

FUNDAMENTALS OF PUBLIC FUNDS INVESTING

INVESTMENT ACCOUNTING AND DISCLOSURE



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THE CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION
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SESSION OVERVIEW

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Accounting And
Financial
Reporting For
Certain
Investments And
For External
Investment Pools

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Fair Value
Measurement
And Application

40

Deposit And
Investment Risk
Disclosures—an
Amendment Of
GASB Statement
No. 3

Why All Of These GASBs For Deposits and Investments?

- Deposits and investments represent ***significant assets*** of government
- ***Fund necessary*** governmental ***services and programs***
- Changes could impact ***government's ability*** to provide ***services*** and ***meet obligations***
- Provide ***transparency*** for potential risks and issues
- ***Standardize*** reporting and disclosures





Transparency

- “It is through **transparent financial reporting** that **stakeholders**, including investors, creditors, employees, and **the public**, **gain insights** into the financial health and integrity of an organization. **Without access** to accurate and timely financial information, **trust erodes, and suspicions arise.**”



GASB Statement No. 31

Accounting and Financial
Reporting for
Certain Investments
and for
External Investment Pools

Key Concepts



Investment

A security or other asset acquired primarily for the purpose of obtaining income or profit

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Amortized Cost

Par value of an investment adjusted for accreted premium/discount and accrued interest paid at the time of purchase

Scope And Applicability

Scope

All investments held by governmental external investment pools



Exclusion

Governmental entities
excluding

Some external investment
pool investments

Defined benefit pension plans

IRS Code Section 457 Deferred
Compensation Plans



Replaces

Replaces previous GASB term market value with the term fair value



Reporting

Generally required to be reported at fair value regardless of intent to hold to maturity



Accounting Options

- Option 1
 - Record investment at cost, don't amortize discounts/premiums, and adjust to fair value at year end
- Option 2
 - Record investment at cost, amortize discount monthly, and adjust to fair value at year end
- Option 3
 - Record investment at cost and adjust to fair value monthly or quarterly

Differentiating Between Cost, Book, and Fair Values

Cost Value

Price paid for the asset. Does not change.



\$500,000

Book Value

The accounting value of the asset.



\$450,000

Fair Value

The market value of the asset.



\$700,000

Recognition And Reporting

- Impact on financial statements?
 - Applicable investments restated at fair value
 - Change in fair value reflected in operating statement
 - Rolled into net investment income
 - Realized and unrealized gains/losses both reported on same line
 - Permits disclosure of realized gains in footnotes
- Reports impacted
 - Monthly Treasurer's Report
 - Monthly/Quarterly unaudited financial statements
 - Annual audited financial statements



Sample Disclosure Options - Specific

Change in Fair Value of Investments, June 30, 2023

Fair Value Analysis of Investment Activity - Specific Identification Method

		Fair Value					
		A	B	C	D	E	F
Security	Cost	Beginning Fair Value 7/01/2022	Purchases	Sales	Subtotal	Ending Fair Value 06/30/2023	Change in Fair Value
1	\$ 100,000	\$ 120,000	\$ 625,000	\$ 100,000	\$ 645,000	\$ 625,000	\$ (20,000)
2	250,000	245,000	150,000	-	395,000	425,000	30,000
3	500,000	565,000	250,000	500,000	315,000	315,000	-
4	250,000	226,000	250,000	75,000	401,000	350,000	(51,000)
	<u>\$ 1,100,000</u>	<u>\$ 1,156,000</u>	<u>\$ 1,275,000</u>	<u>\$ 675,000</u>	<u>\$ 1,756,000</u>	<u>\$ 1,715,000</u>	<u>\$ (41,000)</u>

Sample Disclosure Options - Aggregate

Change in Fair Value of Investments, June 30, 2023

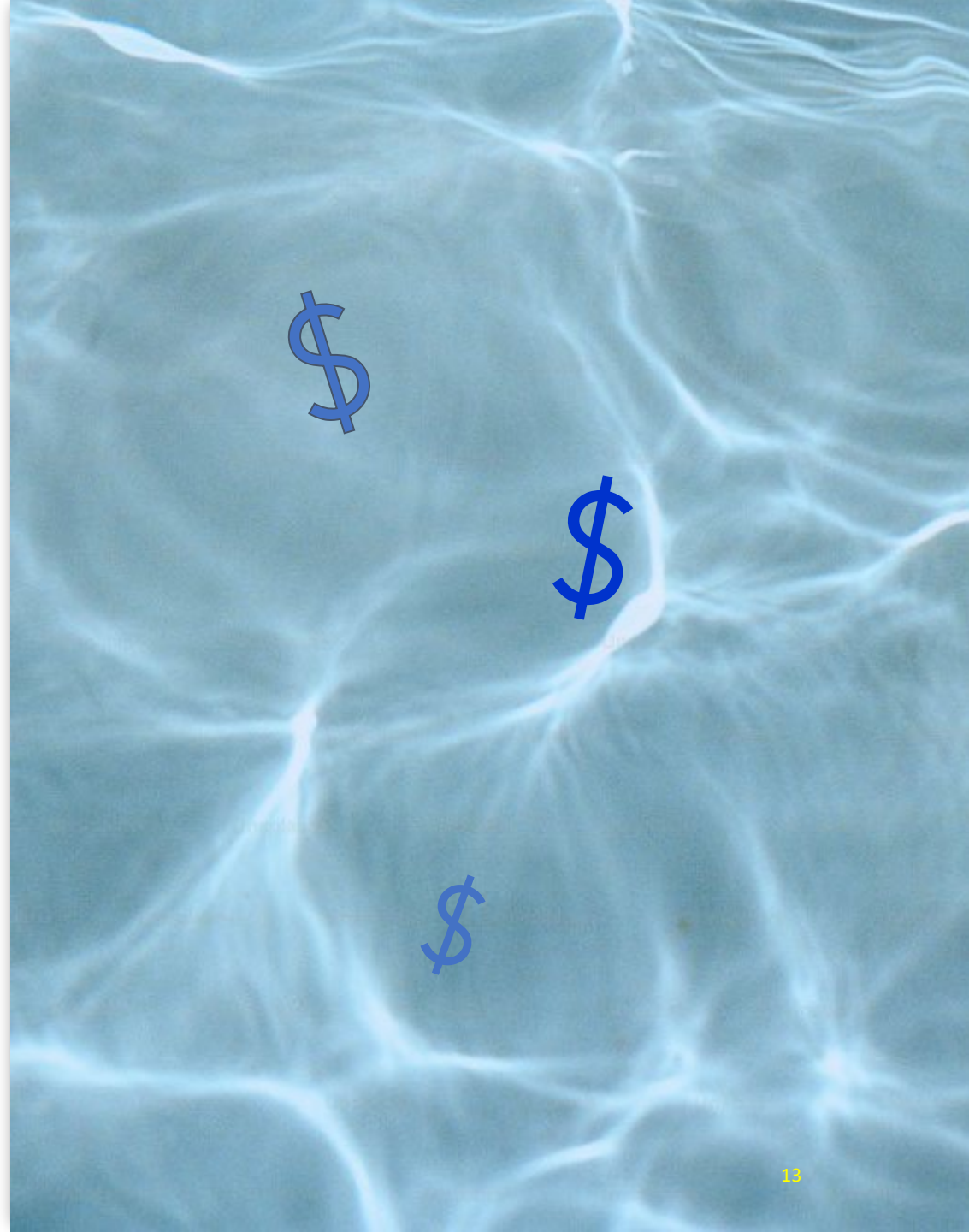
Calculation of the Net Change in the Fair Value of Investments - Aggregate Method

