NO. 144-A | MARCH 1997

Governmental Accounting Standards Series

Statement No. 31 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting for Certain Investments and for External Investment Pools

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement establishes accounting and financial reporting standards for *all* investments held by governmental external investment pools. For most other governmental entities, it establishes fair value standards for investments in (a) participating interest-earning investment contracts, (b) external investment pools, (c) open-end mutual funds, (d) debt securities, and (e) equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values. Participating investment contracts are investments whose value is affected by market (interest rate) changes. They participate because they are negotiable or transferable, or their redemption value considers market rates. For defined benefit pension plans and Internal Revenue Code Section 457 deferred compensation plans, this Statement provides guidance for applying fair value to certain investment transactions.

Governmental entities, including governmental external investment pools, should report investments at fair value in the balance sheet (or other statement of financial position). Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. However, governmental entities other than external investment pools are permitted to report certain money market investments at amortized cost, provided that the investment has a remaining maturity of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days. This Statement also provides guidance for reporting the fair value of investments in open-end mutual funds and external investment pools.

All investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement (or other statement of activities). For internal and external investment pools, this Statement requires the equity position of each fund and component unit of the reporting entity that sponsors the pool to be reported as

assets in those funds and component units. It also provides reporting standards when income from investments associated with one fund is assigned to another fund.

Governmental external investment pools that are 2a7-like pools are permitted to report their investments at amortized cost. A 2a7-like pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows money market mutual funds to use amortized cost to report net assets. This Statement also establishes minimum requirements for the financial statements to be presented and the disclosures to be made in the separate financial reports of governmental external investment pools.

A governmental entity that sponsors one or more external investment pools should report the external portion of each pool as an investment trust fund that reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. This Statement establishes minimum requirements for the financial statements to be presented and the disclosures to be made in the sponsor's report concerning those pools, including expanded disclosure requirements if separate pool financial reports are not issued. It also provides standards for reporting individual investment accounts that a governmental entity provides to other entities.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1997. Earlier application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 2 through 6 discuss the applicability of this Statement.

Statement No. 31 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting for Certain Investments and for External Investment Pools

March 1997

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Statement No. 31 of the Governmental Accounting Standards Board

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March 1997

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Accounting and Financial Reporting for Certain Investments and for External Investment Pools

March 1997

INTRODUCTION

1. The GASB has established investment valuation standards in Statements No. 2, *Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457;* No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues;* and No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* The provisions of certain other GASB Statements, such as Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models,* had permitted certain governmental entities to adopt investment standards promulgated by other standards-setting organizations. However, for most general and special purpose governments, the GASB had not established valuation standards.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement establishes accounting and financial reporting standards for *all* **investments**[1] held by governmental **external investment pools.** For governmental entities other than external investment pools, defined benefit pension plans, and Internal Revenue Code Section 457 deferred compensation plans, it establishes accounting and financial reporting standards for investments in:

[1]Terms defined in the glossary (paragraph 22) are printed in **boldface type** the first time they are used in this Statement.

a. **Interest-earning investment contracts**
b. External investment pools
c. **Open-end mutual funds**
d. **Debt securities**
e. **Equity securities** (including unit investment trusts and **closed-end mutual funds**), **option contracts, stock warrants,** and **stock rights** that have readily determinable **fair values.**

3. The fair value of equity securities, option contracts, stock warrants, and stock rights is *readily determinable* if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by the National Quotation Bureau. The fair value of **restricted stock** is not readily determinable. The fair value of equity securities, option contracts, stock warrants, and stock rights traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to in this paragraph.

4. Statements 2 and 25 contain standards for the valuation and reporting of the investments of certain deferred compensation plans and of defined benefit pension plans, respectively. Those plans should apply the provisions of paragraphs 7 through 12 to report the fair value of investments in:

a. Securities subject to purchased put option contracts and written call option contracts
b. Open-end mutual funds
c. External investment pools
d. Interest-earning investment contracts.

5. This Statement does not apply to investments in equity securities that are accounted for under the equity method, as provided for in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* or to investments in joint ventures or component units as provided in GASB Statement No. 14, *The Financial Reporting Entity.* This Statement also does not apply to securities or other instruments if they are not held by

the government for investment purposes, either for itself or for parties for which it serves as investment manager or other fiduciary.

6. This Statement amends Statement 2 and GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* by replacing the previously used term *market value* with the term *fair value.* It further amends the Statement 3 glossary by adding the terms in this Statement's glossary. This Statement also amends the investment standards for public entity risk pools in paragraphs 40, 41, 44, 46, and 47 of Statement 10[2] and, for governmental funds, supersedes paragraphs 64 through 67 of GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements.*

Accounting and Financial Reporting for Investments

Valuation

7. Except as provided in paragraphs 8, 9, 12, and 16 of this Statement, governmental entities, including governmental external investment pools, should report investments at fair value in the balance sheet (or other statement of financial position). Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an investment, the fair value to be used in applying this Statement is the total of the number of trading units of the instrument times the market price per unit. If an entity has purchased put option contracts or written call option contracts on securities and it has those same securities among its investments, it should consider those contracts in determining the fair value of those securities to the extent that it does not report those contracts at fair value.

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[2]All provisions of those paragraphs are amended, except the provisions in paragraph 46 that relate to foreign currency and futures contract hedges, the accrual of losses on private-placement bonds, and the reporting of investment income as a component of other income; and the provision in paragraph 47 that concerns impairment losses on investments that are measured using cost-based values.

8. Except for the provisions of paragraph 9, investments in participating interest-earning investment contracts should be reported at fair value. *Participating* contracts are investments whose value is affected by market (interest rate) changes. If these contracts are negotiable or transferable, or their redemption value considers market rates, they should be considered participating. *Nonparticipating* contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, should be reported using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors.

9. Governmental entities other than external investment pools may report at amortized cost **money market investments** and participating interest-earning investment contracts[3] that have a remaining maturity at time of purchase of one year or less,[4] 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. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. **Asset-backed securities,** derivatives, and **structured notes** are not included in this term.

10. For investments in open-end mutual funds, fair value should be determined by the fund's current share price.

11. For investment positions in external investment pools that are not SEC-registered, whether or not sponsored by a governmental entity,[5] fair value should be determined by

[3]When investments of internal and external pool participants are commingled, money market investments and participating interest-earning investment contracts should be reported according to the provisions of paragraph 16.

[4]For example, a five-year U.S. Treasury bond purchased nine months prior to maturity would meet this definition.

[5]For example, bank short-term investment funds are nongovernmental pools that are not required to be SEC-registered.

the fair value per share of the pool's underlying portfolio, unless the pool is a **2a7-like pool**. Legally binding guarantees provided or obtained by the pool sponsor to support share value should be considered in determining the fair value of the participants' investments and should be evaluated in light of the creditworthiness of the sponsor. If a governmental entity cannot obtain information from a pool sponsor to allow it to determine the fair value of its investment, it should make its best estimate of the fair value of that investment and make the disclosures required by paragraph 15e.

12. Investment positions in 2a7-like pools should be determined by the pool's share price.

Recognition and Reporting

13. All investment income, including changes in the fair value of investments, should be recognized as revenue in the operating statement (or other statement of activities).[6] When identified separately as an element of investment income, the **change in the fair value of investments** should be captioned *net increase (decrease) in the fair value of investments.*[7] Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements, except that realized gains and losses may be separately displayed in the separate reports of governmental external investment pools. (See paragraph 17.)

14. The equity position of each fund or component unit in an **internal investment pool** should be reported as assets in those funds and component units. Often, income from investments associated with one fund is assigned to another fund because of legal or contractual provisions. In that situation, the accounting treatment should be based on the

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[6]GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, paragraph 6, provides that proprietary activities should apply all FASB Statements issued before November 30, 1989, *unless* those pronouncements conflict with or contradict GASB pronouncements. Those pronouncements include FASB Statements No. 52, *Foreign Currency Translation*, and No. 80, *Accounting for Futures Contracts.* This Statement does not change the applicability of either of those FASB pronouncements to proprietary activities of government.

[7]Likewise, consistent with reporting investments at their fair value, interest income should be reported at the stated interest rate; any premiums or discounts on debt securities should not be amortized.

specific language of the legal or contractual provisions.[8] If, however, the investment income is assigned to another fund for other than legal or contractual reasons—for example, management decision—the income should be recognized in the fund that reports the investments. The transfer of that income to the recipient fund should be reported as an operating transfer. Notwithstanding the foregoing provisions of this paragraph, public colleges and universities that elect to follow the American Institute of Certified Public Accountants (AICPA) College Guide model as permitted by GASB Statement 15 should follow the provisions of that model for assigning investment income, including changes in the fair value of investments, to funds. Likewise, state and local governmental entities that apply the provisions of GASB Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities,* and that elect to follow the AICPA Not-for-Profit model should follow the provisions of that model.

Disclosures

15. Governmental entities should make the following disclosures in the notes to the financial statements:

a. 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
b. The policy for determining which investments, if any, are reported at amortized cost
c. For any investments in external investment pools that are not SEC-registered, 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
d. Any involuntary participation in an external investment pool
e. 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
f. Any income from investments associated with one fund that is assigned to another fund.

