

## Government Finance Officers Association

### Certificate of Achievement for Excellence in Financial Reporting

## PENSION AND OTHER POSTEMPLOYMENT BENEFIT SYSTEMS

### CASH AND INVESTMENT POOLS

# SRC REVIEW GUIDE

(Available electronically at [www.gfoa.org](http://www.gfoa.org))<sup>1</sup>

GFOA has prepared a comprehensive checklist for preparers of financial reports of pension and OPEB systems (system) and of cash and investment pools (pool). GFOA professional staff make use of that checklist to perform a detailed review of every report submitted to the Certificate of Achievement for Excellence in Financial Reporting Program (Certificate Program). A substantial number of the questions on the checklist address purely factual matters or formatting issues that can be resolved easily and objectively during the staff review. Members of GFOA's Special Review Committee (SRC) are welcome, of course, to use that same comprehensive checklist to perform their own reviews for the Certificate Program.<sup>2</sup> Alternatively, SRC members who prefer to focus their limited time on the more substantive aspects of the reports they are to review may use the attached *Guidelines for Expedited Reviews*, with the full assurance that other more routine aspects of the review will be fully covered as part of the staff review.

When using these guidelines please note:

- Indentation indicates that a question is only relevant if the response to the preceding question is positive.
- Explanations or comments follow the relevant question.
- The letter "P" before a given question and the use of shading indicate that the question is unique to postemployment benefit systems or cash and investment pools.
- A plus sign ("+") indicates that the answer to a question in section IV of the application form indicates whether the particular question is relevant to the system.
- An asterisk ("\*") indicates that a "no" response to the question is potentially sufficient to deny the certificate.

Reviewers are especially encouraged to provide narrative comments on any deficiencies they may encounter in the course of their review. Reviewers should e-mail their **Vote Page** and narrative comments to [srcreviews@gfoa.org](mailto:srcreviews@gfoa.org). A page number reference to the CAFR should accompany each deficiency noted by the reviewer (there is no need to reference the question number).

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<sup>1</sup>An electronic version of these guidelines can be found by selecting the *Award Programs* heading at the home page and then selecting *Certificate of Achievement for Excellence in Financial Reporting*.

<sup>2</sup>An electronic version of the comprehensive checklist for preparers can be found by selecting the *Award Programs* heading at the GFOA website home page and then selecting *Certificate of Achievement for Excellence in Financial Reporting*.

### Abbreviations Used in these Guidelines

APB	-	Accounting Principles Board Opinion
<i>Audits of State and Local Governments</i>	-	<i>Audits of State and Local Governments</i> , American Institute of Certified Public Accountants, May 2007
FASB - I	-	Financial Accounting Standards Board Interpretation
FASB - S	-	Financial Accounting Standards Board Statement
2005 GAAFR	-	<i>Governmental Accounting, Auditing, and Financial Reporting</i> , GFOA 2005
GAAFR Review	-	<i>GAAFR Review</i> , GFOA's Monthly Newsletter on Governmental Accounting, Auditing, and Financial Reporting
GASB - I	-	GASB Interpretation
GASB - S	-	GASB Statement
GASB - TB	-	GASB Technical Bulletin
Q&A	-	<i>Comprehensive Implementation Guide - 2006</i> , GASB
NCGA - I	-	National Council on Governmental Accounting Interpretation
NCGA - S	-	National Council on Governmental Accounting Statement

All references listed above, except those for "2005 GAAFR," "GAAFR Review," "Q&A," and *Audits of State and Local Governments*, are followed by the number of the pronouncement, if applicable, and the specific paragraph(s), footnote(s), or appendix (appendices) within the publication that is being referenced. The references to "2005 GAAFR" and "GAAFR Review" are to pages in those publications. For "Q&A," the references are to the applicable chapters and questions in that publication. For *Audits of State and Local Governments*, each reference is to the chapters and specific paragraphs.

***[SECTION 1, COVER, TABLE OF CONTENTS, AND FORMATTING,  
HAS BEEN OMITTED FROM THESE GUIDELINES]***

***INTRODUCTORY SECTION***

**LETTER OF TRANSMITTAL**

2.4e Does the letter of transmittal include background information on the system (pool)?

Explanation: The background information for a pool should include the following: 1) a discussion of the pool's history, 2) a discussion of the pool's participants, 3) the services provided by the pool, and 4) a description of the pool.

