

SESSION SIX

Investment Accounting and Disclosure



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What is your role at your public agency?

- ⓘ The Slido app must be installed on every computer you're presenting from

SESSION TAKEAWAYS



GASB STATEMENT No. 40

Deposit and Investment
Risk Disclosures

An amendment to GASB Statement No. 3

What Risks Exist?

Where could our public money be exposed — and why?



GASB 40 explains exposure and safeguards, not outcomes or losses.

GASB 40 Scope and Applicability

- Scope
 - Defines common risks of deposit and investment risks (and related required disclosures)
- How are Investment Disclosures organized?
 - By type
 - E.g., U.S. Treasuries, corporate bonds, etc.
- Where are disclosure requirements defined?
 - Government's deposit and investment policies



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
- Disclosures of violations of policy required

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:

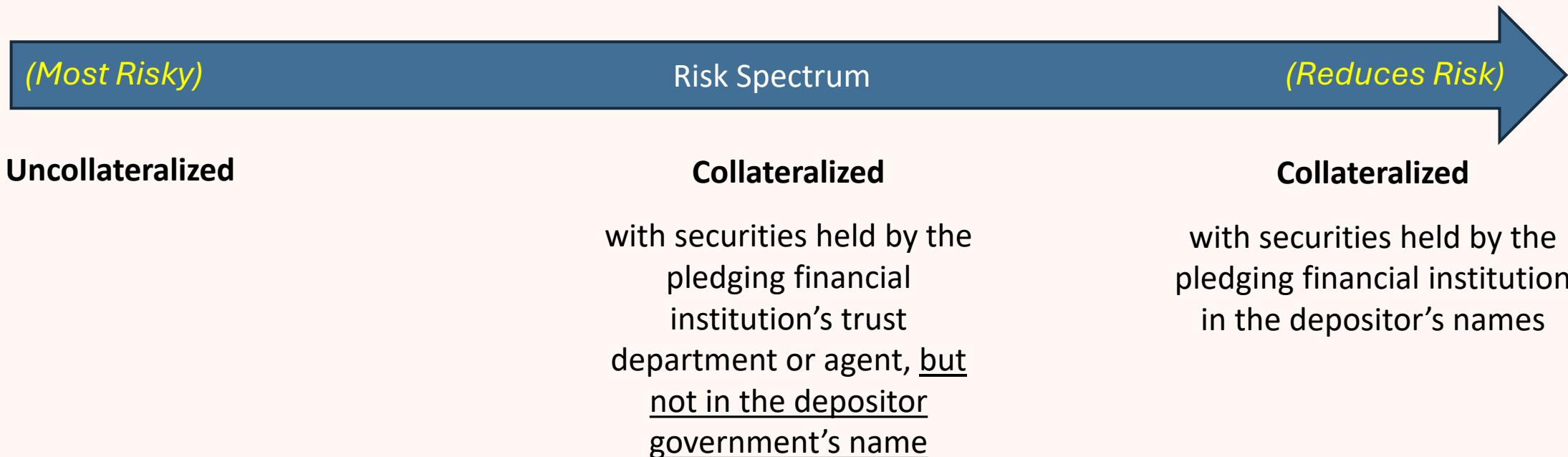
- a. Debt Service Reserve funds in accordance with respective bond covenants restrictions and Attachment 2 of the Agency Investment Policy and Guidelines.
- b. The Geo Decommissioning Fund in accordance with Attachment 2 of the Agency Investment Policy and Guidelines.

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:



Custodial Credit Risk – Deposits Disclosures

- If applicable, Local Agency 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

- The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- Disclose State laws or local policy requirements associated with the risk, which is when a minimum rating has been specified
- Disclose credit quality ratings of investments by an NRSRO as of the balance sheet date
 - U.S. Gov't or obligations explicitly guaranteed by the U.S. Gov't are exempt
 - For example, Treasury and GNMA, but not FHLMC, FNMA
- Disclose unrated investments
 - NOTE – If investments are not rated by the NRSRO used for disclosure, but are by another, consider a footnote
- Credit quality modifiers are not required (Aa1, Aa2, Aa3)

Bond Credit Ratings

Moody's		S&P		Fitch		Rating description	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+		A+	F1	Investment-grade	
A2		A		A			
A3		A-	A-2	A-	F2		
Baa1		BBB+		BBB+			
Baa2	P-3	BBB	A-3	BBB	F3	Upper medium grade	
Baa3		BBB-		BBB-			

- **Credit Outlook**
 - Evaluates the financial condition of the issuer in relation to the economic environment
- **Credit Watch**
 - Formal warning of the possible deterioration or upgrade of the financial strength and ability of the issuer to meet their debt obligations

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

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
- Also disclose the terms of investments with fair values that are *highly sensitive* to changes in interest rates – for example, callable securities



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 (cont. 2 of 2)

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):

Highly Sensitive Investments

Fair Value at Year End

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

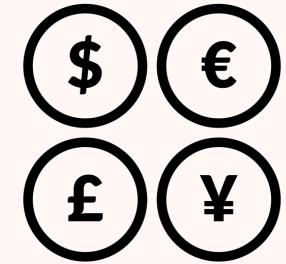
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

