AOS BULLETIN 98-002

TO: ALL COUNTY AUDITORS
ALL COUNTY COMMISSIONERS
ALL COUNTY TREASURERS
ALL CITY FINANCE DIRECTORS
ALL CITY AUDITORS
ALL CITY TREASURERS
ALL SCHOOL DISTRICT TREASURERS
ALL JOINT VOCATIONAL SCHOOL DISTRICT TREASURERS
ALL EDUCATIONAL SERVICE CENTER TREASURERS
ALL LIBRARY CLERK/TREASURERS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: GASB STATEMENT 31

Note: GASB Statement No 72, *Fair Value Measurement and Application* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* have superceded certain requirements of GASB Statement No. 31. The changes to GASB 31 resulting from the implementation of GASB 72 and GASB 79 have been incorporated into this bulletin. The additional requirements of GASB 72 and GASB 79 have not been incorporated into this bulletin. Those GASB pronouncements should be reviewed for additional reporting requirements. Also, GASB Statement No. 62 should be reviewed for guidance related to valuing common stock.

GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" was effective for financial statements for periods beginning after June 15, 1997. The Statement establishes accounting and reporting guidelines for government investments and investment pools. This bulletin contains a summary of the Statement's guidelines and requirements. Following the summary is a Question and Answer section that addresses the application of these provisions to Ohio local governments who prepare financial statements in accordance with generally accepted accounting principles. This bulletin is not intended to serve as a substitute for reading the original Statement. ~~The Statement may be obtained by calling GASB at the number identified in Q.15 of the Q+A section of this bulletin.~~ The Statement may be obtained using the website link identified in Q.15 of the Q+A section of this bulletin. This bulletin was reviewed by the research staff of the GASB prior to its 1997 release.

Local Government Reporting

This statement requires governments to report investments at fair value on the balance sheet, with certain exceptions.

Fair value is 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. For most investments, fair value will be based on the quoted market price. For investments in open-end mutual funds, fair value is determined by the fund's current share price. For investments in external investment pools that are not registered with the Securities and Exchange Commission, fair value is determined by the fair value per share of the pool's underlying portfolio , unless the pool measures its investments at amortized cost in accordance with paragraph 4 of GASB Statement No. 79 (such as STAROhio).

There are exceptions to the fair value requirement, including (See also GASB Statement No. 72 paragraph 69 for a more detailed list):

1. Investments in nonparticipating interest-earning investment contracts (savings accounts, nonnegotiable certificates of deposit and repurchase agreements) are reported at cost.

2. Money market investments and participating interest-earning investment contracts (negotiable certificates of deposit) may be reported at amortized cost provided that the investment had a remaining maturity of one year or less at the time of purchase by the government. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations.

   3. Investments in pools that measure their investments at amortized cost in accordance with paragraph 4 of GASB Statement No. 79 should be measured at the NAV per share provided by the pool. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

Changes in the fair value of investments is either reported as part of investment income in the operating statement or in a separate account. If identified separately from interest, the change in the fair value of investments must be captioned "net increase (decrease) in the fair value of investments".

The Statement establishes guidelines for reporting investment income that is not allocated to the fund that earned it. If interest associated with one fund is assigned to another fund because of legal or contractual provisions, the interest is to be reported directly in the recipient fund and not reported as a transfer. If the interest is assigned to another fund for other than legal or contractual reasons - for example, management discretion - the interest should be reported in the fund that reports the investments and the distribution of the interest reported as an operating transfer.

Governments must make the following disclosures:

~~The methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices;~~ (This disclosure requirement has been replaced by the requirements of GASB Statement No. 72 paragraph 81.)2. The policy for determining which investments, if any, are reported at amortized cost;

3. For any investments in external investment pools that are not SEC registered (such as STAROhio), a brief description of any regulatory oversight for the pool and whether the fair value of the position in the pool is the same as the value of the pool shares;
4. Any involuntary participation in an external investment pool;
5. If an entity cannot obtain information from a pool sponsor to allow it to determine the fair value of its investment in the pool, the methods used and significant assumptions made in determining that fair value and the reasons for having had to make such an estimate;
6. Any interest from investments associated with one fund that is assigned to another.

Pool Reporting

An internal investment pool is an arrangement that commingles the monies of more than one fund or component unit of a reporting entity. The equity position of each fund or component unit in an internal investment pool should be reported as assets in those funds or component units.

