Government Financial Officers Association (GFOA)
108th Annual Conference
May 18 through May 21, 2014
Minneapolis, MN

My main focus this year for the conference was attending sessions on the implementation of the Governmental Accounting Standards Board's (GASB) Statement No 67 and Statement No 68.

- GASB Statement No 67, *Financial Report for Pension Plans* is effective for financial statements for fiscal years beginning after June 15, 2013 (fiscal year ending June 30, 2014).
- GASB Statement No 68, *Accounting and Financial Reporting for Pensions* (employers) is effective for financial statements for fiscal years beginning after June 15, 2014 (fiscal year ending June 30, 2015).

Below are the sessions that I had attended during the conference.

- **The GASB's Fair Value Initiative**
    1. Preliminary View (PV) high level summary: Describes how fair value should be defined and measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

    2. Objective of a fair value measurement is to estimate the **exit price** of assets and liabilities.

    3. The PV specifies that a valuation technique that is appropriate to the circumstances should be used. The technique should maximize the use of **observable inputs** and minimize the use of the **unobservable inputs.**

    4. Three valuation approaches that might be used are:
        a. **Market approach** – uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or a group of assets and liabilities.
        b. **Cost approach** – reflects the amount that would be required currently to replace the service capacity of an asset.
        c. **Income approach** – converts future amounts (ie. cash flows or income and expenses) to a single discounted amount. When this approach is used, the fair value measurement would reflect current market expectations about those future amounts.

    5. Exposure Draft will be issued in May 2014 with comment period closing in August 2014.

    6. Final GASB deliberations will be held in September 2014with a final statement to be issued in December 2014.

- **From This Day Forward: GASB's Plans for the Future**
    1. Current Technical Agenda Projects
        a. Conceptual Framework – Recognition (on hold)
        b. Economic Condition Reporting (on hold)
        c. GAAP Hierarchy (Due Process Document)
        d. Fair Value Measurement and Application (Due Process Document)
        e. Other Postemployment Benefits (Due Process Document)
        f. Leases (future)
        g. Tax Abatement Disclosures (future)
        h. Fiduciary Responsibilities (future)

    2. Pre-Agenda Research Activities
        a. Statement 34 Reexamination – Research on the Financial Reporting Model is scheduled to be completed by June 2015.
        b. Blending Requirement for Certain BTAs
        c. Asset Retirement Obligations
        d. Irrevocable Charitable Trusts

- **The Ripple Effects of Baby Boomer Retirement**
  The below statistics came from survey findings of the State and Local Government Workforce performed by the Center for State and Local Government Excellence (SLGE), NASPE and IPMA-HR in 2009, 2011, 2012 and 2014.
    - ✓ The Baby Boomer Generation is comprised of the birth years of 1946 to 1964.

    - ✓ Baby Boomers represent 39% of the overall state and local government workforce: 37% of state workers and 40% of local workers

    - ✓ 8% of state and local workers are within five years of age 65

    - ✓ The Top 3 answers to the survey question: 'Looking ahead, which workforce issues are important to your organization?'
        1. Recruiting and retaining qualified personnel with needed skills: 89%
        2. Staff Development: 80%
        3. Workforce succession planning: 76%

    - ✓ 'Do you feel your employees are prepared financially for their retirement?'
        - 18.3% say Yes
        - 44.1% say No
        - 37.6% say Don't know

  To change these percentages an employer could consider the following policy and program changes: reduction of barriers to saving and continued work; the role of supplemental DC plans (and other savings vehicles); and financial education. Examples of these changes were presented in detail during the presentation.

- **The Accounting and Auditing Year in Review**
  This session offers participants an overview of the most recent developments in accounting, auditing, and financial reporting that affect state and local governments. It also considers ongoing emerging issues on the GASB technical agenda.

- **Check it Out! The Audit Implications of the GASB's New Pension Standards**
  The implementation of the GASB's new pension guidance for employers will cause serious challenges for governments that participate in multiple-employer plans. This session went over those challenges.

- **Pensions for Pros: A Detailed Look at the GASB's New Pension Standards**
  This session was a drill down of GASB Statement No. 67 and GASB Statement No. 68 and explored the practical challenges facing those who have to implement the new guidance. This session focused on some of the more important details of the new GASB standards, as well as some of the key implementation issues.