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[8]That is, if the legal or contractual provisions require a *transfer* of the investment income to another fund, the income should be reported in the fund that is associated with the assets, with an operating transfer to the recipient fund. If, however, the legal or contractual provisions require that the investment income *be* that of another fund, no transfer of resources should be reported. Instead, the amounts should be recognized as revenue in the recipient fund.

An entity may disclose realized gains and losses in the notes to the financial statements computed as the difference between the proceeds of the sale and the original cost of the investments sold.[9] External investment pools that elect to report—and other entities that disclose—realized gains and losses should also 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.

Additional Standards for External Investment Pools and for Individual Investment Accounts

16. The accounting and financial reporting standards in paragraphs 7, 8, and 10 through 15 apply to *all* investments of governmental external investment pools, except that 2a7-like pools may report their investments at amortized cost. All external investment pools may report short-term debt investments with remaining maturities of up to ninety days at the date of the financial statements at amortized cost, 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. 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.

Pool Reporting

17. Separate or stand-alone annual financial reports for governmental external investment pools should include a statement of net assets and a statement of changes in net assets prepared on the economic resources measurement focus and the accrual basis of

[9]The disclosure of default losses and recoveries on reverse repurchase agreements and securities lending transactions, as provided by paragraph 80 of Statement 3 and paragraph 15 of Statement 28, respectively, does not constitute a reporting of realized losses that under the provisions of this Statement would require reporting of *all* realized gains and losses for the year.

accounting. A statement of cash flows is not required to be presented. All applicable GASB pronouncements should be applied in those reports. In addition, the financial reports of governmental external investment pools should disclose:

a. A brief description of any regulatory oversight (including whether the pool is registered with the SEC as an investment company)
b. The frequency of determining the fair value of investments
c. The method used to determine participants' shares sold and redeemed and whether that method differs from the method used to report investments
d. Whether the pool sponsor has provided or obtained any legally binding guarantees during the period to support the value of shares
e. The extent of involuntary participation in the pool, if any[10]
f. 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.

Further, if the financial report distinguishes among different components of investment income (for example, interest, dividend, and other income versus the net increase or decrease in the fair value of investments), the pool should disclose the accounting policy for defining each of the components it reports.

Reporting by Sponsoring Governments

External Investment Pools

18. In addition to the separate investment pool reports required by paragraph 17, a governmental entity that sponsors one or more external investment pools (**sponsoring government**) should report the *external* portion of each pool as a separate investment trust fund (a fiduciary fund) that reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. (The *external* portion of an external investment pool is the portion that belongs to legally separate entities that are not part of the sponsoring government's financial reporting entity. The *internal* portion of each

[10]Involuntary participants are those that are required by legal provisions to invest in the external investment pool.

external investment pool is the portion that belongs to the primary government and its component units and should be reported as provided in paragraph 14 for the equity in internal investment pools.) In its financial statements, the sponsoring government should present for each investment trust fund a statement of net assets and a statement of changes in net assets. The difference between the external pool assets and liabilities should be captioned *net assets held in trust for pool participants.* In the combined financial statements, investment trust funds should be presented in the balance sheet with trust and agency funds. A separate statement of changes in net assets should be presented for the combined investment trust funds, although that statement may be presented with similar trust funds, such as pension trust funds.

19. If an external investment pool issues a separate report, the annual financial report of the sponsoring government should describe in the notes to the financial statements how to obtain that report. If an external investment pool does not issue such a report, the annual financial report of the sponsoring government should include the following in the notes to the financial statements for each pool:

a. The additional disclosures required in paragraph 17.
b. The disclosures required by Statements 3 and 28 and other cash and investment standards.
c. Condensed statements of net assets and changes in net assets. If a pool includes both internal and external investors, those condensed financial statements should include, in total, the net assets held in trust for all pool participants, and the equity of participants should distinguish between internal and external portions.

Individual Investment Accounts

20. Governmental entities that provide **individual investment accounts** to other, legally separate entities that are not part of the same financial reporting entity should report those investments in one or more separate investment trust funds, using the guidance of paragraph 18 of this Statement.[11] The requirements of paragraphs 17 and 19 do not apply to those funds.

[11]If individual accounts are offered as an alternative to a pooled position, the individual accounts should be reported in a different investment trust from the pool.

EFFECTIVE DATE AND TRANSITION

21. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1997. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively, if practical, by restating financial statements for all prior periods presented. If restatement of financial statements for prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning fund balance or retained earnings, as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason that it was not practical to restate prior periods presented should be explained.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by unanimous vote of the five members of the Governmental Accounting Standards Board:

Tom L. Allen, *Chairman*
Robert J. Freeman
Barbara A. Henderson
Edward M. Klasny
Paul R. Reilly

GLOSSARY

22. This paragraph contains definitions of certain terms *as they are used in this Statement;* the terms may have different meanings in other contexts.

Asset-backed securities

Assets that are composed of, or collateralized by, loans or receivables. Collateralization can consist of liens on real property, leases, or credit card debt.

Change in the fair value of investments

The difference between the fair value of investments at the beginning of the year and at the end of the year, taking into consideration investment purchases, sales, and redemptions.

Closed-end mutual fund

An SEC-registered investment company that issues a limited number of shares to investors which are then traded as an equity security on a stock exchange. See also Open-end mutual fund.

Debt security

Any security that represents a creditor relationship with an entity. It also includes (a) preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor and (b) a collateralized mortgage obligation (CMO) or other instrument that is issued in equity form but is accounted for as a nonequity instrument. However, it excludes option contracts, financial futures contracts, and forward contracts.

- Thus, the term *debt security* includes, among other items, U.S. Treasury securities, U.S. government agency securities, municipal securities, corporate bonds, convertible debt, commercial paper, negotiable certificates of deposit, securitized debt instruments (such as CMOs and real estate mortgage investment conduits—REMICs), and interest-only and principal-only strips.
- Trade accounts receivable arising from sales on credit and loans receivable arising from real estate lending activities of proprietary activities are examples of receivables that do not meet the definition of a security; thus, those receivables are not debt securities. (If, however, they have been securitized, they would then meet the definition.)

Equity security

Any security that represents an ownership interest in an entity, including common, preferred, or other capital stock; unit investment trusts; and closed-end mutual funds. However, the term *equity security* does not include convertible debt or preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor.

External investment pool

An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, 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 an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes *only* the primary government and its component units, it is an internal investment pool and not an external investment pool.

Fair value

The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Individual investment accounts

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 changes in the value of those investments affect only the entity for which they were acquired.

Interest-earning investment contract

A direct contract, other than a mortgage or other loan, that a government enters into as a creditor of a financial institution, broker-dealer, investment company, insurance company, or other financial services company and for which it receives, directly or indirectly, interest payments. Interest-earning investment contracts include time deposits with financial institutions (such as certificates of deposit), repurchase agreements, and guaranteed and bank investment contracts (GICs and BICs).

Internal investment pool

An arrangement that commingles (pools) the moneys of more than one fund or component unit of a reporting entity. Investment pools that include participation by legally separate entities that are not part of the same reporting entity as the pool sponsor are not internal investment pools, but rather are external investment pools.

Investment

A security or other asset acquired primarily for the purpose of obtaining income or profit.

Money market investment

A short-term, highly liquid debt instrument, including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Asset-backed securities, derivatives, and structured notes are not included in this term.

Open-end mutual fund

An SEC-registered investment company that issues shares of its stock to investors, invests in an investment portfolio on the shareholders' behalf, and stands ready to redeem its shares for an amount based on its current share price. An open-end mutual fund creates new shares to meet investor demand, and the value of an investment in the fund depends directly on the value of the underlying portfolio. Open-end mutual funds include governmental external investment pools that are registered as investment companies with the SEC and that operate as open-end funds.

Option contract

A contract giving the buyer (owner) the right, but not the obligation, to purchase from (call option) or sell to (put option) the seller (writer) of the contract a fixed number of items (such as shares of equity securities) at a fixed or determinable "strike" price on a given date or at any time on or before a given date.

Participation

The ability of an investment to capture market (interest rate) changes through the investment's negotiability or transferability, or redemption terms that consider market rates.

Restricted stock

Equity securities whose sale is restricted at acquisition by legal or contractual provisions (other than in connection with being pledged as collateral) except if that restriction terminates within one year or if the holder has the power by contract or otherwise to cause the requirement to be met within one year. Any portion of the security that can reasonably be expected to qualify for sale within one year, such as may be the case under SEC Rule 144 (17 *Code of Federal Regulations* §230.144) or similar rules of the SEC, is not considered restricted.

Security

A transferable financial instrument that evidences ownership or creditorship, whether in physical or book entry form.

Sponsoring government

A governmental entity that provides investment services—whether an investment pool or individual investment accounts—to other entities and that therefore has a fiduciary responsibility for those investments.

Stock rights

Rights given to existing stockholders to purchase newly issued shares in proportion to their holdings at a specific date.

Stock warrants

Certificates entitling the holder to acquire shares of stock at a certain price within a stated period. Warrants often are made part of the issuance of bonds or preferred or common stock.

Structured notes

Debt securities whose cash flow characteristics (coupon, redemption amount, or stated maturity) depend on one or more indexes, or that have embedded forwards or options.

2a7-like pool

An external investment pool that is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (17 *Code of Federal Regulations* §270.2a-7). Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than market value to report net assets to compute share prices if certain conditions are met. Those conditions include restrictions on the types of investments held, restrictions on the term-to-maturity of individual investments and the dollar-weighted average of the portfolio, requirements for portfolio diversification, requirements for divestiture considerations in the event of security downgrades and defaults, and required actions if the market value of the portfolio deviates from amortized cost by a specified amount.

