Session Four:
Investment Accounting and Disclosures

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California Debt and Investment Advisory Commission

January 24, 2019

Fundamentals of Public Fund Investing

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Fundamentals and Definitions

Definition of an Investment

- Asset held primarily for the purpose of income or profit and
- Has present service capacity based solely on its ability to generate cash
  - Includes real property held for development
- Determined at the time of acquisition

Fixed Income Securities

- A debt obligation of a corporation, governmental entity or trust
- Typically provide periodic interest payments
  - fixed rate
  - floating rate
- At maturity, the face value or principal of the security is paid back to the investor

Definitions

- **Cost** – the original value of an asset, usually the purchase price
- **Fair Value** - price received to sell an asset or transfer a liability
- **Unrealized gain or loss** – the difference between the cost and fair value

GASB 31

Significant Impacts

- Public entities should report investments at fair value on the balance
- Certain investment are not reported at fair value
  - Investment agreements
  - Money market mutual funds
  - Certain external investment pools

Recognition and Reporting

- Investment income includes changes in the fair value of investments
- The change in fair value from year to year should be recognized in the operating statement
- Disclosures
  - Policy for reporting at amortized costs, if any
  - Any involuntary participation in external investment pools
  - Any income from investments associated with one fund that is assigned to another fund

Investment in Local Government Pool

- A local government's investment in LAIF, CAMP (or a county pool) must also be fair valued
- This would be based upon a proportionate assignment of the total fair value of all of 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

Bid Price or Asked Price

GASB *CIG 6.11.7. *Q*—A bid price represents the price a willing buyer will pay; an asked price represents the price the seller would like to receive. If actual sales prices are not available when determining fair value, should bid or asked prices be used?

A—Statement 31 does not take a position on this issue. Practice generally is to use **bid prices**, because they are the amounts at which transactions presumably will be completed.

* The acronym CIG represents refers to the *Comprehensive Implementation Guide* published by GASB

Trade Date or Settlement Date

GASB CIG 6.28.1. *Q*—Should investment transactions be accounted for based on the trade date (the date the order to buy or sell the investment is placed) or the settlement date (the date that the cash and investment instrument are exchanged)?

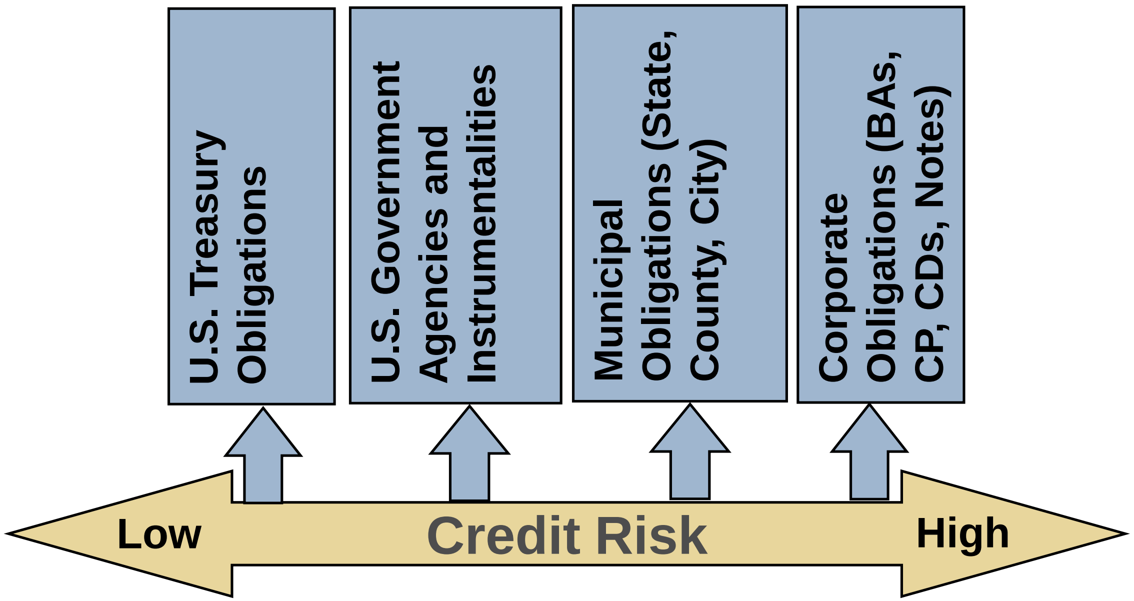
A—Investment transactions should be accounted for based on the **trade date**. The trade date is the date on which the transaction occurred and is the date the government is exposed to (or released from) the rights and obligations of the ownership of the instrument.

