OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	Number:	15.15.00
Division:	Chief Financial Office	Effective date:	May 1, 2013
Chapter:	**Accounting and Financial Reporting**		
Part:	**Investments**		
Section:			
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for investments.

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AUTHORITY:
ORS 291.040
ORS 293.590
GASB Statement No. 3
GASB Statement No. 31
GASB Statement No. 34
GASB Statement No. 40
Accounting Research Bulletin No. 43

APPLICABILITY: This policy applies to all state agencies included in the State's financial statements, except those agencies specifically exempted by OAM 01.05.00.

DEFINITIONS:

Current investments: Investments the agency could liquidate to meet current obligations and for which a readily available market exists.

Non-current investments: Investments the agency cannot liquidate to meet current obligations because a readily available market does not exist.

Restricted investments: Investments with externally imposed constraints on their use placed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

POLICY:

101. Agency management is responsible for ensuring the proper accounting and reporting of investments.

102. This policy establishes classification criteria, valuation guidelines, and disclosure requirements for state agencies that report investments for both agency and statewide accounting and financial reporting purposes.

103. All investments require fair value reporting except as noted below.

104. Fair value information is available from the Office of the State Treasurer (Treasury) for investments held at Treasury and from the Budget and Management Division (BAM) of the Department of Administrative Services for investments administered by BAM.

105. In some cases, legal or contractual provisions may require reporting investments at cost or amortized cost even though the investments are subject to fair value reporting. In such cases, year-end adjustment entries will reflect the change in fair value.

106. The following are examples of investments subject to fair value reporting:

a. Money market investments and participating interest-earning investment contracts held outside of the Oregon Short-term Fund (OSTF) with remaining maturities of more than one year

b. Mutual funds

c. Debt securities

d. Equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values. Report equity securities without readily determinable fair values at estimated fair value when held by governmental external investment pools, defined benefit pension plans, and IRC Section 457 deferred compensation plans.

e. Land and other real estate held as investments by endowments (including permanent funds), governmental external investment pools, defined benefit pension plans, or IRC Section 457 deferred compensation plans.

107. The following are examples of investments not subject to fair value reporting:

a. Seized debt securities that a government holds as evidence or as a potential fine

b. Contractors' deposits of debt securities

c. Equity securities accounted for under the equity method

d. Non-participating interest-earning investment contracts unless held by endowments (including permanent funds), governmental external investment pools, defined benefit pension plans, or IRC Section 457 deferred compensation plans.

e. Equity securities (including unit investment trusts and closed-end mutual funds), option contracts, stock warrants, and stock rights that do not have readily determinable fair values.

f. Investments in joint ventures

g. Trade accounts receivable arising from sales or credit

h. Loans receivable arising from real estate lending activities

i. Receivables that do not meet the definition of a security

j. The placement of long-term securities in an irrevocable trust that meets the requirements of a legal or in-substance defeasance

k. Money market investments and participating interest-earning investment contracts held outside of the Oregon Short-term Fund (OSTF) with remaining maturities of less than one year (provided that the credit standing of the issuer or other factors does not significantly impair the fair value of those investments).

l. Short-term debt investments held in the OSTF with remaining maturities of 90 days or less

PROCEDURES:

Recording Investments at Fair Value

108. Record investments at cost or par value in the appropriate investment account and record any premiums or discounts in the investment valuation account.

109. Record investments without par values at cost, without an entry to the investment valuation account.

110. When Treasury sells an investment, remove the par value from the investment account, along with a portion of the valuation account equal to the unamortized premium or discount.

111. Record all *realized* gains and losses on the sale of investments. Record *unrealized* gains and losses as changes in the fair value of investments. Typically, agencies record the changes in the fair value of investments as the last investment entry each month.

Recording Investments at Amortized Cost

112. Procedures to account for investments using amortized cost accounting are in section **TREA.4 (R*STARS)** of the SFMS Desk Manual.