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		GASB 40 Report						CMM		
Account #####		As of December 31, 2023								
Portfolio Characteristics			Interest Rate Shock Analysis							
Market Value			Fair value of portfolio after increase of:							
Avg Modified Duration			100 bps						-655,094.61	
Avg Maturity			200 bps						-1,310,189.22	
			300 bps						-1,965,283.83	
Sector Characteristics										
Sector	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								



Mark all risks that must be disclosed under GASB 40

- ⓘ The Slido app must be installed on every computer you're presenting from

GASB 40 Takeaway



Deposit & Investment Risk Disclosures

These disclosures aren't just compliance — they're how we show the public we safeguard their money

- Explaining risk, not predicting loss.
- *Where* money is exposed and *why*, not whether something went wrong

GASB Statement No. 31

Financial Accounting and Reporting for
Governmental Entities

How Do Investment Values Change?



Why does the value of our investments go up or down even when we don't sell anything?



GASB 31 shows how market conditions affect reported investment values.

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

GASB 31 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 Investments at Cost; Adjust to Fair Value at Year End
 - Simple
 - *Downside* = no recognition of fair value change during year that will be recognized at year end
- **Option 2** – Record Investments at Cost; Amortize Discount; Adjust to Fair Value at Year End
 - Monthly amortization of discount approximates the monthly change in fair value
 - Smaller fair value adjustment at year end
 - *Downside* = may require more time to calculate and amortize premiums/discounts each month
- **Option 3** – Record Investments at Cost; Adjust to Fair Value each Month
 - Recognizes the full amount of the fair value adjustment each period
 - Smaller fair value adjustment at year end
 - *Downside* = may require more time to calculate the fair value adjustment each month and may distort available/spendable in funds during the year

Differentiating Between Cost, Book, and Fair Values

Cash **Cost Value**
Price paid for the asset. Does not change.



\$500,000

Amortized **Book Value**
The accounting value of the asset.



\$450,000

Fair Value **Market Value**
The market value of the asset.



\$700,000

Colloquial, imprecise verbiage often tossed around in non-accounting spaces

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

Security	Cost	Fair Value					
		A Beginning Fair Value 7/01/2022	B Purchases	C Sales	D Subtotal	E Ending Fair Value 06/30/2023	F 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)
	\$ 1,100,000	\$ 1,156,000	\$ 1,275,000	\$ 675,000	\$ 1,756,000	\$ 1,715,000	\$ (41,000)

Sample Disclosure Options - Aggregate

Change in Fair Value of Investments, June 30, 2023

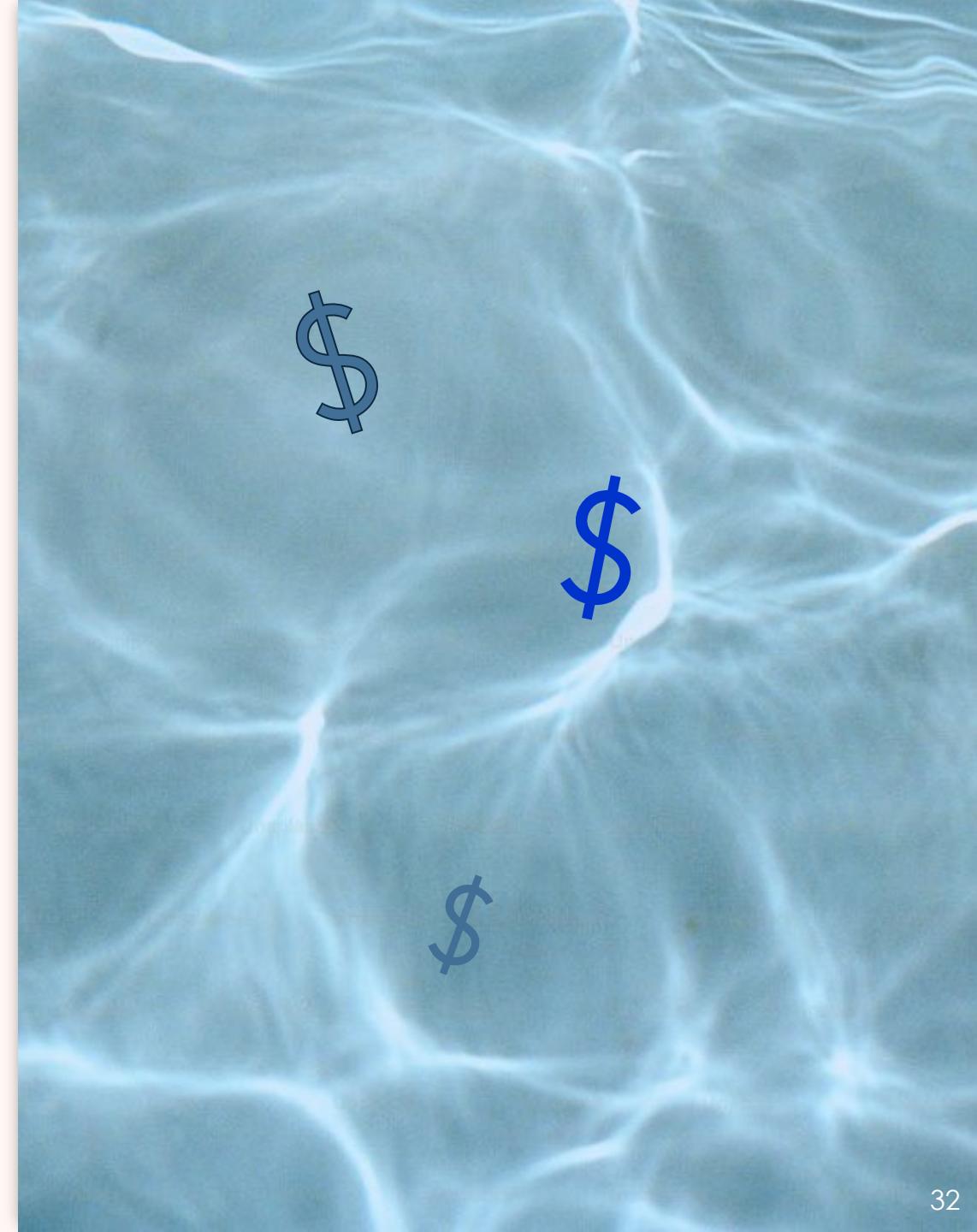
Calculation of the Net Change in the Fair Value of Investments - Aggregate Method

