

GEORIGIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
NOTE DISCLOSURE INFORMATION
INVESTMENT ANALYSIS AND DISCLOSURE OF RISKS

GENERAL INFORMATION IN ADDITION TO Instructions

Deposit and investment disclosures are required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, as amended by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. It is recommended that any organization with investment holdings other than external investment pools obtain copies of these pronouncements as well as the *GASB Comprehensive Implementation Guide – 2004, Questions and Answers*. These GASB publications can be obtained at www.gasb.org.

As pointed out on the DEPOSIT ANALYSIS / RECONCILIATION TO CASH AND CASH EQUIVALENTS forms, various cash equivalents or investments may be reported in one account range or asset category on the general ledger and in a different category in footnote disclosures (deposits / investments). The attached forms and instructions will differentiate between investment balances on the general ledger (“general ledger investments”) and investments in the CAFR’s footnotes (“footnote investments”).

Balances on the general ledger in cash equivalent and investment accounts (account range 106000 - 118999 for State of Georgia, *Accounting Procedures Manual* Chart of Accounts users) will have to be examined by organization personnel to determine whether such balances are reported in the deposit or investment footnotes. General ledger cash equivalents and investments that are deposits should be included on the DEPOSIT ANALYSIS / RECONCILIATION TO CASH AND CASH EQUIVALENTS form, general ledger cash equivalents and investments that are footnote investments should be included on the INVESTMENT ANALYSIS AND DISCLOSURE OF RISK forms.

These forms primarily provide for the gathering of risk disclosure information required to be obtained from each organization included in the CAFR for the State Accounting Office – Financial Reporting Group (SAO-FRG) to make risk assessments and prepare risk disclosures at the State reporting level. Organizations preparing complete individual organization financial statements will be required to accumulate additional information in order to (1) make additional risk assessments based on the accumulated investments held by the individual organization and (2) disclose the organization’s formally adopted policies related to each type of risk in accordance with the GASB statements listed above.

INVESTMENT ANALYSIS AND DISCLOSURE OF RISKS FORMS

NOTE: If the only footnote investments held by the organization are investments in an external investment pool *and* the organization is *not* preparing complete individual organization financial statements, it is not necessary for an organization to complete these forms. External investment pools include the Office of Treasury and Fiscal Services’ (OTFS) LGIP – Georgia Fund 1 or Georgia Extended Asset Pool (GEAP) and the Board of Regent’s Pooled Investment Accounts - Short-Term, Legal, Total Return and Balanced Income Funds. That these accounts exist will be disclosed on Part B of the DEPOSIT ANALYSIS / RECONCILIATION TO CASH AND CASH EQUIVALENTS form. Holdings in specific investment instruments held by these investment pools are not identifiable to individual organizations and the various risks associated with the pools’ investments will be assessed by SAO-FRG based on information provided by OTFS and the Board of Regents. Organizations preparing complete individual organization financial statements (other than those audited by CPA firms) will be provided sample disclosures related to investment pool holdings by SAO-FRG at a later date.

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PART A

Part A is to be used to accumulate information regarding the various risk exposures of each investment type held and to provide assurance that disclosures for general ledger cash equivalents and investments are complete. The form's format is designed to provide an analysis that is verifiable to the underlying accounting records from which the financial statements are prepared.

GENERAL LEDGER INFORMATION

Each general ledger cash equivalents and investment account's investment items are to be detailed (a) by general ledger account, (b) by financial institution/broker/dealer, (c) by investment type. Note that the level of detail of the investment types to be provided may be more than was requested by Department of Audits and Accounts' (DOAA) auditors prior to the issuance of GASB Statement No. 40. For example, the investments underlying "investment accounts"; "repurchase agreements"; "bonds and debentures"; "bonds, stock options and other securities"; "U. S. government securities and corporate obligations"; and "short-term investments" will have to be detailed by specific type of investment instrument held.

On the other hand, investment items with common risk profiles *can* be aggregated on Part A, e.g., U. S. Treasury Bills, common stock, commercial paper, etc., as opposed to listing each individual item held. Any aggregated items **MUST** share common risk factors (maturity terms, credit ratings, etc.), as applicable, otherwise the instruments should be listed separately.

