

January 23, 2007

Director of Research and Technical Activities  
Project No. 3-181  
Governmental Accounting Standards Board

[director@gasb.org](mailto:director@gasb.org)

Dear Director:

On behalf of the Illinois Government Finance Officers Association (IGFOA), the Technical Accounting Review Committee (TARC) appreciates the opportunity to respond to the Invitation to Comment (ITC) on Fund Balance Reporting and Governmental Fund Type Definitions.

The ITC considers possible clarifications of the definitions of governmental fund types and presents alternative methods of categorizing and reporting the components of fund balance. TARC strongly recommends the focus be on categorizing and reporting the components of fund balance, which would then eliminate the need to clarify definitions of governmental fund types. We provide comments to your questions as follows:

Question 1: Resources which should be accounted for in an externally reported special revenue fund should include a specific revenue source, transferred matching resources, and other legally limited transferred resources (Option C). The definition should also state that all revenue sources related to an activity should be reported as part of the fund, including investment income and program fees. Examples of activity reporting are a Recreation Fund for a Park District and a Motor Fuel Tax fund for a municipality. Option A is too restrictive and excludes investment income. Option A is in direct conflict with NCGA interpretation of GASB #9 reporting requirements of a component unit as a Special Revenue Fund on the primary government.

Question 2: Special revenue funds should be created to report only restricted revenue sources (Option 1). External financial reporting should only include special revenue funds established by a specific restricted (either externally or internally) revenue stream for a specific program or action. Funds created for an unrestricted revenue source may be internally reported as a separate fund, but would be externally reported in the general fund.

Question 4: We agree that specified purposes mean a use that is narrower than the basic activity of the government itself. Purpose limitations should stipulate *what* the revenues can be expended for. However, we don't understand the intended use this definition.

Question 5: A rainy day fund, even if established by ordinance, would not be a narrower scope than the general fund nor a special revenue fund. We believe the best approach is to report rainy-day fund resources as a designation or intention of fund balance in the general fund on the balance sheet.

Question 6: We believe that an externally reported debt service or capital projects fund should contain resources that are restricted, legally limited and intended for purposes consistent with the fund (Alternative B). However, we strongly recommend the revised definition be amended to read:

*Capital projects funds* – to account for financial resources (a) that are restricted or legally limited to expenditure for or (b) that a government has publicly expressed its intention to use

for the acquisition or construction of major capital projects. Capital projects funds exclude major capital projects financed by proprietary funds or in trust funds.

Question 7: Using the appropriate classification of fund balance would ensure that resources transferred to a debt service or capital projects fund reflect the government's intended use of fund balance.

Question 8: We support the definition that legally segregated should be understood to mean a legal limitation that cannot be changed unless a government takes the same action it employed to impose the limitation initially or by taking a higher authority action. See further comments in response to Question 12.

Question 9: Encumbrances that lapse at the end of the fiscal year should not be reported. If an encumbrance results from a continuing appropriation it should be reflected as shown in Model C, "Not available for appropriation."

Question 10: We believe the reporting of a government's intent to use resources for a particular purpose should continue to be optional. As a requirement, it would be difficult to audit, and if it was prohibited, it would prevent governments from showing intentions and accumulations for special purposes.

Question 11: Formal written action of the Board constitutes intent to use resources that should be reported as a designation or intention of fund balance. This action would be something less than enabling legislation.

Question 12: We support Model C with the option of summarizing major components on the external reports and providing detail in the notes. Additionally, the following modifications would clarify reporting of fund balance:

Restricted for: should be reported in two parts – Externally Restricted and Internally Restricted  
Unrestricted: "Assigned to" changed to "Designated or Undesignated"

The major components would be:

Fund balances:

Not available for appropriation

Restricted

External

Internal

Unrestricted

Designated

Undesignated

Question 13: Model C, with the modifications stated above, eliminates the need to address the definition of funds. It allows the reader to take a linear approach in determining what funds are legally restricted for a specific purpose, and what funds are intended for specific purposes.

Question 14: GASB needs to continue with the “clean surplus theory” (APB#18) and prohibit direct debits to fund balance. All activity must go through the income statement. A reconciliation from fund balances to the entity-wide statements may be discussed in the MD&A.

We appreciate the invitation to comment and would be pleased to discuss this letter with you at your convenience. If you have questions on our comments, please contact Fred Lantz, Director of Government Services, Sikich LLP, 630-566-8400, [fredl@sikich.com](mailto:fredl@sikich.com).

Sincerely,

Illinois GFOA  
Technical Accounting Review Committee