1,000,000
Additional amounts payable to insurance company	200,000	100,000
Plan amendment	(175,000)	—
	1,535,000	1,100,000
Net Increase in Net Assets Available for Benefits		
Contributions		
Sponsor	15,000,000	14,500,000
Participants	3,000,000	2,800,000
Total contributions	18,000,000	17,300,000
Investment income		
Net appreciation in fair value of investments	300,000	200,000
Interest	500,000	450,000
Dividends	50,000	50,000
	850,000	700,000
Less investment expenses	15,000	25,000
Net investment income	835,000	675,000
TOTAL ADDITIONS	18,835,000	17,975,000
Insurance premiums paid for health benefits, net of experience-rating adjustments of $250,000 for 19X1 received in 19X2 and $275,000 for 19X0 received in 19X1	16,035,000	15,750,000
Insurance premiums paid for death benefits	780,000	750,000
	16,815,000	16,500,000
Administrative expenses	105,000	175,000
TOTAL DEDUCTIONS	16,920,000	16,675,000
NET INCREASE	1,915,000	1,300,000
(Increase) in Net Assets Available for Benefits Over Benefit Obligations	(380,000)	(200,000)
Excess of Benefit Obligations Over Net Assets Available for Benefits		
Beginning of year	4,065,000	4,265,000
End of year	$3,685,000	$4,065,000

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

[2] Single-employer plan that displays the benefit obligation information on the face of the financial statements along with the net asset information.

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 19X2 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, 19X2. The amendment is not expected to significantly affect the Sponsor's contribution to the Plan in 19X3.

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. 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.

B. Plan Benefits. The postretirement benefit obligation (see note 4) 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 (*1*) currently retired employees and their beneficiaries and dependents and (*2*) 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, and to reflect the portion of those costs expected to be borne by Medicare, the retired participants, and other providers.

For measurement purposes at December 31, 19X2, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X3; the rate was assumed to decrease gradually to 8.0 percent for 19X8 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 19X1.

The following were other significant assumptions used in the valuations as of December 31, 19X2 and 19X1.

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: INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. During 19X2 and 19X1 the plan's investments (including investments bought, sold, and held during the year) appreciated in value by $300,000 and $200,000, respectively, as follows:

	19X2		*19X1*	
	Net Increase (Decrease) in Value During Year	*Fair Value at End of Year*	*Net Increase (Decrease) in Value During Year*	*Fair Value at End of Year*
Fair value as determined by quoted market price:				
U.S. government securities	$200,000	$5,000,000	$ (75,000)	$4,000,000
Corporate bonds and debentures	(25,000)	1,750,000	50,000	1,375,000
Common stocks	100,000	1,000,000	200,000	600,000
	275,000	7,750,000	175,000	5,975,000
Fair value as estimated by Classic Enterprise Benefits Plan Investment Committee:				
Corporate bonds	25,000	250,000	25,000	225,000
	$300,000	$8,000,000	$200,000	$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:

	19X2	*19X1*
Commonwealth Power Co., 9.0% bonds due 2014 ($500,000 face amount)	$475,000	$450,000
ABC Company common stock (2,000 shares)	500,000	450,000
U.S. Treasury bond, 8.5% due 19X6 ($360,000 face amount)		350,000

NOTE 4: 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, 19X2 and 19X1, principally health benefits, relates to the following categories of participants (including their beneficiaries and dependents):

	19X2	*19X1*
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, 19X2, and 19X1, by $2,600,000 and $2,500,000 respectively.

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 Plan, as amended, continues to qualify and to operate as designed.

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