Fair Value at June 30, 2023	\$ 1,715,000
Add: Proceeds of investments sold in 2023	675,000
Less: Cost of investments purchased	(1,275,000)
Less: Fair Value at July 31, 2022	<u>(1,156,000)</u>
Change in Fair Value of Investments	\$ (41,000)

Investment In Local Government Pool

- A local government's investment in LAIF, a county pool, other external pools must also be reported at fair value
- This would be based upon a proportionate assignment of the total fair value of all the investments in the pool as a percentage of the total cost (carrying value) of the pool
- For LAIF, this information can be obtained at:

<http://www.treasurer.ca.gov/pmia-laif/reports/valuation.asp>



LAIF

Fair value: \$156,925,213,093

Divided by
Amortized

Cost: \$157,945,043,612
= 0.993543131

An Agency's LAIF investment of
\$60,000,000 at 12/31/23 would
have a fair value of \$59,612,588
(\$60,000,000 x 0.993543131)

For LAIF, this information can be obtained at:

<http://www.treasurer.ca.gov/pmia-laif/reports/valuation.asp>

State of California
Pooled Money Investment Account
Market Valuation
12/31/2023

Description	Carrying Cost Plus Accrued Interest Purch.	Amortized Cost	Fair Value	Accrued Interest
United States Treasury:				
Bills	\$ 26,992,679,410.54	\$ 27,341,582,810.63	\$ 27,352,122,000.00	NA
Notes	\$ 68,988,369,285.87	\$ 68,970,726,643.78	\$ 68,066,367,000.00	\$ 380,047,413.50
Federal Agency:				
SBA	\$ 273,825,056.61	\$ 273,825,056.61	\$ 273,117,626.86	\$ 1,326,636.53
MBS-REMICs	\$ 2,164,861.02	\$ 2,164,861.02	\$ 2,133,161.33	\$ 9,501.16
Debentures	\$ 8,533,332,561.10	\$ 8,532,907,561.09	\$ 8,460,384,650.00	\$ 60,973,579.20
Debentures FR	\$ -	\$ -	\$ -	\$ -
Debentures CL	\$ 650,000,000.00	\$ 650,000,000.00	\$ 639,238,500.00	\$ 4,456,111.50
Discount Notes	\$ 21,584,982,812.45	\$ 21,861,271,194.36	\$ 21,856,617,000.00	NA
Supranational Debentures	\$ 2,819,756,450.14	\$ 2,819,512,700.14	\$ 2,788,881,800.00	\$ 20,848,175.60
Supranational Debentures FR	\$ -	\$ -	\$ -	\$ -
CDs and YCDs FR	\$ -	\$ -	\$ -	\$ -
Bank Notes	\$ -	\$ -	\$ -	\$ -
CDs and YCDs	\$ 12,200,000,000.00	\$ 12,200,000,000.00	\$ 12,207,619,357.44	\$ 162,478,416.67
Commercial Paper	\$ 9,014,594,527.68	\$ 9,116,638,444.29	\$ 9,117,150,756.95	NA
Corporate:				
Bonds FR	\$ -	\$ -	\$ -	\$ -
Bonds	\$ 566,929,562.48	\$ 566,697,340.26	\$ 551,864,240.00	\$ 3,944,225.38
Repurchase Agreements	\$ -	\$ -	\$ -	\$ -
Reverse Repurchase	\$ -	\$ -	\$ -	\$ -
Time Deposits	\$ 5,284,000,000.00	\$ 5,284,000,000.00	\$ 5,284,000,000.00	NA
PMIA & GF Loans	\$ 325,717,000.00	\$ 325,717,000.00	\$ 325,717,000.00	NA
TOTAL	\$ 157,236,351,527.89	\$ 157,945,043,612.18	\$ 156,925,213,092.58	\$ 634,084,059.54

Fair Value Including Accrued Interest

\$ 157,559,297,152.12

Repurchase Agreements, Time Deposits, PMIA & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).

The value of each participating dollar equals the fair value divided by the amortized cost (0.993543131).
As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its participation in the LAIF valued at \$19,870,862.61 or \$20,000,000.00 x 0.993543131.

Fair Value Examples – By Asset Class

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
CD									
90MALA503	Malaga Bank CD 1.48% Due 7/28/2023	250,000.00	07/28/2022 1.48%	250,000.00 250,000.00	100.00 1.46%	250,000.00 3,473.89	0.35% 0.00	NR / NR NR	0.08 0.08

INVESTMENT POOL									
90LGIP581	LGIP California CLASS Prime	22,578,432.00	Various 2.05%	22,578,432.00 22,578,432.00	1.00 2.05%	22,578,432.00 0.00	31.05% 0.00	NR / AAA NR	0.00 0.00
Total Investment Pool		22,578,432.00	2.05%	22,578,432.00	2.05%	22,578,432.00 0.00	31.05% 0.00	NR / AAA NR	0.00 0.00

LAIF									
90LAIF500	Local Agency Investment Fund State Pool	2,122,378.00	Various 3.26%	2,122,378.00 2,122,378.00	1.00 3.26%	2,122,378.00 15,883.52	2.94% 0.00	NR / NR NR	0.00 0.00
Total LAIF		2,122,378.00	3.26%	2,122,378.00	3.26%	2,122,378.00 15,883.52	2.94% 0.00	NR / NR NR	0.00 0.00

MONEY MARKET FUND									
564996503	City First Bank Cash	750,000.00	05/31/2023 0.00%	750,000.00 750,000.00	1.00 0.00%	750,000.00 0.00	1.03% 0.00	NR / NR NR	0.00 0.00
316175603	Fidelity Institutional Government MMKT Fund #657	4,973,108.22	Various 4.73%	4,973,108.22 4,973,108.22	1.00 4.73%	4,973,108.22 0.00	6.84% 0.00	Aaa / AAA NR	0.00 0.00

US TREASURY									
9128286L9	US Treasury Note 2.25% Due 3/31/2026	1,100,000.00	10/20/2022 4.56%	1,019,906.25 1,036,026.95	94.10 4.56%	1,035,074.70 6,221.31	1.43% (952.25)	Aaa / AA+ AAA	2.75 2.61

★ Some Public Agencies fair value LAIF and Local Investment Pools in Interim periods, as well as annually.

**AUDIENCE
POLL #2**

How many times a year
must your agency fair
value the portfolio?

- A. Monthly
- B. Quarterly
- C. Semi-Annually
- D. Annually
- E. Never Required



GASB STATEMENT No. 72

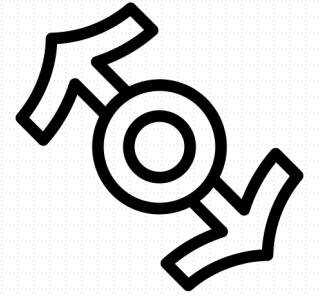
Fair Value Measurement and Application

GASB 72 – Why?