Note – This becomes important for transactions that occur close to year end

Credit Risk to Portfolios

Credit Risk

- Risk of default or decline in security value due to conditions outside investors control
  - Bankruptcy
  - Rating agency downgrades
  - Regulatory changes



Ratings

S&P	Moody's	Explanation of Rating
AAA	Aaa	High quality. Smallest degree of investment risk
AA	Aa	High quality. Differs only slightly from highest-rated issues
A	A	Adequate capacity to pay interest and repay principal
BBB	Baa	More susceptible to adverse effects of changes in economic conditions
BB	Ba	Has speculative elements; future not considered to be well-assured
B	B	Generally lack characteristics of desirable investment
CCC	Caa	Poor standing. Vulnerability to default
C	C	Extremely poor prospect
D	D	In default

GASB 40

Background

- GASB 40 primarily addresses **disclosure** (not valuation) issues for investments
- Purpose of GASB 40 is to inform the reader about certain risks that are associated with an entity’s investment portfolio that are not otherwise apparent by the reporting on that entity’s balance sheet

Credit Risk

- ***Credit risk*** — the risk that the issuer will not fulfill its obligation to the holder of the investment
- Disclose any state laws or policy requirements associated with this risk (i.e., where a **minimum** rating has been stipulated)
- If no requirement for a minimum rating, so state

Credit Risk

- In the notes, can group investments by **type** and simply give **range of ratings** associated with those investments
- Credit quality modifiers (Aa1, Aa2, Aa3) are not required to be disclosed
- Only need to disclose ratings as of end of year
- No rating is required for U.S. Treasury securities
- Must disclose ratings for federal agency securities (FNMA, etc.)
- Disclose credit quality ratings of external investment pools, money market funds or other pooled investments (or mention that they are not rated)
- Identify unrated investments
- Retain for auditor’s review evidence of rating as of year end

Credit Risk

[GASBIG 2015-1, Q1.5.5]

.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.

Level of Detail (for all GASB 40 Disclosures)

- All GASB 40 disclosures must be broken down at least by investment type
- For GASB 40 purposes, an investment in an external investment pool (County pool, LAIF, CAMP, etc.) is a single investment
- Don't have to "look through" the pool to give disclosures for the various investment types contained in the pool
- Generally, if a major **fund has its own investments** (such as those held in a separate fiscal agent account associated solely with that fund) **<u>and</u>** those investments have risks that are **materially different** than the risks of that agency's entire portfolio, additional disclosures may be required

Concentration of Credit Risk

- Any one issuer that represents 5 percent or more of the entity's total portfolio
- If a major fund has its **own** investments, then this rule is applied at the fund level
- Exclude:
  - Assets issued or explicitly guaranteed by the U. S. Government
  - Mutual funds
  - External investment pools (CAMP, LAIF, etc.)

Custodial Credit Risk - Deposits

- Custodial credit risk for deposits addresses how the deposits are held (with a focus on the use of collateralized accounts)
  - Deposits are checking accounts, savings accounts, and traditional non-negotiable certificates of deposit, etc.
- Exception based
- If a bank account (or Certificate of Deposit) is not **collateralized**, disclose the dollar amounts in excess of FDIC insurance limits
- Retain evidence of collateralization of deposits for auditors (bank agreement specifying commitment to collateralize, etc.)

