



## INVESTMENT PORTFOLIO REPORTING PRACTICES

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Prior to the 2003-04 Budget Act, California Government Code Section 53646(b) required California local governments, with certain exceptions, to submit a quarterly investment report to the agency's legislative body, its chief executive officer, and its internal auditor.<sup>1</sup> In addition, Section 53646(g) required cities and counties, with certain exceptions, to submit a copy of the same investment reports to the California Debt and Investment Advisory Commission (CDIAC) within sixty days of the close of the second and fourth quarter of each calendar year. These requirements generally are intended to provide the legislative body the ability to meet its fiduciary obligations as a trustee and to increase the exposure of the agency's investment activities to those outside the agency.

The following is a summary of a CDIAC report entitled *Investment Reporting Practices: An Information Guide*. Using information gathered from portfolio reports filed with CDIAC, this report summarizes the different goals, methods, and formats used by cities and counties in California to report investments. It provides a basis by which a reporting agency may evaluate its investment report and identifies alternative practices that effectively and efficiently communicate the agency's investment activities to fiduciaries and the public. This report does not establish additional requirements or set standards to which local agencies must conform beyond those set forth in Section 53646(b). Rather, it provides examples and describes additional approaches to reporting investments that have been used by various California local agencies to report their investments to their legislative body. The report can be ordered from CDIAC by phone at (916) 653-3269 or can be downloaded from the Internet at [www.treasurer.ca.gov/cdiac](http://www.treasurer.ca.gov/cdiac).

### Investment Reporting Requirements

As stated above, prior to the 2003-04 Budget Act, California Government Code Section 53646(b) required, with some exceptions, treasurers and chief fiscal officers of local agencies to submit a quarterly investment report to the chief executive officer, the internal auditor, and the legislative body of the local agency within 30 days following the end of the quarter covered by the report. Section 53646(d) also provided that a legislative body of a local agency might elect to receive the report on a monthly basis.

In addition to the reporting requirements set forth by Section 53646, a local agency treasurer that has been delegated authority by the legislative body under Section 53607 to invest or reinvest local agency funds has to submit a monthly transactions report to the legislative body accounting for the investment of funds and the sale or exchange of securities purchased during the prior reporting period. This report is separate and distinct from the quarterly report submitted under Section 53646.

### Required Contents of Investment Reports

California Government Code Section 53646(b) mandates that the quarterly investment report of a local agency contain certain items. These items include the type of investment, the issuer's name, the date of maturity of the security, the par amount of the instrument, the market value, and the dollar amount invested in each security. The source of the market value also should be included in the report. The report also must reference all funds that are under the management of external investment providers, such as investment advisors and investment managers. A local government's quarterly report also must state the portfolio's compliance with the agency's investment policy or manner in which the portfolio is not in compliance. Finally, the investment report must include a statement regarding the local agency's ability to meet its cash flow needs for the next six months.

Local agencies that invest exclusively in the State Local Agency Investment Fund (LAIF), created by State California Government Code Section 16429.1, in credit union accounts insured by the National Credit Union Share Insurance Fund, in accounts insured or guaranteed pursuant to California Financial Code Section 14858, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in a county investment pool, or any combination of these may submit the most recent statements provided by these institutions in place of a separate investment report. Furthermore, a school district or a county office of education that holds less than \$25,000 in investments at the end of a quarter for which a report is to be submitted to its district's legislative body is not required to submit such a report. The California Government Code refers to local agencies that are included under these two exemptions as "exempt agencies."

<sup>1</sup> The 2003-04 Budget Act suspended for one year the reporting requirement for local agency portfolio reports. This suspension eliminates the requirement that the state reimburse local governments for expenses incurred because of the reporting requirement.

### **Reviewing Quarterly Reports**

Although state law does not specifically require the members of a legislative body to take action on the quarterly report submitted to them as fiduciaries, they should review and understand its contents. With certain exceptions, the legislative body of a local agency cannot delegate its fiduciary responsibility, although it may delegate the day-to-day authority to make investment decisions.

When evaluating information provided by the report that is beyond that required by California Government Code Section 53646, the legislative body should refer to the guidance provided by the agency's investment policy or other statements that reveal the rationale for providing the information. The legislative body may use a reported list of approved brokers and dealers, for example, to determine whether the agency has used contracted services appropriately. The legislative body may track cash transfers reported in a quarterly investment report to verify that payments have been made correctly to settle transactions. Finally, the legislative body may review investments made from funds other than those reported under Section 53646 (such as debt service, special revenue, capital project, and other fiduciary type agency funds) to conduct a comprehensive evaluation of the safety and liquidity needs of the local agency.

### **Presenting Mandated Information**

The report displays a sample investment portfolio report for a local agency. The columns in the sample report entitled Security Type, Issuer, Maturity Date, Par Value, Market Value, Book Value, Pricing Source, and Manager, and the two certifications at the bottom of the figure are mandatory. Local agencies that provide the information contained in these columns in any suitable format will meet the minimum reporting requirements set forth in California Government Code Section 53646. The remaining columns, namely those entitled CUSIP Number, Pur-

chase Date, Earliest Call Date, Weighted Average Maturity, Coupon, Rating, Percent Portfolio Value, Unrealized Gain/Loss, Yield-to-Maturity, and Broker/Dealer are optional. The portfolio shown is provided purely as an example of how information for various types of allowable instruments could be displayed. It is not indicative of a typical distribution of investments in local agency portfolios.

### **Additional Reporting Practices**

Besides the legally required information, CDIAC's examination of submitted investment reports revealed a number of additional items that local agencies may wish to present to their legislative bodies in the content of an investment report. Local agencies should consider reporting this information to the extent that it assists their legislative bodies to meet its fiduciary obligations. The following charts in the report describe the reporting practice, discuss how the information can be used, and provide examples of the practice based on the sample investment portfolio reports that have been submitted to CDIAC:

- Distribution by Sector
- Distribution by Manager Type
- Distribution by Credit Quality
- Distribution by Maturity
- Distribution by Issuer
- Using Benchmarking to Evaluate Performance
- Annual Weighted Average Maturity and Yield Trends
- Cash Flow Projections
- Investment Compliance Checklist
- Describing the General Economic Climate
- Discussion of Investment Strategy
- Chronicling Economic Announcements
- Reporting Yield

*This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at [cdiac@treasurer.ca.gov](mailto:cdiac@treasurer.ca.gov). For a full listing of CDIAC publications, please visit our website at <http://www.treasurer.ca.gov/cdiac>.*

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