Accounting for Investments Held at Treasury

113. Treasury investment transactions interface with R*Stars as part of the deposit reconciliation process. Agencies can view these amounts on State Street's Report Center report titled *Base Equivalent Cash Statement*. Use these daily and monthly reports to post balances to the proper accounts and objects in R*Stars.

114. Use TC 140 to record the purchase and sale of investments held by Treasury. Agencies can see information on investment purchases and sales on State Street's Report Center report titled *Purchases & Sales.* Cash balances posted to GL account 0065, Unreconciled Deposit, must represent the actual amounts of cash paid or received. Use TC 190 to record *realized* gains and losses from the sale of investments and interest earned. Agencies can check gain or loss calculations against State Street's *Realized Gain Loss* report.

115. The following is an example of how to record the purchase of an investment held at Treasury:

Transaction information:

- Cost of investment: $1,050
- Par value of investment: $1,000
- Purchased interest: $25
- Total cash paid: $1,075

TC 140R: To record the par value of the investment.

DR 0240 Investments - Designated	1,000	
CR 0065 Unreconciled Deposit		1,000

TC 140R: To record the amount paid for the investment in excess of par value.

DR 0245 Investment Valuation Acct - Designated	50	
CR 0065 Unreconciled Deposit		50

TC 183R: To record accrued purchased interest.

DR 0580 Accrued Interest Purchased	25	
CR 0065 Unreconciled Deposit		25

116. The following is an example of how to record the sale of an investment held at Treasury:

Transaction information:

- Cash proceeds received: $2,015
- Par value of investment: $2,000
- Unamortized premium: $20
- Loss on sale of investment: $5

TC 140: To remove the par value of the investment sold.

DR 0065 Unreconciled Deposit	2,000	
CR 0240 Investments - Designated		2,000

TC 140: To adjust the investment valuation account for an amount equal to the unamortized premium.

DR 0065 Unreconciled Deposit	20	
CR 0245 Investment Valuation Acct - Designated		20

TC 190R: To record a loss on sale of the investment.

DR 3100 Rev Ctrl - Cash (CO 2341 Incr/Dcr from Sale of Invest)	5	
CR 0065 Unreconciled Deposit		5

117. When agencies cannot post investment transactions daily, they may post the net cash received to GL account 0060, Undistributed Cash Receipts. Agencies can later use information from the State Street reports to reclassify the amounts to the appropriate GL accounts and comp objects.

118. Certain investments, such as private equity investments are illiquid, long-term investments without a readily available market. To ensure agencies report these investments accurately, make the following year-end entries (reverse the entries in the first month of the new fiscal year):

TC 474R: To remove long-term investments from current assets.

DR 2951 System Clearing General Ledger	5,000	
CR 0240 Investments - Designated		5,000

TC 474: To move long-term investments into noncurrent assets.

DR 0929 Investments - NonCurrent		5,000	
CR 2951 System Clearing General Ledger			5,000

Accounting for Investments Held Outside Treasury

119. Agencies use TC 490 to record purchases and sales of investments held outside the Treasury. When agencies sell these investments, use TC 481 to record *realized* gains and losses. Use TC 481 to record interest received on investments held outside the Treasury.

Accounting for Changes in the Fair Value of Investments

120. At the end of each month, record changes in the fair value of investments. Calculate this change by comparing the fair value of the investment to the book value. The book value is the investment's par value plus or minus the investment valuation account. Changes in the fair value of investments may be positive or negative depending on market conditions. Record decreases in fair value as negative revenue.

121. An example of how to record changes in the fair value of investments held at Treasury is:

Transaction information:

- Fair value per Treasury report: $2,500
- Fair value per books: $2,300
- Change in fair value: $200 increase

TC 487: To record the increase in the fair value of the investment.

