



February 13, 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. 3-25, Preliminary Views, Financial Reporting Model Improvements

Dear Mr. Bean:

The Technical Accounting and Review Committee (TARC) of the Illinois Government Finance Officers Association (IGFOA) has reviewed the Preliminary Views (PV) on Financial Reporting Model Improvements. TARC would like to thank the Board for the opportunity to comment on this PV. The PV requested stakeholder feedback on a list of issues which TARC has outlined below. Two TARC members also participated in the field test of this PV and some feedback from that process has also been included in this letter.

Recognition Concepts and Application for Government Funds

TARC believes defining the concept of normally would be difficult to apply consistently across all governments. Paragraph 14 of the PV defines normally as based upon the circumstances of governments in general. TARC discussed that this would be difficult to define without creating a large list of guidelines on what is normal. TARC also believed that there may need to be a different normal for large and small governments and there may be a different normal depending on what state you live in.

TARC also observed that in the search for consistency that this reporting model strives to create, the financial statements may be losing an element of comparability. For example, the appendix of the PV highlights what is "normal" for grants. However, in Illinois, it would be normal to receive grant monies beyond one year from the State of Illinois. In comparing a financial statement between an Illinois municipality and one in another state, you would not note a difference in revenue recognition with this new reporting model. By light of this example, it would seem that revenue recognition is being accelerated for those governments in Illinois.

In reviewing and applying the PV, TARC believes that examples and guidance are needed for unearned revenue as TARC was very unclear on how to apply this PV to transactions such as letters of credit from developers, cell-tower leases, three-year vehicle stickers, or gift certificates. These transactions usually have cash paid up front and then revenue recognized as services are earned or expenses incurred. Most of these transactions also have both short and long term components.

Another class of transactions that TARC felt was unclear was unclaimed property. In Illinois, unclaimed property is remitted to the State after three years. Many governments reclassify a check out of the outstanding check list to an unclaimed property payable after a certain amount of time. Would this be considered a long-term transaction as the time from when the transaction is recorded to unclaimed property payable till it is paid to the State of Illinois is greater than one year?

While participating in the field test, it was noted from GASB staff that there would no longer be nonspendable fund balance related to prepaids and inventories. TARC believes that this change should be expressly stated in future guidance as this change was not immediately clear by reading the PV. TARC also questioned if increasing unassigned fund balance (in the example of a General Fund) for inventories and prepaids was appropriate. Governing bodies often view the unassigned amount as available for use. Unassigned fund balance associated with prepaids and inventory are not available to be used as that money has already been spent towards a future period.

Presentation of Government Fund Financial Statements

Paragraph 13 cites an additional explanation which should be added to the short-term financial resources balance sheet and statement of short-term financial resource flows. TARC does not believe this additional explanation is necessary given the descriptive statement titles and the information that would be found in the notes to the financial statements.

Presentation of Proprietary Fund Financial Statements

TARC did not see that the proposal for proprietary fund financial statements would have a major impact on general purpose governments. TARC did recommend that GASB provide a definition for subsidies as discussed in Paragraph 9. In Illustration 5, grants were shown both in operating revenues and in noncapital subsidies. TARC recommends that GASB provide guidance that would be clear as to when a grant would be placed in the operating section versus noncapital subsidies.

TARC also questioned where to locate a special property tax assessment which was associated with a capital project in a particular neighborhood. TARC does not view this as a subsidy as it is not a general property tax to lower the rates of all customers. Would this be classified as financing and investing activities or as other items?

Budgetary Comparison Information

TARC was unclear as to what funds would be required to provide budgetary comparisons. Would this be only for major funds? Would non-major funds be aggregated? TARC requests that GASB be more specific as to the types of and level of reporting required. TARC agrees that this information should be presented in RSI. TARC did not believe that a variance column between original budget and final budget should be presented. TARC believes that it is helpful to present the original and final budget in the statement, but that a variance column was not necessary.

Communication of Major Component Unit Information

TARC did not have any comments on the major component unit information.

Schedule of Government Wide Expenses by Natural Classification

TARC questioned why this statement was only required for Comprehensive Annual Financial Reports (CAFR). If GASB believes this is important information, then it should be required for all governments. If GASB truly believes it should only be required for a CAFR, then TARC recommends this information be placed in the statistical section of the CAFR only. TARC also questioned the usefulness of this statement if there was no comparison to prior year or budget.

Two TARC members participated in the field test for this PV. When reading the PV, both members thought this statement would be relatively simple to prepare. In actuality, both found that while simple in concept, the financial systems of both members were not set up in a way to easily prepare this statement on a government-wide basis. The current financial systems do not easily classify the adjusting entries from a fund basis to a government-wide basis. To prepare these statements, either system changes would be needed or more time intensive manual statement preparation would be needed.

Alternative Views

Generally, TARC preferred the definitions used in the alternative views, specifically as it relates to the concept of *normally*. TARC believes that the practical implementation of the term normally would be difficult, both for governments as well as for auditors of those governments. However, TARC does disagree with the need for an entity wide cash flow statement. TARC does not believe that stakeholders would use the information. Also, TARC disagrees with the statement in paragraph 21 that general purpose governments seldom manage cash at the individual fund level.

Again, TARC appreciates the opportunity to provide feedback to the Board on this Invitation to Comment.

Sincerely,



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