Custodial Credit Risk - Investments

- Custodial credit risk for investments addresses how the investments are held (with a focus on who is holding the investment on behalf of the local government)
- Exception based
- Disclosable custodial credit risk generally exists if the investment is being **held by the broker or dealer** that the local government used to buy the investment (instead of using an independent third-party custodian)
  - This disclosure does not apply to external investment pools and money market mutual funds

Foreign Currency Risk

- *Foreign currency risk*—risk that changes in foreign exchange rates will adversely affect the fair value of an investment
- Only applies to investments that are denominated in foreign currencies.
- Can be satisfied by listing the *specific investments* showing amount, maturity, and identification of the foreign currency

Interest Rate Risk

- *Interest rate risk*—the risk that changes in interest rates demanded by the market will adversely affect the fair value of an investment
- One of five methods must be used:
  1. Specific identification
  2. Segmented time distribution
  3. Weighted average maturity
  4. Simulation model
  5. Duration

Interest Rate Risk

- Method used should be consistent with how that local government manages interest rate risk

- Can use different methods for short term vs. long term portfolios

- Disclose assumptions made for calculation purposes

- Similar investments may be aggregated
  - Disclosure detail should be broken down by investment type
  - Investments with values that are highly sensitive to changes in market interest rates must be described in the notes

1. Specific Identification

	S & P Rating	Par	Maturity Date	Market Value	% of Portfolio
Repurchase Agreement					
Morgan Stanley		15,000,000	7/15/2014	15,000,000	20%
Commercial Paper					
GE Capital	A-1+	2,270,000	12/5/2014	2,269,000	
Citicorp	A-1+	2,065,000	12/13/2014	2,064,000	
		4,335,000		4,333,000	6%
Corporate Note					
Citicorp	AA-	2,500,000	3/15/2015	2,600,000	4%
Federal Agency Bond/Note					
FAMC Notes	NR	5,000,000	12/1/2014	5,050,000	
FNMA Notes (Callable)	AAA	6,000,000	3/11/2015	5,950,000	
FHLMC Notes	AAA	10,000,000	1/15/2016	10,500,000	
FHLB Notes	AAA	9,000,000	8/15/2016	9,300,000	
		30,000,000		30,800,000	42%
Variable Rate Obligations					
FHLB Notes	AAA	10,000,000	12/31/2016	10,850,000	15%
U.S. Treasury Notes					
U.S. Treasury Notes	AAA	10,000,000	11/30/2014	10,100,000	14%
TOTAL SECURITIES		**71,835,000**		**73,683,000**	**100%**

2. Segmented Time Distribution

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1–5	6–10	More Than 10
U.S. Treasuries	$ 28,729	$ 10,865	$ 12,864	$ 5,000	$ —
U.S. agencies	112,974	89,360	15,000	8,614	—
Municipal obligations	23,896	23,896	—	—	—
Corporate bonds	62,061	26,568	10,000	20,493	5,000
Negotiable certificates of deposit	25,000	25,000	—	—	—
Commercial paper	39,331	29,589	9,742	—	—
Repurchase agreements	74,509	73,509	1,000	—	—
Investment in money market funds	30,979	30,979	—	—	—
Investment in State Local Agency Investment Fund	30,000	30,000	—	—	—
Total	$ 427,479	$ 339,766	$ 48,606	$ 34,107	$ 5,000

3. Weighted Average Maturity

Investment Type	Weighted Average Days to Maturity
U.S. Treasury notes	852
U.S. Treasury bonds	1,642
Federal agency securities	947
Corporate medium term notes	1,460
Commercial paper	87
Mortgage backed securities	2,012

4. Simulation Model

- *Simulation model*—calculates effect on investment fair values for hypothetical (negative) changes in interest rates.
- If this is not being used during the year to monitor interest rate risk in your portfolio, you probably should not use this method for the cash and investment note.

5. Duration

- *Duration*—calculates in years or months the time to elapse for a group of investments to become due and payable (weighted for the *present value* of investment cash flows).
- If this is not being used during the year to monitor interest rate risk in your portfolio, you probably should not use this method for the cash and investment note.

