

## MINUTES



**To:** Board Members  
**From:** Sledge (ext. 273), Zimmerman (ext. 298)  
**Subject:** Minutes of the July 19, 2006 Board Meeting  
**Date:** July 26, 2006  
**cc:** FASB: Bielstein, Smith, MacDonald, Cassel, Hood, Mechanick, Proestakes, Cafini, Roberge, Sledge, Zimmerman, Sarno, Stevens, Polley, Jolla, Carney, Allen, Sutay, FASB Intranet; GASB: K. Johnson; IASB: Hickey, Leisenring, McGeachin, Upton

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.*

Topics: Postretirement Benefit Obligations, Including Pensions: Classification of Net Postretirement Asset or Liability as Current or Noncurrent in a Classified Balance Sheet; Reporting Issues Related to Not-for-Profit Organizations

Basis for Discussion: Board Memorandum No. 15, dated July 7, 2006  
Board Memorandum No. 16, dated June 10, 2006

Length of Discussion: 1:00–2:00 p.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Linsmeier, Seidman, Trott, and Young  
Board members absent: None  
Staff in charge of topic: Proestakes  
Other staff at Board table: Bielstein, Hood, Mechanick, Roberge, Sledge, and Zimmerman

Summary of Decisions Reached:

The Board continued redeliberations of its March 2006 Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The Board discussed the classification of a net postretirement asset or liability as current or noncurrent and considered reporting issues related to not-for-profit organizations.

The Board made the following decisions related to the presentation of the funded status of a postretirement benefit plan in a classified balance sheet:

1. No portion of a net postretirement asset represents a current asset. The excess of the fair value of plan assets over the benefit obligation should be classified as a noncurrent asset. Any refunds expected from the postretirement plan, including the expected timing of such refunds, should be disclosed in the notes to financial statements. That disclosure applies to all sponsors, even those that do not present a classified balance sheet.
2. The current portion of a net postretirement liability represents the amount of benefit payments expected to be paid in the next 12 months (or operating cycle, if longer) that cannot be funded from existing plan assets (measured as the excess benefit payments expected to be paid in the next 12 months, or operating cycle if longer, over the fair value of plan assets).

The Board made the following decisions related to reporting by not-for-profit organizations:

1. The Board affirmed that not-for-profit organizations should remain within the scope of the final Statement.
2. The Board affirmed the proposed requirement to report net actuarial gains or losses and prior service costs or credits in separate line items apart from expenses. That requirement would apply whether expenses are reported by functional category or by natural category.
3. The Board decided to eliminate the proposed reporting guidance for a not-for-profit organization that presents an intermediate measure of operations that is functionally equivalent to income from continuing operations of a business entity. The Board instead decided to:
  - a. Refer organizations other than health care organizations to FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, for guidance in determining the presentation of net actuarial gains and losses and prior service costs and credits in relation to any intermediate measure of operations or other classifications within the statement of activities.
  - b. Refer health care organizations to the performance indicator guidance contained in the AICPA Audit and Accounting Guide, *Health Care Organizations*, which specifies that a not-for-profit health care provider must report outside of the indicator all items that a for-profit provider would report in other comprehensive income.

4. The Board considered but decided not to provide additional guidance concerning permissible display within the statement of financial position of the cumulative effect on unrestricted net assets of adopting the provisions of the Exposure Draft.
5. The Board considered but decided not to eliminate recycling for not-for-profit organizations, as suggested by some respondents.

Objectives of Meeting:

The objectives of the meeting were for the Board to redeliberate whether additional guidance should be provided about the classification of a net postretirement asset or liability as current or noncurrent and to consider reporting issues related to not-for-profit organizations. The objectives of the meeting were met.

Matters Discussed and Decisions Reached:

1. Mr. Proestakes opened the meeting by outlining the staff's objectives.

**Current and Noncurrent Classification of a Net Postretirement Asset or Liability**

2. Mr. Roberge stated that the staff views expected plan contributions made by an employer as the employer effectively making contributions to itself, which is similar to sinking fund contributions that are accounted for under ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*. As a result, the staff concluded that expected contributions should not be the basis on which the net postretirement asset or liability is classified as current or noncurrent. He noted that there are three situations for the Board to address:
  - a. A net postretirement asset
  - b. A net postretirement liability resulting from a unfunded plan
  - c. A net postretirement liability resulting from a partially funded plan.
3. The Board unanimously agreed with the staff's recommendation that additional guidance should be provided about the classification of a net postretirement asset or liability as current or noncurrent in a classified balance sheet. Mr. Trott stated that additional guidance would be required because of the unique presentation that nets liabilities and assets, both of which could potentially be separated into current and noncurrent portions. He expressed doubt that such a situation had already been clearly addressed in the accounting literature.