- GASB 31 already generally requires investments be reported at fair value in financial statements
- This statement
 - Expands the definition of investments required to be reported at fair value (application)
 - Clarifies how fair value should be measured
 - Sets the goal to maximize observable inputs and minimize unobservable inputs (measurement)
 - Expands the disclosures required in the footnotes for fair value (disclosures)

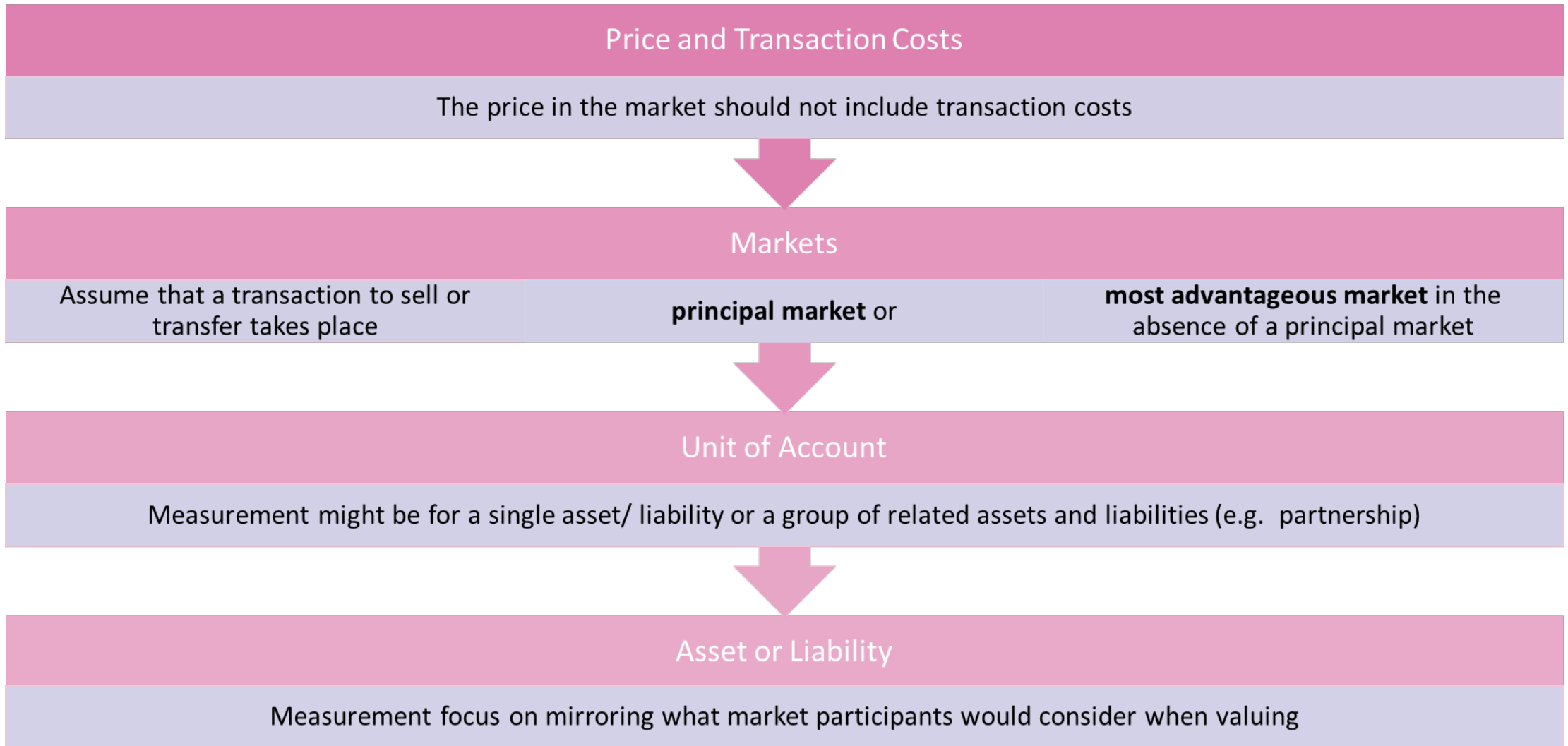


Expanded Investment Definition



- A security or other asset acquired primarily for the purpose of obtaining income or profit
- With a ***present service capacity*** that is based solely on its ability to generate cash, be sold to generate cash, or to procure services for the citizenry

Application Considerations



Valuation Techniques And Approaches

Use valuation techniques that are appropriate under the circumstances and for which sufficient data are available

Market Approach

Uses prices and other relevant information generated by market transactions

Cost Approach

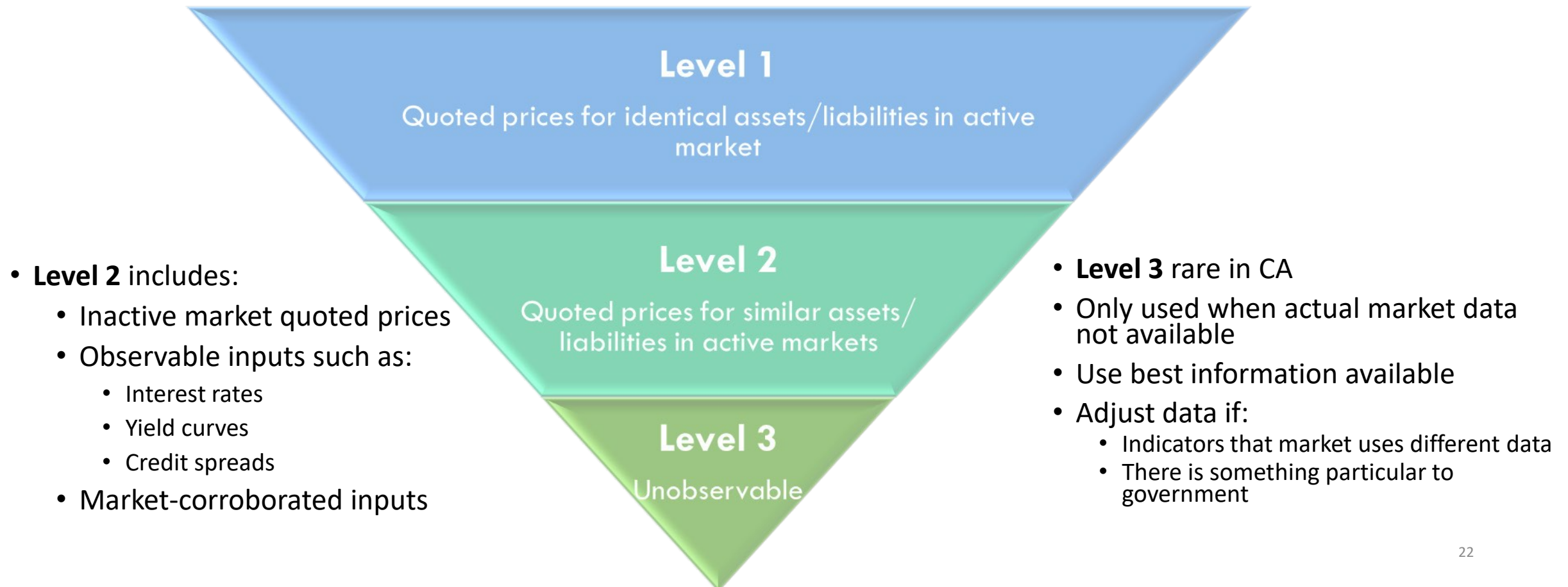
Reflects replacement cost of the present service capacity of an asset

Income Approach

Converts expected future amounts to a single current amount (e.g. present value, option pricing models, etc.)

