March 31, 2017

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS), in response to Governmental Accounting Standards Board (GASB) Invitation to Comment (ITC) for Financial Reporting Model Improvements – Governmental Funds. Although CalSTRS does not administer any governmental funds, pension and other post-employment benefit (OPEB) information from CalSTRS audited financial statements is incorporated into approximately 1,800 contributing employer governmental fund financial statements. Given the reliance individuals place upon the employer financial statements information, CalSTRS would like to provide its perspective and responses to the questions within the ITC.

Responses:

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? Why?

CalSTRS believes governmental fund financial statements should present information that reflects a long-term perspective. CalSTRS believes it will benefit users of the financial statements to have consistency in the manner in which both CalSTRS and its employers report pension and other post-employment benefit obligations, along with the associated expenses and deferred inflows/outflows. Having a consistent approach in presenting the information will reduce confusion in understanding and reconciling the information between the two sets of reports. Furthermore, a longer term perspective provides the financial statement user information necessary to assess the reasonableness of pension-related information the employers recognize in their financial statements and their ability to meet those obligations.
2.2. Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information? Why?

CalSTRS believes governmental funds should continue to present information that facilitates the comparison with a government’s budgetary information. This will ensure governments are accountable and transparent with its use of funding approved by its citizenry. This information is critical for evaluating the performance and future needs of the governmental fund. Finally, including a government’s budgetary information provides a useful link between government’s audited accounting information and its budget, which typically is reported using a budgetary basis of accounting that may not be in alignment with generally accepted accounting principles.

2.3. Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability of the government? Why do you consider that information most relevant?

CalSTRS believes the long-term approach is most relevant for assessing the fiscal accountability of a governmental fund given that by its nature, governments are expected to exist into perpetuity. Furthermore, the information reported in the fund balance using a long-term approach will better reflect certain budgetary actions that have a longer term affect. For example, the long-term approach provides the most meaningful reporting of the pension and other postemployment benefit liabilities of our employers, which typically can have a 30+ year horizon. In addition, it would include a more comprehensive and complete accounting of all financial activities and status of the government. Finally, this approach would simplify the reporting process by creating consistency with the government-wide financial statements, thus reducing the number of approaches an individual would need to understand when evaluating a governmental entity.

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? Why?

Consistent with our response on #3 above, using the long-term approach to report these transactions will provide the most valuable information. The long-term approach will provide a more complete picture of the financial transactions and impact to the government entity, which will be useful in assessing the long-term commitments of a particular government.
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? Why? Do you consider prepaid items to be financial resources? Why? Do you consider inventory to be financial resources? Why?

CalSTRS considers prepaid items as financial resources as these are expenses that could be refundable and, therefore, having the ability to produce cash. In addition, these prepaid items are considered consumable in lieu of financial resources, meaning the use of financial resources in a future period can be avoided.

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? How would those changes make the information more valuable?

CalSTRS believes that the long-term approach is the recognition approach that provides the most valuable information to users consistent with our response in #3 above.

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? How could those differences be communicated more effectively?

To the extent a governmental fund is not reported using the same long term approach as the government wide financial statements, then CalSTRS agrees that a same page reconciliation between a governmental fund financial statements and government-wide financial statements is necessary to explain the differences between the two statements. However, as stated above CalSTRS believes the governmental fund statements should use a long term approach.

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? Why do you consider the information to be more valuable?

CalSTRS does not have a position on this.

3.2. Should a statement of cash flows be required for governmental funds? Why?
CalSTRS believes that a cash flow statement should be required as it is a key indicator of a governmental entity’s fiscal health. At its core, the cash flow statement is critical in assessing a governmental entity’s ability to generate future net cash flows and its ability to meet its obligations as they come due.

3.3. What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?

CalSTRS does not have a position on this.

3.4 Are the four classifications for the statement of cash flows from Statement 9 the most appropriate for governmental funds? If not, what classifications would be most appropriate?

CalSTRS believes the four classifications (operating activities, noncapital financing activities, capital and related financing activities, investing activities) are the most appropriate for governmental funds.

If you have any questions, please contact Art Martinez at 916-414-4307, email: amartinez@CalSTRS.com

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