Invitation to Comment of the Government Accounting Standards Board:

Financial Reporting Model Improvements – Governmental Funds

Response by the State of Arkansas Department of Finance and Administration, Office of Accounting

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To the Director of Research and Technical Activities

RE: Project 3.25I, Financial Reporting Model Improvements – Governmental Funds

We appreciate the opportunity to present our answers to the questions in the Invitation to Comment of the Governmental Accounting Standards Board. The information needs of decision-makers and users of financial information require careful study and input from preparers.

In general, we agree using the near-term approach for governmental fund financial statements. We believe this approach provides relevant information for assessing financial practices and for making budgetary decisions. In addition, use of the near-term approach would provide information not available for governmental activities reported in the government-wide financial statements.

Our detailed answers are provided on the following pages.
Chapter 2: Recognition Approaches for Governmental Fund Financial Statements

2.1. Do you believe that governmental fund financial statements should continue to present information that reflects a shorter time perspective than the information presented in the government-wide financial statements and that focuses on financial, rather than economic, resources? Yes. Why? The shorter time perspective is closer to the approach used for budgeting by many governments. Therefore, the information presented would be more useful when making budgetary decisions.

2.2. Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information? Yes. Why? In the governmental environment, the budget is often legally enforceable. Therefore, information presented in the governmental fund financial statements should support the budgetary process.

2.3. Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability of the government? Near-term approach. Why do you consider that information most relevant? In our state, budgets are generally prepared on the cash basis. The near-term approach is closest to that basis.

2.4. Transactions related to tax anticipation notes or revenue anticipation notes are presented differently under the three recognition approaches. In the near-term approach, borrowings on and repayments of these notes would be reported as inflows and outflows of resources on the statement of resource flows and in the reconciliation to the government-wide statement of net position. In the short-term and long-term approaches, outstanding balances of these notes would be reported as liabilities on the balance sheet, and borrowings on and repayments of these notes would be reported in the statement of cash flows. (See the discussion in Chapter 3.) Which approach to the reporting of these notes provides the most valuable information? Near-term approach. Why? For the same reason as stated in the answer to question 2.3

2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. (See the discussion in paragraphs 38–40 of Chapter 2.) What definition of financial resources provides the most valuable information? Financial resources are items that are cash or cash equivalents, or expected to be converted to cash. Why? Cash, cash equivalents and items expected to be converted to cash are the assets considered when making budgetary decisions. Do you consider prepaid items to be financial resources? No. Why? The purchase of pre-paid items is a budgetary decision. The use of pre-paid items is not. Do you consider inventory to be financial resources? No. Why? The purchase of inventory is a budgetary decision. The use of inventory is not unless the inventory is sale merchandise.

2.6. For the recognition approach that you believe provides the most valuable information, how would you change that recognition approach to provide information that is more valuable? The near-term period should be the first quarter of the subsequent fiscal year. How would those changes make the information more valuable? This period would cover most accounts payable that
can be paid using the appropriation for the reporting period. Also, it would be consistent with
guidance for preparation of a statement of cash flows.

2.7. Paragraph 6 of Chapter 2 discusses a same-page reconciliation to government-wide
information and the use of specific terminology to more clearly communicate that the information
in governmental fund financial statements is of a shorter time perspective than information in the
government-wide financial statements and focuses on financial, rather than economic, resources.
Are these changes effective in communicating that the information in governmental fund financial
statements is different from the information in government-wide financial statements? Yes. How
could those differences be communicated more effectively? No suggestions.

Chapter 3: Other Governmental Fund Financial Statement Issues

3.1. Which format for the governmental funds resource flows statement—existing format or current
and long-term activity format—provides the most valuable information about governmental funds?
Current and long-term activity format. Why do you consider the information to be more valuable? It
provides a better presentation of outflows for current activities.

3.2. Should a statement of cash flows be required for governmental funds? No. Why? Since we
recommend using the near-term approach, a statement of cash flows would not be necessary for
governmental funds.

3.3. What difficulties, if any, would arise in presenting a statement of cash flows for governmental
funds? It would increase the time and effort in preparing general purpose external financial reports.

3.4. Are the four classifications for the statement of cash flows from Statement No. 9, Reporting Cash
Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use
Proprietary Fund Accounting, the most appropriate for governmental funds? Because we support the
use of the near-term approach, this question is moot. However, within the context of this question, our
answer would be yes. If not, what classifications would be most appropriate? N/A