- Revisions to fair value due to a change in technique is **considered a change in accounting estimate**
- Applied in current period and disclosed in the footnotes

Hierarchy of Fair Value Inputs



Fair Value Category Examples

Level 1

US Treasury Securities

Level 2

Federal Agencies

Corporate Bonds

Municipal Bonds

Level 3

*Should be Rare in CA
(Derivatives)*

Don't Include in Fair Value Hierarchy

- Money Market Funds
- LAIF
- CAMP
- Other external investment pools

External Investment Pools – GASB 72/79

- Per GASB 79, an external investment pool can elect to measure investments at amortized cost
 - If pool is compliant with GASB 79 and elects to do so, the government measures the investment at amortized cost, and it should **not be categorized** within the fair value hierarchy
 - **If the pool measures** investments at **fair value**, the **government measures** the investment at **fair value, but is not required** to categorize the investment within the **fair value hierarchy**



- Organized by type or class of asset/liability
- Information for each class or type of asset/liability
 - Fair value measurement at the end of reporting period
 - Level of hierarchy
 - Description of valuation techniques
- For fair value measurements categorized within Level 3
 - Effect of those investments on investment income



AUDIENCE POLL #3

Which of the following are acceptable valuation techniques? (Multiple Choice)

- ☐ Income
- ☐ Market
- ☐ Simulated
- ☐ Cost

Disclosure of Fair Value Inputs

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair Value Hierarchy</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Treasury Notes	\$15,290,373	-	-	15,290,373
Federal Agency securities	-	10,000,000	-	10,000,000
Negotiable CDs	-	9,197,337	-	9,197,337
Corporate Bonds	<u>-</u>	<u>3,773,445</u>	<u>-</u>	<u>3,773,445</u>
 Total investments	 <u>\$15,290,373</u>	 <u>22,970,782</u>	 <u>-</u>	 <u>38,261,155</u>

NOTE: Unless notes include reconciliation of investments NOT measured at fair value, this schedule will not agree to other investment schedules in the notes.

Sample GASB 72 Report

Sample Client

Account ###

GASB 72 - Fair Value Measurements

As of December 31, 2023



Asset	Fair Value	Investments That Are Not Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ABS	\$2,833,327.85	\$0.00	\$0.00	\$2,833,327.85	\$0.00
Agency	\$8,757,417.42	\$0.00	\$0.00	\$8,757,417.42	\$0.00
CMO	\$3,097,317.61	\$0.00	\$0.00	\$3,097,317.61	\$0.00
Corporate	\$10,581,253.52	\$0.00	\$0.00	\$10,581,253.52	\$0.00
Money Market Fund	\$71,242.78	\$71,242.78	\$0.00	\$0.00	\$0.00
Supranational	\$708,544.69	\$0.00	\$0.00	\$708,544.69	\$0.00
US Treasury	\$12,023,907.78	\$0.00	\$0.00	\$12,023,907.78	\$0.00
TOTAL PORTFOLIO	\$38,073,011.65	\$71,242.78	\$0.00	\$38,001,768.87	\$0.00

Recognition And Reporting

- Impact on financial statements?
 - Method of determining fair value disclosed
- Reports impacted
 - Annual audited financial statements



AUDIENCE PRACTICE

How to Price a Bond

Scenario

On 09/02/2022, your Agency buys at par:

- 3-year US Treasury Note
- Yield to Maturity: 3.43%
- Face Value: 100



On 09/01/2023 (the pricing date):

Market Yield

- UST 2-year US Treasury yield: 4.881%
- Face Value: 100

Your Agency's UST note

- 2-year to maturity
- Fixed Coupon: 3.43%
- Future Value: 100

If you wanted to sell your agency's bond in the market on 09/01/2023, how could you convince someone to buy your bond?

- A. Lower the Purchase Price
- B. Raise the Purchase Price
- C. Do Nothing – No One Will Want your Lower Coupon Bond

Interest Rates and Fair Value Calculations on Excel

Excel Formula: PV (rate, nper, pmt, FV, [type])

	Field Meaning	Plain English	Value
Rate	Market Interest Rate	Yield-to-Maturity	4.881%/2
NPER	Number of Periods	Number of Interest Payments Left	2 years * 2 payments = 4
PMT	Payment	Each Coupon Payment (\$)	+\$3.43/2
FV	Future Value	Face (Par) Value	100
PV	Present Value	Current Price of Bond	Solve for PV 97.27

US Treasuries pay interest semi-annually!

