February 27, 2019

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, Connecticut  06856-5116

RE: Project No. 3-13, Exposure Draft on Fiduciary Activities Implementation Guide

Dear Mr. Bean:

The Technical Accounting and Review Committee (TARC) of the Illinois Government Finance Officers Association (IGFOA) has reviewed the Exposure Draft of the Implementation Guide for Fiduciary Activities. TARC would like to thank the Board for the opportunity to comment on this Exposure Draft.

The issue most concerning to TARC is the lack of guidance in the Implementation Guide for Illinois Downstate Police and Fire Pensions. Illinois has over 650 Downstate Police and Fire Pension Funds, for which TARC believes the guidance in this Implementation Guide is unclear on whether these funds should continue to be reported as a fiduciary fund under Statement 84 and will lead to a varied implementation throughout Illinois. TARC has reviewed the guidance in Statement 84 and is unclear whether the Downstate Pension funds should be classified as a fiduciary activity under Statement 84 as the Statement is currently written. However, in the past, the funds have always been classified as a Pension Trust Fiduciary Fund. Therefore, absent further guidance from GASB, TARC believes one or both of two things will happen. First, the pension funds could be removed from the primary government’s financial statements. TARC also does not feel that it would be appropriate to remove the Downstate Funds from the primary government financial statements due to their significance to the primary government. TARC is also concerned of the extra cost of audits for Downstate Pension Funds as currently many funds do not issue their own report. Second, TARC is very concerned there will be a lack of consistency throughout Illinois as some governments will choose to include the Downstate Pension Funds based upon their interpretation of Statement 84 and others will exclude them from the report of the primary government. TARC wrote a letter to GASB in July 2018 which outlined several questions that TARC had on implementing GASB 84. While some of the questions indeed do not relate specifically to Statement 84, TARC feels that Statement 84 is now necessitating a response to these questions from GASB in order to properly implement this GASB Statement.

The questions TARC asked relative to Downstate Fire and Police Pension Funds are as follows:

**Question 1:** In paragraph 6a of GASB No. 61, it states that, “the elected officials are accountable for an organization if they appoint a majority of the organization’s governing board.” Could GASB please clarify the definition of an appointment? Traditionally, two of the five members of the Fire/Police Pensions are appointed by municipal mayor/president; two members are elected from the active officers; and one member is elected from the beneficiaries (retirees). The
Committee felt it could be interpreted that, in reality, four of the members were stakeholders in the primary government as two were appointed by the primary government and two were employed by the primary government.

**Question 2:** As it relates to question 1 above, it is possible that an elected official of the primary government could also be an elected retiree of the pension fund. Would this constitute an appointment of the majority of the organization’s governing board?

**Question 3:** The Committee discussed the applicability of fiscal dependency for Downstate Fire and Police Pension Funds to the municipality as defined by paragraph 16a of GASB 14. Regarding a budget, the pension funds cannot adopt their own budget by statute in Illinois. GASB has opined that, “a special-purpose government that is statutorily prohibited from incurring debt may be fiscally independent if it possess the other two powers.” Should this same type of exemption apply if a government cannot pass a budget? If the answer to that is yes, then question 4 below does not apply.

**Question 4:** If the GASB does not think the exemption in Question 3 applies to the budget, then please consider these circumstances. Many (but not all) municipalities create and pass a budget for their Downstate Pension Funds. However, the Downstate Pension Funds have the ability to approve expenses, the ability to hire investment consultants and approve expenses and pensions without consultation or approval from the primary government. Therefore, is the creation of a budget by the primary government is merely a ministerial function? If the creation and approval of a budget by the primary government is ministerial in nature, should it be considered in determining the fiscal dependence/independence of the Downstate Fire and Police Pension Fund?

**Question 5:** Further, the Committee asks GASB to clarify the impact of paragraph 16(b) of GASB 14 on Fire and Police Pension Funds. The Committee discussed if the Downstate Police and Fire Pension Funds were fiscally independent or dependent based upon paragraph 16(b), and the criteria of the authority to levy taxes or set rates or charges without approval by another government. Downstate Police and Fire Pension funds by law are required to request an annual contribution amount based upon an actuarial report or a statutory minimum amount calculated by the State of Illinois. The primary government does not have to contribute that requested amount and many primary governments hire their own actuary to determine the actuarially determined contribution that the primary government will contribute to the fund. In addition, legislation does exist (40ILCS 5/3-125) which provides that a pension fund may request the State Comptroller’s Office withhold state funds owed or due to be distributed to the municipality if a municipality fails to make the required contributions within 90 days of those contributions are due. Given these facts, does the GASB consider the downstate Police and Fire Pension Funds fiscally dependent or fiscally independent under the criteria in paragraph 16(b)?
**Question 6:** The Committee also reviewed question 4.13.Q of the 2016 Implementation guide which states, “If the primary government is acting in a trustee capacity for a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, the assets of the pension plan should be reported in a pension trust fund of the primary government.” Could GASB please clarify the definition of a trustee in this context?

Further, TARC is concerned many governments and auditors will read Question 4.4 in the Implementation Guide and apply that towards Downstate Police and Fire Pensions which would result in an incorrect application. We believe that is imperative that a question be added to the Implementation Guide that addresses how to implement GASB 84 for Downstate Fire and Police Pension Funds.

TARC would be most appreciative if GASB would add to the Implementation Guide to address our concerns on Downstate Fire and Police Pension. However, if this is not possible, TARC would appreciate if the GASB would work with TARC in any way possible to help achieve consistency throughout Illinois in implementing Statement No. 84. TARC looks forward to working with GASB on this issue.

TARC also had a few other comments on the Implementation Guide. On question 4.33, TARC thought the question should specifically state that the school itself is not at all involved in fundraising activities. TARC thought of a familiar circumstance where a parent/booster organization uses school concession facilities to collect donations. In these types of cases, the school would be involved in collection of funds.

In Question 4.47, TARC viewed the optional donation to an equipment fund to be the equivalent of an imputed registration fee. TARC is concerned that this application would be encouraging such fees where contributions are “optional.” In real life application, TARC thought that in most cases these types of contributions are really just imputed registration fees.

TARC also commented on Question 4.53 and the impact on increased auditing fees for those entities.

Again, TARC greatly appreciates the opportunity to provide feedback to the Board.

Sincerely,

Christina Coyle, CPA  
Chair, Technical Accounting Review Committee  
Illinois Government Finance Officers Association