DR 0245 Investment Valuation Acct - Designated	200	
CR 3200 GAAP Rev Offset (CO 0830 Net Incr/Decr in FV of Invest)		200

Accounting for Restricted Investments

122. **Restricted assets** arise when restrictions on the use of the asset change the nature of the asset's availability. For example, current assets normally include cash and investments. Restrictions do not normally limit the agency's ability to use these resources to pay current liabilities. However, if the agency has separate cash and investments to pay debt principal and interest, then report these assets as restricted assets. Restricted assets may also include invested debt proceeds or other resources (such as customer deposits).

123. At year-end, reclassify restricted investments, held outside the Treasury, to a separate general ledger account. The amount reclassified should equal the fair value, which includes the investment's par value, plus or minus the investment valuation account. In the first month of the new fiscal year, reverse the entry. Example entries to reclassify (Investments - Other) to (Investments - Restricted) are:

TC 474: To move restricted investments into the Investments - Restricted account.

DR 0940 Investments - Restricted	1,000	
CR 2951 System Clearing Account		1,000

TC 474R: To remove restricted investments from the Investments - Other account.

DR 2951 System Clearing Account	1,000	
CR 0250 Investments - Other		900
CR 0255 Investment Valuation Account - Other		100

124. When restricted investments are at the Treasury, complete a year-end disclosure form to show the amount of restricted investments. Do not reclassify restricted investments (held in Treasury) in R*Stars. This will ensure that designated investments in R*Stars will match Treasury records. SARS will reclassify these designated investments to restricted investments during compilation.

Year-end Entries for Receivables and Payables

125. The year-end Treasury reports provided to agencies may show outstanding broker receivables or broker payables for transactions in process. There may also be interest receivable. Reclassify these balances in R*Stars with the following entries and reverse the entries in the first fiscal month of the following year.

Step 1: Adjust Net Asset Value (NAV) including receivables (if applicable) to agree to Treasury.

TC 487: To show the increase to NAV.

DR 0245 Investment Valuation Acct – Designated	1,000	
CR 3200 GAAP Rev Offset (CO 0830 Net Incr/Decr in FV of Invest)		1,000

Step 2: Reclassify investment balances to report receivables.

TC 474: To reclassify to accounts or interest receivable.

DR 0503 (or 0576 Interest Receivable) Accounts Receivable	500	
CR 2951 System Clearing Account		500

TC 474R: To reclassify the amount out of investments.

DR 2951 System Clearing Account	500	
CR 0245 Investment Valuation Acct – Designated		500

Step 3: Adjust Net Asset Value (NAV) including payables (if applicable) to agree to Treasury.

TC 487R: To show the decrease to NAV.

DR 3200 GAAP Rev Offset (CO 0830 Net Incr/Decr in FV of Invest)	1,000	
CR 0245 Investment Valuation Acct – Designated		1,000

Step 4: Reclassify investment balances to report payables.

TC 475: To reclassify to accounts payable.

DR 2951 System Clearing Account	500	
CR 1215 Accounts Payable		500

TC 474: To reclassify the amount out of investments.

DR	0245 Investment Valuation Acct – Designated	500	
CR	2951 System Clearing Account		500

Financial Statement Reporting

126. Statewide Accounting and Reporting Services (SARS) combines and reports the balances in the investment general ledger accounts together with the balance in the investment valuation account.

127. SARS reports the change in the fair value of investments, dividends, interest, and realized gains and losses in investment income.

128. Changes in the fair value of investments are not cash flow transactions. SARS will report the change in fair value as noncash activity on the Statement of Cash Flows.

Disclosure Requirements

129. Report investment risk disclosures using "reported value". Depending on the type of investment, the reported value will represent balances at cost, amortized cost, or fair value.

130. For investment disclosure purposes in the schedule of **custodial credit risk**, use the standard investment categories and titles listed below.

