REPORTING

Note X - Deposits and Investments

Cash and Cash Equivalents and Investments

Cash and cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

A. Deposits [1]

Custodial Credit Risk

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the (city/county/district) would not be able to recover the value of the investment or collateral securities. Of the (city/county/district's) total position of $_______ in ___________, $______ is exposed to custodial credit risk because the investments are held by the (city/county/district's) brokerage firm, which is also the counterparty in those particular securities.

The (city/county/district's) deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

B. Investments

Investments that are not Measured at Fair Value [2]

As of December 31, 20__, the (city/county/district) had the following investments at amortized cost:

Investment	Maturities	(City/county/district's) own investments	Investments held by (city/county/district) as an agent for other local governments, individuals or private organizations.	Total
State investment pool	____________	$__________	$__________	$__________
Money Market Investments	________	____________	____________	____________
Nonnegotiable CD	____________	____________	____________	____________
____________________	____________	____________	____________	____________
____________________	____________	____________	____________	____________
Total		====	====	====

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the (city/county/district) would not be able to recover the value of the investment or collateral securities. Of the (city/county/district)'s total position of $_______ in ___________, $______ is exposed to custodial credit risk because the investments are held by the (city/county/district's) brokerage firm, which is also the counterparty in those particular securities.

Describe additional risks, if applicable. [3]

Investments Measured at Fair Value [4]

The (city/county/district's) measures and records its investments 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. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 20__, the (city/county/district's) had the following recurring fair value measurements: [5]

		Fair Value Measurements Using		
Investments by fair value level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
(Disclose debt security investments)				
Total Debt Securities				
(*As applicable, insert other investments*)				
Total Investments by Fair Value Level				

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the (city/county/district) would not be able to recover the value of the investment or collateral securities. Of the (city/county/district)'s total position of $_______ in ___________, $______ is exposed to custodial credit risk because the investments are held by the (city/county/district's) brokerage firm, which is also the counterparty in those particular securities.

Describe additional risks, if applicable. [3]

Non-Readily Marketable Investments. [6]

C. Securities Lending [7]

D. Gains and Losses on Investments [8]

INSTRUCTIONS FOR PREPARER

The city/county/district should briefly describe the types of investments authorized by legal and contractual provisions. If there are material violations of these provisions, they should be disclosed. If the types of investments authorized for different funds, fund types, or component units differ significantly from those authorized for the primary government and those funds, fund types, or component units have material investment activity compared with the combined primary government activity, the difference in the authorized investment types should be disclosed. The city/county/district should also disclose its own policies that are related to risks. If a city/county/district has no deposits or investments policy that addresses a specific type of risk that it is exposed to, the disclosure should indicate that fact.

This disclosure is required for a primary government as a whole. Risk disclosures should also be made for governmental and business/type activities, individual major funds, nonmajor funds in aggregate, or fiduciary fund types when the risk exposures are significantly greater than the deposit and investment risk of the primary government.

[1] DEPOSITS

The following disclosures are required regarding cash deposits with financial institutions:

- Legal and contractual provisions regarding deposits;
- Policies governing deposits;
- Exposure to custodian risk as of the date of the balance sheet or statement of net position;
- Defaults and recovery of prior period losses; and
- Exposure to foreign currency risk.

[2] The investments should be disclosed at their fair value. However, governments have the option of reporting certain investments at cost or amortized cost. See list below:

- Investments in nonparticipating interest-earning investment contracts (cost-based measure)
- Investments in unallocated insurance contracts (should be reported as interest-earning investment contracts according to the provisions of GASB Statement 31 or Statement 59)
- Money market investments and participating interest-earning investment contracts that have remaining maturity at time of purchase of one year or less provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors and are held by governments other than external investment pools (amortized cost)
- Investment held by 2a-7 like external investment pools (amortized cost)
- Investment in 2a-7 like external investment pools may be measured at net asset value (NAV) per share
- Synthetic guaranteed investment contracts that are fully benefit-responsive (contract value)
- Investments in life insurance contracts that do not meet the definition of a life settlement contract (cash surrender value)

Governments should disclose the credit quality ratings of external investment pools and other pooled investments of fixed-income securities. If the investment is unrated, the disclosure should indicate that.

[3] Risk disclosures applicable to investments should be reported separately by investment type. Dissimilar securities should not be aggregated into a single investment type.

Disclose custodial credit risk for investments only if unregistered/uninsured securities are held either by the counterparty or by the counterparty's trust department or agent, but not in city/county/district's name.

