February 24, 2017

Director of Research and Technical Activities
Project No. 3-251
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

The Comptroller of the State of Maryland is responding to the Invitation to Comment on Financial Reporting Model Improvements – Governmental Funds.

The Comptroller agrees that the current reporting model for governmental funds, namely, flow of financial resources and modified accrual, is inconsistent in applying interperiod equity in which current period inflows of resources equal current period cost of services. For example, long-term receivables are generally included on the fund balance sheet whereas debt extending longer than one year is not.

Among the three recognition approaches, namely, near-term (60-90 days after year-end), short-term (up to one year after year-end) and long-term (total financial resources), the Comptroller supports the short-term approach for the following reasons. In addition to better assessing interperiod equity, by focusing on a one-year operating cycle, it would present better information about whether the government is able to meet its current obligations. In most budgeted and near-term approach financial statements, the fund balance may be overstated by postponing funding decisions for a pension or OPEB plan, for example. Under the short-term approach, a liability would be recorded for the amount of the actuarially-determined contribution over amount contributed. Regarding the near-term approach, the extension of the recognition period by 60-90 days beyond year-end is essentially the basis of accounting used in Maryland’s budgeting and would generally offer little new information not presented in the budgetary financial statements already reported.

On the other hand, the long-term approach, while differing from the measurement focus of the long-term government-wide financial statements, would no longer present a shorter time perspective of the financial position and resource flows that we feel are important to assessing government’s critical short-term needs and obligations on a GAAP basis and which is not available from the government’s budgetary financial statements. The budget may not properly match inflows and outflows of the period, and the near-term approach, although designed on a financial resources measurement focus provided under GAAP, may have deficiencies in application, as mentioned above.
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Regarding transactions related to short-term borrowings, the short-term approach provides more valuable information than the near-term approach by providing for both interperiod equity and disclosure of cash flows on the statement of cash flows.

There could, however, be confusion between, for instance, different amounts reported as the current portion of long-term liabilities on the government-wide statement of net position (or disclosed in the notes) and similar liabilities reported on the short-term financial resources balance sheet due to differences in measurement focus/basis of accounting. We suggest that the terminology for the accounts on the fund statement be standardized in these cases, as net pension obligation, rather than the current portion of net pension liability, for instance.

We appreciate the opportunity to comment to the Board on its *Financial Reporting Model Improvements – Governmental Funds* project.

Sincerely,

[Signature]

Sandra L. Zinck
Director