

## **Background**

The Technical Accounting and Review Committee (TARC) of the Illinois Government Finance Officers Association (IGFOA) has been working for over a year to determine the impact of GASB Statement No. 84, *Fiduciary Activities*, on the presentation of police (40 ILCS 5/3-101 to -152) and fire (40 ILCS 5/4-101 to -144) pension funds in the financial statements of municipalities with 5,000 to 500,000 inhabitants (downstate pension funds). Prior to GASB Statement No. 84, the downstate pension funds were included in the sponsoring employer's financial statements as a fiduciary fund. TARC met several times and concluded that additional clarifications were needed as to whether the downstate pension funds should be included or excluded from the sponsoring employer's financial statements. An important part of this process was the determination if the downstate pension funds met the definition of a component unit. The primary goal of TARC's project was to ensure consistency in application among Illinois municipalities for downstate pension funds. In order to promote consistency, TARC also joined with the Government Executive Committee of the Illinois CPA Society to develop this joint whitepaper. As part of this process, members of both committees held a conference call with GASB staff. It is important to note that the guidance from GASB staff is not authoritative. It is anticipated that GASB staff will raise this issue with GASB members in the near future.

## **Recommended Application of GASB Statement No. 84**

To determine the proper application of GASB Statement No. 84, it is important to determine if the pension funds meet the criteria for being reported as component units of the sponsoring employer's reporting entity ("primary government" or "City/Village/District"). As defined in *GASB Codification* Section 2100, par. 119, component units are "legally separate organizations for which the elected officials of the primary government are financially accountable (as discussed in paragraphs .120-.136)." Paragraphs .120-.136 discuss the circumstances that set forth financial accountability.

With input from GASB staff, the Committees determined that the typical downstate pension fund met a particular set of facts which would make them a fiduciary component unit of the sponsoring employer financial reporting entity in accordance with *GASB Codification* Section 2100 and GASB Statement No. 84. It is the responsibility of the pension fund and the sponsoring employer to make sure their circumstances align with the facts presented in this memo. Deviations from these facts may lead to a different presentation. The facts are as follows:

- 1) The downstate pension funds are legally separate entities from the sponsoring employers.
- 2) The Board of Trustees of a downstate pension fund is comprised of two trustees appointed by the sponsoring employer (by the President or Mayor with consent of the sponsoring employer Board or Council), two trustees elected from the active participants, and one trustee elected from the retired participants. Due to this composition of the Board of

Trustees, the sponsoring employer does not appoint a voting majority of the Board of Trustees.

- 3) The downstate pension fund met the financial benefit/burden criteria per the requirement in paragraph 7 of GASB No. 84.
- 4) The downstate pension fund is fiscally dependent on the sponsoring employer (City/Village/District).

The downstate pension fund must have the authority to do each of the following three powers (when the power is applicable) to be considered fiscally independent. First, the downstate pension fund must be able to determine its own budget without the City/Village/District having the authority to approve and modify that budget. Second, the downstate pension fund must be able to levy taxes or set rates without approval by the City/Village/District. Lastly, the downstate pension fund must be able to issue bonded debt without approval by the City/Village/District.

The downstate pension funds do not have the statutory authority to approve a budget or issue debt. Therefore, those two criteria do not apply in determining fiscal dependence. Ultimately, the Committees, with input from GASB staff, determined that the downstate pension fund cannot levy taxes or set rates without approval by the sponsoring employer (see 40 ILCS 5/3-125 and 40 ILCS 5/4-118). While in some cases, the pension fund and the sponsoring employer may both prepare actuarial reports, ultimately, the sponsoring employer has the authority under current law to decide the amount to be contributed to the pension fund, and thus “sets or approves the rate.” Based on the criteria, the pension funds are considered to be fiscally dependent on the sponsoring employer.

## **Conclusion**

In summary, based on the facts outlined above, the downstate pension funds should be considered a fiduciary component unit in accordance with the *GASB Codification* Section 2100 and GASB Statement No. 84.

This guidance was based upon facts and authoritative literature as of August 2019.