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Examples of Highly Sensitive Investment

- **Auction rate securities**—securities whose interest rates are set by frequent remarketing
- **Coupon multipliers**—a variable rate instrument where the interest rate is expressed as a *multiple* of an underlying index.
- **Variable rates with floors, caps, and collars**
- **Securities with callable step-up features**
- **Range notes**—interest rates depends on whether or not the benchmark index falls within a pre-determined range.
- **Inverse floaters**—interest rate moves in the opposite direction of the underlying index
- **Mortgage-pass through securities**—cash flows determined by the mortgage payments of an underlying pool of mortgages

Highly Sensitive Investments

- Retain for auditors documentation of the details of investment characteristics (descriptions on investment statements and trade tickets do not necessarily provide the level of detail needed to be examined by the auditors)

- For this reason, entities often retain for auditors' review Bloomberg print shots (obtained from the broker) that display all of the characteristics necessary for the auditors to evaluate whether or not the investment has a fair value that is highly sensitive to changes in market interest rates

Legal Compliance Risk

- Allowable investments (and any limitations) under entity's investment policy must be disclosed
- Differences between investment policy and requirements of state law should be disclosed
- If government's policy is to simply comply with state investment statues, relevant portions of statue relating to risk should be disclosed
- Violations of investment policy or state law must also be disclosed
- Best practice is for monthly Treasurer's Report to provide information as to compliance with these requirements (e.g., identifying the percentage of the portfolio that is held in each category of investments that is subject to limitation)
- Prospectuses should also be retained for examination by auditors (for money market funds, mutual funds, and any unusual investments)
- Bond requirements for investment of bond proceeds should be disclosed

GASB 72

What This Statement Does

- Clarify how fair value should be measured for those assets (such as investments) and liabilities (such as derivatives that are in a liability position) that are currently required to be reported at fair value
- Expand the definition of investments subject to fair value
- Expand the disclosures in the footnotes of fair value
- Goal is to maximize observable inputs and minimize unobservable inputs when deciding which technique is best

Fair Value Measurement

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

- Price
  - Not adjusted for transaction costs
  - Government's principal or most advantageous market
- Market participants
  - Use assumptions that market participants would use to price asset or liability
- Measurement date
  - Not necessarily financial statement date

Measurement – Valuation Techniques

- Market approach
  - Uses prices
  - Relevant information generated by market transactions involving identical or similar assets/liabilities
- Cost approach
  - Amount required currently to replace the service capacity of an asset
- Income approach
  - Converts expected future cash amounts into a single amount
  - Present value
  - Option-pricing models
- 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

Measurement

- Risk adjustments
  - Includes a risk premium or discount that market participants would demand as compensation
  - Reflects an orderly transaction

Application of Fair Value

- Definition of an investment
  - ***A security or other asset that a government holds primarily for the purpose of income or profit*** and with a present service capacity that is based solely on its ability to generate cash or to be sold to generate cash
- Service capacity
  - Refers to a government's mission to provide services
- Held primarily for income or profit
  - Acquired first and foremost for future income and profit

Application of Fair Value

- An asset that is 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

Application of Fair Value

4.40. Q—A city government constructs an office building with the intent to occupy the building for a city program. While the city awaits the grant approval, the city leases the building and receives lease income. Should the building initially be classified as an investment and then reclassified when the city uses the building for the city's program?

A—No. The asset should be classified at acquisition as a capital asset. Because the city intended, at acquisition, to use the building for the purpose of a city program, the building does not meet the definition of an investment. After an asset is classified at acquisition, its classification should not change.

4.41. Q—A city government seeks to provide affordable housing to the community. It lends money to its housing authority (a component unit of the city) to complete the development of an existing affordable-housing project. The housing authority will repay the loan over a 20-year period and will compensate the city with an interest rate commensurate with market conditions. Should the city classify this loan as an investment?

A—No. The loan is a receivable and not an investment because the purpose of the loan is to support its affordable-housing program.

Source: 2016 GASB Implementation Guide

Hierarchy of Fair Value Inputs

- **Level 1** – quoted prices in active markets for identical assets or liabilities
- **Level 2** – quoted prices for similar assets or liabilities
  - quoted prices for identical or similar assets/liabilities in markets that are not active
  - Yield curves
  - Credit spreads
  - Other than quoted prices that are observable
- **Level 3** – unobservable inputs
  - Inputs when actual market data is not available
  - assumptions and considerations that market participants use when pricing the asset

Common Categorization

- **Level 1** – US Treasury Securities
- **Level 2** – Federal Agency Securities, Corporate Notes and Bonds, Municipal Bonds
- **Level 3** – Should be rare in CA
- Don't include the following investments in the fair value hierarchy:
  - Money Market Funds
  - LAIF
  - CAMP
  - Other external investment pools

External Investment Pools

- 2017 GASB Implementation Guide (Exposure Draft) clarifies how to report External Investment Pools in the schedule of fair value hierarchy
- Q. 4.38: 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 <u>not be categorized</u> within the fair value hierarchy.
- If the pool measures investments at fair value, regardless of whether the pool transacts with participants at a floating net asset value per share or a fixed net asset value per share (for example $1.00), positions in external investment pools that are measured at fair value should <u>not be categorized</u> within the fair value hierarchy.