4. By a vote of four to three (EWT, TJL, DMY), the Board agreed with the staff's recommendations about how a net postretirement asset or liability should be classified as current or noncurrent. A net postretirement asset should be classified as noncurrent, with any refunds expected from the postretirement plan disclosed in the notes to the financial statements. The required disclosure would apply to all sponsors, even those that do not present a classified balance sheet. A net postretirement liability should be classified as current only to the extent that benefit payments expected to be paid in the next 12 months, or operating cycle if longer, exceed the fair value of the plan assets.
5. Mr. Batavick supported the staff's recommendation and noted the importance of the specific disclosure of anticipated plan refunds. He expressed his desire to have consistent accounting for pensions and other postretirement benefits. For unfunded other postretirement benefits, the current liability is what the employer expects to pay out in benefits in the next 12 months. He added that he views the staff's recommendation as looking at pension plan assets on a first-in, first-out basis where benefit obligations would be paid from plan assets first, and a current liability would be recognized to the extent that expected benefit payments over the next 12 months exceeded plan assets. He also noted that information on expected plan contributions remains important and is included in existing footnote disclosures.
6. Ms. Seidman supported the staff's recommendation and noted the unusual situation of recognizing a net asset or liability on the balance sheet. She expressed her view that the staff's recommendation was the best way to show the likely cash outflows over the net year. She noted that the question of whether to classify existing assets as restricted for expected contributions was not created by the current project, and the Board should view the question of current and noncurrent classification as narrowly as possible.
7. Mr. Herz supported the staff's recommendation and stated that the model took a consolidation perspective where transactions between the plan and the company were treated as intercompany. He agreed with Ms. Seidman that restricting assets to be used for expected contributions was not a new question. He stated that when there is an unfunded plan and a pay-as-you-go system of benefit payments, there seemed to be a current liability no matter if one took the perspective of the company or the plan.

8. Mr. Crooch also supported the staff's recommendation and emphasized that the classification of the net postretirement asset or liability was a secondary issue to its recognition on the balance sheet. Therefore, it would not be appropriate to delay the project over differences of opinion in this area.
9. Mr. Trott objected to the staff's recommendation and noted that other alternative models should be further considered before a decision was reached. He stated that classifying expected plan refunds as current would be appropriate under a net postretirement asset position. He emphasized that when a net postretirement liability is recognized, the current portion should represent the expected change in the net postretirement liability due to expected contributions and benefit payments over the next 12 months. He proposed two alternative models. In the first model, an employer would separately report a net postretirement liability as current if there is any difference between the expected net unfunded position at the subsequent fiscal year-end and net unfunded position at the date of the current statement of financial position (expected net cash outflows of the employer). However, the amount recorded as a current liability cannot exceed the net unfunded position initially calculated under the proposed guidance in the Exposure Draft. In the second model, the employer would classify expected benefit payments to be made over the next 12 months, or operating cycle if longer, as current. However, the amount recognized as a current liability cannot exceed the net unfunded position initially calculated under the proposed guidance in the Exposure Draft. He added that he does not find the staff's analysis that expected contributions are like a bond sinking fund to be determinative.
10. Mr. Linsmeier disagreed with the staff's recommendation, stating that expected refunds under a net postretirement asset position should be classified as current for consistency. However, he was otherwise comfortable with the staff's modeling of current assets and current liabilities. He emphasized that an entity should not account for expected contributions but rather account for existing assets that might fund expected contributions.
11. Mr. Young disagreed with the staff's recommendation because he believes that none of the proposed classification models adequately convey information about the expected future cash flows related to the benefit plans. Since users would still have to rely on the footnotes for supplemental information relating to future cash flows, he

proposed that the entire net postretirement asset or liability be classified as noncurrent so users would not be misled about the expected future cash flows of the plan. He does not believe the staff's recommendation would convey additional decision-useful information.