2.4i Has the system (pool) refrained from duplicating information contained in MD&A or in the notes to the financial statements? [GASB-S34: 8, note 7; Q&A 7.5.2; 2005 GAAFR, page 287]

Explanation: The *GAAFR* suggests three means of avoiding unnecessary duplication: 1) briefly identifying a topic and explaining its potential interest to financial statement users in the letter of transmittal, 2) referring readers of the letter of transmittal to the notes and MD&A for any information on the topic already provided there, and 3) limiting the discussion in the letter of transmittal to the more subjective aspects of a given topic.

P2.3 Does the letter of transmittal discuss major initiatives involving investments, benefits, or administration?

P2.4 Does the letter of transmittal discuss funding status and progress toward achieving funding goals?

Explanation: The discussion in the letter of transmittal ought to communicate the information in less technical terms than in the financial, actuarial, and investment sections.

P2.5 Does the letter of transmittal include financial information for investment activities that includes investment policies and strategies, safeguards on investments, and yield information?

Explanation: The letter of transmittal for a **pool** should include 1) the pool's current and future goals and objectives, 2) a statement referring to the reliability of the investment section, and 3) the basis used to present data in the investment section.

***[SECTION 3, FINANCIAL SECTION – REPORT OF THE INDEPENDENT AUDITOR,  
HAS BEEN OMITTED FROM THESE GUIDELINES]***

***FINANCIAL SECTION – MANAGEMENT'S  
DISCUSSION AND ANALYSIS (MD&A)***

4.1e Does MD&A provide an overall analysis of the financial position and results of operations of the system (pool)? [GASB-S34: 11c; 2005 GAAFR, page 293]

Explanation: *Analysis*, properly speaking, should focus on the *reasons for changes* rather than just their sizes. Review the condensed financial information to identify areas with significant changes that should be included in the analysis.

4.1e1 Does MD&A specifically address whether the overall financial position of the system (pool) has improved or deteriorated? [GASB-S34: 11c; 2005 GAAFR, page 293]

Explanation: It is not necessary for the discussion to use the words "improved" or "deteriorated." A statement that net assets have increased or decreased is sufficient.

4.1k Has the system refrained from addressing in MD&A topics not specifically prescribed by SGAS 34? [GASB-S37: 4-5; 2005 GAAFR, page 292]

Explanation: A system (pool) may address in the MD&A only those topics specifically identified in SGAS 34, paragraph 11. A system (pool) is free, however, to provide whatever level of detail it believes appropriate in addressing these particular topics.

## ***FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS***

### **PRELIMINARY CONSIDERATIONS**

- 5.6\* Has the system (pool) refrained from making direct adjustments to *net assets* except in those situations specifically contemplated by GAAP? [*Audits of State and Local Governments* 10.02; 2005 GAAFR, pages 282-3]

Explanation: The statement of changes in plan (pool) net assets must be presented using an *all-inclusive format*. That is, *all* changes to *net assets* normally should be reported as *either additions or deductions* rather than as direct adjustments to *net assets*. Two exceptions to this general rule are prior-period adjustments and changes in accounting principle.

- 5.7\* Do the financial statements articulate (i.e., tie)?

**[SECTION 7, FINANCIAL SECTION FUND FINANCIAL STATEMENTS, SECTION 8, GOVERNMENTAL FUND FINANCIAL STATEMENTS, AND SECTION 9, PROPRIETARY FUND FINANCIAL STATEMENTS, HAVE BEEN OMITTED FROM THESE GUIDELINES]**

### ***STATEMENT OF PLAN (POOL) NET ASSETS***

- 10.6a Are the principal subdivisions of receivables and investments of postemployment benefit plans, reported? [GASB-S25: 21; GASB-S43 19; 2005 GAAFR, page 195]

### ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP)***

- 11.4+ If the system (pool) itself is a component unit, does the SSAP identify the primary government and describe the nature of the relationship? [GASB-S14: 65; 2005 GAAFR, page 200]

### ***NOTE DISCLOSURES (OTHER THAN THE SSAP)***

- 12.2 Do the notes disclose the legal and contractual provisions governing cash deposits with financial institutions? [GASB-S3: 65-66; 2005 GAAFR, pages 206-9]
- 12.3 Do the notes disclose the system's (pool's) policy for custodial credit risk associated with deposits or indicate that it does not have such a policy? [GASB-S40: 6; 2005 GAAFR, page 207]
- 12.6 Has the system (pool) refrained from including any such investments that are not subject to custodial credit risk because they are *not* evidenced by securities? [GASB-S40: 9; 2005 GAAFR, pages 210-1]

Explanation: Investments that are evidenced by contracts rather than securities (and therefore not subject to custodial credit risk) include venture capital, limited partnerships, open-end mutual funds, participation in contracts, and guaranteed investment contracts.