An external investment pool is an arrangement that commingles the moneys of more than one legally separate entity and invests, on behalf of the participants, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by

Investment trust and custodial (formerly called agency) must now meet the criteria of GASB 84 to be classified as fiduciary funds. See AOS Bulletin 2020-03.

an individual government, jointly by more than one government or by a nongovernmental entity. Investing on behalf of the participants means that the participants receive an allocation of the interest earned by the pool.

A local government that sponsors an external investment pool should report the external portion of the pool as a separate investment trust fund using the economic resources measurement focus and full accrual accounting. In the GPEFS, this fund will be presented as part of the ~~trust and agency~~ fiduciary funds on the balance sheet. The difference between external pool assets and liabilities will be presented as "net position held in trust for pool participants". The activity of the fund will be reported in a separate statement of ~~changes~~ net position. When a pool does not issue a separate report, the GPEFS of the sponsoring government must include the following note disclosure:

1. A brief description of any regulatory oversight;
2. The frequency of determining the fair value of investments;
3. The method used to determine participant's shares sold and redeemed and whether that method differs from the method used to report investments;
4. Whether the pool sponsor has provided or obtained any legally binding guarantees during the period to support the value of shares;
5. The extent of involuntary participation in the pool, if any. Involuntary participants are those that are required by legal provisions to invest in the external investment pool;
6. A summary of the fair value, the carrying amount (if different from fair value), the number of shares or the principal amount, ranges of interest rates, and maturity dates of each major investment classification.
7. The fair value disclosures required by GASB 72 paragraphs 80 - 82.
8. Disclosures required by GASB Statements 3 and 28;
9. Condensed statements ~~of fiduciary net position and changes in fiduciary net position~~. If a pool includes both internal and external investors, those condensed financial statements should include, in total, the net position held in trust for all pool participants, and the equity of participants should distinguish between internal and external portions.

External investment pools must report investments at fair value on the balance sheet, with three exceptions:

1. Investments in nonparticipating interest-earning investment contracts should be reported using cost.
2. Pools that meet the criteria in paragraph 4 of GASB Statement No. 79 may elect to report their investments at amortized cost. ~~2a7-like pools may report their investments at amortized cost. A 2a7-like pool is a pool that is not SEC registered but has a policy that it will, and does, operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940.~~External investment pools may report debt instruments with a remaining maturity of up to ninety days as of the date of the financial statements at amortized cost. For an investment that was originally purchased with a longer maturity, the investment's fair value on the day it becomes a short-term investment should be the basis for purposes of applying amortized cost.

When investments of an internal and an external investment pool are commingled, the investments must be reported using the guidelines for an external investment pool, i.e. money market investments

and participating interest-earning investment contracts may not be reported at amortized cost even if the investment had a remaining maturity of one year or less at the time of purchase by the government.

Individual Investment Accounts

An individual investment account is an investment service provided by a governmental entity for other, legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and the changes in value of those investments affect only the entity for which they were acquired. The investments of individual investment accounts should be reported in an investment trust fund. The entity for whom the investments are acquired would reflect the changes in fair value of the investments on its financial statements. If individual investment accounts are offered as an alternative to a pooled position, the individual accounts should be reported in a different investment trust from the pool.

Questions and Answers

The following questions and answers are presented in the hope of anticipating some of the more common implementation issues.

Q1. Is a local government that invests dollars held for other governmental entities operating an external investment pool if the other governmental entities do not receive an allocation of the interest earned on those investments?

A1. No.

Q2. Is the county operating an external investment pool for all the other local governments forwhom it collects taxes?

A2. No, the local governments view this money as a receivable, not as an investment, and receivables are not covered by Statement 31.

Q3. May local governments voluntarily invest in external investment pools operated by another local government?

A3. No, provisions in Am. Sub. S. B. 81 prohibit voluntary investments by Ohio local governments in a pool established by another local government for investment purposes; however, many Ohio local governments are involuntary participants in external investment pools. Involuntary participation occurs when the treasurer of one local government is mandated by State statute to also serve as treasurer of a second local government, and the treasurer pools the money of both governments for investment purposes.

Q4. Is a local government operating an external investment pool if, when serving as the fiscal officer for another entity, it invests the entity's money and allocates to the entity the interest earned on the investments?

A4. If the local government commingles that entity's money with its own for investment purposes, yes. If it keeps the entity's investments separate from its own and returns the interest from

This disclosure is no longer required.

those investments to the entity, it is providing an individual investment account rather than an external investment pool.