Appendix A

BACKGROUND INFORMATION

23. For several years, the GASB has considered the need for a project on investment measurement and reporting. It addressed certain disclosure issues in Statement 3 in response to governmental losses in repurchase and reverse repurchase agreements. It provided for cost-based measurement standards for investments in Statement 11.[12] However, paragraph 191 of the Basis for Conclusions of Statement 11 indicates that the Board adopted the cost-based measures used in current practice until it could thoroughly examine the issues involved in the valuation of investments.

24. The only broad standard of investment accounting for general purpose governmental entities is in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units.* Paragraph 7.15 of that Guide states that governmental fund investments generally are reported at cost unless there are decreases in market value and the decline is not due to a temporary condition. Preparers and auditors experienced difficulty applying that standard during the changing market conditions of 1994 and 1995. In 1994, with some governments carrying long-term debt securities at cost-based values significantly higher than their fair value, questions arose concerning how to evaluate whether a decline was due to an other-than-temporary condition. Some made the evaluation based on the government's ability and intent to hold the securities to maturity, which necessarily involved substantial professional judgment. The following year, when some of the securities that had been written down to a new cost basis recovered some of their value, that recovery could not be reflected in the financial statements, causing some to question the appropriateness of the standard. Some suggested that a fair value–based standard might better have reported events affecting investment portfolios during that time.

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[12]The effective date of Statement 11 was deferred indefinitely by GASB Statement No. 17, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements.*

25. The Board was concerned that the disclosure of fair value in the notes to the financial statements may not have allowed financial statement users to be sufficiently aware of the potential effect of investment gains and losses. The Board agreed that it was time to address the issue of whether the cost methods used in current practice were appropriate, and in July 1995 it adopted a project to consider the valuation and reporting of investments. In this project, the Board considered the measurement and reporting of certain investments held by all governmental entities except for Internal Revenue Code Section 457 deferred compensation plans and defined benefit pension plans.[13] The Board agreed to start its deliberation of valuation issues by considering the investment types covered by and valuation and recognition standards in FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations.* A task force of twenty-two persons representing general and special purpose governments, public accounting, external investment pools, and financial statement users met in December 1995 to counsel the Board on issues relating to this project.

26. This Statement is the first phase of the Board's financial instruments project. That project will examine various issues relating to the recognition, measurement, and reporting of transactions in financial instruments. Some of those issues may concern reporting on investment portfolio structure, characteristics, and performance; fair value measures for specific instrument types (such as foreign exchange transactions); accounting for hedging transactions; and valuation and reporting of financial instruments other than investments—liabilities as well as assets.

The FASB's Investments Statements

27. In May 1993, the FASB issued Statement 115 on accounting for investments in all debt securities and in equity securities with readily determinable fair values. That

[13]Fair value standards for the investments of those plans were established by Statements 2 and 25, respectively. However, this Statement provides guidance to those plans on applying fair value to certain investments.

Statement requires an enterprise to classify its investment securities into one of three categories at acquisition. The carrying amount of the securities and the reporting of the net increase (decrease) in the fair value of investments depend on how a security is classified.

a. Held-to-maturity securities are debt securities that the enterprise has both the intent and the ability to hold to maturity. They are reported at amortized cost. Holding gains and losses are not recognized in earnings until realized or until there is an other-than-temporary decline in the fair value of a security below cost.
b. Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them to make a profit. They are reported at fair value, with the net increase or decrease in the fair value of investments included in earnings.
c. Securities that do not fit the definition of either held-to-maturity or trading securities are classified as available-for-sale. They are reported at fair value, with the net increase or decrease in the fair value of investments reported as a net amount in a separate component of shareholders' equity. The net increase or decrease in the fair value of investments is not recognized in earnings until realized or until there is an other-than-temporary decline in the fair value of a security below cost.

28. Statement 115 does not apply to not-for-profit organizations. The FASB provided investment standards for those organizations in Statement 124, issued in November 1995. That Statement includes the same securities within its scope as does Statement 115, and it requires that those securities be reported at fair value. Realized gains and losses and the net increase (decrease) in the fair value of investments are reported in the statement of activities as increases or decreases in net assets.

Governmental External Investment Pools and Individual Investment Accounts

29. In 1994 and 1995, some governments announced significant realized and unrealized losses in the investment pools they sponsored for other governments. Those announcements caused numerous parties—among them auditors, rating agencies, and pool participants—to examine the operations and portfolios of investment pools. The GASB considered the need for a limited-scope project on the accounting and financial reporting by governmental external investment pools and by participants for their investment positions in those pools. Upon conducting initial research on the need for and feasibility of such a project, however, the Board determined that it could not address the accounting for investments held by pools without also addressing the accounting for investments held in

other than pooling arrangements. Because many investment pools include participation by the entities that are part of the reporting entity that sponsors the pool, if the Board were to establish standards only for governmental external investment pools, significantly different accounting standards for investments could result depending on the structure of the sponsoring government's investment function.

30. There are two basic types of governmental external investment pools, although hybrids of these two may exist. The first type of pool is sponsored by an individual state or local government. Many of these "sponsored pools" are operated as part of the government's treasury or investment function, although in some cases the government may hire one or more private-sector companies to provide administrative and investment advisory functions. In some cases, sponsoring governments have established a legally separate entity, such as a business trust, to operate the pool. However, the government retains a fiduciary responsibility for the pool.

31. The second type of governmental external investment pool is created under a state's joint powers or interlocal agreement law, which allows governments to jointly undertake activities and services they are individually empowered to perform. Generally, these "joint powers" pools are created by a declaration of trust, with a board of trustees comprising representatives from some of the participating governments. These pools usually hire one or more private-sector companies to provide administrative and investment advisory functions.

32. Governmental external investment pools are exempt from registration with the SEC under the Investment Company Act of 1940 because of the provisions of Section 2b, which states that no provision of the Act applies to or includes "a State, or any political subdivision of a State, or any agency, authority, or instrumentality of any one or more of the foregoing, or any corporation which is wholly owned directly or indirectly by any one or more of the foregoing, or any officer, agent, or employee of any of the foregoing acting as such in the course of his official duty. . . ." Despite this exemption, however, some governmental external investment pools have registered with the SEC as investment companies.

33. Some governmental external investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. That rule allows SEC-registered mutual funds to use amortized cost rather than market to report net assets to compute share prices if certain conditions are met. At present, some of the significant conditions are:

a. The board of directors has to determine that the fund will continue to use amortized cost only as long as the board believes that it fairly reflects the market-based net asset value per share.
b. The fund has to maintain a dollar-weighted portfolio maturity appropriate to maintaining a stable net asset value. However, the dollar-weighted average portfolio maturity cannot exceed ninety days.
c. The fund may not purchase any investments with a remaining maturity of greater than 397 days.

To use amortized cost, an SEC-registered mutual fund also has to limit investments to U.S.-denominated investments that present minimal credit risk and that meet certain credit quality requirements. Rule 2a7 also includes requirements for portfolio diversification, divestiture considerations in the event of security downgrades and defaults, and required actions if the market value of the portfolio deviates more than 0.5 percent from amortized cost.

34. Some governmental entities provide investment services to other entities on other than a pooled basis. For example, a county treasurer may maintain individual investment accounts for the municipal governments in the county. Specific investments are acquired for the individual municipalities, and the income from and changes in the value of those investments affect only the municipality for which they were acquired. Sometimes, such individual accounts are offered as an alternative to the sponsoring government's external investment pool; in other cases, only individual investment accounts are provided.

Exposure Draft and Field Test

35. In March 1996, the Board issued an Exposure Draft (ED), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. One hundred

eighty-five organizations and individuals responded to the ED. Board members and staff also conducted field visits to constituent organizations to discuss the ED.

36. In May and June 1996, the Board held two one-day public hearings on the proposals in the ED. Twenty-seven individuals representing diverse interests and organizations testified.

37. During the ED’s comment period, a field test was conducted among volunteer governments. Participants were asked to apply the provisions of the ED to their previously issued financial statements. Sixteen participants completed the test. For some participants, the field test results indicated that the change in the fair value of investments was considered significant. The magnitude of the change in the fair value appeared to derive from (a) the kinds of investments in the participant’s portfolio, (b) the weighted-average maturity of the portfolio, and (c) whether the time period the participant used was experiencing significant interest rate changes. On the other hand, participants whose portfolios consisted of investments in money market investments with short-term maturities did not experience significant change in the fair value of investments. The field test was also designed to determine costs of adopting and maintaining the provisions of the Statement. The field test indicated that those costs were not significant.

Appendix B

BASIS FOR CONCLUSIONS

Introduction and Overview

38. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

39. As discussed in paragraphs 23 and 24 of Appendix A, the Board has long considered adopting a project on investment measurement and reporting. Past market conditions have given greater urgency to those issues. Users of governmental financial statements have expressed a need for additional information about investments and external investment pools, and this Statement is a step toward satisfying that need. The Board believes that when investments are reported at fair value in the financial statements, users will be able to obtain more relevant information about an entity's investments and the effects of its investment practices.