- 12.7 Do the notes disclose the credit ratings (or explain that credit ratings are not available) for investments in debt securities (other than debt issued by or explicitly guaranteed by the U.S. government), as well as for positions in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities? [GASB-S40: 7; 2005 GAAFR, pages 212-4]
- 12.7a Do the notes use one of five approved methods (i.e., segmented time distribution, specific identification, weighted average maturity, duration, or simulation model) to disclose interest rate risk for positions in fixed-rate debt securities? [GASB-S40: 14-15; 2005 GAAFR, pages 214-6]

Explanation: The method selected for disclosing interest rate risk should be the one most consistent with how the system (pool) manages that risk.

P12.1 Do the notes include appropriate custodial credit risk disclosure for investments associated with securities lending arrangements that are exposed to custodial credit risk? [GASB-S40: 10]

Explanation: Custodial credit risk disclosure is required only for the amount of investments (if any) that are both uninsured and unregistered and held by either 1) the counterparty or 2) the counterparty's trust department or agent but not in the system's (pool's) name, as follows:

- Arrangements involving letters of credit (or collateral that may not be pledged or sold absent a default). Custodial credit risk is a consideration only for the loaned securities themselves.
- Arrangements involving cash collateral (or collateral that may be pledged or sold absent a default). Custodial credit risk is a consideration for the collateral, but not for the loaned securities themselves.

12.9 Do the notes disclose subsequent events? [NCGA-I6: 4d; 2005 GAAFR, page 220]

12.10 Do the notes disclose material violations of finance-related legal and contractual provisions? [NCGA-I6: 4g; 2005 GAAFR, page 224]

P12.2 If the system (pool) participated in a securities lending arrangement during the period, do the notes provide all of the disclosures required by GAAP? [GASB-S28: 11-5; 2005 GAAFR, page 236]

Explanation: The notes should disclose all of the following information regarding securities lending arrangements:

- The source of legal or contractual authorization;
- The types of securities on loan;
- The types of collateral received;
- The ability to pledge or sell collateral securities without a default;
- The amount by which collateral is to exceed the amount of securities;
- The carrying amount and fair value of securities on loan;
- Whether the maturities of the investments made with cash collateral generally match the maturities of securities loans and the extent of such matching as of the end of the fiscal year;
- Credit risk or the absence of credit risk.

***[SECTION 13, FINANCIAL SECTION - PENSION-RELATED NOTE  
DISCLOSURES, HAS BEEN OMITTED FROM THESE GUIDELINES]***

## ***FINANCIAL SECTION – RSI (PENSION AND OTHER POSTEMPLOYMENT BENEFIT SYSTEMS ONLY)***

14.4\* Are the amounts in the Schedule of Funding Progress reasonably related to the information presented elsewhere in the CAFR?

P14.1\* Does the system present a Schedule of Employer Contributions with information for the last six consecutive fiscal years for each pension plan? [GASB-S25: 38; 2005 GAAFR, page 335]

Explanation: A government that provides prescription drug coverage to retirees (i.e., OPEB benefits) and is able to obtain payments, either directly or indirectly, from the federal government under Medicare Part D should report this activity on a gross basis. Accordingly, the annual required contribution of the employer government is not reduced by such amounts.

P14.4 For both defined benefit pension and OPEB plans, do disclosures that discuss factors that significantly affect the identification of trends in the amounts reported in the required schedules accompany the schedules presented as required supplementary information, if applicable? [2005 GAAFR, pages 336 and 351]

Explanation: The letter of transmittal, MD&A, or actuarial section may indicate changes that should be disclosed in the notes to the required supplementary information. Such factors may include, but are not limited to, the following: changes in benefit provisions, the size or composition of the population covered by the plan, and the actuarial methods and assumptions used.

- 14.8 Has the system refrained from including information as required supplementary information that the authoritative accounting literature does not designate as such? [2005 GAAFR, page 330]

***[SECTION 15, FINANCIAL SECTION – SUPPLEMENTARY INFORMATION,  
HAS BEEN OMITTED FROM THESE GUIDELINES]***

***INVESTMENT SECTION***

- P16.5 Does the Report on Investment Activity discuss the system's (pool's) investment objectives? [2005 GAAFR, page 336]
- P16.6 Does the investment section contain a brief outline of the system's (pool's) investment policies? [2005 GAAFR, page 337]
- P16.7 Does the investment section contain a Schedule of Investment Results? [2005 GAAFR, page 337]