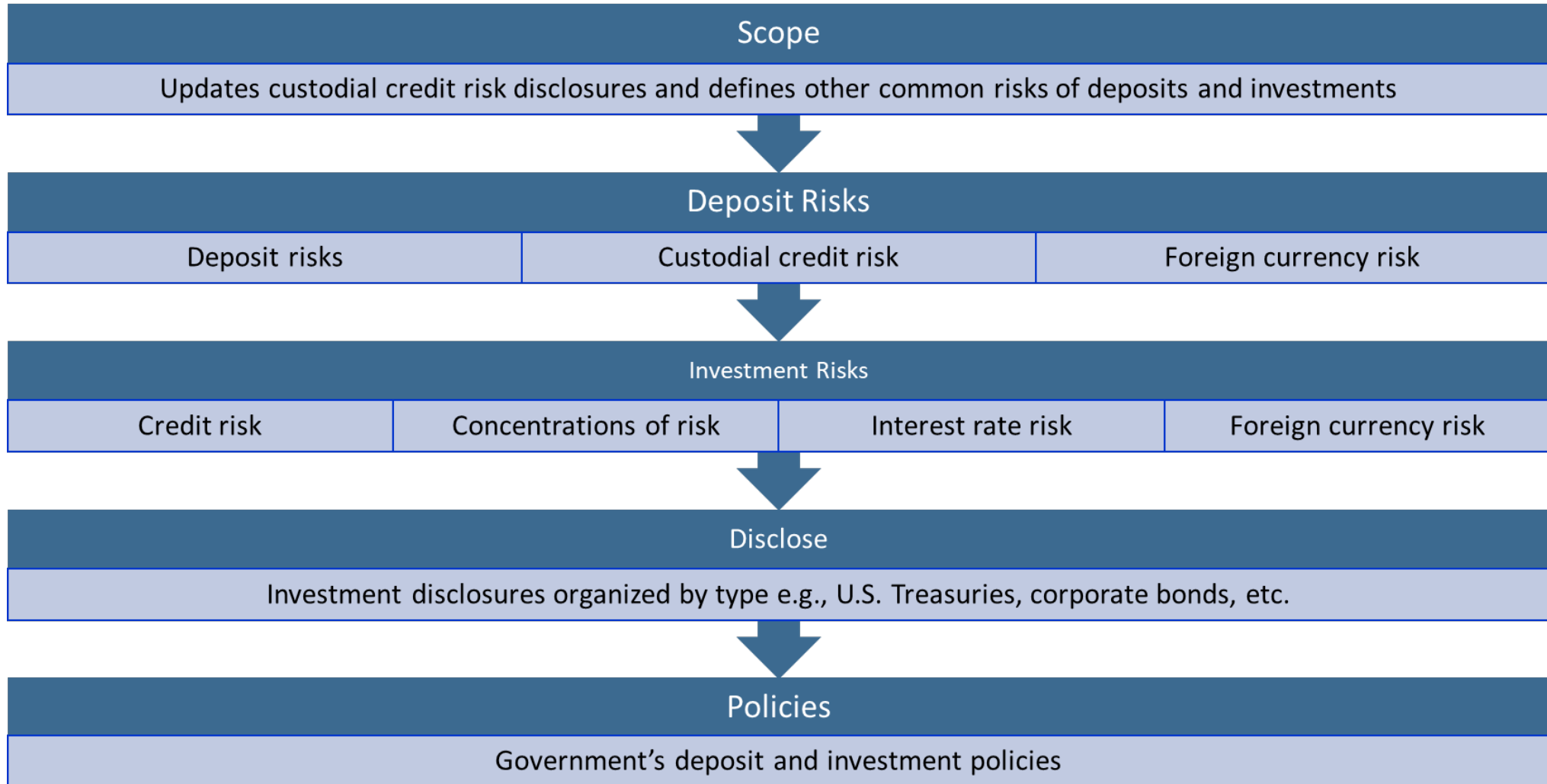


GASB STATEMENT No. 40

Deposit and Investment
Risk Disclosures

*An amendment to GASB
Statement No. 3*

Scope and Applicability



Deposit and Investment Policy Disclosure



- Government should briefly describe policies related to GASB 40 related risks
 - Allowable investments
 - Differences between investment policy and state laws should be disclosed
 - Violations of policy should be disclosed

Deposit and Investment Policy Disclosure Example

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Investment Per Issuer
U.S. Agencies	5 years ¹	100%	100%
U.S. Treasury	5 years ¹	100%	100%
Bankers' Acceptances	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Non-Negotiable Certificates of Deposit	5 years	20%	5%
Repurchase Agreements	1 year	100%	100%
Mutual Funds	5 years	20%	5%
Money Market Mutual Funds	5 years	20%	20%
Municipal Bonds	5 years ¹	30%	5%
Medium-Term Corporate Notes	5 years	30%	5%
Supranational Obligations	5 years	15%	5%
Local Agency Investment Fund (LAIF)	None	Code ²	Code ²
California Asset Management Program (CAMP)	None	100%	100%

¹ The Maximum Maturity for U.S. Treasury and Federal Agency obligations and Municipal Bonds is five years for all funds with the exception of the following:

- a. Debt Service Reserve funds in accordance with respective bond covenants restrictions and Attachment 2 of the Agency Investment Policy and Guidelines.
- b. The Geo Decommissioning Fund in accordance with Attachment 2 of the Agency Investment Policy and Guidelines.

² Up to maximum permitted by California Government Code

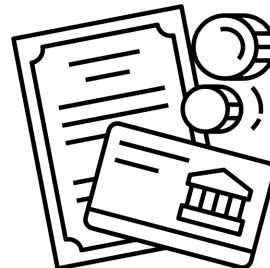
Custodial Credit Risk - Deposits

- Deposits are exposed to custodial credit risk if they are not covered by **depository insurance** **AND** the deposits are:
 - **Uncollateralized**
 - Collateralized with securities held by the pledging financial institution, or
 - Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name



Custodial Credit Risk - Deposits

- If applicable, government should disclose
 - Amounts of those bank balances
 - The fact that the balances are uninsured
 - Whether the balances are exposed on the basis of
 - **Uncollateralized**
 - Collateralized with securities held by the pledging financial institution, or
 - Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name



Custodial Credit Risk - Investments

- Investments are exposed to custodial credit risk if the securities are
 - Uninsured
 - Are not registered in the name of the government **AND**
 - Held by either the **counterparty** or
 - The counterparty's trust department or agent but not in the government's name
- If exposure exists, should disclose
 - Investment type
 - Reported amount
 - How investments are held



Credit Risk

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations

15. Q—Do the credit quality ratings of all nationally recognized statistical rating organizations (NRSROs) need to be disclosed? What if a government invests in a security that receives split ratings? That is, NRSROs issued different ratings on the same security. What credit quality disclosures should be made?

A—There are several recognized NRSROs at this time. Currently, the Securities and Exchange Commission reviews the qualifications of applicant credit quality rating firms to determine if they meet the criteria for becoming an NRSRO. Statement 40 does not specifically address whether the credit quality ratings of all NRSROs need to be disclosed.

Many securities have ratings from more than one NRSRO, and sometimes those ratings differ. When multiple ratings exist, at a minimum, the rating indicative of the greatest degree of risk should be presented. However, a government may also choose to disclose additional credit quality ratings, thereby presenting the user with additional credit risk information from which to ascertain the credit risk of the investment.

Concentration of Credit Risk

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer.

Any one issuer that represents **5 percent or more** of net assets of portfolio

Required to identify by amount and issuer

Excluded Investments:

- Issued or explicitly guaranteed by U.S. Government
- Mutual funds
- External investment pools
- Other pooled investments

Interest Rate Risk

- Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment
 - Governments should disclose by using one of the following a disclosure methods:
 1. Segmented time distribution
 2. Specific identification
 3. Weighted average maturity
 4. Duration
 5. Simulation model
 - Investments in mutual fund, external investment pools, or other pooled investments should be listed as one investment

Segmented Time Distribution Method

		Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Investment Type					
U.S. Treasury notes	\$ 6,000,000	6,000,000	-	-	-
U.S. Treasury bonds	3,000,000	-	-	3,000,000	-
U.S. Treasury strips	2,000,000	-	-	2,000,000	-
Federal agency securities	35,000,000	5,000,000	22,000,000	8,000,000	-
Corporate medium term notes	5,000,000	-	5,000,000	-	-
Commercial paper	3,000,000	3,000,000	-	-	-
Banker's acceptances	2,000,000	2,000,000	-	-	-
Mortgage-backed securities	3,000,000	-	-	3,000,000	-
State investment pool	15,000,000	15,000,000	-	-	-
Held by bond trustee:					
Money market funds	500,000	500,000	-	-	-
Investment contracts	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total	<u>\$75,500,000</u>	<u>31,500,000</u>	<u>27,000,000</u>	<u>16,000,000</u>	<u>1,000,00</u>

The dollar amount of investments grouped together in tabular form with separate columns for various ranges of maturities.

