

May 31, 2006

Financial Accounting Standards Board 401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1025-300 (March 31, 2006) – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: An amendment of FASB Statements No. 87, 88, 106, and 132(R)

Dear Members of the FASB:

The Government and Nonprofit Section of the American Accounting Association is pleased to provide comments regarding your recent Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." We will limit our comments to those issues that affect not-for-profit organizations.

Although the FASB has made efforts to improve disclosure for defined benefit postretirement plans with the passage of Statement No. 132R, we support your efforts to further improve reporting for defined benefit postretirement plans through recognition of overfunded or underfunded status of these plans within the financial statements. We also encourage your efforts to move forward with the second phase of the pension project that will consider measurement issues in regard to pensions.

Issue 1 – Cost of Implementation

In general, we agree that the cost related to the recognition of the unfunded postretirement obligation should be relatively minor given that almost all necessary information is available from prior years' footnote disclosures.

Issue 3 – Effective Dates and Transition

Public vs. Nonpublic Entity:

Some not-for-profit entities, hospitals and universities, meet the definition of a "public entity" (paragraph 14 in the ED) as they issue debt securities that are traded in a public market. However, in many places in the ED, the language presumes that not-for-profit organizations are "nonpublic entities." For example, "This Statement also has different effective dates for a public entity than for a nonpublic entity, including not-for-profit organizations" (ED, para 14). We ask the Board to clarify whether not-for-profit entities that are "public" use the public or the "nonpublic entity, including a not-for-profit organization" effective dates (paragraph 18 vs. 21 for measurement date provisions). Confusion might also arise when nonpublic entities (including not-for-profit entities) have public subsidiaries.

Effective Date:

For a couple of reasons, we recommend that the implementation date for recognition of a plan's funded status by not-for-profit entities be for fiscal years ENDING after December 15, 2007. Many not-for-profit entities have fiscal years that do not coincide with the calendar year, and we do not believe that these entities should be forced to implement the provisions of the proposed standard before the majority of large publicly-traded for-profit entities. Second, it makes sense to have the same implementation date for the change in postretirement plan measurement dates in the same year as the recognition of the funded status – especially for nonpublic, including not-for-profit entities.

Issue 5 – Provisions for Not-for-Profit Organizations

Presentation of Other Comprehensive Income:

The basic reporting model for not-for-profit entities (SFAS No. 117) does not consider items that might be included in "other comprehensive income" in for-profit financial statements. Obviously, that standard existed before the requirement for a statement of comprehensive income be provided by for-profit entities. Perhaps it is time for the board to give more attention to just how not-for-profit entities should handle items of "other comprehensive income." We have seen that some not-for-profit entities (NFPs) treat deferred pension cost (currently an "other comprehensive income" [OCI] item) as a "nonoperating" item on their statements of activities.

According to the proposed pension ED, the Board specifies that NFPs should present the prior service cost amortization reversal and the recognition of actuarial loss as separate items on the statement of activities. Would it not make sense to generalize this treatment to other existing and future OCI items? In addition, we suggest that the Board should make it very clear that these OCI items should NOT be allocated to functional or natural expense categories and, further, should not be included in the line labeled "total expenses" on the statement of activities. Clearly, these special items are not really part of mission-directed "service efforts and accomplishments" information that not-for-profit financial statements are intended to provide.

Functional Equivalent of Income from Continuing Operations:

We make the following suggestions with respect to paragraphs 8 and 9 in the proposed pension ED.

- 1. Clarify specifically what is meant by "functionally equivalent" in light of the fact that terminology often differs between the Board's rules for for-profit and not-for-profit entities.
- 2. Add language to paragraph 8 or 9 to require that use of ANY intermediate measure voluntarily reported (not just one that is the functional equivalent to income from continuing operations) would mean reporting the changes in the unrecognized portion of the postretirement obligation in the section of the statement of activities that does not include the functional expenses (program fund-raising, and management & general).
- 3. Add language to paragraph 9 (and related amendments to other standards) to specify that a separate total for expenses shall not include the prior service and actuarial

loss line items. In other words, the presentation illustrated for NFP Organization C would be required.

Pension Disclosures:

The examples for amended provisions of SFAS No. 132(Revised 2003) are misleading when they imply that all not-for-profit entities are also "nonpublic entities" for the purpose of applying the disclosure requirements. See the examples provided starting on page 81 and related to {ED paragraph E1(p) which amends SFAS No. 132R, para. C3 (begins page 81 of the ED)}. The notations that "Nonpublic entities, including not-for-profit organizations, are not required to provide information in the above tables..." should be changed back to the original wording. If not-for-profit entities are to be mentioned, it should be "many" or "some" not-for-profit organizations.