Acquisition Value

- This statement 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

Note Disclosures

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

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:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
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	$15,290,373	22,970,782	-	38,261,155

NOTE: *Unless you include a reconciliation of investments NOT measured at fair value, this schedule will not agree to your other investment schedules.*

Disclosure of Fair Value Inputs

Investments Measured at the NAV
($ in millions)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Long/Short	$40		Quarterly	30-60 days
Real Estate Fund	20	$5	Annually	30-60 days
LGIP	10		Daily	None
Total investments measured at the NAV	$70			

* *For illustrative purposes only.*

Optional Narrative Format

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).

Source: GASB Codification

GASB 79
Investment Vehicles

GASB 79 External Investment Pools

- Allows state and local government external investments pools to continue to qualify for amortized cost accounting (vs. fair value accounting).
- Supersedes paragraphs in both GASB 31 and GASB 59
- Parallels many aspects of the SEC’s 2010 amendments to Rule 2a-7
  - Maturity
  - Credit Quality
  - Diversification
  - Liquidity
  - Shadow pricing
- Note requirements

GASB 79 – Portfolio Guidelines

- Securities maturing in 397 calendar days or less
- Maintain a weighted average maturity of 60 days or less
- Maintain a weighted average life of 120 days or less
- Securities denominated only in USD
- A security must be rated by an NRSRO with the highest category rating of short-term credit ratings or its long-term equivalent category.
- Securities without credit ratings must be comparable credit quality to securities that have been rated within the highest category of short term credit ratings.
- No more than 5% of total assets in investments of any one security (except for U.S. government securities, including its agencies and instrumentalities)
- No more than 10% of total assets in investments with credit support through a demand feature or guarantee in one issuer.
- Must hold at least 10% of total assets in daily liquid assets.
- Must hold at least 30% of total assets in weekly liquid assets.
- Must price portfolio daily using multiple pricing sources and report shadow NAV.
- Measures all investments at amortized cost

San Bernardino Footnotes

Investment Policy

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

The following table presents the authorized investment types per California Government Code (CGC), along with their respective requirements and restrictions per the CGC and the County Investment Pool Policy:

	Maximum Maturity		Maximum % of Pool		Maximum % Per Issuer		Minimum Rating [A, B]	
Investment Type	CGC	Investment Policy	CGC	Investment Policy	CGC	Investment Policy	CGC	Investment Policy [C]
U.S. Treasury Securities	5 years	5 years	None	None	None	None	None	None
U.S. Government Agencies	5 years	5 years	None	None	None	None	None	None
Negotiable Certificates of Deposit	5 years	3 years	30%	30%	None	5%	None	A-1/P-1/F1/A-/A3
Collateralized Certificates of Deposit	5 years	1 year	None	10%	None	None	None	None
Commercial Paper	270 days	270 days	40%	40%	10%	5%	A-1/A	A-1/P-1/F1
Repurchase Agreements	1 year	180 days	None	40%	None	None	None	None
Reverse Repurchase Agreements	92 Days [D]	92 Days [D]	20%	10%	None	None	None [E]	None [E]
Municipal Debt	5 years	5 years	None	10%	None	None	None	AAA by 2 NRSROs
Medium-Term Corporate Notes	5 years	38 months	30%	10%/20% [F]	None	200MM, 5% [G]	A	A- by 2 NRSROs
Insured Placement Service Accounts	5 years	Immediate liquidity	30%	5%	None	50MM, 100MM [H]	None	Not applicable
JPA Investment Pools	Not applicable	Immediate liquidity	None	5%	None	200MM	None	AAAm
Money Market Mutual Funds	Not applicable	Immediate liquidity	20%	15%	None	10%	AAAm by 2 NRSROs	AAAm by 2 NRSROs
Supranational Securities	5 years	5 years	30%	30%	None	None	AA	AA
Asset-Backed Securities	5 years	2.75, 5 years [I]	20%	10%	None	200MM, 5% [G]	A/AA	A/AA

Footnote:

[A] Minimum credit rating categories are without regard to ratings modifiers (+/-). Short-term rating appears before long-term rating.