***ACTUARIAL SECTION  
(PENSION AND OTHER POSTEMPLOYMENT  
BENEFIT SYSTEMS ONLY)***

- P17.3 Does the Actuary's Certification Letter disclose the funding objective of the plan? [2005 GAAFR, page 338]
- P17.4 Does the Actuary's Certification Letter disclose the progress being made toward achieving the funding objective if the funding objective is not currently being realized? [2005 GAAFR, page 338]
- P17.25 Does the Actuary's Certification Letter or Summary of Actuarial Assumptions disclose recent changes in the nature of the plan, actuarial assumptions, actuarial methods, or retained actuary or actuarial firm? [2005 GAAFR, pages 338-9]
- P17.26 Does the Actuary's Certification Letter or Summary of Actuarial Assumptions disclose any other specific assumptions that have a material impact on valuation results? [2005 GAAFR, pages 33-9]

Explanation: Review the other sections for information that should be included in the actuarial section and review this section for information that should be included elsewhere in the CAFR (e.g., a change in the actuarial assumptions.)

- P17.27 Does the actuarial section contain a Schedule of Retirants and Beneficiaries Added to and Removed from Rolls (six-years)? [2005 GAAFR, page 340]

Explanation: The Schedule should include both the number of retirants and beneficiaries and the total related dollar amounts.

- P17.31 Are the amounts in the actuarial section reasonably related to amounts in the other sections of the CAFR?

***THE STATISTICAL SECTION***

- 18.1r Does the statistical section include appropriate analytical and educational explanations? [GASB-S44: 42; 2005 GAAFR, page 310]

Explanation: Any narrative provided should serve to enhance the understandability of the data included in the statistical section. Preparers must exercise professional judgment to determine whether and to what extent such discussion should be included. Generally, the following types of information are appropriate in the statistical section:

- Explanations of the objectives of statistical section information in general and the five categories of statistical section information, as well as individual schedules of information.
- Explanations of basic concepts that may be unfamiliar to financial report users.

- Explanations that identify relationships among the information in various statistical section schedules, as well as between the statistical section and information in other sections of the financial report.
- Explanations of atypical trends and anomalous data that the financial report users would not otherwise understand. Such trends and data may result from infrequent incidents, changes in underlying assumptions or accounting methods, organizational restructuring, major policy changes, or other events.

## ***OTHER CONSIDERATIONS***

- 19.1 Is the report free of inconsistencies? (If not, please specify.)
- 19.2\* If the system participated in the Certificate of Achievement for Excellence in Financial Reporting Program in the immediately preceding fiscal year, has the system adequately remedied or otherwise responded to the comments and suggestions generated by the previous review? (If not, please specify.)

**VOTE PAGE**

Use the F11 function key to move through the document. Attach the following two pages to an e-mail addressed to [srcreviews@gfoa.org](mailto:srcreviews@gfoa.org).

<u>          </u> <b>Reviewer name</b>	<u>          </u> <b>Reviewer ID</b>	<u>          </u> <b>Name of government reviewed</b>	<u>          </u> <b>Report number</b>
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I have reviewed the CAFR indicated at the top of this page and believe that:

A CERTIFICATE OF ACHIEVEMENT SHOULD BE GRANTED (      )

A CERTIFICATE OF ACHIEVEMENT SHOULD NOT BE GRANTED (      )

<u>          </u> Signature of Reviewer (Your typed name serves as your signature when this form is submitted electronically)	<u>          </u> Date
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Please grade this report in the categories below corresponding to the sections included in the postemployment benefit guidelines.

	PROFICIENT	NEEDS SIGNIFICANT IMPROVEMENT
Cover, table of contents, and formatting	<u>          </u>	<u>          </u>
Introductory section	<u>          </u>	<u>          </u>
Report of the independent auditor	<u>          </u>	<u>          </u>
Management's discussion and analysis (MD&A)	<u>          </u>	<u>          </u>
Basic financial statements (preliminary considerations)	<u>          </u>	<u>          </u>
Statement of plan net assets	<u>          </u>	<u>          </u>
Statement of changes in plan net assets	<u>          </u>	<u>          </u>
Summary of significant accounting policies (SSAP)	<u>          </u>	<u>          </u>
Note disclosure (other than the SSAP)	<u>          </u>	<u>          </u>
Pension and other postemployment benefit-related note disclosures	<u>          </u>	<u>          </u>
Required supplementary information (RSI)	<u>          </u>	<u>          </u>
Supplementary information	<u>          </u>	<u>          </u>
Investment section	<u>          </u>	<u>          </u>
Actuarial section	<u>          </u>	<u>          </u>
Statistical section	<u>          </u>	<u>          </u>
Other considerations	<u>          </u>	<u>          </u>

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