Scope of and Terminology in This Statement

40. This Statement provides a definition of the term *investment* to clarify that its measurement and reporting guidance is intended only for instruments that are held primarily for the purpose of income or profit. This Statement does not apply to securities or other instruments if they are not held by the government for investment purposes, either for itself or for parties for which it serves as investment manager or other fiduciary. Therefore, this Statement does not apply, for example, to seized debt securities that the government holds as evidence or as a potential fine, not as an investment. This Statement also does not apply to contractors' deposits of debt securities (although a government might nevertheless value those securities at fair value if the contractor is required to maintain the deposit at a certain value). Further, it does not apply to the ownership of equity securities that represent a component unit rather than an investment. Paragraph 55

of GASB Statement No. 14, *The Financial Reporting Entity,* contains requirements for reporting the ownership of a for-profit corporation as a component unit.

41. In establishing the scope of this Statement, the Board started with all debt securities and equity securities with readily determinable fair values. The Board agreed to include within the scope of this Statement *all* investments in option contracts with readily determinable fair values—whether the option is for equity securities, debt securities, indexes, commodities, or so forth. (Because this Statement applies only to *investments* in option contracts, it applies only to purchased put and call option contracts. Written option contracts represent *obligations* of the writer and are not investments.) The Board does not believe it needs to consider hedge accounting before establishing accounting standards for option contracts. Although large numbers of general purpose governments do not have significant positions in option contracts, the Board believes it is better to provide some guidance at this time.

42. This Statement's definition of *security* is taken from the GASB's *Guide to Implementation of GASB Statement 3.* In addition to securities, the Board also agreed to include within the scope of this Statement investments in open-end mutual funds and external investment pools, as well as interest-earning investment contracts, which include time deposits with financial institutions (savings accounts or certificates of deposits), repurchase agreements, and guaranteed and bank investment contracts.

43. In the ED, the Board did not make a distinction between participating and nonparticipating investment contracts. All contracts were to be fair-valued. The Board had previously concluded that because governmental investment managers sometimes use interest-earning investment contracts as alternatives to short-term debt securities, not requiring them to be reported using the same method might have caused unintended changes in investment activity. However, a number of respondents to the ED argued that the terms and conditions of many contracts are such that many contracts do not have an ability to realize increases or decreases that are caused by changes in market rates. These terms and conditions are the contracts' lack of transferability or negotiability, and redemption terms that do not consider existing market rates. For example, if interest rates

decrease, an unrealized gain—a fair value increase—could be imputed to a nonnegotiable certificate of deposit. Because the contract is nonnegotiable, the only way for the contract's owner to realize that gain would be to present it to its issuer for early redemption. However, due to early-redemption penalties, a *realized loss* may be suffered. After reconsidering the inability to realize fair value increases, the Board decided to allow nonparticipating contracts to be reported using a cost basis of accounting. The Board believes that many, if not most, interest-earning investment contracts are nonparticipating.

44. The Board considered, in lieu of participation, a contract's negotiability as its valuation determinant. This was rejected because nonnegotiable contracts can possess redemption features that consider market rates. For example, a nonnegotiable guaranteed investment contract may provide that its early-redemption value includes a factor for the interest rate the issuer is currently offering on similar contracts with a maturity date coinciding with the payment of the future amount payable. The early-redemption value could also include a factor for the yield on a U.S. Treasury security with a similar remaining contract maturity. In both cases, the redemption terms cause the contract to participate in market changes; therefore, the Board believes that participating contracts should be reported at fair value.

45. To be consistent with the private-sector standards for investment companies, the Board decided that external investment pools should not be required to present a statement of cash flows and the Board included within the scope of this Statement *all* investments held by governmental external investment pools. Real estate, mortgage, and other loans; futures and forward contracts; venture capital; and limited partnerships are examples of investments included in the scope of this Statement. The Board agreed not to similarly expand the scope of this Statement for governmental entities other than pools because of complexities involved in measurement vis-à-vis the scope of this project. Although the Board understands that those measurement complexities might exist for pools, it believes it would be inappropriate for pools to report some types of investments at fair value and others at cost or amortized cost (except for this Statement's provision relating to short-term debt investments).

46. Many of the definitions used in this Statement are similar in all important respects to the definitions used in FASB Statements 115 and 124. In particular, the term *fair value* has the same definition. Although that definition differs in wording from the definition of that term in GASB Statement 25, the meanings are the same, resulting in the same measurements.

47. As with Statement 25, this Statement uses the term *fair value* to avoid confusion between *fair value* and *market value;* some might associate the term *market value* only with items that are traded in active secondary markets. However, the Board does not make that distinction, intending the term to apply whether the market for an investment is active or inactive, primary or secondary. To provide consistency with this Statement's use of *fair value*, this Statement amends GASB Statements 2, 3, and 28 to replace the term *market value* with *fair value.*

48. Public colleges and universities under GASB Statement No.15, *Governmental College and University Accounting and Financial Reporting Models,* may elect to follow the AICPA's College Guide model. However, this Statement modifies investment accounting and reporting for those entities. Likewise, entities electing to follow the AICPA's Not-for-Profit model in accordance with GASB Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, should apply the provisions of this Statement.

Accounting and Financial Reporting for Investments

Relevance of Fair Value for Reporting Investments

49. The Board believes that fair value is a better measure of a government's investments than cost. Fair value provides users with information to help them assess a government's accountability, the level of services that it potentially can provide, and its financial position and condition—thereby helping to achieve several financial reporting objectives. The Board notes that governmental managers continually decide whether to hold an investment or to sell or redeem it and redirect resources to other investments or other uses. Fair value information is more useful than cost-based information in evaluating

performance. The Board also believes fair value is the more relevant and faithful representation of the asset and more accurately reports the resources available to provide services because it portrays the market's estimate of the net future cash flows of investments, discounted to reflect both time value and risk.

50. The ability to meaningfully evaluate an entity's investment performance—to compare its returns, adjusted for risk, to those of common market indicators or to other entities—is enhanced when investments are reported at fair value. Cost-based measures of the same investment can vary among and within organizations; fair value measures vary little, if at all. The value of investments comes from an entity's ability to generate income and to convert those investments to cash, and to use the resulting cash to support its activities. Cash flows from investments do not depend on which organization owns them or the amount for which an organization acquired them; thus, the reporting of investments should not vary among or within organizations. The Board also notes that requiring all governments to report investments at fair value builds on current and evolving practices and requirements in both the public and private sectors.

51. Many respondents to the ED objected to the manner in which fair value accounting is applied. Objections included the omission of a cost-based held-to-maturity category and a cost-based category for investments purchased with maturities that match projected cash outflows, the inclusion of the net increase or decrease in the fair value of investments in the operating statement, the volatility fair value accounting could introduce into the financial statements, and the belief that current note disclosure of fair value—without presentation in the financial statements—is adequate. However, only a few respondents advocated a complete abandonment of fair value. The application of fair value standards similar to those found in FASB Statement 115 (see paragraph 27 of this Statement) received the most support. The Board reconsidered whether amortized cost should be acceptable for reporting debt investments when a government has the ability and intent to hold those investments to maturity. If debt investments are held to maturity, absent a default by the issuer, the holder will recover the full face amount of the investment, and any interim increase or decrease in the fair value of investments will reverse. Supporters of

alternative approaches argued that it would be inappropriate to report fair value changes in debt securities that will be held until they mature. However, the Board finds fair value as relevant for debt securities to be held to maturity as for other investments. Recognizing changes in value when they occur, rather than when they are realized, provides a measure of current performance. Users of financial statements are also provided with a basis for assessing the decisions not just to sell, but also to buy and hold. The Board believes that fair value information is consistent with the basis used for rational investment management practices. Further, the Board believes that a measurement standard that varies according to whether a government does or does not have the ability and intent to hold a particular investment to maturity would be even more difficult to apply and to verify in the government environment.

52. The Board also considered the extent to which governmental investment standards should provide comparability between public-sector special entities and their private-sector counterparts. One possibility would have been to adopt either or both of the FASB investment Statements. The Board did not find the alternative of adopting both Statements viable; it believes that as much as possible it is important to have a single investment standard for all governmental entities. The Board does not believe that adopting FASB Statement 115 would result in comparability between the public and private sectors because of the flexibility in that Statement. Two entities applying those provisions to similar investment portfolios might not have comparable measurements and recognition because of different management intent. The Board observes that the provisions of this Statement result in measurements and recognition that are similar to those resulting from FASB Statement 124.

53. Other respondents to the ED opposed fair value accounting by arguing that note disclosure is sufficient. However, note disclosure fails to address the issues as described in paragraphs 24, 25, and 49 that initially prompted this project. Some respondents, while acknowledging a role for fair value, also advocated a cost-based measure for investments purchased to liquidate debt obligations. The Board considered this proposal and rejected it because it did not believe the *purpose* of an investment's acquisition is a determinant of its

valuation. In other words, an investment matched to fund a debt obligation should be valued the same as an investment purchased to fund any other outflow.

54. For cost–benefit purposes, paragraph 9 of this Statement allows governmental entities other than external investment pools to report money market investments at amortized cost, provided that these investments have a remaining maturity at time of purchase of one year or less. The Board believes that in those situations amortized cost will reasonably represent fair value.

