Letter of Comment No. 14
File Reference: 3-20PV
Date Received: 9/28/11

ILLINOIS CPA SOCIETY

September 28, 2011

Director of Research and Technical Activities
Project No. 3-20
Governmental Accounting Standards Board
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Norwalk, Connecticut 06856-5116

By email: director@gasb.org

The Governmental Executive Committee of the Illinois CPA Society (the Committee) appreciates the opportunity to respond to the Preliminary Views of the Governmental Accounting Standards Board on concepts related to the Recognition of Elements of Financial Statements and Measurement Approaches. 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.

The following comments are presented with certain basic understandings. First, our responses consider that this document only addresses financial statement and measurement approaches for governmental fund financial statements, not business-type, fiduciary or entity-wide statements. Second, the term "near term" is defined as assets that are reasonably expected to be realized in cash or sold or consumed within a year from the date of the financial statements. Liabilities are obligations reasonably expected to be paid within one year from the date of the financial statements under the current financial resources measurement focus. Under the near-term financial resources measurement focus, only liabilities payable at the date of the financial statements would be recorded.

1. With regard to near-term financial resources measurement focus, we agree with the concerns put forth in the alternative view. It would seem more appropriate to modify the current fund reporting model than to make such drastic changes which will, virtually, convert many governmental funds to a modified cash basis of accounting.

    a. For instance, the inconsistency of reporting the issuance of long-term debt as another financing source while treating the repayment of the debt as an expenditure could be corrected by treating the repayment as another financing use. Capital outlay as an expenditure was also cited as an inconsistency. Currently, it is identified separately from operating expenditures and our committee does not find this type of presentation misleading or confusing. However, this could be reclassified as another financing use.

    b. Showing debt issuance in the same manner as taxes and other revenues is not appropriate.

    c. If the desire is to isolate and identify non-current assets and liabilities which need to be recorded, a designation of net position for these non-current items which are currently recorded could be added. This would be an alternative to that presented in the Preliminary

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d. Views document. Currently, there is a net asset designation for nonspendables. This concept should be continued and expanded, if necessary. Details of all calculations should be transparent to the reader of the financial statements.

e. If the near-term model is to be adopted, liabilities to be paid currently from existing assets should be recorded under the matching concept. Interfund loans existing at year end should be shown as both an asset and liability if they will be repaid within one year of the financial statement date. Interfund receivables not due within a year should be treated as nonspendable.

f. Repeatedly in the Preliminary Views, the Board made reference to the importance of properly reporting the measurement of operations. Yet, through these proposed measures, assets which can not be converted to cash and liabilities which are not due at the financial statement date are not reported under the near-term approach. This could lead to manipulation and lack of comparability between units of government and does not properly disclose the economic realities of the transactions.

2. On the issue of initial transaction based measurement versus current financial statement date based measurement, we agree with the Board's position that initial transaction based measurement is preferred for the measurement of operations. While remeasured amounts may better present the statement of financial position, care must be taken to ensure that consistent applications are made.

   a. The Preliminary View suggests that remeasurement of assets used to provide services should not be done. We agree with this concept.

   b. The remeasurement of marketable investments is cited as an example of a good application. To be consistent with the near-term considerations, this remeasurement might only be calculated if the investment is intended for redemption during the next fiscal year. Also, footnote disclosures should be included explaining whether they were measured by quoted market prices in an active market or were otherwise determined (like in the Accounting Standards Codification).

   c. We would suggest that the results of operations still reconcile to the statement of position, so these remeasurements will need to be recorded. A decision will need to be made whether they should be recorded as "below the line" adjustments or included in operations. A recalculation of accrued benefits owed to employees would seem to be recorded as a current expenditure of the fund, while an investment market value adjustment might not be part of operations. Remeasurements related to variable rate debt could be argued to be a current period expenditure since the increase or decrease to debt is of a periodic nature. Specific guidance on such matters would have to be presented for consistent reporting by governmental agencies. This guidance should include what changes represent a remeasurement. For instance, when accrued sick and vacation time increases due to a cost of living raise given on current wages, and the current wage levels are considered in the liability calculation, is this a remeasurement?

3. With regard to recording deferred outflows and deferred inflows, we recommend that specific guidance be developed. Currently, the treatment of derivatives and service concession arrangements are addressed, but the treatment of other prepaid expenses and deferred revenue amounts currently on governmental financial statements is not clear.

Sincerely,

Bert Nuehring, Chairman

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APPENDIX A

ILLINOIS CPA SOCIETY
GOVERNMENTAL EXECUTIVE COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2011-2012

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 30 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 & Pullen LLP
Ronald J. Amen, CPA	Lauterbach & Amen, LLP
John E. Blackburn, CPA	Swarztrauber & Co.
Gila J. Bronner, CPA	Bronner Professional Services, Inc.
Derek C. Brown, CPA	Letke & Associates Inc.
Kimi L. Ellen, CPA	Benford Brown & Associates, LLC
John L. Eyth, CPA	Zumbahlen, Eyth, Surratt, Foote and Flynn, Ltd.
Bridget N. Flint, CPA	Deloitte & Touche LLP
Martin H. Friedman, CPA	McGladrey & Pullen LLP
Harry S. Heifetz, CPA	Harry S. Heifetz, CPA
Arch W. Hopkins, CPA	Arch Hopkins &Assoc.
Irwin A. Lyons, CPA	Miller, Cooper & Co., Ltd.
John M. Mackowiak	Bomack Capital LLC
M.G. Bert Nuehring, CPA (Chairman)	Crowe Horwath LLP
Leilani N. Rodrigo, CPA	E C Ortiz & Co. LLP
Calene M. Zabinski, CPA	Zabinski Consulting Services, Inc.

Government:

Duffy Blackburn, CPA	The County of Will
Barry S. Dale, CPA	U.S. Department of Labor (Retired)
Dana H. Johnson, CPA	U.S. General Services Administration, Office of the Inspector General
Robert W. Simon, CPA	U.S. General Services Administration (Retired)
Alise M. White, CPA	Illinois State Board of Investments

Staff Representative:

Gayle S. Floresca, CPA	Illinois CPA Society