



**GOVERNMENTAL MANAGEMENT ADVISORY SERVICES**  
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Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Delivered via email to [director@gasb.org](mailto:director@gasb.org)

RE: Project No. 3-20

Dear David:

I have reviewed the Preliminary Views document on concepts related to *Recognition of Elements of Financial Statements* and offer the following comments for the Board's consideration.

**First**, I concur with the Alternative View and their suggestion that the concepts for defining short-term recognition could be simplified. While the example in Chapter 4, paragraph 13, may be unusual, it underscores the problem of reporting some cash commitments, but not others. I have spent a couple of decades trying to explain complex governmental financial statements to those charged with developing program and financial policy that has significant impact on their government's financial position. Explaining that all the accounts payable are reported as liabilities, but the debt service payment due in the next 15 days is not reported would confuse more than a few legislators.

**Second**, while GASB does not prescribe budgetary guidelines, legislators and elected officials use the financial information in the governmental financial statements (hopefully) to draft those public policies for spending in the annual budget. I encourage my clients to develop a direct link between the financial information in the annual audit to that annual budget document to ensure that they are making plans to spend financial resources that are actually available for spending. In my opinion, the Alternative View provides a more consistent reporting approach that makes it easier to link the budget plan with the actual financial results.

As an example, I worked for one mayor who understood governmental accounting quite well. We were trying to identify how much fund balance was appropriate to retain for future periods. I explained that between July 1 (the beginning of our fiscal year) and November 15, I needed at least \$400k to make sure that we were not forced to borrow cash until property taxes were collected. While short-term financing is common, it still adds costs. He understood that concept and never budgeted to spend fund balance lower than that benchmark. And it was an easy concept to explain to City Councilmembers and taxpayers. Under current reporting standards, we could report that amount as an "assigned" fund balance to highlight that it was already set aside for a specific purpose.

Likewise, that annual audit report can reflect balances in the governmental fund statements that do exist, but are not really available for spending, even when the shortfall in the subsequent budget plan is set aside as "assigned." The Alternative View would capture those commitments in liabilities and provide a more prudent view of "available" net fund balances.

**Third**, I also concur with the concept of using a one-year timeline for the definition of "short-term." This approach is more consistent with the current versus noncurrent categories that have been commonly used in financial reporting to segregate balances and highlight when those elements affect the cash position. I believe this approach will help smooth the transition from the governmental fund statements to the governmentwide reporting and allow users to develop more relevant assessments about financial statement balances.

Recent pronouncements have complicated governmental financial statements and it is getting much harder to explain key financial issues to those who have primary responsibility for developing public policies. The focus of the Alternative View on simplifying governmental financial reporting is critical. For a large majority of the local governments in the U. S., legislators, taxpayers, and elected officials are not as financially savvy about the complex financial standards as those of us in audit, financial management, and consulting. This is an opportunity to provide clarity in a key component of the basic governmental financial statements—the governmental fund statements. I encourage the GASB to take another look at the Alternative View and take advantage of this opportunity.

Sincerely,

*Betty A. Pendergrass*

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