



Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

November 13, 2019

Via email to drbean@gasb.org

RE: GASB's Tentative Decision to Establish a One-Year Recognition Period under the Financial Reporting Model Re-Examination

Dear David:

The National Federation of Municipal Analysts (NFMA) is aware of the Governmental Accounting Board's (GASB) deliberations regarding the establishment of a one-year recognition period under the Financial Reporting Model Re-Examination. Though comments have not been solicited, the NFMA Board would like to offer thoughts on the potential change.

We are writing to you in order to express our concerns over the GASB's tentative decision to establish a one-year recognition period under the governmental funds financial reporting model re-examination. Specifically, we are concerned that establishing a one-year recognition period would allow governments to record cash without a corresponding liability on the governmental funds balance sheet by issuing short-term debt with a maturity longer than one year. This would have the effect of artificially inflating fund balance and liquidity, making it appear that a government has more short-term resources available for spending than it actually does.

We would encourage the GASB to reconsider the recognition concept of "normally due" detailed in Chapter 2, section 11.a. of the Financial Reporting Model Improvements Preliminary Views document dated September 12, 2018, which states that "items that arise from short-term transactions and other events would be those that normally are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely within one year from the inception of the transaction or other event." As noted in the example provided on page 55 of the Preliminary Views document, because short-term debt is normally due within one year, governments would recognize both cash and a liability from the issuance of short-term debt with a maturity longer than one year since short-term debt is normally expected to be paid within one year from the inception of the transaction.

Municipal bond analysts rely on financial statements to provide fair, accurate information on the



financial condition of governmental entities as a critical part of the process in making investment decisions. The proposed one-year recognition period has the potential to reduce the accuracy of the governmental fund financial statements by creating an incentive for financially stressed governments to extend the maturities of short-term debt beyond one year in order to artificially improve their financial position. At a time of an uncertain economic future that could stress state and local government liquidity reserves, we discourage any change that could lend itself to misrepresenting a government unit's financial condition. We hope that the GASB will reconsider its tentative decision on this matter.

Sincerely,

/s/

Lisa Washburn
NFMA Representative to GASAC

/s/

Matt Harvey
Insurance Industry Representative to GASAC
& NFMA Board Member