55. Likewise, for cost–benefit purposes, paragraph 16 of this Statement allows external investment pools to report short-term debt investments at amortized cost, provided that the fair value of the investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. The Board notes that the AICPA Audit and Accounting Guide, *Audits of Investment Companies*, paragraphs 2.35 through 2.37, describes a similar allowance for investment companies. This Statement defines *short-term investments* as those with remaining maturities of up to ninety days, which generally is consistent with the guidelines for defining *cash and cash equivalents* in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.* The Board considered defining *short-term* in terms of an individual government's definition of *cash and cash equivalents.* It did not do so, however, because some governments may not have defined that term and because others may have defined it differently for cash flow reporting than they would prefer to define it for valuation. This Statement defines an external investment pool's *short-term investments* as all investments with remaining maturities of up to ninety days, not just those with *original* maturities of up to ninety days. That provision, again, is consistent with the treatment of that category of investments by investment companies. The Board decided against applying the money market investment exception found in paragraph 9 to external investment pools because of their custodial nature and because a cost-based exception was already established in the 2a7-like provisions in paragraph 16. Likewise in pools that include internal and external participants, applying paragraph 9

could lead to the same security's (based on arbitrary allocation) being reported at two different values. Accordingly, such mixed pools should not apply paragraph 9.

Reporting Changes in Fair Value

56. Some respondents to the ED argued that reporting the change in fair value as an element of investment income introduces volatility to the financial statements. Other respondents, while supporting the inclusion of the change in fair value in an all-inclusive operating statement, suggested that it be presented below the excess of revenues over expenditures, or net income. However, the Board does not believe that the nature of fair value changes is intrinsically different from, nor should it be separated from, other elements of investment income. Still other respondents suggested that the net increase or decrease in the fair value of investments should, instead, be treated as a direct change in a separate component of equity. The Board reconsidered this idea, but rejected it. The Board believes that financial reporting about investments is improved when the statement of activities reflects the results of those events and transactions. Those results arise not only from interest and dividend income and from sales of investments, but also from changes in the fair value of the investments during the holding period. The Board believes that different recognition standards for realized and unrealized changes in fair value would undermine the validity of a fair value measurement. Reporting only realized gains and losses in the statement of activities is a historical-cost concept, which provides information on investment results only in the year investments are sold. Changes in fair value should be included as part of the year's activities when they occur because they are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and financial position. A government is in a better financial position when investment values increase and a worse position when they decline. The Board also notes that reporting at fair value eliminates the potential that the timing of investment sales to produce a particular result will distort investment income.

57. The Board believes that governmental fund investments—and changes in the fair value of those investments—are appropriately "available," thus meriting recognition under

the modified accrual basis of accounting. The Board considered whether recognition of the changes in fair value of investments should be modified in some manner in governmental and similar trust funds, which report using a current financial resources measurement focus and the modified accrual basis of accounting. It examined various alternatives for applying the "availability" criterion to changes in fair value. It also considered interpreting how that criterion should be applied to changes in the fair value of investments, but did not want to develop an interpretation outside its financial reporting model project, especially when those standards might become analogized to other types of transactions. Among the potential problems the Board observed with modifying full recognition in those fund types was complexity in the accounting, as well as the possibility for (a) the reporting of a net unrealized loss on fund investments in a "deferred charge" account, (b) varied application of the "availability" criterion across entities, and (c) the management of reported results. The Board also observed that because of their need for liquidity to meet operating needs, governmental funds generally hold short-term or marketable investments.

58. This Statement requires the equity of an internal investment pool to be attributed as assets to the participating funds and component units. This reporting is consistent with current practice. This Statement also provides reporting requirements when income from investments associated with one fund is assigned to another fund. This provision is adopted from Statement 11, paragraph 67, and has previously been incorporated into Statement 28 and GASB Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements*, for the reporting of securities lending and reverse repurchase agreement income and costs. Many governments have legal provisions for such redirection of investment income. Except for legally or contractually required *transfers* of resources, the Board believes investment income should be reported in the statement of activities of the fund legally or contractually designated to receive it, not in the fund reporting the investment, because the amounts were never intended to be revenue to the fund reporting the investment. However, in the absence of such legal or contractual provisions, the Board believes any income from specific investments is more appropriately recognized in the statement of activities of the fund reporting the investments. If the amounts are then assigned to another fund for other than legal or contractual reasons, a transfer is needed to

report the movement of the assets between the funds. Nevertheless, the Board acknowledges that for some entities this Statement's method of assigning investment income will represent a substantial change at a time when the reporting models used by those entities are the subject of current Board projects. Public colleges and universities following the AICPA's College Guide model under Statement 15 and organizations following the provisions of Statement 29 may in certain instances assign interest directly from one fund to another. In the interest of avoiding incremental accounting changes for these entities, the Board is deferring this change, to be included as appropriate in the reporting model projects.

59. This Statement includes the prohibition provided in Statement 25 against the separate display of realized gains and losses and the net increase or decrease in the fair value of investments in the statement of activities. In Statement 25, the Board concluded that separate display mixes two different measurement bases, is inconsistent with reporting assets at fair value, and can be misleading. However, the Board exempted the separate reports of governmental external investment pools from this prohibition because the investment companies Audit Guide, which many pools apply for financial reporting purposes, requires the separate display of realized gains and losses and the net increase (decrease) in the fair value of investments. As indicated in responses to the ED, the Board is aware that some believe that distinguishing between realized gains and losses and the net increase (decrease) in the fair value of investments provides useful information. Therefore, this Statement permits disclosure of realized gains and losses in the notes to the financial statements, provided certain information about the nature of those amounts and their relationship to the amounts recognized also is disclosed. Appendix C illustrates this *optional* note disclosure. The Board chose not to require disclosure because it was concerned about the cost impact of requiring accounting records on a cost basis.

60. This Statement requires minimum disclosures about the valuation and financial reporting of investments and investment income. The Board also considered the need to provide at this time additional disclosures on portfolio structure and characteristics, such as investment objectives and maturities. Although those disclosures may be necessary to

more fully satisfy the information needs of financial statement users, the Board concluded that they are outside the scope of this measurement project. As discussed in paragraph 26 of Appendix A, the Board will consider such disclosures in a later phase of the financial instruments project.

Standards for External Investment Pools

Pool Reporting

Valuation

61. The Board believes that using fair value to report investments and recognizing all changes in fair value in the statement of activities are especially important for governmental external investment pools. If fair value is not used to value participant shares, there is the potential for the inequitable distribution of changes in value among pool participants. For example, if significant fair value losses are not reflected in a pool's share value, withdrawals from the pool before the loss is recognized in the share value leave an inequitable burden of the loss on remaining participants. Similarly, if significant fair value gains are not reflected in the net assets held in trust for pool participants account, withdrawing participants share only in a portion of the investment returns that took place during their period of investment. Although the Board cannot establish standards for valuing participant shares, the reporting of investments at fair value will allow users to more fully compare fair value to share value. Likewise, depending on the method or frequency of a pool's revaluation of its investments at fair value, differences could occur between (a) participants' distributive earnings including fair value changes and (b) actual cash distributions. This Statement does *not* require that fair value adjustments actually be paid to pool participants. Respondents to the ED indicated strong support for valuing pool participant shares at fair value, with many observing that investment pools resemble investment companies and should follow similar guidance.

62. The Statement provides that except for 2a7-like pools, external investment pools should report *their* investments in open-end mutual funds and other external investment pools at fair value. The Board acknowledges that such investments may be rare, but

nevertheless provides guidance for such a possibility. This Statement also allows an exception from fair value measurements for investments held by 2a7-like pools. SEC Rule 2a7 allows SEC-registered money market mutual funds to use amortized cost rather than market to compute share prices if certain conditions are met. The Board chose to allow the use of amortized cost for 2a7-like pools because Rule 2a7 is the accepted industry standard for the use of amortized cost accounting for mutual funds. The Board also chose to define 2a7-like pools by reference to the rule, rather than by incorporating its current provisions into this Statement. That approach will keep the definition of 2a7-like pools in concert with the rule as it changes over time. The definition of 2a7-like pools requires not only that the pool operate in a manner consistent with Rule 2a7, but also that it have a policy to do so. This requirement will ensure that the reporting for a pool (and by pool participants) would not change from period to period due only to the pool's investment practices.

Separate Pool Reports

63. Some financial statement users maintain that they cannot adequately understand a government's financial position and condition unless they also understand the operations and portfolio of the pools in which that government invests. Also, pool participants cannot fully understand the nature of their investments unless they have the opportunity to review current financial information. The Board believes that to meet those user needs, it is essential for governmental external investment pools to issue separate annual financial reports. This Statement provides minimum required statements for such reports to provide a starting point for separate reporting by governmental pools that previously have not done so; those requirements also allow pools that issue reports using the guidance of the investment companies Audit Guide to continue to do so.

64. This Statement establishes that pool reports should apply all applicable GASB pronouncements, especially those that apply to cash and investments (including Technical Bulletin No. 94-1, *Disclosures about Derivatives and Similar Debt and Investment Transactions*). This Statement also requires certain disclosures unique to pool reports—such as a brief description of regulatory oversight and the frequency and purpose of

determining the fair value of pool investments—because they are needed to allow participants and users of participants' financial statements to more fully understand a pool’s operations and portfolio.