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: \$179,153,321,241.47

Divided by
Amortized
Cost: \$178,938,897,011.95
= 1.001198310

An Agency's LAIF investment of \$60,000,000 at 12/31/25 would have a fair value of \$60,071,898.6 (\$60,000,000 x 1.001198310)

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 6/30/2025					
Description	Carrying Cost Plus				
	Accrued Interest Purch.	Amortized Cost	Fair Value	Accrued Interest	
United States Treasury:					
Bills	\$ 53,070,105,400.83	\$ 53,553,235,136.11	\$ 53,553,095,196.50		NA
Notes	\$ 45,065,440,536.21	\$ 45,017,038,229.84	\$ 45,220,920,060.50	\$ 456,554,961.50	
Federal Agency:					
SBA	\$ 241,952,774.98	\$ 241,882,090.69	\$ 244,164,765.36	\$ 966,339.45	
MBS-REMICs	\$ 1,062,524.00	\$ 1,062,524.00	\$ 1,053,290.67	\$ 4,635.17	
Debentures	\$ 6,975,704,585.76	\$ 6,975,704,585.76	\$ 6,979,649,750.00	\$ 56,993,149.00	
Debentures FR	\$ -	\$ -	\$ -	\$ -	
Debentures CL	\$ 3,350,000,000.00	\$ 3,350,000,000.00	\$ 3,360,195,500.00	\$ 27,168,533.00	
Discount Notes	\$ 30,815,944,152.72	\$ 31,081,797,090.46	\$ 31,069,446,050.00		NA
Supranational Debentures	\$ 3,985,672,458.38	\$ 3,983,248,483.36	\$ 3,993,975,100.00	\$ 38,528,655.00	
Supranational Debentures FR	\$ -	\$ -	\$ -	\$ -	
CDs and YCDs FR	\$ -	\$ -	\$ -	\$ -	
Bank Notes	\$ -		\$ -	\$ -	
CDs and YCDs	\$ 16,250,000,000.00	\$ 16,250,000,000.00	\$ 16,248,094,811.24	\$ 174,922,944.49	
Commercial Paper	\$ 11,878,071,791.64	\$ 11,988,394,027.79	\$ 11,988,292,097.20		NA
Corporate:					
Bonds FR	\$ -	\$ -	\$ -	\$ -	
Bonds	\$ 952,811,187.28	\$ 952,792,103.94	\$ 950,691,880.00	\$ 9,631,480.55	
Repurchase Agreements	\$ -	\$ -	\$ -	\$ -	
Reverse Repurchase	\$ -	\$ -	\$ -	\$ -	
Time Deposits	\$ 5,281,000,000.00	\$ 5,281,000,000.00	\$ 5,281,000,000.00		NA
PMIA & GF Loans	\$ 262,742,740.00	\$ 262,742,740.00	\$ 262,742,740.00		NA
TOTAL	\$ 178,130,508,151.80	\$ 178,938,897,011.95	\$ 179,153,321,241.47	\$ 764,770,698.16	

Fair Value Including Accrued Interest \$ 179,918,091,939.63

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 (1.001198310)
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 \$20,023,966.20 or \$20,000,000.00 x 1.001198310

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									
90MALA\$03	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									
90LGIP\$81	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	31.05%	NR / AAA	0.00
LAIF									
90LAIF\$00	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	2.94%	NR / NR	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.



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

ⓘ The Slido app must be installed on every computer you're presenting from

GASB 31 Takeaway



Investments at Fair Value

Fair value isn't a cash loss — it's a snapshot of market conditions so stakeholders see the real picture.

- Fair value answers one question: what would someone pay today?
- This adjustment exists even if no cash is bought or sold.

GASB STATEMENT No. 72

Fair Value Measurement
and Application

How Those Values Are Measured?



How did you come up with that value — and how much confidence should I have in it?



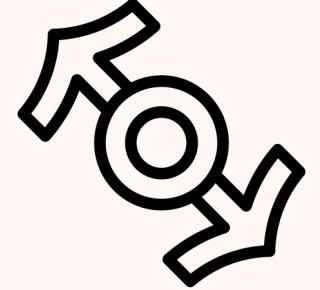
GASB 72 explains the inputs and methods behind fair value, not the riskiness of the investment.