When the entity participates in either an external investment pool or an individual investment account, its assets will appear as part of an investment trust fund and not as ~~an agency~~ a custodial fund in the GPEFS of the local government. The assets of the entity would be reported in ~~an agency~~ a custodial fund on the GPEFS of the local government only if no allocation of interest is made to the entity; ~~in this situation, there should be note disclosure explaining that the entity receives no interest and therefore the local government is not sponsoring an external investment pool.~~

Q5. School districts invest and allocate interest to auxiliary services money. Are these school districts operating an external investment pool?

A5. No. Auxiliary services money is reported as a special revenue fund and is considered part of the internal investment pool.

Q6. A governmental entity that participates in an external investment pool is required to disclose whether the fair value of the position in the pool is the same as the value of the pool shares. Is this disclosure intended to address this relationship only as it exists at the entity's year-end?

Q6a. How can that be done when the pool does not issue shares?

A6. Yes.

A6a. Obviously no conclusion about the value of pool shares can be reached when the pool does not issue shares. A statement that each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns may serve as an alternative disclosure. This means, however, that fair value must be used to allocate investment gains and losses among participants frequently enough to insure that every participant shares equitably in both fair market gains and losses.

Q7. If in a local government that operates an internal investment pool, the elected legislative authority may legally allocate interest among funds by ordinance or resolution, is this assignment considered to be "for other than legal or contractual reasons"?

A7. No, the ordinance or resolution would be considered a legal provision.

Q8. A governmental entity that operates an internal investment pool is required to disclose any income from one fund that is assigned to another fund. Does this include funds that, because of management's exercise of discretion, are not permitted to keep the interest they earn?

A8. No, disclosure is not required if the fund that earned the interest reports the revenue and transfers the revenue to another fund.

Q9. A governmental entity that operates an internal investment pool is required to disclose any income from one fund that is assigned to another fund. Does this mean that an amount must be disclosed for every fund that does not receive or get to keep its interest?

A9. No. For each fund receiving more than the interest it would have received based on its share of the investments, the disclosure should identify the amount the fund would have received based on its share of the investments and the amount actually received.

Q10. Should funds that are not allocated interest because of legal or contractual provisions report changes in the fair value of their share of the investments? If not, should they report their share of investments at cost? If the change in fair value of investments is only reported in the funds that receive interest, how is the change allocated among these funds?

A10. No. Funds that are not allocated interest because of legal or contractual provisions should not report changes in the fair value of their share of the investments. These funds should report their share of investments at cost. The change in fair value should be allocated among the funds that receive interest using the same formula that is used for the interest allocation.

Q11. What if there is a decline in the fair value of the investments that are part of the pool or if investments of the pool are sold at a loss? How are the losses to be allocated?

A11. If the loss is only in fair value and a loss will be avoided if the investments are held to maturity, it is recommended that the loss be allocated in the same manner as a gain or interest. If a loss is recognized, the only legal guidance comes from an Attorney General's opinion which states that any allocation of the loss by the government must be reasonable.

Q12. When a local government operates an external investment pool, provides individual investment accounts, and issues GPFS, would the government present a combined statement of changes in net assets that includes both the pool and the investment account(s)?

A12. Yes.

Q13. How do I report and disclose my investment in STAROhio?

A13. Suggested disclosure for local governments that participate in STAROhio follows: ~~The (local government) has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 1997. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1997.~~

During 2018, the local government invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of $25 million or more. STAR Ohio reserves the right to limit the transactions to $100 million per day, requiring the excess amount to

be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

Note: This disclosure will need updated as STAROhio's policies change.

Q14. What do I need to do to get ready to implement this Statement?

A14. This Statement will focus attention on the method used by a local government for the

distribution of interest among its own funds as well as the distribution of interest to funds the local government maintains for another entity. If you have concerns about whether the distribution you are making is appropriate, check with your statutory legal counsel.

~~You will need to know the fair value of your investments both at the beginning and the end of the year for which the Statement is implemented. Schools will need fair value information as of June 30, 1997, and 1998. Other local governments reporting under GAAP will need fair values as of December 31, 1997, and 1998. The beginning of the year information should be available in the notes to the financial statements for the fiscal 1997 GAAP report for schools and the calendar 1997 GAAP report for other local governments~~.

Q15. Is there other information available that might help in the implementation of this Statement?

A15. The GASB has published an Implementation Guide for Statement No. 31. It consists of a series of questions and answers designed to assist local governments in the implementation of these new provisions. It is available from GASB's website:

https://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391