Reporting by Sponsoring Governments

65. Many governmental entities that sponsor external investment pools presently report them in their annual financial statements, and many of those reporting sponsors classify those pools as agency funds. The Board agrees that to provide accountability for their fiduciary responsibilities, pool sponsors should report external investment pools as separate funds in their financial statements. A governmental entity that sponsors a pool has a fiduciary responsibility for that pool. Paragraph 19 of Statement 14 provides that a primary government should report its fiduciary funds regardless of entity considerations. It states: "For example, there may be organizations that do not meet the definition for inclusion in the financial reporting entity. They should, nevertheless, be reported as a fiduciary fund of the primary government if the primary government has a fiduciary responsibility for them."

66. The Board has determined that prevalent practice is for only the *external* portion of an investment pool to be reported as a separate fund in the sponsor's report; the internal portion—the portion belonging to the primary government and its component units—generally is allocated as assets to those funds and component units. This is done to avoid duplicate reporting of the assets. Statement 2 requires the same approach if deferred compensation plan assets applicable to component units are administered by the primary government; according to paragraph 14 of that Statement, those assets are reported by the component unit only. The Board believes that eliminating internal portions from the fiduciary fund that reports an investment pool is appropriate under the current reporting model and has provided for such reporting in this Statement.

67. The Board believes the nature of external investment pools requires the sponsor to report the activity in a separate trust fund that uses the economic resources measurement focus and the accrual basis of accounting and that includes a statement of activities in the

general purpose financial statements (GPFS). This separate trust fund classification is similar to that used by pension trust funds. The types of financial statements required, the reporting of participant equity, and the combination of statements in the GPFS for investment pool trust funds also are the same as required for pension trust funds. Of those who responded to this issue in the ED, a significant majority supported the Board’s decision to establish a new investment trust fund.

68. If a separate annual financial report is prepared for a governmental external investment pool, the Board believes it is appropriate for the sponsor's report to describe how to obtain it. However, the Board understands that some pools may not issue such a separate report. If that is the case, the Board believes that most of the information that would have been provided in that report should be provided in the sponsoring government's report. Although some respondents believe that this additional disclosure would be burdensome, the Board points out that none of it is required if separate reports are prepared for the pools in accordance with this Statement.

69. Not all investment services provided by a governmental entity to others are on a pooled basis; some governmental entities provide individual accounts, sometimes as an alternative to a pooled investment. The Board believes that the same types of financial statements should be presented for all external investment services, whether or not provided on a pooled basis. Therefore, this Statement also requires sponsoring governments to use one or more investment trust funds to report external investment services provided through individual accounts. Because investors in such accounts do not have an interest in the whole of the fund, separate reports and disclosures for the fund are not required. If individual investment accounts are offered as an alternative to a pooled investment, this Statement requires the sponsoring government to report them in a different investment trust fund from the pool. The Board believes that to combine individual accounts with the investment pool might obscure information that is needed by users of the pool's financial statements.

Investments in Open-End Mutual Funds and External Investment Pools

70. This Statement provides guidance for measuring and reporting investment positions in open-end mutual funds and external investment pools. For positions in open-end funds, this Statement requires disclosure of those positions as being in SEC-registered mutual funds to help financial statement users understand the nature of the investment.

71. This Statement's requirements for measuring investment positions in external investment pools are the same whether the pool is sponsored by a governmental or a nongovernmental entity. An example of a nongovernmental pool is a bank short-term investment fund, which many governmental entities use for the investment of cash collateral on securities lending transactions. The reporting of a participant's position in an external investment pool mirrors the reporting requirements for the investments held by the pool. Thus, a participant in a non-2a7-like pool should "look through" the pool and determine its ratable portion of the fair value of the pool's investments to report the fair value of its position. This Statement also provides for pool participants to consider legally binding guarantees provided or obtained by the pool sponsor to support share value in making the fair value measurement. For example, a pool sponsor may obtain an irrevocable bank letter of credit to support its share value when the fair value of the investments it holds is affected. Also, some pool sponsors may guarantee a fixed share value. However, for such a guarantee to meet the requirements of this Statement, it would have to be a stated legal obligation evaluated in light of the creditworthiness of the sponsor. This Statement also requires governments participating in external investment pools to make certain disclosures about those pools to help financial statement users better assess the nature of the participants' investment. Of those who responded to this issue in the ED, a significant majority supported the Board’s decision to require pool participants to report their position in the pool at fair value.

72. The Board understands that there may be situations in which a pool participant may not be able to obtain the information it needs to determine the fair value of its investment in an external investment pool. For example, the pool and the participant may have

different fiscal year-ends and the pool may not have determined the fair value of its portfolio as of the participant's fiscal year-end. In those cases, the Statement permits participants to make their best estimate of fair value and to disclose to financial statement users why such an estimate was needed. Although this provision will not wholly overcome practical problems, those problems do not dissuade the Board from requiring fair value measurements for those investments. The Board believes that financial statement users are especially concerned about an entity's investment in external investment pools for which fair value information cannot be obtained.

Other Issues

Effective Date and Transition

73. This Statement is effective for financial statements for periods beginning after June 15, 1997 (earlier application encouraged). The Board believes this will provide sufficient time for governments to implement the provisions of the Statement. The Board does not believe that governments should have problems obtaining the fair value of investments—disclosure of those amounts has been required by Statement 3 since fiscal year 1987 for almost all of the types of investments covered by this Statement.

Determining Fair Value

74. The Board concluded that quoted market prices, if available, provide the most reliable measure of fair value. Quoted market prices are easy to obtain; reliable and verifiable; and well understood by investors, creditors, and other users of financial information. Although quoted market prices are not available for all debt securities or for participating interest-earning investment contracts, the Board believes that a reasonable estimate of fair value can be made or obtained for them. The estimate of fair value should consider market prices for similar investments and the results of valuation techniques, including but not limited to discounted cash flow analysis, matrix pricing, option-adjusted spread models, and fundamental analysis. The Board realizes that estimating fair value may require judgment but notes that a considerable degree of judgment also is needed when complying with other long-standing accounting and reporting requirements.

75. This Statement provides that put option contracts purchased and call option contracts written should be considered when determining the fair value of investment securities to the extent that those contracts are not reported at fair value. The Board believes that if an entity has the right to sell securities under a put option, the combined measures of the security and the option contract should approximate the strike price if that price is above the security's market price. If the put option contract is not reported at fair value (for example, because it does not have a readily determinable fair value), the entity should consider the unrecorded value of the option contract in measuring the underlying security at fair value. Similarly, the Board believes that the combined value of a security subject to sale under a call option and the call option liability should approximate the strike price, if the strike price is less than the security's market price. If the call option contract is not reported as a liability and is not reported at fair value, an adjustment to the quoted market price of the underlying security would be needed to properly report its fair value.

Impairments of Investments

76. Cost-based measures are permitted for nonparticipating interest-earning investment contracts (paragraph 8), money market investments with a remaining maturity at time of purchase of one year or less (paragraph 9), and debt investments held in external investment pools with a remaining maturity of up to ninety days at the date of the financial statements (paragraph 16). However, if there has been a significant deterioration of the issuer's creditworthiness, the cost-based measure should be reevaluated.

Illustrations

77. This Statement does not provide illustrative examples of financial statements for governmental external investment pools. The Board intends this Statement to allow flexibility in such reporting and therefore does not want to provide illustrations that some may consider to be required or suggested examples. The Board may reconsider the need to provide standardized requirements for pool financial statements later in its financial instruments project. This Statement does, however, illustrate how to calculate, display, and disclose the increase or decrease in the fair value of investments.

Appendix C

ILLUSTRATION OF FAIR VALUE ACCOUNTING FOR INVESTMENTS

78. This appendix illustrates how to calculate, display, and disclose the increase or decrease in the fair value of investments as required by this Statement. The facts assumed in this example are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or specific methods illustrated. Application of the provisions of this Statement may require calculations other than those illustrated here.

Year 1

Fair Value Analysis of Investment Activity—Specific Identification Method

		Fair Value					
		A	**B**	**C**	**D**	**E**	**F**
Security	**Cost**	**Beginning Fair Value 1/1/X1**	**Purchases**	**Sales**	**Subtotal***	**Ending Fair Value 12/31/X1**	**Change in Fair Value†**
1	$100	$100	–	–	$100	$120	$ 20
2	520	540	–	–	540	510	(30)
3	200	240	–	$250	(10)	0	10
4	330	–	$330	–	330	315	(15)
		$880	$330	$250	$960	$945	$(15)

*Column D = Columns A + B – Column C.

†Column F = Column E – Column D.

Calculation of the Net Increase in the Fair Value of Investments—Aggregate Method

Fair value at December 31, 19X1	$945
Add: Proceeds of investments sold in 19X1	250
Less: Cost of investments purchased in 19X1	(330)
Less: Fair value at December 31, 19X0	(880)
Change in fair value of investments	$ (15)

Year 2

Fair Value Analysis of Investment Activity—Specific Identification Method

		Fair Value					
		A	B	C	D	E	F
Security	Cost	Beginning Fair Value 1/1/X2	Purchases	Sales	Subtotal*	Ending Fair Value 12/31/X2	Change in Fair Value†
1	$100	$120	–	$110	$ 10	$ 0	$(10)
2	520	510	–	–	510	550	40
4	330	315	–	330	(15)	0	15
5	310	–	$310	–	310	300	(10)
		$945	$310	$440	$815	$850	$ 35

*Column D = Columns A + B – Column C.

†Column F = Column E – Column D.