Specific Identification Method

		<u>Maturity Date</u>
U.S. Treasury note	\$ 6,000,000	November 6, 2005
U.S. Treasury bond	3,000,000	October 4, 2007
U.S. Treasury strip	2,000,000	March 7, 2005
Federal Farm Credit Note	35,000,000	December 31, 2008
ABC corporate note	5,000,000	February 18, 2008
LEF commercial paper	3,000,000	September 15, 2004
Banker's acceptances	2,000,000	September 6, 2004
GNMA	3,000,000	May 17, 2008
State investment pool	15,000,000	1.47 year
Held by bond trustee:		
Money market funds	500,000	.13 year
Investment contracts	<u>1,000,000</u>	October 1, 2017
Total	<u>\$75,500,000</u>	

Each investment is listed individually in order to display amount, maturity date, and any call options

Weighted Average Maturity Method

The following tables reflect the carrying and fair values and the weighted average maturity in years for the Agency's investment portfolio for fiscal years ended June 30, 2023 and 2022, respectively.

Investments at June 30, 2023

<u>Description</u>	Carrying Value	Fair Value	Wtd. Avg Maturity (In years)
	(in thousands)		
U.S. Agencies	\$ 101,746	\$ 95,931	2.42
U.S. Treasury	8,402	8,343	0.60
Municipal Bonds	29,203	27,313	2.30
Corporate Bonds	78,552	72,105	2.96
Certificates of Deposit	500	498	0.18
TOTAL INVESTMENTS	\$ 218,403	\$ 204,190	

Calculates in years or months the time to elapse for a group of investments to become due and payable

Duration Method

maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Entity monitors the interest rate risk inherent in its portfolio by measuring the modified duration of its portfolio. The Entity has no specific limitations with respect to this metric.

<u>Investment Type</u>	<u>Modified Duration (in years)</u>
U.S. Treasury notes	\$ 6,000,000
U.S. Treasury bonds	3,000,000
U.S. Treasury strips	2,000,000
Federal agency securities	35,000,000
Corporate medium term notes	5,000,000
Commercial paper	3,000,000
Banker's acceptances	2,000,000
Mortgage-backed securities	3,000,000
State investment pool	15,000,000
Held by bond trustee:	
Money market funds	500,000
Investment contracts	<u>1,000,000</u>
Total	<u>\$75,500,000</u>

Calculates in years or months the time to elapse for a group of investments to become due and payable (weighted for cash flows)

Simulation Model Method

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Fair value after basis point increase of:</u>		
		<u>100 Points</u>	<u>200 Points</u>	<u>300 Points</u>
U.S. Treasury notes	\$6,000,000	5,831,958	5,669,512	5,512,452
U.S. Treasury bonds	3,000,000	2,915,979	2,834,756	2,756,226
U.S. Treasury strips	2,000,000	1,943,986	1,889,837	1,837,484
Federal agency securities	35,000,000	32,853,088	31,905,487	30,989,303
Corporate medium term notes	5,000,000	4,859,965	4,724,593	4,593,710
Commercial paper	3,000,000	2,915,979	2,834,756	2,756,226
Banker's acceptances	2,000,000	1,943,986	1,889,837	1,837,484
Mortgage-backed securities	3,000,000	2,915,979	2,834,756	2,756,226
State investment pool	15,000,000	14,079,895	13,673,780	13,281,130
Held by bond trustee:				
Money market funds	500,000	485,997	472,459	459,371
Investment contracts	<u>1,000,000</u>	<u>838,660</u>	<u>811,585</u>	<u>785,409</u>
Total	<u>\$75,500,000</u>	<u>71,585,472</u>	<u>69,541,359</u>	<u>67,565,021</u>

Calculates the effect of investment fair values for hypothetical changes in interest rates



Things That May Factor into Investments that are Highly Sensitive to Interest Rate Changes

- Term to maturity of investment
- Likelihood of exercise of any embedded options
- Caps or floors may be reached
- The size of the portfolio relative to the cash needs
- Consequences of liquidity tightening by the government
- Investment objective of the portfolio (e.g. short-term vs. long-term)

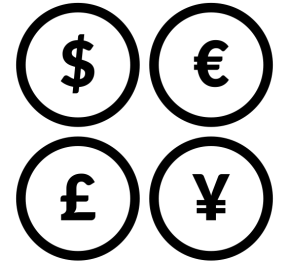
Interest Rate Risk

Sample disclosure for investments with fair values highly sensitive to interest rate changes

The Entity's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

<u>Highly Sensitive Investments</u>	<u>Fair Value at Year End</u>
Federal agency securities with coupon multipliers ranging from 1.25 to 2.5 times the three-month LIBOR reset on a basis ranging from monthly to semiannually. These multipliers amplify the effect of interest rate changes by greater than a one-to-one basis.	\$3,000,000
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.	3,000,000
Federal agency securities with interest rates that vary inversely to a benchmark index set quarterly that ranges from 2 percent to 4.5 percent minus the three-month LIBOR and with floors ranging from zero to one percent. These were purchased at a time when the California Government Code permitted the purchase of such investments.	1,000,000

Foreign Currency Risk



- **Foreign Currency Risk** - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.
- Applicable to governments that have deposits or investments denominated in foreign currencies
- Government should disclose the U.S. dollar balances of such deposits or investments
- Organized by
 - Currency denomination
 - Investment type if applicable

Recognition And Reporting

- Impact on financial statements?
 - Disclosure of risks to cash and investments critical to government's programs and services
- Reports impacted
 - Annual audited financial statements
 - Treasurer's Report



Sample GASB 40 Report

Sample Client

Account ####

GASB 40 Report

As of December 31, 2023



Portfolio Characteristics	
Market Value	38,073,011.65
Avg Modified Duration	1.72
Avg Maturity	2.02

Interest Rate Shock Analysis	
Fair value of portfolio after increase of:	
100 bps	-655,094.61
200 bps	-1,310,189.22
300 bps	-1,965,283.83

Sector	Sector Characteristics				Segmented Time Distribution			
	Market Value	Avg Mod. Duration	Avg Maturity	% of Port	<1 YR	1-3 YRS	3-5 YRS	>5 YRS
US Treasury	12,023,907.78	1.72	1.83	31.58%	2,898,750.75	6,860,137.98	2,265,019.05	0.00
Corporate	10,581,253.52	1.30	1.45	27.79%	3,656,767.38	5,807,723.26	1,116,762.88	0.00
Agency	8,757,417.42	2.39	2.60	23.00%	1,839,591.37	4,275,466.84	2,642,359.21	0.00
CMO	3,097,317.61	1.73	1.97	8.14%	733,532.70	1,661,881.11	701,903.80	0.00
ABS	2,833,327.85	1.15	3.24	7.44%	0.00	1,024,495.68	1,808,832.17	0.00
Supranational	708,544.69	2.20	2.48	1.86%	361,433.59	0.00	347,111.10	0.00
Money Market Fund	71,242.78	0.00	0.00	0.19%	71,242.78	0.00	0.00	0.00
TOTAL	38,073,011.65	1.72	2.02	100.00%	9,561,318.57	19,629,704.87	8,881,988.21	0.00

Concentration of Credit						
Issuer Name	Cost	Market Value	Avg Mod. Duration	Avg Maturity	% of Port	
Government of United States	11,924,098.65	12,023,907.78	1.72	1.83	31.58%	
Federal Farm Credit Bank	5,186,989.90	5,183,519.53	2.34	2.56	13.61%	
Federal Home Loan Bank	3,072,552.45	3,106,439.39	2.58	2.80	8.16%	
Federal Home Loan Mortgage Corp	3,101,680.72	3,097,317.61	1.73	1.97	8.14%	
American Express ABS	599,432.55	602,282.94	1.02	3.07	1.58%	
Paccar Financial	474,210.80	472,179.64	2.09	2.28	1.24%	
Federal National Mortgage Association	456,750.00	467,458.50	1.61	1.65	1.23%	
Florida Power and Light	446,175.00	450,719.55	3.78	4.38	1.18%	
Home Depot	448,560.00	445,832.10	1.61	1.71	1.17%	

...