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

GASB 72 Application Considerations

Price and Transaction Costs

The price in the market should not include transaction costs



Markets

Assume that a transaction to sell or transfer takes place

principal market or

most advantageous market in the absence of a principal market

Unit of Account

Measurement might be for a single asset/ liability or a group of related assets and liabilities (e.g. partnership)



Asset or Liability

Measurement focus on mirroring what market participants would consider when valuing

Valuation Techniques And Approaches

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

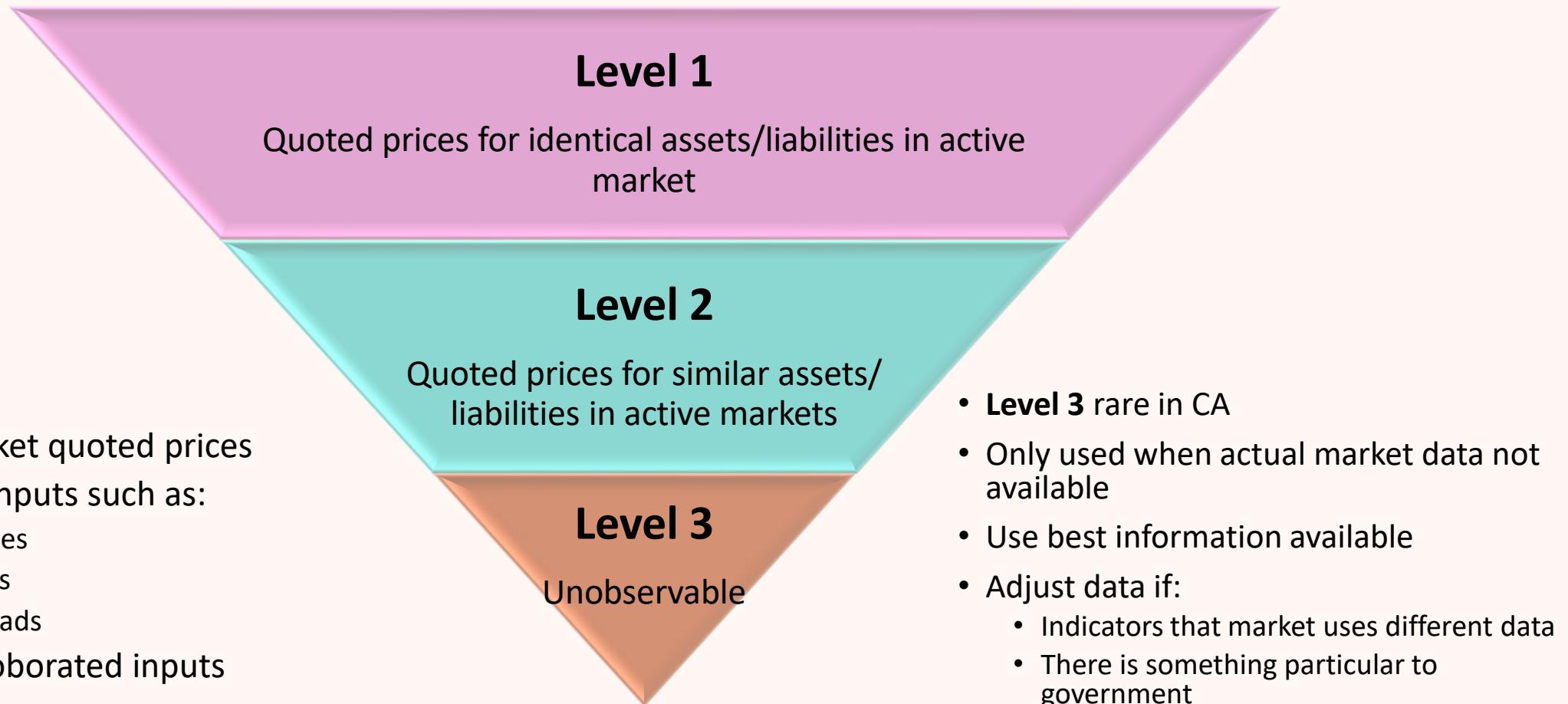
Market Approach
Uses prices and other relevant information generated by market transactions

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

Common
example, but
depends on
your own facts
and
circumstances

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**



Note Disclosures

- 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





**Which of the following are acceptable valuation techniques?
Mark all that apply.**

- ① The Slido app must be installed on every computer you're presenting from

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>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</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	-	3,773,445	-	3,773,445
 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





If you wanted to sell your agency's bond in the market on 12/18/2025, how could you convince someone to buy your bond?

- ⓘ The Slido app must be installed on every computer you're presenting from

AUDIENCE PRACTICE #5 Continued

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	3.45%/2
NPER	Number of Periods	Number of Interest Payments Left	2 years * 2 payments = 4
PMT	Payment	Each Coupon Payment (\$)	+\$2.00/2
FV	Future Value	Face (Par) Value	100
PV	Present Value	Current Price of Bond	Solve for PV 101.05

US Treasuries pay interest semi-annually!

