

OREGON ACCOUNTING MANUAL		Number 15.15.00.PR
Oregon Department of Administrative Services State Controller's Division	Procedure	Effective July 27, 2005
Chapter	Accounting and Financial Reporting	.1 OF .8
Part	Investments	
Section		Approval Signature on file at SCD

Investments Reported at Fair Value

- .101 The following investments in financial instruments held at or outside the Oregon State Treasury (State Treasury) shall be reported on the balance sheet at fair value:
- a. All investments held in the investment pool (**Oregon Short-Term Fund**) at State Treasury except short-term debt investments with remaining maturities of up to 90 days at the date of the financial statements.
 - b. Money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less.
 - c. Open-end mutual funds.
 - d. Debt securities (including redeemable preferred stock and collateralized mortgage obligations).
 - 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. Note that equity securities without readily determinable fair values should be reported at estimated fair value when held by governmental external investment pools, defined benefit pension plans, and IRC Section 457 deferred compensation plans.
- .102 For investments held at the State Treasury, the State Treasury shall provide adequate information to enable agencies to report investments in accordance with **generally accepted accounting principles (GAAP)**. For investments held outside the State Treasury, agencies shall independently consult reliable sources for fair value and other necessary information.
- .103 For investments of COP and Lottery Bond proceeds administered by the Department of Administrative Services, Budget and Management (BAM) Division, BAM shall provide adequate information to enable agencies to report investments in accordance with GAAP.

Investments Not Subject to Fair Value Reporting

- .104 Investments that are held for other than investment purposes are not subject to fair value reporting. Some common types of transactions that are not subject to fair value reporting are listed below:
- a. Seized debt securities that a government holds as evidence or as 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 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. Restricted stock.
- g. Investments in joint ventures.
- h. Trade accounts receivable arising from sales or credit.
- i. Loans receivable arising from real estate lending activities.
- j. Receivables that do not meet the definition of a security.
- k. Long-term securities placed in an irrevocable trust that meets the requirements of a legal or in-substance defeasance.
- l. Short sales of securities.
- m. Real estate held by external investment pools, IRC Section 457 deferred compensation plans, and defined benefit pension plans.

Recording Investments

- .105 When investments are purchased, they are recorded at cost with the par value recorded using the appropriate investment account. Amounts paid in excess of par are debited to an investment valuation account. Conversely, when investments are purchased for less than par, the difference between the amount paid and the par value is credited to an investment valuation account.
- .106 Investments without par values are recorded at cost with no initial entry to an investment valuation account.
- .107 When investments are sold, the par value of the investment is removed from the accounting records along with a portion of the valuation account that equals the unamortized premium or discount on the source document reports.
- .108 Premium and discount accounts are not used. In addition, amortization of investment premiums and discounts is not recorded.
- .109 Realized gains and losses on the sale of investments must be recorded. Unrealized gains and losses are recorded as changes in fair value of investments. Typically, changes in the fair value of investments are recorded as the last investment transaction(s) each month.
- .110 Procedures on how to account for investments using amortized cost accounting can be found in section **TREA.4 (R*STARS)** of the SFMS Desk Manual.
- .111 Investment related transactions, including securities held in trust, may be recorded in any of the general ledger accounts listed below, as applicable. See **OAM 60.10.00.RF** for definitions of each general ledger account.
 - a. 0240 Investments – Designated
 - b. 0245 Investment Valuation Account – Designated
 - c. 0250 Investments – Other
 - d. 0255 Investment Valuation Account – Other
 - e. 0261 Premium on Investments
 - f. 0281 Discount on Investments
 - g. 0290 Investments – Restricted Current
 - h. 0330 Securities Held in Trust
 - i. 0940 Investments - Restricted

Investments Held at State Treasury

- .112 Investment transactions from Treasury's banking system are interfaced to R*STARS and processed through the deposit reconciliation process. The amounts posted can be seen on the State Treasury prepared Eagle/PACE report titled *Securities – Cash Activity Report for SFMS*. Daily and monthly Eagle/PACE reports from State Treasury are used by agencies to post balances to the proper accounts and objects in R*STARS. When deposits are reconciled, the system automatically generates a transaction with TC 332 or TC 332R. It is important that agencies post transactions on a timely basis so that investments and related accounts are properly stated in R*STARS and in the SCD Accounting Datamart.
- .113 TC 140 is used to record purchases and sales of investments held by the State Treasury. Detailed information on investment purchases can be found on the Eagle/PACE report titled *Purchase & Fundings*. Detailed sales information can be found on the Eagle/PACE report titled *Sales, Calls, and Maturities*. It is essential that the cash balances posted to GL account 0065, Unreconciled Deposit, represent the actual amounts of cash disbursed or received. Use TC 190 to record realized gains and losses from the sale of investments and to record interest earned on investments. Interest amounts can be found on the Eagle/PACE daily and monthly reports titled *Securities - Cash Activity Report for SFMS*.
- .114 For example, the purchase of an investment held at State Treasury would be recorded as follows:

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 par value of investment.