TOTAL	70,144,135.06
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AUDIENCE POLL #5

Mark all risks that must be disclosed under GASB 40:

- ☐ Collateralized deposits held in Agency's name
- ☐ Uninsured deposits held by Counterparty's Trust Department
- ☐ Negotiable CD that is > 5% of net portfolio assets
- ☐ Investments that are highly sensitive to changes in interest rates

Questions





APPENDIX

Resource – CDIAC Website

- The California Debt and Investment Advisory Commission (CDIAC) improves the practice of public finance in California by providing responsive and reliable information, education, and guidance to state and local public agencies and other public finance professionals.

- CA Legislative Updates

- <https://www.treasurer.ca.gov/cdiac/mmra/update.pdf>

- Debt Line

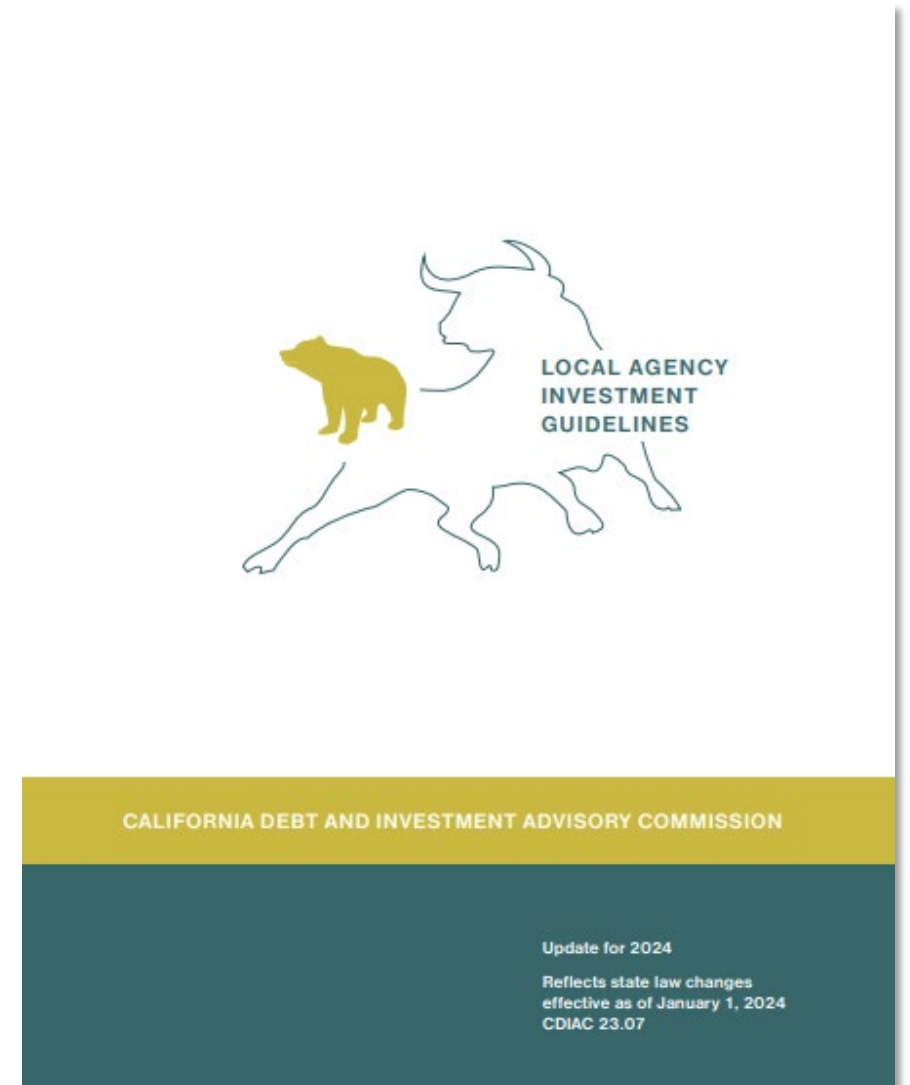
- <https://www.treasurer.ca.gov/cdiac/debtpubs/debtline.asp>



Resource – CDIAC Local Agency Investment Guidelines

- Annual information guide, including:
 - Summary of Statutory and Federal Regulatory Changes
 - The Annual Investment Policy Q&A
 - Fund Management Q&A
 - Reporting Requirements Q&A
 - Tabular summary of allowable investments

<https://www.treasurer.ca.gov/cdiac/laig/guideline.pdf>



Resource - California of League of

Resources providing
sample GASB 40 disclosures

[https://www.calcities.org/docs/default-source/professional-departments/example-disclosures-for-california-local-governments-implementing-gasb-statement-no.-40-\(february-2005\).pdf?sfvrsn=fcd5b502_3](https://www.calcities.org/docs/default-source/professional-departments/example-disclosures-for-california-local-governments-implementing-gasb-statement-no.-40-(february-2005).pdf?sfvrsn=fcd5b502_3)

EXAMPLE DISCLOSURES FOR CALIFORNIA LOCAL
GOVERNMENTS IMPLEMENTING GASB STATEMENT NO. 40
(DEPOSIT AND INVESTMENT RISK DISCLOSURES)

Issued February 2005

PUBLISHED BY THE
CALIFORNIA COMMITTEE ON MUNICIPAL ACCOUNTING
(a joint committee comprised of representatives of the *League of California Cities* and the *California Society of Certified Public Accountants*)

GASB Pronouncements

- Home page

- <https://gasb.org/page/PageContent?pagelId=/standards-guidance/pronouncements.html>

- GASB 31 (Full Text and Implementation Guide)

- <https://gasb.org/page/ShowDocument?path=GASBS-31.pdf&acceptedDisclaimer=true&title=GASB+STATEMENT+NO.+31%2C+ACCOUNTING+AND+FINANCIAL+REPORTING+FOR+CERTAIN+INVESTMENTS+AND+FOR+EXTERNAL+INVESTMENT+POOLS&Submit=>
- <https://gasb.org/page/ShowDocument?path=qa31.pdf&acceptedDisclaimer=true&title=GASB+IMPLEMENTATION+GUIDE%E2%80%944STATEMENT+31+%28SUPERSEDED%29&Submit=>

- GASB 72 (Full Text)





- <https://gasb.org/page/ShowDocument?path=GASBS72.pdf&acceptedDisclaimer=true&title=GASB+STATEMENT+NO.+72%2C+FAIR+VALUE+MEASUREMENT+AND+APPLICATION&Submit=>

- GASB 40 (Full Text and Implementation Guide)