GASB 72 Takeaway

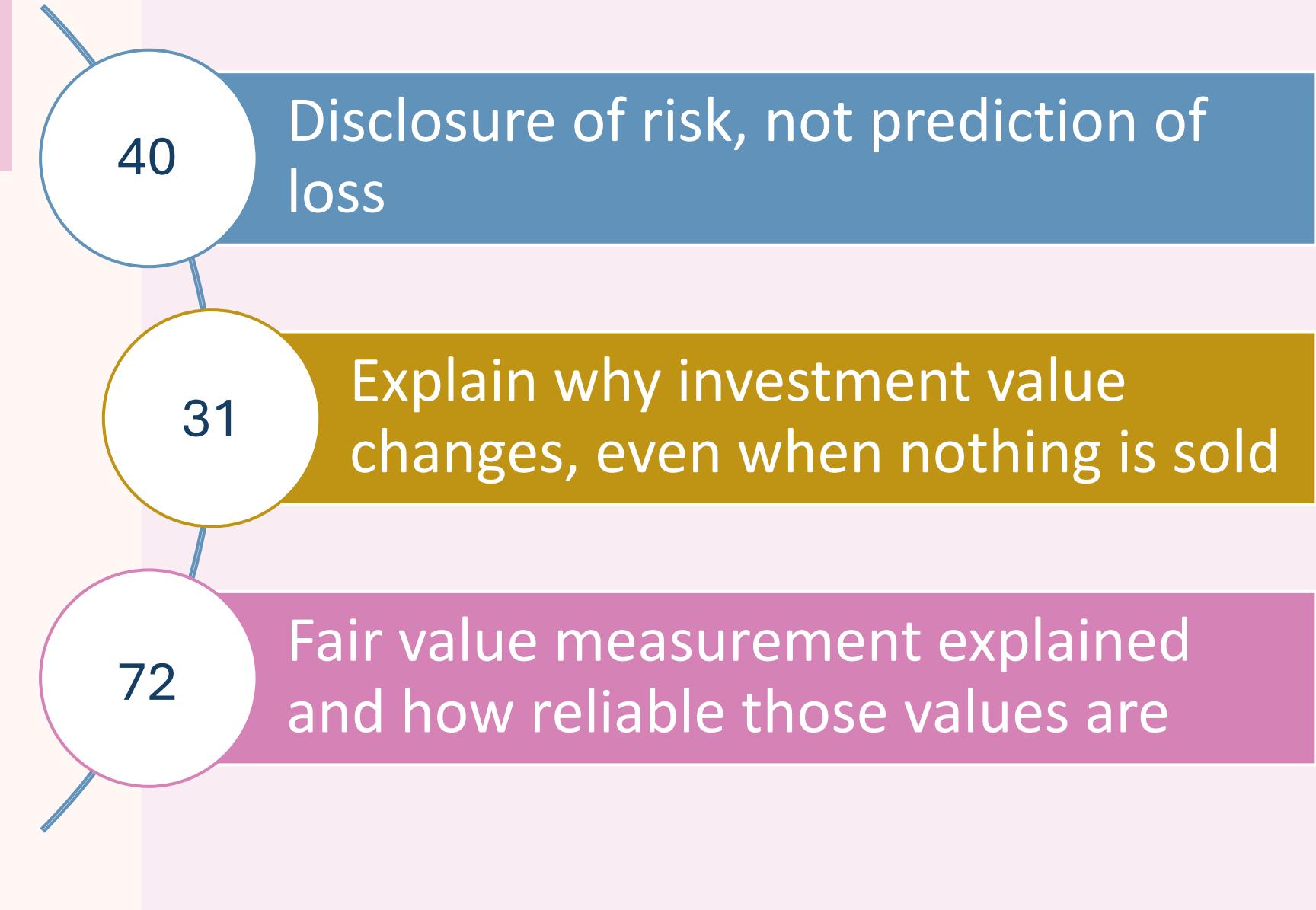


Fair Value Measurement

Fair value measurement explains *how* values are determined — and how reliable those values are.

- Uses observable market data whenever possible.
- The hierarchy shows confidence in the inputs, not investment risk.

SESSION TAKEAWAYS



QUESTIONS?