If applicable, provide additional disclosures for following types of risk:

- Credit risk – disclose credit ratings for investments in debt securities, whether held directly or indirectly including the credit ratings for positions in external investment pools. If a rating is not available, that fact should be disclosed. (This requirement does not apply to the debt securities of the U.S. government or obligations of the U.S. government agencies that are explicitly guaranteed by the U.S. government.) The city/county/district should use the various rating categories (e.g., AAA, Aaa, etc.) set by nationally recognized statistical rating organizations (e.g., Fitch Ratings, Moody's Investor Services, Standard & Poor's, etc.).

- Concentration risk – disclose amount and issuer of investments that represents 5 percent or more of total investments. (This requirement does not apply to investments issued or explicitly guaranteed by the U.S government and investments in mutual funds, external investment pools, and other pooled investments.)

- Interest rate risk – information should be organized by investment type and amount using one of the following methods:

    - segmented time distribution
    - specific identification
    - weighted average maturity
    - duration
    - simulation model.

  Any assumption made in process of applying these methods need to be disclosed.

  City/county/district that participates in a pooled arrangement (other than a 2a7 – like external pools investment pool) should disclose interest rate risk for the pooling arrangement. This disclosure is limited to investments in debt mutual funds, external debt investment pools, or other pooled debt investments.

  City/county/district should also disclose (if not disclosed already) any contractual terms for debt investments that expose those investments to the risk of significant changes in fair value resulting from interest rate fluctuation (e.g., coupon multipliers benchmark indices, embedded options, etc.).

- Foreign currency risk – disclose in U.S. dollars value of investment hold in foreign currency. A separate disclosure is necessary for each different foreign currency denomination and each different type of investment within a given currency.

  City/county/district should disclose all of its policies relevant to each of different types of risks, but only for those types of risks actually faced by the government. If a city/county/district does not have a policy that covers one or more of the risks it is facing, that fact must itself be disclosed.

  For more information see GASB Statements 3, 28, 31, 40, 59 and 72.

[4] Disclose all investments including those not evidenced by securities that exist in physical or book-entry form. Disclosure is limited to types of investment held at year end. Indicate type of investment(s).

The following disclosures are required for recurring and nonrecurring fair value measurements:

- Fair value measurement at the end of the reporting period,
- Level of fair value hierarchy,
- A description of the valuation techniques used,
- For any significant changes in valuation techniques, the changes and the reason for making them.

Disclosure is required for the reason for any nonrecurring measurements.

The new disclosure required is organized by type of asset or liability, which differs from previous guidance that focuses on reporting entity segments, such as governmental activities, major fund types and component units. The new standard provide provides general guide lines rather than prescriptive requirements regarding the appropriate level of detail and requires professional judgement:

- Nature, characteristics and risks of the asset or liability,
- Level of fair value hierarchy within which the fair value measurement is categorized,
- Whether this GASB Statement 72, *Fair Value Measurement and Application* or another statement specifies a type for an asset or liability,
- Identifying transactions that are not orderly
- Objective or the mission of the government,
- Characteristics of the government,
- Relative significance of assets and liabilities,
- Whether separately issued financial statements are available,
- Line items presented in the statement of net position.

Level 1 inputs

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

Level 2 inputs

These are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs are derived from or corroborated by observable market data through correlation or by other means.

- Quoted prices for similar assets or liabilities in active markets,
- Quoted prices for identical or similar assets or liabilities in inactive markets,
- Inputs other than quoted prices that are observable for the asset or liability, such as:
    - Interest rate and yield curves observable at commonly quoted intervals
    - Implied volatilities
    - Credit spreads
- Market-corroborated inputs.

Level 3 inputs

Unobservable inputs for the asset or liability; only should be used when relevant Level 1 and 2 inputs are unavailable. Government may use their own data to develop unobservable inputs if there is no information available.

The SSAP should indicate whether the government used this option and, if so, for which one specific categories of investment. Also, if a government uses some other than quoted market prices to estimate the fair values, the methods and significant assumptions should be disclosed.

Note: Governments relying on a pricing service or custody bank for fair values will need to

closely review statement to ensure valuation changes are correctly reported.

Determine what the source of the fair value information will be for each item. Do not simply rely on the fair value reported to you on monthly bank statement or brokerage statements. Contact the financial institution to understand how they determine fair value.