- <https://gasb.org/page/ShowDocument?path=gasbs-40.pdf&acceptedDisclaimer=true&title=GASB+STATEMENT+NO.+40%2C+DEPOSIT+AND+INVESTMENT+RISK+DISCLOSURES%E2%80%944AN+AMENDMENT+OF+GASB+STATEMENT+NO.+3&Submit=>
- <https://gasb.org/page/ShowDocument?path=qa40.pdf&acceptedDisclaimer=true&title=GASB+IMPLEMENTATION+GUIDE%E2%80%944STATEMENT+40+%28SUPERSEDED%29&Submit=>

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GASB Home >> Standards & Guidance >> Pronouncements

PRONOUNCEMENTS

NOTES ABOUT USING GASB PRONOUNCEMENTS

The pronouncements available below are provided as a general, historical reference. Certain pronouncements have been **completely** superseded by the issuance of subsequent pronouncements and are marked accordingly on the title page and download caption. Other pronouncements have been **partially** superseded or amended by subsequent pronouncements; such subsequent modifications are not marked in the PDF files of the originally issued pronouncements included on this webpage, but are noted in the accompanying status pages.

The following pronouncements are available for download:

- Statements of Governmental Accounting Standards
- Concepts Statements
- GASB Interpretations
- GASB Technical Bulletins
- GASB Implementation Guides (Issued June 2015 or Later)
- GASB Implementation Guides (Issued Prior to June 2015)
- Suggested Guidelines for Voluntary Reporting

STANDARDS & GUIDANCE

Pronouncements
Implementation Guides (Issued June 2015 or Later)
GARS

Accounting Standards (USA) put index

- **Financial Accounting Standards Board (FASB)**
 - Establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations
 - “Recognized by the Securities and Exchange Commission as the designated accounting standard setter for private-sector companies. FASB develops and issues financial accounting standards to provide useful information to investors and others who use financial reports”¹
- **Governmental Accounting Standards Board (GASB)**
 - Establishes accounting and financial reporting standards for state and local governments that follow GAAP
 - There are some governmental exceptions where FASB Accounting Standards are used instead (GASB silent)
 - “Promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial report”²

• [Footnote 1: See FASB website at
www.fasb.org](http://www.fasb.org)

• [Footnote 2: See GASB website at
www.gasb.org](http://www.gasb.org)

Disclosures - GASB 31

- Governmental Entities:
 - a. Methods and significant assumptions used to estimate fair value if not based on quoted market prices
 - b. Policy for determining investments reported at amortized cost
 - c. Non SEC-registered external investment pools require brief description of regulatory oversight
 - d. Involuntary participation in external investment pool
 - e. If government cannot obtain information to allow it to determine the fair value of pool investment, the methods used and significant assumptions made in determining fair value and the reasons for having had to make such an estimate
 - f. Income from investments associated with one fund that is assigned to another fund

Disclosures - GASB 31

- Governmental External Investment Pools:
 - a. Brief description of regulatory oversight (including whether the pool is registered with the SEC as an investment company)
 - b. Frequency of determining the fair value of investments
 - c. Method used to determine participants' shares sold and redeemed and whether that method differs from the method used to report investments
 - d. Whether the pool sponsor has provided or obtained any legally binding guarantees during the period to support the value of shares
 - e. Extent of involuntary participation in the pool
 - f. Summary of fair value, carrying amount (if different from fair value), number of shares or the principal amount, ranges of interest rates, and maturity dates of each major investment classification

Recognition And Reporting – GASB 31

All non excluded Investments reported on the statement of net position at fair value

All investment income, including change in the fair value of investments, reported on the operating statement

- Rolled into net investment income
- If reported separately, change in fair value be captioned net increase (decrease) in the fair value of investments

Both realized and unrealized gains/ losses reported in same line but permits disclosure of realized gains/losses in footnotes

Application Of Fair Value – GASB 72

- An asset being held in order to further some part of the mission of the local government to provide services is **not** required to be reported at fair value
- Determination of whether the asset was acquired solely to generate cash and not for a program objective is determined **at the time of acquisition**
- A **later** change in the usage of the asset will **not** change the initial determination as to whether or not that asset will be reported at fair value
- Requires measurement at acquisition value for
 - Donated capital assets
 - Donated works of art, historical treasures, and similar assets
 - Capital assets received through a service concession arrangement

Exclusions From Application – GASB 72

Certain investments are not measured at fair value and are excluded from the GASB 72 requirements, even if they have a liability balance at year end

- Money market investments
- 2a7-like external investment pools
- Investments in life insurance contracts
- Common stock meeting the criteria for applying the equity method
- Unallocated insurance contracts
- Synthetic guaranteed investment contracts

External Investment Pools – GASB 72/79

- GASB 79 established criteria for an external investment pool to qualify for making election to measure all of its investments at amortized cost for financial reporting
- GASB Implementation Guide 2017-1 (Q. 4.36.) clarified:
 - If pool is compliant with GASB 79 and elects to measure its investments at amortized cost, the government measures the investment at amortized cost, and it should **not be categorized** within the fair value hierarchy
 - **If the pool measures** investments at **fair value**, regardless of whether the pool transacts with participants at a fixed net asset value per share (e.g. \$1.00), the **government measures** the investment at **fair value, but is not required** to categorize the investment within the **fair value hierarchy**

Optional Narrative Format – GASB 72

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 20X1:

- U.S. Treasury securities of \$45 million are valued using quoted market prices (Level 1 inputs)
- Corporate bonds of \$12 million are valued using a matrix pricing model (Level 2 inputs).

The City also has a nonrecurring fair value measurement as of June 30, 20X1, for a closed performing arts hall that will no longer be used by the government and therefore is considered to be impaired. The hall has been written down from \$5.6 million to \$3.4 million based on an appraisal of the property (Level 3 inputs).

General Disclosure Principals – GASB 40

- Organized by investment type (treasuries, commercial, paper, mutual funds, etc.)
- Deposit and investment policies/regulations
 - Related to risks required to be disclosed
- Level of detail
 - Aggregate level unless risk exposure is significantly greater than the primary government
 - Governmental and business-type activities
 - Individual major funds
 - Nonmajor funds in the aggregate
 - Fiduciary fund types

Credit Risk – GASB 40

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations

- Disclosures as of measurement date (year end)
 - Deposit and investment policies/regulations (where minimum rating is required)
 - No minimum rating required (LAIF/CAMP)
 - Can group investments by type and give range of ratings (not required to reflect modifiers)
 - No rating disclosure required for U.S. Treasuries or obligations explicitly guaranteed by U.S. Government (GNMA)
 - Must disclose ratings for federal agencies (FNMA, FHLMC)
 - Disclose ratings for external pools (single investment), money market funds, or other pooled investments
 - Any unrated investments where rating is required

Interest Rate Risk – GASB 40

- Method should be most consistent with how government identifies and manages interest rate risk
 - If more than one method used, entity can determine which method to disclose
- If the method requires cash flow timing assumptions, that should be disclosed
- Can change method, but if change is made, the reason for the change must be disclosed
- It is acceptable to use different risk disclosure methods for different investments if that is how risk is managed
- Should disclose investments that are highly sensitive to changes in interest rates