ALAYNÈ MARIE SAMPSON

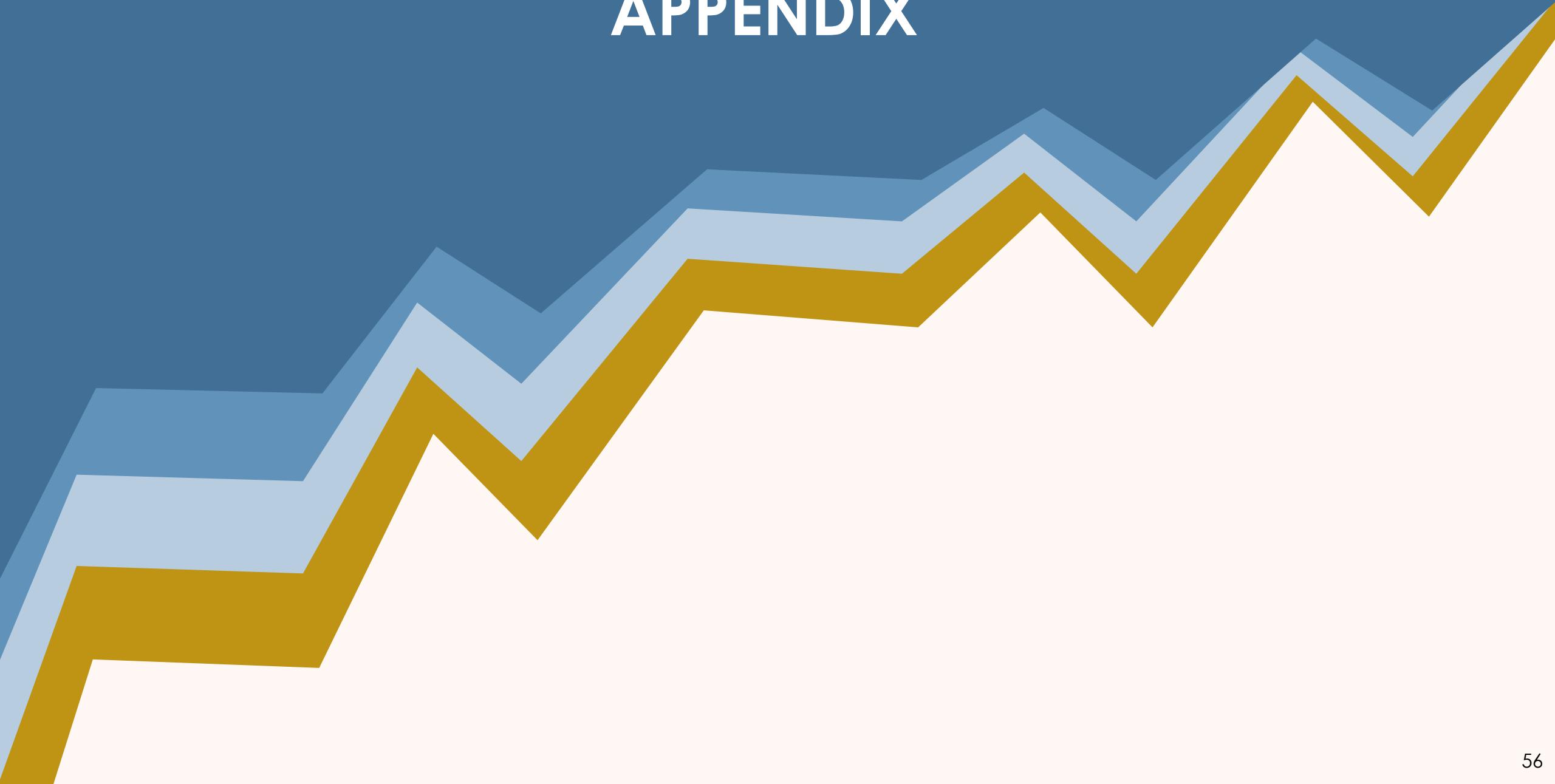
Portfolio Strategy Manager
Chandler Asset Management



KEVIN SHIRAH

Director of Finance
City of Lake Forest

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>



California State Treasurer
Fiona Ma, CPA

Home | Open Government | Careers | Contact | Calendar

Search

Home -> CDIAC -> Regulatory Resources for Municipal Issuers

CDIAC CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Regulatory Resources for Municipal Issuers

This site is designed to provide resources about selected topics in municipal market regulations. A list of selected regulatory topics that affect municipal issuers is provided below along with links to additional resources and information.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was signed into law by President Obama on July 21, 2010. Dodd-Frank is a comprehensive financial regulatory reform that aims to produce a more fair and transparent financial market. Both the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) have roles to play in implementing reforms that affect participants in the municipal market.

Although most regulation efforts over the last few years are implementations of Dodd-Frank's objectives, the SEC and MSRB enact rules that affect the municipal market outside of that Act. Additionally, both the federal and state governments routinely introduce legislation that affects municipal markets, for instance by creating new vehicles to finance debt or refining permissible debt issuance and investment practices.

Selected Topics in Municipal Market Regulation

- SEC Rule 15c2-12
- [The Municipal Advisor \(MA\) Rule](#)
- [Municipalities Continuing Disclosure Cooperation \(MCDC\) Initiative](#)
- [High-Quality Liquid Assets \(HQLA\)](#)
- [MSRB Rule G-17](#)
- [MSRB Rule G-37](#)
- [Direct Subsidy & Tax Credit Bond Programs](#)

• [Regulatory Activity Calendar](#)
• [Legislative Update](#)
• [CDIAC Publications](#)
• [Municipal Finance Resources](#)

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 Cities

- 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)