Calculation of the Net Increase in the Fair Value of Investments during 19X2—Aggregate Method

Fair value at December 31, 19X2	$850
Add: Proceeds of investments sold in 19X2	440
Less: Cost of investments purchased in 19X2	(310)
Less: Fair value at December 31, 19X1	(945)
Change in fair value of investments during 19X2	$ 35

Cost-Based Analysis of Investment Activity*

Security	Beginning of Year	Purchases	Sales	End of Year
1	$100	–	$100	$ 0
2	520	–	–	520
4	330	–	330	0
5	–	$310	–	310
Total	$950	$310	$430	$830

*Only information for 19X2 is presented.

Calculation of Realized Gain, during 19X2

Security	Cost	Sale Price	Gain[†]
1	$100	$110	$10
4	330	330	0
Total	$430	$440	$10

[†]Note that realized gain is the difference between an investment's sales price and its acquisition cost.

Calculation of the Unrealized Gain as of December 31, 19X2

Security	Cost	Fair Value	Gain
2	$520	$550	$30
5	310	300	(10)
Total	$830	$8500	$20

OPTIONAL DISPLAY AND DISCLOSURE ILLUSTRATIONS

This Statement permits the optional disclosure of realized gains and losses in the notes to the financial statements (paragraph 15). The following limited illustration depicts one method of note disclosure. If realized gains and losses are disclosed, many entities will find that the calculation of those gains and losses will require transaction accounting that includes cost-based and fair value information.

Optional **Partial Operating Statement Display in a Governmental Fund (19X2)**

Investment income	
Interest	$XXX
Dividends	XXX
Net increase in the fair value of investments	35
Total investment income	XXX

Optional **Note Disclosure (19X2)**

Note X: Deposits and Investments

During 19X2, the entity realized a net gain of $10 from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments during 19X2 was $35. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments *held* at year-end was $20.

Appendix D

CODIFICATION INSTRUCTIONS

79. The sections that follow update the June 30, 1996, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in full in the Codification.

* * *

SUMMARY STATEMENT OF PRINCIPLES SECTION 1100

Sources: [Add the following:]GASB Statement 31

.103c [Revise subparagraph as follows:]

Fiduciary Funds

(1) *Trust and Agency Funds*—to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, (d) investment trust funds, and (e) agency funds.

.108c [Revise the penultimate sentence as follows:] Nonexpendable trust, pension trust, and investment trust funds should be accounted for on the accrual basis; expendable trust funds should be accounted for on the modified accrual basis.

[NCGAS 1, pp. 2–4, as amended by GASBS 6, ¶13, ¶15, and ¶17; GASBS 6, ¶17; GASBS 9, ¶6; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 25, ¶18; GASBS 31, ¶17 and ¶18]

* * *

FUND ACCOUNTING **SECTION 1300**

Sources: [Add the following:]GASB Statement 31

.102c [Revise the penultimate sentence and add a new footnote 3 as follows:] Nonexpendable trust funds, pension trust funds,[2] and investment trust funds[3] are accounted for in essentially the same manner as proprietary funds. [NCGAS 1, ¶18, as amended by GASBS 6, ¶13, GASBS 9, ¶6, and GASBS 20, ¶6 and ¶7; GASBS 31, ¶17 and ¶18; January 1984 GASB Structural Agreement]

.104c [Revise subparagraph as follows:]

Fiduciary Funds

(1) *Trust and Agency Funds*—to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, (d) investment trust funds, and (e) agency funds. [NCGAS 1, ¶19, ¶20, and ¶26, as amended by GASBS 6, ¶13–¶15; GASBS 31, ¶17 and ¶18]

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[2][Insert current Codification footnote 2.]

[3]See Sections I50, "Investments," and In5, "Investment Pools (External)," for discussion of investment trust funds.

* * *

BASIS OF ACCOUNTING **SECTION 1600**

Sources: [Add the following:]GASB Statement 31

Statement of Principle
Accrual Basis in Governmental Accounting

c. [Revise the penultimate sentence as follows:] Nonexpendable trust, pension trust, and investment trust funds should be accounted for on the accrual basis; expendable trust funds should be accounted for on the modified accrual basis. [NCGAS 1, ¶57, as amended by GASBS 6, ¶15; GASBS 31, ¶17 and ¶18]

[Insert a new paragraph following current paragraph .112, renumbering remaining paragraphs, as follows:]

.113 *Investment Income.* Interest and dividend income should be recognized on the modified accrual basis. Changes in the fair value of investments should be recognized as revenue in the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds at the end of each annual reporting period as discussed in Section I50, "Investments." When identified separately as an element of investment income, the change in the fair value of investments should be captioned *net increase (decrease) in the fair value of investments.*[3] Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements. [GASBS 31, ¶13]

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[3][GASBS 31, fn7] [Change cross-references.]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: [Add the following:] GASB Statement 31

.109b(3)(a) [Revise subparagraph as follows:] Expendable trust funds are similar to governmental funds (modified accrual basis) and should be reported as indicated in b(1) above. Nonexpendable trust, pension trust, and investment trust funds are similar to proprietary funds (accrual basis) and should be reported as indicated in b(2) above, except that pension trust and investment trust funds are not required to present a statement of cash flows. [NCGAS 1, ¶143; GASBS 9, ¶6; GASBS 14, ¶19, ¶44, and ¶50; GASBS 31, ¶17]

.116 [Revise the second sentence as follows:] Statements of cash flows are required to be presented for proprietary fund types, nonexpendable trust funds, and governmental entities that use enterprise fund accounting. [NCGAS 1, ¶156; GASBS 9, ¶6 and ¶36, as amended by GASBS 31; GASBS 14, ¶19, ¶45, and ¶46]

* * *

NOTES TO FINANCIAL STATEMENTS **SECTION 2300**

.106c [Rename Section I50 to "Investments."]

.107 [Add a new subparagraph as follows:]

dd. Sponsoring government disclosures about external investment pools reported as investment trust funds. See Section In5, "Investment Pools (External)," paragraph .103.

* * *

CASH FLOWS STATEMENTS **SECTION 2450**

Sources: [Add the following:] GASB Statement 31

.102 [Revise paragraph as follows:] The provisions of this section are applicable to proprietary funds, nonexpendable trust funds, and governmental entities that use proprietary fund accounting,[2] including public benefit corporations and authorities, governmental utilities, and public hospitals [and other healthcare providers]. Some public colleges and universities report their transactions and balances within the governmental model using National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*. This section applies to the proprietary and nonexpendable trust funds of those public colleges and universities. However, this section is not required to be applied to those public colleges and universities that follow the specialized industry accounting and reporting principles contained in the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities*. External investment pools and pension plans (including pension trust and investment trust funds) are exempt from the requirement to present a statement of cash flows. However, pension plans (including pension trust funds) are not precluded from presenting a statement of cash flows if the information provided is considered useful. [GASBS 9, ¶5 and fn4, as amended by GASBS 25, ¶14; GASBS 31, ¶17]

[2][Insert current Codification footnote 2.]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE **SECTION 2600**

.118 [Revise the last sentence as follows:] On the other hand, a government that purchases stock of a corporation as an investment rather than to directly aid in the provision of governmental services should report the stock either as an investment in a joint venture (as discussed in Section J50) or at its fair value (as discussed in Section I50, "Investments"). [GASBS 14, ¶55 and ¶73; GASBS 31, ¶5]

* * *

CASH DEPOSITS WITH FINANCIAL INSTITUTIONS **SECTION C20**

Introduction and Background

.102 [Revise paragraph as follows:] Section I50, paragraphs .904–.922, provides a discussion of the nature and types of deposits with financial institutions and the risks associated with them. That section also establishes accounting and financial reporting standards for **interest-earning investment contracts,** which include time deposits with financial institutions, such as nonnegotiable certificates of deposit. In addition, paragraphs .501–.545 of that section provide definitions of terms, including those printed in **boldface** in this section; paragraphs .901 and .902 of that section illustrate disclosures required by this section.

* * *

DEFERRED COMPENSATION PLANS (IRC SECTION 457) **SECTION D25**

Sources: [Add the following:]GASB Statement 31

.104 [Change *market value* to *fair value*.] [GASBS 2, ¶4, as amended by GASBS 31, ¶6]

.111 [Replace the first two sentences as follows:] The employer's liability to each participant, at any point in time, is reported by the participant's share of the fair value of the plan assets; therefore, plan assets should be valued at fair value. As provided in Section I50, "Investments," paragraph .105, if an entity has purchased put option contracts or written call option contracts on securities and it has those same securities among its investments, it should consider those contracts in determining the fair value of those securities to the extent it does not report those contracts at fair value. The fair value of investments in open-end mutual funds and external investment pools should be determined in accordance with Section I50, paragraphs .108 and .109, and the disclosures required by paragraph .119 of that section should be made. If the obligation to plan participants is determined by a measurement other than fair value (such as fixed-rate insurance contracts), the same method used to calculate the obligation by the administrator (for example, contract value) should be used to value the assets. [GASBS 2, ¶11; GASBS 31, ¶7]

.901 [Change *market value* to *fair value* in Note XX.] [Add "as amended by GASBS 31, ¶6" to the source.]