The amendments to SFAS No. 87 do not appear to include any definition of a public entity. Without such a definition, the amended glossary entry for "nonpublic entity" is useless (see Para. C2(u) in ED which amends para. 264 in SFAS No. 87). Obviously, the one from page 84 in the ED would work just fine [ED paragraph E1(r)].

Other Issues

Defining current liability:

We would suggest that the FASB defer the disclosure of current and noncurrent portions of postretirement assets and obligations until the next phase of the project. This is clearly a measurement issue rather than merely one of presentation.

We find no guidance in current GAAP for the measurement or disclosure of the current portion of a pension liability. SFAS Nos. 87 & 106 only discussed the measurement of prepaid postretirement cost or accrued postretirement benefit costs in total with the assumption that both would be classified as long-term since the computation was based on a complicated set of offsetting memorandum amounts. As the Board has found in other areas, defining a liability (let alone the current portion) is a challenge. The proposed language added to Para. 36 of SFAS No. 87 (ED para. C2(1)), is really no guidance at all in this complicated setting where obligations may be offset by assets and portions of obligations remain unrecognized.

The ED's proposed inclusion of next year's contribution to the plan as a current liability is flawed on at least two accounts: (1) Next year's planned contribution is already disclosed under the expanded requirements already part of the revised version of SFAS No. 132. (2) Planned contributions are presumably a discretionary amount and therefore not objectively determined. Management could improve its current ratio or meet other debt covenant provisions by simply planning smaller contributions to the plans.

Revised disclosures (amendments to FAS132R)

Did the Board intend to let nonpublic entities omit disclosure of the total amount of postretirement benefit costs included in expense? Paragraph 8(g) in FAS132R implies such a disclosure but the change in ED paragraph E1(h) appears to remove any requirement. Clearly, the Board intended to simplify nonpublic entities' disclosures by omitting the need for the components of expense [FAS132R paragraph 5(h)]. However, the expense recognized is surely a minimal disclosure given the current volume of information required from even the nonpublic entities. Without adding a requirement (possibly to paragraph 8(a) of FAS132R), it will be impossible to ascertain pension and other postretirement benefit expense since they are normally

combined with other fringe benefits when reported on a statement of functional expense or on the face of the statement of activities. Sufficiently detailed income statements are probably not common among nonpublic for-profit entities either.

Improving the Not-for-Profit Pension Examples:

As written, we found it difficult to trace the "with tax" adjustments for Company A to the not-for-profit "without tax" financial statements. We were unable to see the link between the impact on balance sheet and statement of activities because there was no balance sheet for the not-for-profit examples. In addition, only the most recent balance sheet is adjusted for Company A and that makes the changes in net assets unclear in the "prior year" not-for-profit examples. To illustrate, in the not-for-profit examples, unrecognized prior service cost is adjusted to unrestricted net assets in 2005 in the Statement of Activities (or in a separate statement of changes in net assets), and then subsequently amortized to net periodic pension cost through the Statement of Activities in following years.

To help with clarification of examples, we suggest the following changes. First, an example with actual journal entries would certainly help others achieve understanding of how the retrospective adjustments really work. Second, it might be beneficial to see a Statement of Financial Position (Balance Sheet) illustration for not-for-profits, and/or to see the Statement of Activities for year ended June 30, 2005. Third, although the measurement of net periodic pension cost does not change under this phase of the project, examples may be more clear if the calculation of net periodic pension cost, plan assets and benefit obligation under these new provisions is included.

We also suggest that a statement of functional expense be added to the NFP Organization C example to further confirm that changes in the unrecognized portion of postretirement obligations are also separate items on that statement. In fact, we question whether they should appear on a statement of functional expense at all. To include them would be to imply that they are 100% related to "management and general" since they cannot be allocated. If they are included, they would presumably appear in the total column only. Again, an illustration would be very helpful.

We hope that the Board will include the subsequently issued NFP examples within the final standard AND revise the examples currently available in paragraph 159 of SFAS No. 117. Note that all of the examples follow the Format A Statement of Activities while, in practice, the multi-column Format B is far more common.

We thank the Board for the opportunity to express our views on the exposure draft. This document, like any document prepared by a committee, is a compromise among the members. Please note that some statements may represent the views of some but not all of those who worked on our response. Committee members have invested many hours studying the exposure draft and preparing this document. We hope that our comments are both constructive and helpful to the Board.

Sincerely,

Kathryn J. Jervis, PhD Chair, Nonprofit Entities Financial Reporting Committee Government and Nonprofit Section American Accounting Association Teresa P. Gordon, PhD, CPA Subcommittee Member University of Idaho