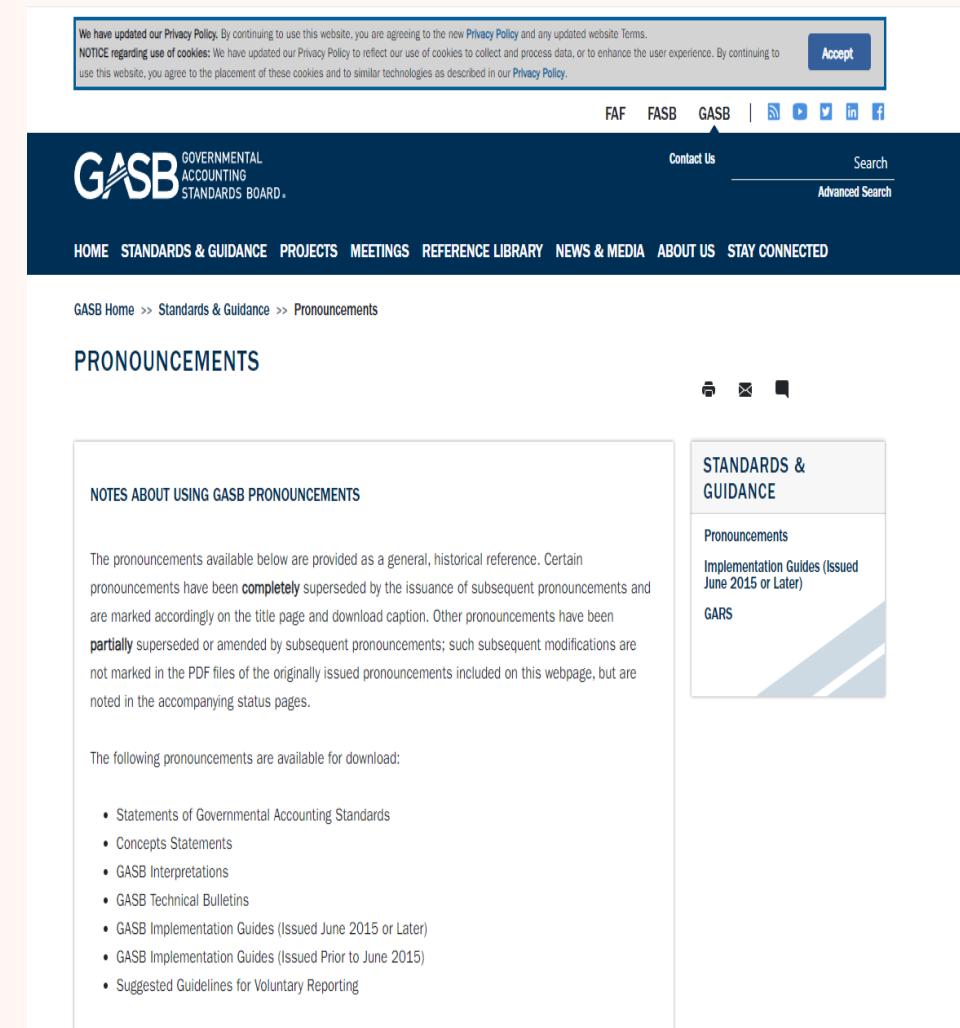
EXAMPLE DISCLOSURES FOR CALIFORNIA LOCAL
GOVERNMENTS IMPLEMENTING GASB STATEMENT NO. 40
(DEPOSIT AND INVESTMENT RISK DISCLOSURES)

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?pagId=/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%20%94STATEMENT+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%20%94AN+AMENT+OF+GASB+STATEMENT+NO.+3&Submit=>
 - <https://gasb.org/page>ShowDocument?path=qa40.pdf&acceptedDisclaimer=true&title=GASB+IMPLEMENTATION+GUIDE%20%94STATEMENT+40%28SUPERSEDED%29&Submit=>



The screenshot shows the GASB website's "Pronouncements" page. At the top, there is a cookie consent banner with a message about updated Privacy Policy and Terms, and an "Accept" button. Below the banner, the GASB logo is displayed, followed by a navigation bar with links to Home, Standards & Guidance, Projects, Meetings, Reference Library, News & Media, About Us, and Stay Connected. The main content area has a breadcrumb navigation (GASB Home > Standards & Guidance > Pronouncements) and a section titled "PRONOUNCEMENTS". On the right side, there is a sidebar titled "STANDARDS & GUIDANCE" with links to Pronouncements, Implementation Guides (Issued June 2015 or Later), and GARS. The main content area also contains a section titled "NOTES ABOUT USING GASB PRONOUNCEMENTS" with text about superseded pronouncements and a list of available documents including 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), and Suggested Guidelines for Voluntary Reporting.

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)

Segmented Time Distribution Method

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months
U.S. Treasury Notes	\$9,000,000	\$6,000,000	-	\$3,000,000	-
U.S. Treasury Bond	2,000,000	-	-	2,000,000	-
Federal Agency Securities	35,000,000	-	-	35,000,000	-
Medium Term Corporate Notes	5,000,000	-	\$5,000,000	-	-
Commercial Paper	3,000,000	-	-	3,000,000	-
Banker's Acceptances	2,000,000	2,000,000	-	-	-
GNMA	3,000,000	-	-	3,000,000	-
Local Agency Investment Fund	15,000,000	15,000,000	-	-	-
<i>Held by Bond Trustee:</i>					
Money Market Funds	500,000	500,000	-	-	-
Investment Contracts	1,000,000	-	-	-	\$1,000,000
Total	\$75,500,000	\$23,500,000	\$5,000,000	\$46,000,000	\$1,000,000