[B] Standard & Poor's Ratings (quoted) or its equivalent nationally recognized statistical rating organization (NRSRO) rating or better.

[C] The County uses the credit ratings issued by the following nationally recognized statistical rating organizations: Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings.

[D] May exceed 92 days if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale and final maturity dates of the same security.

[E] Must have held the securities used for the agreements for at least 30 days.

[F] Maximum portfolio Medium-Term Corporate Note exposure is 20%, with a limit of 10% on maturities over 13 months.

[G] Maximum $200MM par value of any one issuer, subject to 5% overall corporate issuer limit.

[H] FICA accounts balances are fully covered by FDIC insurance. Term deposits are not permitted. Maximum $50MM per selected depository institution. Maximum $100MM per placement service.

[I] Maximum 2.75 weighted average life and 5 years

GASB 72 Disclosure

	Balance at June 30, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
County's Pooled Investment:				
U.S. Treasury Securities	$ 1,376,029	$ 1,376,029	$ -	$ -
U.S. Government Agencies	1,727,818	14,960	1,712,858	-
Negotiable Certificates of Deposit	1,475,268	-	1,475,268	-
Commercial Paper	1,082,912	-	1,082,912	-
Medium-Term Notes	170,464	-	170,464	-
Supranational Securities	711,394	-	662,062	49,332
Total County's Pooled Investments by Fair Value Level	6,543,885	$ 1,390,989	$ 5,103,564	$ 49,332
Investments Held Outside County Pool by Fair Value Level:				
State and Local Municipal Bonds	70,402	$ -	$ 70,402	$ -
U.S. Treasury Securities	17,486	-	17,486	-
Total Investments Held Outside County Pool by Fair Value Level	87,888	$ -	$ 87,888	$ -
Uncategorized Investments				
Uncategorized Investments Held in County's Pool:				
Insured Placement Service Accounts	50,000			
JPA Investment Pools	187,000			
Total Uncategorized Investments Held in County's Pool	237,000			
Uncategorized Investments Held Outside County's Pool:				
Guaranteed Investment Contracts	4,751			
Local Agency Investment Fund	10,409			
Total Uncategorized Investments Held Outside County's Pool	15,160			
Investments Measured at the Net Asset Value (NAV)				
County's Pooled Investments Measured at the Net Asset Value (NAV):				
Money Market Mutual Funds	2,000			
Investments Held Outside County Pool Measured at the Net Asset Value (NAV):				
Money Market Mutual Funds	66,107			
Total Investments	$ 6,952,040			

GASB 40 – Credit Risk Disclosure

As of June 30, 2018, all investments held by the County Pool were within policy limits.

