

Dear Director:

Thank you for providing me this opportunity to comment on your exposure drafts. In 2014 after holding executive management positions for a major corporation, I was honored when Illinois Governor Bruce Rauner appointed me to be the state's comptroller.

In this position I traveled the state to educate the citizens about the government's finances. Illinoisans throughout the state could not understand how, when our governors and legislators consistently claimed that the budget they passed was "balanced" (a requirement under the IL Constitution), the state had somehow accumulated more than \$100 billion in unfunded pensions.

Illinois' budget law does not just require Illinois' six funds, the largest being the general fund, to be balanced. To provide for reliable calculations, the law also requires that budgeted funds be prepared ". . . on the basis of revenue and expenditure measurement concepts that are concert with generally accepted accounting principles for governments."

It was asked why the budgeted funds calculations includes loan proceeds and does not include the pension systems' actuarially required contributions, but they were considered balanced in concert with GAAP. The answer was that because the law specifically requires individual funds to be balanced, then the calculations are done using the accounting required to prepare governmental funds statements.

This "loophole" has allowed Illinois' budget to be "balanced" by including loan proceeds as revenues and not including the full costs incurred. The legislators and governors realized that to be in concert with GAAP only the checks they plan to write need to be included in the budget calculation, so to "balance" the budget they routinely underfunded the state's pension systems and delay paying bills. The result is Illinois' unpaid bills usually amount to between \$3 billion and \$10 billion and the state has accumulated more than \$200 billion, including unfunded pension liabilities of more than \$144 billion.

Illinois' poor financial conditions have been made possible by flaws in government GAAP at the governmental funds level. These flaws will not be fixed by changing governmental funds accounting from the "current financial resources measurement focus and modified accrual basis of accounting" to the "short-term financial resources measurement focus and accrual basis of accounting."

Creating a governmental funds' financial statement called "Short-Term Financial Resources Balance Sheet" will perpetuate the flaws and makes no sense. A balance sheet is a statement that includes an entity's assets and liabilities, not just short-term assets and liabilities. Allowing governments to continue to produce a balance sheet that does not include the long-term financial assets and liabilities of the general and other governmental funds will continue to result in misleading information that give legislators, governors and taxpayers an inaccurate financial picture of their government's general and other budgeted funds.

For cash management purposes I could understand the need for a "Statement of Short-Term Financial Resources Flows" for governmental funds. But even more important is the need for full accrual financial resources balance sheet and income statements. Such statements would give the readers of governmental financial reports the information needed to determine whether the budgeted/governmental funds were incurred more expenses than revenues. This is important

information and is needed to hold elected officials accountable for their budgetary decisions. The GASB current proposed concept statement and standards will allow Illinois legislators and governors to continue to use the general fund and other budgeted funds' financial statements to tout the state budget was balanced in concert with Generally Accepted Accounting Principles while at the same time spending the state into bankruptcy.

I would also be happy to testify before the board at one of its virtual hearings.

Sincerely,

Leslie Munger

Former Illinois State Comptroller

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