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

TC 140R To record amount paid for 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

- .115 The sale of an investment held at State Treasury would be recorded as follows:

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 par value of investment sold from the books.

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

TC 140 To remove from the investment valuation account an amount equal to the unamortized premium.

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

TC 190R To record loss on sale of investment.

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

- .116 It is extremely important to post cash received on a timely basis. However, in some cases it may not be possible to record detailed investment balances each day. In these cases, agencies may choose to post the net cash received to GL account 0060, Undistributed Cash Receipts. Then, as soon as possible, agencies can use detailed information from Eagle/PACE reports to reclassify GL account 0060 to the appropriate GL accounts and comptroller objects.

Investments Held Outside State Treasury

- .117 TC 490 is used to record purchases and sales of investments held outside the State Treasury. When these investments are sold, use TC 481 to record realized gains and losses. TC 481 can also be used to record interest received on investments held outside the State Treasury.

Month End Entries to Record Changes in the Fair Value of Investments

- .118 At the end of each month, agencies need to record changes in the fair value of their investments. The change is calculated by comparing the fair value of an investment per a reliable source to the book value recorded in the accounting records. The book value is the investment's par value plus or minus the related investment valuation account. Changes in the fair value of investments may be positive or negative depending on the market conditions. Decreases in fair value are appropriately recorded as negative (debit) revenue.

- .119 An example of how to record changes in the fair value of investments held at State Treasury is shown below:

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 increase in fair value of investment.

DR 0245 Investment Valuation Acct - Designated	200	
CR 3200 GAAP Revenue Offset		200
(CO 0830 Net Increase/Decrease in Fair Value of Investments)		

Restricted Investments

- .120 **Restricted assets** should be reported when restrictions (as defined in paragraph .121 below) on asset use change the nature or normal understanding of the availability of the asset. For example, cash and investments are normally classified as current assets. A normal understanding of these assets presumes that restrictions do not limit the agency's ability to use the resources to pay current liabilities. However, cash and investments held in a separate account that can be used to pay debt principal and interest only (as required by the debt covenant) and that cannot be used to pay other current liabilities should be reported as restricted assets. Restricted assets may also include temporarily invested debt proceeds or other

resources that are not generated through operations (such as customer deposits). Generally, restricted assets will be related to current and future debt service or customer deposits.

- .121 Assets are restricted when constraints placed on asset use are either:
- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
 - b. Imposed by law through constitutional provisions or enabling legislation.
- .122 At year end, investments held outside State Treasury that meet the definition of restricted should be reclassified 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 related investment valuation account. In the first month of the new fiscal year, this reclassification should be reversed. The entries to reclassify Investments – Other to Investments – Restricted are:
- TC 474
DR 0940 Investments – Restricted
CR 2951 System Clearing Account
- TC 474R
DR 2951 System Clearing Account
CR 0250 Investments – Other
CR 0255 Investment Valuation Account – Other
- .123 When restricted investments are held in State Treasury, agencies will complete a year end disclosure form on Restricted Assets to indicate the amount that should be reported as restricted investments. Restricted designated investments (held in State Treasury) should not be reclassified from GL 0240, Investments – Designated, to ensure designated investment balances can be matched to State Treasury records at year end.
- .124 Restricted investments may be classified as current or noncurrent and are recorded in GL Account 0290, Investments – Restricted Current, or GL Account 0940, Investments – Restricted, as applicable.

Custodial Credit Risk Disclosure

- .125 For investment disclosure purposes, agencies shall use the standard investment categories and titles listed below when preparing their schedule of **custodial credit risk**. Additional investments may be included as needed.

Investments Subject to Custodial Credit Risk Categorization

- U.S. Treasury Obligations
- U.S. Federal Agency Securities
- U.S. Treasury Bond Strips
- Domestic Equity Securities (includes common stock, preferred or other capital stock, real estate securities, etc.)
- International Equity Securities
- International Debt Securities
- Commercial Paper
- Corporate Bonds
- Municipal Bonds
- Bankers' Acceptances
- Collateralized Mortgage Obligations
- Asset Backed Securities – Other (excludes mortgage-backed obligations)
- Repurchase Agreements

- Investments Held by Broker-Dealers Under Securities Loans with Securities Collateral