Investment Type	S&P Rating *	Moody's Rating *	Fitch Rating *	Maximum Allowed % of Portfolio	Individual Issuer Limitations	Weighted % of Pool
U.S. Treasury Securities	AA+	Aaa	AAA	None	None	20.30%
U.S. Government Agencies	AA+	Aaa	AAA	None	None	15.60%
U.S. Government Agencies	AA+	Aaa	NR	None	None	9.65%
U.S. Government Agencies	A-1+	P-1	F1+	None	None	0.22%
Negotiable Certificates of Deposit	A+	A1	AA-	30%	5%	0.37%
Negotiable Certificates of Deposit	AA-	Aa2	AA	30%	5%	0.74%
Negotiable Certificates of Deposit	AA-	Aa2	AA-	30%	5%	0.37%
Negotiable Certificates of Deposit	AA-	A1	AA	30%	5%	0.37%
Negotiable Certificates of Deposit	A-1	P-1	F1+	30%	5%	5.16%
Negotiable Certificates of Deposit	A-1+	P-1	F1+	30%	5%	14.75%
Commercial Paper	A-1	P-1	F1	40%	5%	9.64%
Commercial Paper	A-1	P-1	F1+	40%	5%	2.57%
Commercial Paper	A-1+	P-1	F1+	40%	5%	1.10%
Commercial Paper	A-1+	P-1	F1	40%	5%	2.20%
Commercial Paper	A-1+	P-1	NR	40%	5%	0.44%
Medium-Term Notes	AAA	Aaa	AAA	10%/20%	$200MM, 5%	0.04%
Medium-Term Notes	A+	Aa3	AA	10%/20%	$200MM, 5%	0.15%
Medium-Term Notes	AA	Aa2	AA-	10%/20%	$200MM, 5%	0.15%
Medium-Term Notes	AA	Aa2	AA	10%/20%	$200MM, 5%	0.50%
Medium-Term Notes	AAA	Aaa	AA+	10%/20%	$200MM, 5%	0.88%
Medium-Term Notes	AA-	A1	AA-	10%/20%	$200MM, 5%	0.80%
Insured Placement Service Accounts	NR	NR	NR	5%	$50MM, $100MM	0.74%
JPA Investment Pools	AAAm	NR	NR	5%	$200MM	2.76%
Money Market Mutual Funds	AAAm	Aaa	AAA	15%	10%	0.01%
Money Market Mutual Funds	AAAm	Aaa	NR	15%	10%	0.01%
Supranational Securities	AAA	Aaa	NR	30%	None	0.36%
Supranational Securities	AAA	Aaa	AAA	30%	None	10.12%

* NA = Not Applicable, NR = Not Rated

GASB 40 – Concentration Risk Disclosure

As of June 30, 2018, the following issuers represented more than five-percent of the County's Pooled Investment balance:

Issuer	Fair Value	% of Portfolio
Federal Home Loan Bank (FHLB)	$ 654,742	9.65%
Federal Home Loan Mortgage Corp (FHLMC)	448,914	6.62%
International Bank of Reconstruction and Development	439,512	6.48%
Federal National Mortgage Assoc (FNMA)	425,788	6.28%

GASB 40 – Interest Rate Risk Disclosure

A summary of County pooled investments for Maturity Range, Limits, and Modified Duration is as follows:

Investment Type	Fair Value	Maturity Range (days)	Maturity Limits	Modified Duration
U.S. Treasury Securities	$ 1,376,029	243 - 1,584	1,825 days	1.74
U.S. Government Agencies	1,727,818	27 - 1,088	1,825 days	1.37
Negotiable Certificates of Deposit	1,475,268	2 - 366	1,095 days	0.38
Commercial Paper	1,082,912	2 - 124	270 days	0.08
Medium-Term Corporate Notes	170,464	36 - 1,089	1,156 days	1.64
Insured Placement Service Accounts	50,000	1	Immediate liquidity	0.01
JPA Investment Pools	187,000	1	Immediate liquidity	0.01
Money Market Mutual Funds	2,000	1	Immediate liquidity	0.01
Supranational Securities	711,394	19 - 1,262	1,825 days	1.19
Total County's Pooled Investments	**$ 6,782,885**			

Weighted average maturity of the investments held outside the County Pool, as of June 30, 2018 is as follows:

Investment Type	Fair Value	Weighted Average Maturity
Guaranteed Investment Contracts	$ 4,751	10.08
State and Local Municipal Bonds	70,402	2.59
Money Market Mutual Funds	66,107	0.01
U.S. Treasury Securities	17,486	4.38
Local Agency Investment Fund	10,409	0.00
Total Investments Held Outside County Pool	$ 169,155	

GASB 40 – Custodial Risk Disclosure-Deposits

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging a letter of credit from the Federal Home Loan Bank of San Francisco having a value of 105% of the secured public deposits, as per CGC Sections 53651(p), 53651.6 & 53652(c).

As of June 30, 2018, the carrying amount of the County's deposits was $293,690 and the corresponding bank balance was $333,152, of which both balances include $200,000 in a certain negotiable order of withdrawal account. The difference of $39,462 was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balances, $2,000 was insured by FDIC depository insurance and the remainder was collateralized, as required by California Government Code Section 53652.

GASB 40 – Custodial Risk Disclosure-Investments

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

In order to limit *Custodial Credit Risk for Investments*, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery-vs-payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a SIFMA Global Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

Thank You

pfm