



ILLINOIS CPA SOCIETY

June 14, 2012

Director of Research and Technical Activities
Project No. 3-17
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Dear Sir/Madam:

The Governmental Executive Committee (Committee) of the Illinois CPA Society would like to offer the following comments for your consideration regarding the proposed statement titled *Government Combinations and Disposals of Government Operations*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. The comments included in this letter represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

1. Although Statement 62 indicates that a separate project will address the disposal of a business unit, we feel that relevant guidance should be included in this Standard. By addressing both sides of potential mergers, acquisitions and transfers of operations at the same time, future conflicts in guidance might be avoided through the due process of the Board. The current proposed Standard only has three paragraphs addressing the disposals of government operations.
2. As for the effective initial reporting date:
 - a. A government merger resulting in one or more new governments begins at the merger date.
 - b. A government merger where government operations are absorbed into a continuing government begins at the beginning of the reporting period in which the combination occurs, regardless of the actual date of the merger.
 - c. An acquisition is recorded on the acquisition date which is, generally, the closing date.
 - d. For a transfer of operations the initial reporting period commences with the transfer date.

We think that the initial reporting date for all mergers should be the merger date. While there was discussion that reporting from the beginning of the reporting period helps assess trends and changes in the continuing government's changes in financial position, the proposed Standard is unclear about how transactions from the beginning of the reporting period through the merger date would be recorded.

Based on the dissolved government's accounting records? Another issue would be whether transactions for this period would be recorded on two government's financial records.

3. When costs of acquisition are incurred, the Standard should provide that such costs which can be directly identifiable to an acquired asset should be capitalized rather than expensed as a period cost.
4. The Standard indicates that, upon a merger, acquisition, or transfer of operations, if the decision is made to sell off certain assets because they will not be used by the new governmental entity, that an impairment loss should be recorded. While we agree that the reduction in value should be recorded after the merger, acquisition or transfer, we would recommend that the impairment loss be limited by the net estimate proceeds which are anticipated from the sale. For instance, in illustration 1, if the capital assets being sold with a cost basis of \$4,000,000 would have a realizable value of \$500,000, the impairment loss should be \$3,500,000 based on this estimated realization. This would represent an accounting estimate. This situation appears to be addressed in paragraph 44, but clarification is encouraged.

We appreciate the opportunity to offer our comments.

Sincerely,

Irwin A. Lyons, CPA, MBA
Chair, Governmental Executive Committee

APPENDIX A
ILLINOIS CPA SOCIETY
GOVERNMENTAL EXECUTIVE COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2012-2013

The Governmental Executive Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from government and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of governmental accounting and auditing standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting/Professional Service Firms:

Linda S. Abernethy, CPA	McGladrey LLP
John E. Blackburn, CPA	Swartztrauber & Co.
Derek C. Brown, CPA	Ringold Financial Management Services, Inc.
Martin H. Friedman, CPA	McGladrey LLP
Harry S. Heifetz, CPA	Harry S. Heifetz, CPA
Nickolaus J. Lekovish, CPA	John Kasperek Co. Inc. CPA
Irwin A. Lyons, CPA (Chairman)	Miller, Cooper & Co., Ltd.
Bert G. Nuehring, CPA	Crowe Horwath LLP
Leilani N. Rodrigo, CPA	E C Ortiz & Co. LLP
James R. Savio, CPA	Sikich LLP

Government:

Duffy Blackburn, CPA	The County of Will
Barry S. Dale, CPA	Retired, U.S. Department of Labor
Dana H. Johnson, CPA	U.S. General Services Administration, Office of the Inspector General
Daniel J. Nugent, CPA	State of Illinois Office of the Auditor General
Alise M. White, CPA	Illinois State Board of Investments

Staff Representative:

Gayle S. Floresca, CPA	Illinois CPA Society
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