



August 9, 2022

TO: Business and Accounting Administrators
Los Angeles County K-12 School and Community College Districts,
Charter Schools, Joint Powers Authorities (JPAs), and
Regional Occupational Centers/Programs (ROC/Ps)

FROM: Sachiko Enomoto, School Accounting and Finance Manager
Accounting and Financial Services
Division of School Financial Services

SUBJECT: Governmental Accounting Standards Board Statement No. 31—Accounting and
Financial Reporting for Certain Investments and External Investment Pools

The Governmental Accounting Standards Board Statements Nos. 31 and 72 (GASB 31) and (GASB 72), effective in Fiscal Years 1997-98 and 2015-16 respectively, established accounting and reporting standards for all investments held by governmental external investment pools. One of the reporting standards in GASB 31, applicable to Local Educational Agencies (LEAs), necessitates they report their investments at fair value on the balance sheet. Reporting standards for GASB 72 require disclosures to be made about: fair value measurements, the level of fair value hierarchy, and valuation techniques. This bulletin reviews some provisions in GASB 31 and their applicability to reporting Cash in County Treasury. Information regarding the County Treasury's cash reporting informed by GASB 31 and GASB 72 may be obtained from the Los Angeles County Treasurer's web sites at:

GASB 31 <https://ttc.lacounty.gov/wp-content/uploads/2022/08/ReportInvestmentsforJune2022.pdf>

GASB 72 <http://auditor.lacounty.gov/property-tax-report-central/>

GASB 31 Highlights

- Governmental entities participating in the governmental external investment pools should report investments at fair value on the balance sheet.
- Cash in County Treasury as of June 30, 2022, refers to the book value of the LEA's share of the pooled investment fund. The fair value of Cash in County Treasury is the school funds' share of market value in the Pooled Surplus Investments (PSI) Portfolio.
- GASB-31 does not apply to immaterial items.

- Investments with a maturity period of one year or less at the time of purchase, are not required to be reported at fair value.
- The LEAs external auditor must determine, during the annual audit, whether the omission of adjustments to fair value is significant enough to impact their opinion on the financial statements.

District Considerations

1. Cash in County Treasury

Districts are required by Education Code Section 41001 to deposit their funds in the County Treasury. Cash in County Treasury is normally based on amortized cost, which is the par value of the investment, adjusted by unamortized premium or discount. The amortized cost and market value for the PSI on June 30, 2022, are as follows:

Los Angeles County Treasury Pooled Surplus Investments June 30, 2022	
<u>Basis</u>	<u>Amount of Total Pool</u>
At Cost	\$46,939,724,288
At Market	\$44,996,782,054
 <u>% of Pool</u>	 <u>Composition of Maturity Periods</u>
41.37%	1 to 60 days
18.75%	61 days to 1 year
39.88%	Over 1 year

- Consolidated LEA funds comprise 48.10% of the above amounts.
- A total of 60.12% of the pooled investments will mature within a year. GASB 31 does not require an adjustment to fair value for investments with remaining maturity periods shorter than one year.
- Fair market value for the above can be expressed as a conversion factor of 95.8608% of amortized cost; thus for each \$1,000,000 the fair market value would be \$958,608.
- There is a difference of (\$41,392) between cost and fair market value based on a scale of \$1 million. **We recommend that LEAs consult with their external auditors to determine if the unrealized loss should be recorded as of June 30, 2022.**

2. Recognition and Reporting of Investment Income

All investment income, including material changes in the fair value of investments, should be recognized as revenue on the operating statement. The change in fair value of investments should be captioned “net increase (decrease) in the fair value of investments”. Realized gains and losses should not be reported separately from unrealized gains and losses, except in the notes to the financial statements.

All investment income (other than changes in the fair value of investments) should be reported in Object 8660. The change in the fair value of investments, which includes realized and unrealized gains or losses, should be reported in Object 8662.

Cash in County Treasury (Object 9110) represents the book value of the LEA’s share of an external investment fund. For most purposes, Object 9110 is administered as a cash account. To avoid making non-cash adjusting entries to this cash account, entries for unrealized gains or losses on the value of cash with the County Treasury, are recorded using Object 9111, Fair Value Adjustment to Cash in County Treasury.

It is important to understand the foregoing difference between the amortized cost and fair value is an unrealized loss. Thus, it would be necessary to liquidate the entire pool investment portfolio on June 30, 2022, in order to realize the loss. The pooled investments in the County Treasury are normally held until their maturity date, without any unrealized gain or loss materializing.

3. Special Investments with the County Treasurer

Occasionally, LEAs arrange with the County Treasurer to make longer term investments for funds not needed in their daily operations for at least ninety days. These funds are maintained by the County Treasurer in the Specific Purpose Investments Portfolio to account for specific investments requested by various entities. As of June 30, 2022, the market value of this portfolio is at 100% of the amortized cost. Information regarding fair value for special investments may be obtained from the Los Angeles County Treasurer’s web site at:

<https://ttc.lacounty.gov/wp-content/uploads/2022/08/ReportInvestmentsforJune2022.pdf>

4. Bank Accounts

GASB 31 standards do not apply to any revolving cash, cafeteria, or clearing accounts with commercial banks, because they are not part of external investment pools held on behalf of participants.

5. Certificates of Participation (COPs)

If LEAs deposited the proceeds from Certificates of Participation (COPs) with a trustee, who invests any or all of the proceeds, the trustee should provide market value information of such investments to the LEA.

6. Tax and Revenue Anticipation Notes (TRANS)

GASB 31 standards do not apply to the investments from TRANS, which normally are short-term notes with maturity dates of less than a year.

If you have questions regarding this bulletin, please contact me at (562) 922-6191 or Enomoto_Sachiko@laco.edu.

Approved:
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