

Fair Value Accounting for Employee Benefit Plans

Q: As the Plan Administrator for my company's employee benefit plan, how will Financial Accounting Standards Board Statement No. 157 (FAS 157) affect my responsibilities and the audit of my plan?

A: The Madoff scandal brought to the forefront the importance of using an accurate fair value to measure investments in employee benefit plans. The Financial Accounting Standards Board issued FAS 157 to provide enhanced guidance for using fair value to measure assets and liabilities. For plan assets and liabilities that are traded in active markets, fair value is determined based on quoted market prices. If quoted market prices for identical assets and liabilities are not available, the plan uses valuation techniques that should maximize the use of observable inputs (assumptions based on market data) and minimize the use of unobservable inputs.

Plan management is required to take responsibility for the valuation of the plan investments; and the Form 5500, the annual tax return for employee benefit plans, requires assets to be reported at their current value. As the Plan administrator, you will be required to coordinate with the plan management, custodian, trustees, investment fiduciaries, and auditors to establish an accounting and financial reporting process and related internal controls to determine the fair value measurements to be included in the audited financial statements and the Form 5500.

Additional time and information may be needed this year by the auditors to audit the investment information. Implementation issues will vary based on the types of investments held and the availability of information. The auditors will need to determine if the valuation methods and assumptions used are appropriate under FAS 157, and obtaining this additional information may present significant challenges to plan administrators.

For more information about FAS 157 and employee benefit plan audits, please contact:



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