Investments Subject to Custodial Credit Risk Categorization

- U.S. Treasury Securities
- U.S. Agency Securities
- U.S. Treasury Strips
- U.S. Agency Strips
- Domestic Equity Securities
- International Equity Securities
- International Debt Securities
- Commercial Paper
- Corporate Bonds
- Municipal Bonds
- Bankers' Acceptances
- Collateralized Mortgage Obligations
- Asset Backed Securities – Other
- Repurchase Agreements

Investments Not Subject to Custodial Credit Risk Categorization

- Mutual Funds
- Alternative Equities (includes leveraged buy-outs, limited partnerships, venture capital, etc.)
- Real Estate and Real Estate Mortgages
- Guaranteed Investment Contracts
- Annuity Contracts

131. For purposes of custodial credit risk disclosures, classify investment securities into the following three risk categories:

a. **Category 1:** Insured or registered, or securities held by the agency or its agent in the agency's name.

b. **Category 2**: Uninsured and unregistered, with securities held by the counterparty or the counterparty's trust department or its agent in the agency's name.

c. **Category 3**: Uninsured and unregistered, with securities held by the counterparty or the counterparty's trust department or agent, but not in the agency's name.

132. For disclosures regarding the **credit risk** associated with investments in debt securities, disclose credit quality ratings as described by national rating agencies. Aggregate these ratings by investment type and by credit quality rating. U.S. Treasuries and obligations explicitly guaranteed by the U.S. government have no credit risk; therefore, they are of the highest credit quality.

133. Investment credit quality ratings typically used for disclosure purposes include the following:

a. Highest credit quality is Aaa (Moody's), AAA (S&P) and AAA (Fitch).
b. Very high credit quality is Aa (Moody's), AA (S&P) and AA (Fitch).
c. High credit quality is A (Moody's, S&P, and Fitch).
d. Good credit quality is Baa (Moody's), BBB (S&P and Fitch).
e. Speculative grade credit quality is Ba (Moody's) and BB (S&P and Fitch).

134. For disclosures regarding the **interest rate risk** of investments in debt securities, disclose investment maturities by using the segmented time distribution method. Identify maturity distributions by investment type.

135. The following schedule is an example of the State's standard schedule of interest rate risk and credit quality disclosure.

		Investment Maturities (in years)				
Investment type	**Credit rating**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Total Reported Value**
U.S. Treasury Securities	-	$-	$-	$-	$-	$-
U.S. Agency Securities	-	-	-	-	-	-
U.S. Treasury Strips	-	-	-	-	-	-
U.S. Agency Strips	-	-	-	-	-	-
GNMA	-	-	-	-	-	-
Domestic Equity Securities	*n/a*	-	-	-	-	-
International Equity Securities	*n/a*	-	-	-	-	-
International Debt Securities	-	-	-	-	-	-
Commercial Paper						
Corporate Bonds	-	-	-	-	-	-
Municipal Bonds	-	-	-	-	-	-
Collateralized Mortgage Oblig.	-	-	-	-	-	-
Other:	-	-	-	-	-	-
Mutual Funds – Fixed Income Only	-	-	-	-	-	-
Mutual Funds – Non Fixed Income	*n/a*	-	-	-	-	-
Alternative Equities	*n/a*	-	-	-	-	-
Real Estate & Real Estate Mortg.	*n/a*	-	-	-	-	-
Guaranteed Inv. Contracts	*n/a*	-	-	-	-	-
Annuity Contracts	*n/a*	-	-	-	-	-
Total Investments		$ -	$ -	$ -	$ -	$ -

136. The disclosure associated with **concentration of credit risk** is at the statewide level with information provided by the Treasury and by the agencies. Agencies will complete a year-end

disclosure form for investments held outside of the Treasury. On the disclosure form, indicate if the investment in any one issuer is more than 5 percent of the total investments within a single GAAP fund. Total investments would be an aggregate of all investments (including restricted and unrestricted).

137. Exclude investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from concentration of credit risk.

138. The disclosure for **foreign currency risk** involves an analysis at the statewide level of Treasury and agency information. Agencies will complete a year-end disclosure form for investments held outside of Treasury. On the disclosure form, indicate the U.S. dollar balance of investments exposed to foreign currency risk, organized by currency and investment type.