* * *

[Rename and revise entire section as follows:]

Sources: GASB Statement 3
GASB Statement 14
GASB Statement 31
GASB Interpretation 3
GASB Technical Bulletin 87-1

Scope and Applicability of This Section

.101 This section establishes accounting and financial reporting standards for *all* **investments**[1] held by governmental **external investment pools**. For governmental entities other than external investment pools,[2] defined benefit pension plans, and Internal Revenue Code Section 457 deferred compensation plans, it establishes accounting and financial reporting standards for investments in:

a. **Interest-earning investment contracts**
b. External investment pools
c. **Open-end mutual funds**
d. **Debt securities**
e. **Equity securities** (including unit investment trusts and **closed-end mutual funds**), **option contracts, stock warrants,** and **stock rights** that have readily determinable **fair values.**

This section also provides guidance for disclosures by all governmental entities about deposits with financial institutions and investments and accounting and financial reporting guidance for **repurchase agreements.** Unless otherwise specified, the requirements of this section apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, and governmental utilities, hospitals and other healthcare providers, colleges, and universities. [GASBS 3, ¶1; GASBS 31, ¶2]

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[1][GASBS 31, fn1] [Change cross-references.]
[2][Insert current Codification footnote 2.]

.102–.104 [GASBS 31, ¶3–¶5] [Change *Statement* to *section* and change cross-references, as appropriate.]

Accounting and Financial Reporting for Investments

.105–.112 [GASBS 31, ¶7–¶14] [Change cross-references.]

Accounting and Financial Reporting for Repurchase Agreements

.113–.114 [Insert current Codification paragraphs .172 and .173.]

Accounting and Financial Reporting for Reverse Repurchase Agreements and Securities Lending Agreements

.115 [Insert current Codification paragraph .174.]

Additional Standards for Reporting External Investment Pools and Individual Investment Accounts by Sponsoring Governments

.116 [GASBS 31, ¶18] [Change cross-references and add the following sentence at the beginning of the paragraph:] Section In5, "Investment Pools (External)," provides accounting and reporting guidance for the separate annual financial reports of external investment pools.

.117 [GASBS 31, ¶19] [Change cross-references.]

.118 [GASBS 31, ¶20] [Change *Statement* to *section* and change cross-references, as appropriate.]

Disclosures

Valuation and Reporting

.119 [GASBS 31, ¶15]

Deposits with Financial Institutions and Investments

.120 [Insert current Codification paragraph .159.]

.121 [Insert current Codification paragraph .160. Change cross-references and revise the fifth and subsequent sentences as follows:] Additional or separate disclosures for blended component units, pension trust funds, external investment pools, or other funds or fund types of the primary government should be made in certain circumstances as discussed in paragraphs .119, .122, .127, and .128. Additional or separate disclosures for individual discretely presented component units also should be made in certain circumstances as discussed in paragraphs .122 and .128. However, additional or separate presentation by fund, fund type, or component unit is not precluded for any other disclosures required by this section. [GASBS 3, ¶64; GASBS 14, ¶11 and ¶63; GASBS 31, ¶18]

Legal or Contractual Provisions for Deposits and Investments, including Repurchase Agreements

.122–.125 [Insert current Codification paragraphs .161–.164. Change *market value* to *fair value* and revise the last sentence of current footnote 13 as follows:] Instead, the investment in the pool should be treated as a type of investment with a fair value determined in accordance with paragraph .109 or .110. [GASBS 3, fn11, as amended by GASBS 31, ¶6]

.126 [Insert current Codification paragraph .165, revising the first two sentences as follows:] The categories in paragraph .125 may not apply to all types of investments. In general, investments in external investment pools and in open-end mutual funds should be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form. [GASBS 3, ¶69, as amended by GASBS 31]

.127 If the credit risk to the primary government is not apparent because (a) the deposit or investment balances of blended component units, pension trust funds, investment trust funds, or other funds of the primary government are significant and (b) the mix of credit risk categories for those units or funds is significantly different from that of other funds or blended component units of the primary government, additional or separate disclosures concerning credit risk categories should be made for those units or funds. [GASBS 3, ¶70, as amended by GASBS 14; GASBS 31, ¶18]

.128–.132 [Insert current Codification paragraphs .167–.171. Change *market value* to *fair value* and add "as amended by GASBS 31, ¶6" to the sources as appropriate.]

DEFINITIONS

.501–.549 [Insert current Codification paragraphs .501–.529 and definitions from Statement 31, paragraph 22. In current Codification paragraphs, change cross-references and change *market value* to *fair value* as appropriate. Add "as amended by GASBS 31, ¶6" to the sources as appropriate.]

TECHNICAL BULLETINS EFFECTIVE BEFORE MARCH 15, 1992

Applying Paragraph .124 of This Section

.801 [Insert current Codification paragraph .801. Change cross-references.]

NONAUTHORITATIVE DISCUSSION

Illustration of Note Disclosure for Deposits, Investments, and Reverse Repurchase Agreements

.901–.902 [Insert current Codification paragraphs .901 and .902. Text and examples will be updated when Statement 31 is codified.]

Illustration of Fair Value Accounting for Investments

.903 [GASBS 31, ¶78]

Deposits with Financial Institutions, Investments, Risks, and Safeguards

.904–.931 [Insert current Codification paragraphs .102–.129. Change *market value* to *fair value* and add "as amended by GASBS 31, ¶6" to the sources as appropriate.]

.932 [Insert current Codification paragraph .130. *Change pooled investment funds* to *external investment pools* in the first sentence. Add "GASBS 31, ¶22" to the sources.]

.933–.960 [Insert current Codification paragraphs .131–.158. Change *market value* to *fair value* and cross-references. Add "as amended by GASBS 31, ¶6" to the sources as appropriate.]

* * *

INVESTMENTS—REVERSE REPURCHASE AGREEMENT SECTION I55

.103–.105 [Change *market value* to *fair value* in these paragraphs and related footnote. Add "as amended by GASBS 31, ¶6" to the sources.]

.110–.111 [Change *market value* to *fair value*. Add "as amended by GASBS 31, ¶6" to the sources.]

* * *

INVESTMENTS—SECURITIES LENDING SECTION I60

.110 [Delete the words *market or* in the last sentence.] [Add "as amended by GASBS 31, ¶6" to the source.]

.112 [Change *market value* to *fair value* in footnotes 10 and 11.] [Add "as amended by GASBS 31, ¶6" to the sources.]

.114 [Delete the words *market or* in the second sentence.] [Add "as amended by GASBS 31, ¶6" to the source.]

.512 [Change *market value* to *fair value*.] [Add "as amended by GASBS 31, ¶6" to the source.]

* * *

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS **SECTION J50**

.112 [Insert the following before the last sentence:] Entities participating in an external investment pool should follow the accounting and reporting guidance provided in Section I50, "Investments."

* * *

COLLEGES AND UNIVERSITIES **SECTION Co5**

Sources: [Add the following:]GASB Statement 31

.102 [Change the title of Section I50 to "Investments."] [Add "GASBS 31" to the sources.]

* * *

[Insert a new Codification section as follows:]

INVESTMENT POOLS (EXTERNAL) **SECTION In5**

Source: GASB Statement 31

Scope of This Section

.101 This section provides financial reporting and disclosure standards for separate annual financial reports of governmental external investment pools. Section I50, "Investments," provides accounting and financial reporting standards for *all* investments held by governmental external investment pools, as well as financial reporting and disclosure standards for sponsoring governments. [GASBS 31, ¶2]

Pool Accounting and Reporting

.102–.103 [GASBS 31, ¶16 and ¶17] [Change cross-references.]

* * *

NOT-FOR-PROFIT ACCOUNTING AND FINANCIAL REPORTING **SECTION No80**

Sources: [Add the following:] GASB Statement 31

.103 [Change the title of Section I50 to "Investments."] [Add "GASBS 31" to the sources.]

* * *

PENSION PLANS—DEFINED BENEFIT **SECTION Pe5**

Sources: [Add the following:] GASB Statement 31

Investments

.116 [Add the following sentence before the last sentence of this paragraph:] The fair value of (a) securities subject to purchased put option contracts and written call option contracts, (b) open-end mutual funds, (c) external investment pools, and (d) interest-earning investment contracts should be determined as provided in Section I50, "Investments," paragraphs .105 through .112. [GASBS 25, ¶24; GASBS 31, ¶4]

* * *

PENSION PLANS—DEFINED CONTRIBUTION **SECTION Pe6**

Scope and Applicability of This Section

.101 [Add the following sentence at the end of this paragraph:] Section I50, "Investments," establishes accounting and financial reporting standards for investments held by defined contribution plans.

* * *

PUBLIC ENTITY RISK POOLS **SECTION Po20**

Sources: [Add the following:] GASB Statement 31

.139 [Replace current Codification paragraphs .139 and .140 with the following, renumbering remaining paragraphs:] Accounting and financial reporting standards for debt securities, marketable equity securities, and certain other similar investments are provided in Section I50, "Investments."

.142 [In current Codification paragraph .143, change *market value* to *fair value* as appropriate.] [Add "as amended by GASBS 31, ¶6" to the source.]

.144 [Replace current Codification paragraphs .145 and .146 with the following, renumbering remaining paragraphs:] All investment income, including changes in the fair value of investments (except those that are accounted for as foreign currency or futures contract hedges),[7] should be reported in the operating statement as a component of other income, recognized in accordance with Section I50, paragraph .111.[8] [GASBS 10, ¶46; GASBS 31, ¶13]

[7][Insert current Codification footnote 7.]

[8]Losses on private-placement bonds should be accrued when both conditions of Section C50, paragraph .110, are met. [GASBS 10, fn8]