  - ✓ Disassembling the Cost-sharing Borg – respective duties of the plan and the employer

  - ✓ Cost-sharing plan

  - ✓ Single-employer plan

  - ✓ Non-employer Contributing Entity (NCE) is an entity, whether governmental or nongovernmental, that makes contributions to a pension plan in relation to covered employees of <u>other</u> entities. (Examples were given).

  - ✓ Special Funding Situation (SFS) is a circumstance in which a NCE is <u>legally responsible</u> for making contributions <u>directly to</u> a pension plan that covers employees of another entity or entities <u>and</u> EITHER:
    a. The amount of contributions is NOT dependent upon one or more events or circumstances Unrelated to the pensions, OR
    b. The NCE is the only entity with a legal obligation to make contributions directly to the pension plan. (Examples were given).

  - ✓ From the audit standpoint the auditors will have to perform audits on the census data of what the state pension plan has from the employer payrolls and compare that to the census data that the employer has on their employees.

- **Getting Started: Establishing an Internal Audit Function**
  This session walked us through the process of establishing an 'audit universe' for their government, and then using budgets, financial statements, and a simple questionnaire to develop a practical, risk-based audit program.

- **Implementing a Pension Funding Plan**

The new GASB pension standards focus entirely on how state and local governments should account for pension liabilities, rather than on how employers should fund the costs of pension benefits or calculate their annual required contributions, leaving jurisdictions with a pressing need for guidance regarding what constitutes sound funding. This session, local government financial professionals and their advisors discussed their successful pension funding plans. Overviews of GFOA's new pension funding guidelines were also provided during this session.

- ✓ GFOA policy objectives
  1. Funding discipline
  2. Maintaining intergenerational equity
  3. Stable contributions
  4. Accountability
  5. Transparency

- ✓ GFOA believes that a funding policy for pensions should address three core elements
  1. Actuarial costs
  2. Asset smoothing
  3. Amortization

- ✓ Society of Actuaries or SOA policy objectives
  1. Adequacy
     - Fund 100% of the pension obligation over the career of the employee
     - Assumptions at the median expectation
  2. Intergenerational equity
     - Current taxpayers should fully fund current benefits earned by employees
  3. Cost stability and predictability

- ✓ There are no new pension funding policy requirements under GASB
  - ARC is gone (Never intended to be a funding policy)
  - Actuarially Determined Contribution (ADC) is new. This is a recommended contribution to a defined benefit pension plan determined in conformity with <u>Actuarial Standards of Practice</u>

- ✓ As a best practice, GFOA recommends that every state and local government that offers defined benefit pensions formally adopt a funding policy that provides reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner.

- **Employing an Effective Communications Strategy in Response to GASB's Pension Changes – Discussion Group**

  With the GASB's new pension reporting standards, all state and local government employers will be required to report their unfunded pension liabilities on the face of their financial statements, rather than in the notes, where they are currently reported. For many employers, that number is substantial.

This session was facilitated by the Assistant Executive Director and Communication Officer of the Minnesota Teachers Retirement Association. They discussed the different ways they have reached their board members, staff, and the public on the implications of GASB 68 to the balance sheet.

The vehicles of communications that should be used are:

- ✓ Retirement system websites – could reach all audiences, but probably reaches primarily members and employers
- ✓ Retirement system newsletters – active and retired members, employers
- ✓ Social media – depends on followers on Twitter and Facebook "likes".
- ✓ PowerPoint presentations – retirement system members and employers
- ✓ Explanatory op-ed pieces in local press – proactive? Reactive?

- **Working through the GASB Worksheets**
  Many plan sponsors have questions about working with the new spreadsheets that could be used for GASB Statement No. 67 and will then move the accounting process forward to the implementation of GASB Statement No. 68. In this session samples of the worksheets were reviewed with example scenarios.

I would like to thank the Board for allowing me to attend the Annual GFOA Conference. The information gathered and the friendships that are formed with colleagues are beneficial to MPERA and me.

Looking forward to next year's 109th Annual GFOA Conference in Philadelphia, PA on May 31, 2015 through June 3, 2015.