

Accounting for Long Term Assets & Liabilities

By their very nature pension assets and liabilities are long term in structure. The value of the assets can change significantly over the short term but over the long term the erratic asset values will be absorbed in a greater up or down trend and will result in a meaningful movement of asset values. How many times have you heard the expression, “stay the course” when giving advice to members in a 401(k) plan or a defined contribution plan. This reflects that fact that we need to acknowledge that their will be temporary changes in asset values both positive and negative, but it’s the longer term values that are more meaningful from a decision perspective. Again I feel that the use of a smoothed bifurcated discount rate and smoothed asset values in revenue and expense recognition will be more meaningful from a decision making perspective. Also footnote disclosure of the one year changes would be appropriate.

Consistency with FASB 107 for Liability Reporting

Here I believe that an inconsistency of treatment of long –term liabilities is being proposed. Most municipal entities comply with FASB 107 when disclosing the market value of long-term debt. As reporting entities we are only required to disclose this valuation change. There is no stipulation for the immediate recognition of a gain or a loss. However, under the proposed exposure draft we are being asked to immediately recognize the change in this asset value. Keep in mind that many pension liabilities are long-term commitments like outstanding bonds are long-term commitments. In many cases the life of a pension liability exceeds that of the bond liability. The disclosure treatment of long-term pension obligations should be consistent with those used in FAS 107.

Incomplete Guidance on Liability Recognition

At this point the immediate recognition of a liability would make sense from a reporting perspective. Given the large asset size reported by many municipal entities, the inclusion of a more robust and factual liability amount would be more transparent. However, the other side (debit) side of the transaction is unclear. I feel that the use of the term “Goodwill” to account for the debit side of the transaction would be misleading to the readers of the financial statements.

Thank you for taking on such a critical task to the municipal finance industry and for allowing an expanded comment period.

Should you have any questions or concerns feel free to contact me at 314-768-6222.

Regards,



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