RISK DISCLOSURE INFORMATION

Different types of investments are exposed to different elements of investment risk. Explanations of the individual risk elements follow :

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of **debt** investments will adversely affect the fair value of an investment. In preparing the CAFR, the SAO-FRG intends to utilize the Segmented Time Distribution method to determine the state's level of interest rate risk. Under this method, debt investments held will be grouped by maturity periods to assess interest rate exposure. See Risk Matrix for indication of instruments to which interest rate risk applies. For instruments subject to interest rate risk, the organization must indicate maturity periods.

Custodial Credit Risk of Investments – Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, an organization will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. This risk applies only to investments that are evidenced by securities that exist in physical or book entry form. See Risk Matrix for indication of instruments to which custodial credit risk applies. For instruments subject to custodial credit risk, the organization must indicate the applicable risk category. The applicable risk category will have to be obtained through communication with the holding financial institution / broker/dealer.

Categories are:

- Insured or registered in the organization's name
- Uninsured or unregistered and either
 - Held by the counterparty or
 - Held by the counterparty's trust department or agent, but not in the organization's name

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Definitions relevant to Custodial Credit Risk

Insured – covered by federal depository insurance funds, such as those maintained by the FDIC

Registered – securities issued to a specific individual, as opposed to being negotiable securities

Counterparty – the party that pledges collateral or repurchase agreement securities to the organization or that sells investments to or buys them for the organization. The custodial institution may be the counterparty and the organization's agent.

Held in the organization's name – Book-entry securities are considered to be held in the name of the organization if 1) they are held in a pledge account rather than a trading account, and 2) the government's claim to the collateral or investments is supported by the custodian's underlying records. Securities are considered to be held in the organization's name provided the custodian's underlying records adequately establish the government's interest in the securities.

Credit Quality Risk – Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. See Risk Matrix for indication of instruments to which Credit Quality Risk applies. Credit ratings from nationally recognized statistical rating organizations must be provided by the organization for all investments in **debt securities**. Credit ratings are not required for debt securities of the U. S. government or obligations of U. S. government agencies that are *explicitly* guaranteed by the U. S. government. If no credit rating for a particular investment is available, this fact must be disclosed.

Definitions relevant to Credit Quality Risk

Obligations of U. S. government agencies *explicitly* guaranteed by U. S. government -

- Government National Mortgage Association (GNMA)
- Export-Import Bank (EXIMBANK)
- Small Business Administration (SBA)

Obligations of U. S. government instrumentalities only *implicitly* guaranteed by U. S. government -

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Banks (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal Farm Credit Banks (FFCB)
- Student Loan Marketing Association (SLMA)

It should be noted that for holdings in repurchase agreements, the credit ratings of the underlying debt securities offered by the borrower (issuing institution) as collateral must be disclosed. As indicated above, this does not apply if the securities underlying the repurchase agreements are *explicitly* guaranteed obligations of the U. S. government.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer (investment instrument). Holdings of investments in any one issuer in concentrations of greater than 5% of total investments held must be disclosed. As investments in obligations of U.S. government agencies explicitly guaranteed by the U. S. government are considered to be of minimal risk, this disclosure does not apply to these instruments. Concentration of credit risk at the State reporting level will be calculated by the SAO-FRG based on information provided on Part A. Organizations preparing individual organization financial statements must calculate and disclose the individual organization's concentration of credit risk based on instructions provided by SAO-FRG.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The value in U. S. dollars of holdings denominated in a foreign currency must be provided by the organization.

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FAIR VALUE INFORMATION

Investment valuation is to be determined in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. Generally, governmental organizations should report investments at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale.

RISK MATRIX

The instruments included on the Risk Matrix are in no way all-inclusive and any other instruments held, but not listed, must be included on Part A. The organization is responsible for determining which types of risk apply to a particular instrument in accordance with the GASB literature referenced herein.

PART B

Part B is a reconciliation of the footnote investment amounts on Part A to general ledger investment account balances.