[5] Example:

Investments and Derivative Instruments Measured at Fair Value
($ in millions)

		Fair Value Measurements Using		
	12/31/X1	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				
Debt securities				
U.S. Treasury securities	$ 85	$ 85		
Commercial mortgage-backed securities	50		$ 45	$ 5
Collateralized debt obligations	30		5	25
Residential mortgage-backed securities	149		24	125
Corporate bonds	93	9	84	
Total debt securities	407	94	158	155
Equity securities				
Financial services industry	150	150		
Healthcare industry	110	110		
Other	15	15		
Total equity securities	275	275		
Venture capital investments				
Direct venture capital—healthcare	53			53
Direct venture capital—energy	32			32
Total venture capital investments	85			85
Private equity funds—international	43			43
Total investments by fair value level	810	$ 369	$ 158	$ 283
Investments measured at the net asset value (NAV)				
Equity long/short hedge funds	55			
Event-driven hedge funds	45			
Global opportunities hedge funds	35			
Multi-strategy hedge funds	40			
Real estate funds	47			
Total investments measured at the NAV	222			
Total investments measured at fair value	$ 1,032			
Investment derivative instruments				
Interest rate swaps	$ 57		$ 57	
Foreign exchange contracts (liabilities)	(43)		(43)	
Total investment derivative instruments	$ 14		$ 14	

If there are derivatives investments identified as hedging instruments, an additional disclosure is required per GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments (amended by GASBS 64)*.

[6] Non-Readily Marketable Investments – Net Asset Value (NAV)

A government can use NAV per share, as a practical expedient, for investments in nongovernmental entity that does not have a readily determinable fair value. The NAV is not permitted for valuation if it is probable the government will sell the investment at a different price. Investments measured at NAV would be excluded from the fair value hierarchy (Level 1, 2, or 3).

Investments measured using NAV require additional disclosure for financial statement users to understand the investment's nature and risks due to the increased uncertainty and subjectivity of the investment and whether such investments are likely to be sold at an amount different from NAV per share. The required disclosure includes:

- Fair value measurement of the investment type and description of the significant investment strategies;
- For investments that can never be redeemed with the investees, the government's estimate of the liquidation period;
- Amount of unfunded commitments;
- General description of the redemption terms and conditions;
- Redemption restrictions, estimate of length of restriction period or how long restriction has been in place;
- Any other selling restrictions;
- Fair value of investments for any planned sales at an amount different from NAV per share and any remaining actions required to complete the sale;
- If a sale is planned but not all assets have been identified, the government's plans to sell and any remaining actions required to complete the sale.

Example Table Disclosure

Investments Measured at the NAV ($ in millions)

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity long/short hedge funds	$55			Quarterly	30 - 60 days
Global Equity Investments	45			Quarterly, annually	30 - 60 days
Private Equity and Venture Capital	35			Quarterly	30 - 45 days
Real Assets	47		$20		
Total Investments measured at NAV	**$ 222**	$ 20			

[7] If in the period covered by the financial statements, the city/county/district participated in the securities lending transactions, the following information should be disclosed:

- legal or contractual authorization for the securities lending transactions;
- significant violations of legal and contractual provisions during the period;
- actions taken to address such violations;
- general description of the securities lending transactions:
  - type of securities lent,
  - type of collateral received,
  - whether the government has the ability to pledge or sell collateral securities without a default,

        - the amount by which the value of the collateral provided is required to exceed the value of underlying securities,
        - any restrictions on the amount of the loans that can be made,
        - any loss indemnification (i.e., a securities lending agent's guarantee that it will protect the lender from certain losses);
    - fair values of underlying securities at the balance sheet date;
    - whether the maturities of the investments made with cash collateral generally match the maturities of their securities loans, as well as the extent of such matching at the balance sheet date;
    - the amount of credit risk, if any, related to the securities lending transactions (if the lender has not credit risk, that fact should be stated);
    - the amount of any losses on the securities lending transactions during the period resulting from the default of a borrower or lending agent and amounts recovered from prior period losses, if not separately disclosed in the operating statement.

Securities lending transactions are subject to custodial risk disclosure requirements addressed in paragraph 9 of GASB Statement 40, *Deposits and Investments Risk Disclosures*. See paragraph 10 of the above statement for applicability of this disclosure.

(For more details, see the GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions* as amended by the GASB Statement 40, *Deposits and Investments Risk Disclosures*)

[8] Local government may disclose realized gains and losses computed as the difference between the proceeds of the sale and the original cost of the investments sold. They also should disclose that:

a. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

b. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

For more details, see the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, as amended by the GASB Statement 40, *Deposits and Investments Risk Disclosures*.