Investments Not Subject to Custodial Credit Risk Categorization

- Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral
- Securities Lending Short-Term Collateral Investment Pool
- Investments Held by Broker-Dealers Under Reverse Repurchase Agreements
- Mutual Funds (there can be multiple categories within Mutual funds for the following: Fixed Income - Domestic, Non-Fixed Income - Domestic, Fixed Income - International, Non-Fixed Income - International)
- Alternative Equities (includes leveraged buy-outs, limited partnerships, venture capital, etc.)
- Real Estate and Real Estate Mortgages
- Guaranteed Investment Contracts (note: Bank Investment Contracts should be reported as cash and cash equivalents)
- Annuity Contracts

- .126 For purposes of custodial credit risk disclosures, investment securities are classified 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.
- .127 Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the agency, and are held by either the counterparty or the counterparty's trust department or agent but not in the agency's name.
- .128 Custodial credit risk disclosures include the carrying value of investments as well as the fair value of investments. Depending on the type of investment, the reported amount will represent balances at cost, amortized cost, or fair value.

Credit Risk and Interest Rate Risk Disclosures

- .129 For disclosures regarding the **credit risk** associated with investments in debt securities, agencies shall disclose credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations (rating agencies) as of fiscal year end (June 30). These ratings will be aggregated by investment type and by credit quality rating. Rating modifiers will be ignored. Aggregate credit ratings for each investment type will be the lowest credit rating of the rating agencies. U.S. Treasuries and obligations explicitly guaranteed by the U.S. government are considered to have no credit risk; therefore, they are the highest credit quality.
- .130 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).
- .131 For disclosures regarding the **interest rate risk** of investments in debt securities, agencies shall disclose investment maturities by using the segmented time distribution method. Maturity distributions will be identified by investment type.

- .132 The following schedule is an example of the State’s standard schedule of interest rate risk and credit quality disclosure.

Investment type	Credit rating	Investment Maturities (in years)				Total fair value
		Less than 1 year	1-5 years	6-10 years	More than 10 years	
U.S. Government Securities	-	\$-	\$-	\$-	\$-	\$-
U.S. Agency Securities	-	-	-	-	-	-
U.S. Government Strips	-	-	-	-	-	-
U.S. Agency Strips	-	-	-	-	-	-
Domestic Equity Securities	n/a	-	-	-	-	-
International Equity Securities	n/a	-	-	-	-	-
International Debt Securities	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-
Corporate Bonds	-	-	-	-	-	-
Municipal Bonds	-	-	-	-	-	-
Bankers’ Acceptances	-	-	-	-	-	-
Collateralized Mortgage Oblig.	-	-	-	-	-	-
Repurchase Agreements	-	-	-	-	-	-
Mutual Funds – Fixed Income Only	-	n/a	n/a	n/a	n/a	n/a
Mutual Funds – Non Fixed Income	n/a	n/a	n/a	n/a	n/a	n/a
Alternative Equities	n/a	-	-	-	-	-
Real Estate & Real Estate Mortg.	n/a	-	-	-	-	-
Guaranteed Inv. Contracts	n/a	-	-	-	-	-
Annuity Contracts	n/a	-	-	-	-	-
Total Investments		\$ -	\$ -	\$ -	\$ -	\$ -

Concentration of Credit Risk Disclosure

- .133 The disclosure associated with **concentration of credit risk** that will be included in the **Comprehensive Annual Financial Report** involves an analysis at the statewide level of agency disclosure information together with information provided by the State Treasury. For the purpose of gathering data for such analysis, agencies shall complete a year end disclosure form for their investments that are held outside of the State Treasury. On the disclosure form, agencies shall indicate if the investment in any one issuer (entity that has the authority to distribute a security or other investment) is 5 percent or greater than the total investments within a single GAAP fund of the agency. Total investments would be an aggregate of all investments (including restricted and unrestricted).
- .134 Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement to disclose concentration of credit risk.
- .135 When agencies that prepare their own financial statements disclose concentration of credit risk, it is recommended that they refer to GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, or consult their SARS analyst.

Foreign Currency Risk Disclosure

- .136 The disclosure associated with **foreign currency risk** that will be included in the Comprehensive Annual Financial Report involves an analysis at the statewide level of agency disclosure information together with information provided by the State Treasury. For the purpose of gathering data for such analysis, agencies shall complete a year end disclosure form for their investments that are held outside of the State Treasury. On the disclosure form, agencies shall indicate the U.S. dollar balance of investments that are exposed to foreign currency risk, organized by currency denomination and investment type.

Oregon Short-Term Fund Financial Report

- .137 For each fiscal year, the State of Oregon as the sponsoring government of an external investment pool, shall prepare a separate stand-alone financial report for the Oregon Short-Term Fund. The report shall be prepared by State Treasury in accordance with GAAP. The report shall separate transactions and balances that belong to the State from those that belong to legally separate entities.