Group investment cash flows into sequential time periods in tabular form

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

Specific Identification Method

Investment	Total	Maturity Date
U.S. Treasury Note	\$6,000,000	November 6, 2025
U.S. Treasury Note	3,000,000	October 4, 2027
U.S. Treasury Bond	2,000,000	March 5, 2028
Federal Farm Credit Note	35,000,000	December 31, 2028
ABC Corporate Note	5,000,000	February 18, 2027
XYZ Commercial Paper	3,000,000	September 15, 2027
XXX Banker's Acceptances	2,000,000	September 6, 2025
GNMA	3,000,000	May 17, 2028
Local Agency Investment Fund	15,000,000	0.70 year average
<i>Held by Bond Trustee:</i>		
Money Market Funds	500,000	.13 year average
Investment Contracts	1,000,000	October 1, 2037
Total	<u>\$75,500,000</u>	

Lists each investment, its fair value, maturity date, and any call options

List each investment individually with display amount, maturity date, and any call options

Weighted Average Maturity Method

Investment Type	Total	Weighted Average Maturity (in years)
U.S. Treasury Notes	\$9,000,000	0.99
U.S. Treasury Bond	2,000,000	2.68
Federal Agency Securities	35,000,000	3.51
Medium Term Corporate Notes	5,000,000	1.64
Commercial Paper	3,000,000	2.21
Banker's Acceptances	2,000,000	0.19
GNMA	3,000,000	2.88
Local Agency Investment Fund	15,000,000	0.70
<i>Held by Bond Trustee:</i>		
Money Market Funds	500,000	0.13
Investment Contracts	1,000,000	12.26
Total	<u>\$75,500,000</u>	

Expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type.

For Illustrative Purposes Only.

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

Duration Method

Investment Type	Carrying Amount	Fair value after basis point increase of:		
		100 Points	200 Points	300 Points
U.S. Treasury Notes	\$9,000,000	\$8,747,937	\$8,504,268	\$8,268,678
U.S. Treasury Bond	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
Medium Term Corporate 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
GNMA	3,000,000	2,915,979	2,834,756	2,756,226
Local Agency Investment Fund	15,000,000	14,079,895	13,673,780	13,281,130
<i>Held by Bond Trustee:</i>				
Money Market Funds	500,000	485,997	472,459	459,371
Investment Contracts	1,000,000	838,660	811,585	785,409
Total	\$75,500,000	\$71,585,472	\$69,541,358	\$67,565,021

Estimate changes in an investment's or a portfolio's fair value, given hypothetical changes in interest rates. Various models or techniques may be used, such as —shock tests or value-at-risk.

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

Investment Type	Carrying Amount	Fair value after basis point increase of:		
		100 Points	200 Points	300 Points
U.S. Treasury Notes	\$9,000,000	\$8,747,937	\$8,504,268	\$8,268,678
U.S. Treasury Bond	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
Medium Term Corporate Notes	5,000,000	4,859,965	4,724,593	4,593,710
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Investment Contracts	1,000,000	838,660	811,585	785,409
Total	\$75,500,000	\$71,585,472	\$69,541,358	\$67,565,021

Estimate changes in an investment's or a portfolio's fair value, given hypothetical changes in interest rates. Various models or techniques may be used, such as —shock tests or value-at-risk.

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

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

(cont. 2 of 2)

- Governmental External Investment Pools:
 - Brief description of regulatory oversight (including whether the pool is registered with the SEC as an investment company)
 - Frequency of determining the fair value of investments
 - Method used to determine participants' shares sold and redeemed and whether that method differs from the method used to report investments
 - Whether the pool sponsor has provided or obtained any legally binding guarantees during the period to support the value of shares
 - Extent of involuntary participation in the pool
 - 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 (cont. 2 of 2)

- 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 Principles – 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 (LAIIF/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

Credit Risk (cont.)

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

738-2

Q— Do the credit quality ratings of all 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 (SEC) reviews the qualifications of applicant credit quality rating firms to determine if they meet the criteria for becoming an NRSRO. This section 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 and the government is aware of the different ratings, **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.

[GASBIG 2015-1, Q1.9.1]

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

Disclosures

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This report is being provided for informational purposes only. No investment decision should be made based solely on the information provided herein. All investments involve risk, including loss of principal invested. The strategies referenced may not be suitable for all investors. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the strategies. While not guaranteed as to accuracy or completeness, some of the information has been obtained from sources we believe to be reliable. Opinions expressed herein are subject to change without notice. There can be no assurance that an account or specific investment product will be able to achieve its investment objective. No guarantee of investment performance is being provided and no inference to the contrary should be made.

Any forecasts, forward-looking statements and assumptions are inherently limited and should not be relied upon as an indicator of future results. Any opinions and views constitute judgments made by the author at the date of this presentation and may become outdated or superseded at any time without notice. Any statements concerning financial market trends are based on current market conditions, which will fluctuate.

Economic factors, market conditions and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. The data contained in this presentation is the property of those providers, which were obtained from sources believed to be reliable, but are subject to change at any time at the provider's discretion. Unless otherwise noted, Chandler is the source of data contained in this presentation.

Fixed Income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally must pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

References to specific securities are examples of securities held in a portfolio and are not intended to be, and should not be interpreted as an offer, solicitation, or recommendation to purchase or sell any financial instrument, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. The information contained in this sample presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. Past performance is not indicative of future success.