### **Not-for-Profit Reporting Issues**

12. Mr. Mechanick recalled that not-for-profit organizations are included within the scope of the Exposure Draft and that the staff subsequently posted to the FASB's website some illustrative examples showing how not-for-profit organizations would report in accordance with its provisions in their statements of activities. He noted that about 25 comment letters were received from the not-for-profit community and its auditors, and only 1 letter suggested that not-for-profit organizations should be excluded from the scope of the final Statement. The Board unanimously affirmed its previous decision to include not-for-profit organizations within the scope of the final Statement.
13. Mr. Mechanick stated that some respondents suggested that the Board clarify the separate line item requirement for net actuarial gains or losses and prior service costs or credits to be presented apart from expenses, whether presented by functional or natural classification. Respondents suggested that the separate line items should be presented outside of any expense presentation (either functional or natural). Mr. Mechanick recalled the Board's intention to promote transparency by keeping the actuarial gains and losses and prior service costs and credits apart from "regular" expenses, which is where net periodic benefit costs would be reported. He noted that the staff already made this change in the not-for-profit illustrative examples posted to the website. The Board unanimously affirmed the proposed requirement to report net actuarial gains or losses and prior service costs or credits in separate line items apart from expenses, and clarified that the requirement would apply whether expenses are reported by functional category or natural category.
14. Mr. Mechanick stated that some respondents suggested that the Board require not-for-profit organizations to report actuarial gains and losses and prior service costs and credits outside of any intermediate measure of operations. He noted that the Board had already helped to ensure transparency through the proposed separate line item requirement, and that the staff believed that there was no compelling reason to deviate

from the spirit of Statement 117 and make a rule about the placement of the line items outside of an intermediate measure. Defining operations and operating measures for not-for-profit organizations is beyond the scope of the current project. Mr. Mechanick also noted that several respondents requested clarification of the phrase *functional equivalent of income from continuing operations*. He expressed that trying to hastily define when an operating measure is functionally equivalent to earnings could lead to possible unintended consequences.

15. The Board unanimously agreed with the staff's recommendation to refer organizations other than health care organizations to Statement 117 for guidance in determining the presentation of net actuarial gains and losses and prior service costs and credits in relation to any intermediate measure of operations or other classifications within the statement of activities. The Board also unanimously agreed to refer health care organizations to the performance indicator guidance contained in the AICPA Audit and Accounting Guide, *Health Care Organizations*, which specifies that a not-for-profit health care provider must report outside of the indicator all items that a for-profit provider would report in other comprehensive income. Furthermore, the Board unanimously agreed not to amend Statement 117 to reflect the provisions of the Exposure Draft that concern presentation of the separate line items with respect to an intermediate measure of operations.
16. Mr. Mechanick noted that a respondent suggested that the Board provide additional guidance about permissible display within the statement of financial position of the cumulative effect on unrestricted net assets of adopting the provisions of the Exposure Draft. The respondent was especially concerned about situations in which adoption of the final Statement would largely or entirely eliminate a not-for-profit organization's unrestricted net asset balance. Mr. Mechanick related the staff's position that the Board should only reiterate the flexibility of display allowed under Statement 117 because providing additional guidance would be outside the scope of the project. He also noted that beyond the net assets section there will be a certain degree of balance sheet transparency from, in many cases, the presence of a large, noncurrent liability. The Board unanimously agreed with the staff's recommendation not to provide additional guidance about permissible display within the statement of financial position of the cumulative effect on unrestricted net assets of adopting the provisions

of the Exposure Draft and to reiterate that Statement 117 allows a significant degree of flexibility in reporting the three net asset classes and subtotals of those classes within the statement of financial position.

17. Mr. Mechanick noted that a couple of respondents suggested that the Board permit not-for-profit organizations the option of not recycling prior service costs and credits into net periodic benefit cost. He noted that the alternative would violate the Board's decision to not alter how net periodic benefit cost is measured during Phase 1. He reminded the Board of its decision to consider recycling for all entities as part of Phase 2 of the project. The Board unanimously agreed with the staff's recommendation not to eliminate recycling for not-for-profit organizations. Mr. Herz noted that organizations already have the option under Statements 87 and 106 to immediately recognize actuarial gains and losses in net periodic benefit cost, and thus, forego recycling of such items.

Follow-up Items:

None

General Announcements:

None.