



## 85.52 Investments

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### 85.52.10

July 1, 2003

#### About investments

Investments are made as authorized by law and/or contractual agreement. Investment purchase and sale transactions are to be reported for GAAP reporting purposes on a trade date basis.

For purchases, at trade date the investment is recorded in the appropriate investment accounts and the amount due on settlement is recorded as a credit to GL Code 5123 "Investment Trades Pending Payable."

For sales, at trade date the investment is removed from the accounting records and the amount of the proceeds due at settlement are recorded in GL Code 1323 "Investment Trades Pending Receivable."

Recognition of earnings on investments is to follow the revenue recognition criteria pertinent to the fund type in which the investment is recorded.

Costs associated with investing activities that are readily separable from investment income are to be recorded to Revenue Source Code 0473 "Costs of Investment Activities." Refer to Subsection 85.65.20.

### 85.52.20

June 1, 2003

#### Short-term investments

Short-term investments are recorded in GL Code 1205 "Temporary and/or Pooled Cash Investments," GL Code 1206 "Investment with Local Government Investment Pool," and/or GL Code 1209 "Short-Term Portion of Long-Term Investments." Short-term investments include:

- Investments of surplus cash balances, including the cash float, in short-term securities and other investments where funds can be disbursed at any time without prior notice or penalty; investments that are both readily convertible to known amounts of cash and so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates;

- Investment of surplus funds with the Local Government Investment Pool; and
- The portion of long-term investment that will mature within one year.

**Valuation** - Investments classified as short-term are valued at fair value, *except* for the following instances:

- a. Time deposits, such as *non-negotiable certificates of deposit with redemption terms that do not consider market rates*, are recorded using a cost-based measure, if the fair value is not significantly affected by the impairment of the credit standing of the issuer or other factors.
- b. Money market investments and participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity *at time of purchase* of one year or less are to be recorded at amortized cost, if the fair value is not significantly affected by the impairment of the credit standing of the issuer or 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. Amortized cost includes the acquisition cost of the investment as adjusted for amortization of premium or accretion of discount (17CFR 270.2a-7). 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.

## 85.52.30

July 1, 2010

## Non-current investments

In situations where external restrictions exist, non-current investments held in governmental fund type accounts, not offset by deferred revenue or a liability, should be offset with reserved fund balance GL Code 9557 "Reserved for Investments." Refer to Subsection 85.65.18.e.

Except as noted below at Subsections 85.52.40, 85.52.50 and 85.52.60, the acquisition, valuation, and sale or liquidation of non-current investments are to be accounted for as follows:

85.52.30.a **Acquisition** - The cost of non-current investments is to be recorded in the accounting records in GL Code 1210 "Investments." Purchased accrued interest, if any, is to be recorded as a debit to GL Code 1316 "Interest and Dividends Receivable." Refer to Subsection 85.65.18.a through d for illustrative entries.

85.52.30.b **Valuation** - Valuation of non-current investments depends on the type and purpose of the investment.

- a. *Real estate* held as an investment is reported at fair value.
- b. *Participating interest-earning investment contracts* purchased with more than one year of maturity are to be reported at fair value.
- c. Investments in *non-participating interest-earning investments* are to be reported at amortized cost. Non-participating contracts include non-negotiable certificates of deposit and guaranteed investment contracts with redemption terms that do not consider market rates. Such contracts, however, should be reported at fair value if the fair value is significantly affected by the impairment of the credit standing of the issuer or other factors.

All other non-current investments are to be recorded for GAAP reporting purposes at fair value.

For publicly traded investments, gains or losses are to be calculated based on current fair values.

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

For non-publicly traded investments, gains or losses are to be calculated based on periodic valuations adjusted for subsequent cash flows to or from the private investment.

Increases in the investment's fair value are to be recorded by debiting GL Code 1280 "Valuation Allowance - Investments" and crediting GL Code 3220 "Non-cash Revenues," Revenue Source Code 0413.

Decreases are to be recorded by debiting GL Code 3220 "Non-cash Revenues," Revenue Source Code 0414 and crediting GL Code 1280 "Valuation Allowance - Investments." Refer to Subsection 85.65.22 for an illustrative entry.

- 85.52.30.c **Sale or Exchange** - Sales or exchanges of non-current investments (refer to Subsection 85.65.24 for illustrative entries) are to be recognized on a trade date basis. Generally, gains and losses are to be recorded at the time of the sale using GL Code 3205 or 3210, Revenue Source Code 0413 for gains and Revenue Source Code 0414 for losses.

**85.52.40**

June 15, 2010

**Investment pools**

- 85.52.40.a **Internal Investment Pools** - Internal investment pools are to follow the guidance for short-term and non-current investments as presented in Subsections 85.52.20 and 85.52.30, respectively. The equity position of each account participating in the investment pool should be reported as an asset in the participating account. Income and costs associated with internally pooled investments are to be accounted for in the accounts that report the investments unless legal or contractual provisions require transfer of amounts to another account.
- 85.52.40.b **External Investment Pools** - External investment pools commingle the moneys of more than one legally separate entity and invest, on behalf of the participants, in an investment portfolio. Investment positions in external investment pools that are not SEC-registered are to be determined by the fair value per share of the pool's underlying portfolio, unless the pool is a 2a7-like pool.
- A 2a7-like pool is an external investment pool that operates in conformity with the SEC's Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Investment positions in a 2a7-like pool should be measured at the net asset value per share provided by the pool.

**85.52.50**

July 1, 2010

**Permanent funds**

- 85.52.50.a **Accounting for Losses** - Accounting for losses in permanent funds managed and invested by the State Investment Board (SIB) requires unique treatment in order to satisfy legal requirements. To preclude losses from eroding permanent fund corpus, (GL Code 9530), it may be necessary to reduce distributions to beneficiary funds by the amount of these losses.

## Accounting Procedures

In permanent funds, revenues (including capital gains and losses) are closed to fund balance GL Code 9531 “Reserved for Permanent Funds – Expendable Portion.” If investment losses cause a debit balance in GL Code 9531 at the end of the fiscal year, it must be reclassified to GL Code 9532 “Reserved for Permanent Funds – Investment Losses.” GL Code 9532 is used to segregate the accumulated losses in permanent funds.

Note that GL Code 9530 “Reserved for Permanent Funds – Nonexpendable Portion” is **not** impacted. The nonexpendable portion is considered corpus and accordingly is not distributable.

If distributions to beneficiary funds are directly reduced by these losses, an adverse impact on the current programs supported by these distributions could result. Therefore, these losses are tracked separately and allocated to beneficiary funds over a period of time.

The losses are deferred and amortized on a straight-line basis over the weighted average life of the portfolio in the permanent fund. To make the amortization entry, debit GL Code 9531 “Reserved for Permanent Funds - Expendable Portion” and credit GL Code 9532 “Reserved for Permanent Funds - Investment Losses.”

85.52.50.b

**Distributions to Beneficiary Funds** - Unless otherwise allowed under state law and agreed upon by affected parties, for income distribution purposes, distributions from permanent funds managed and invested by the SIB to beneficiary funds are to include:

- The interest and dividends from permanent fund investments for the period (GL Code 3210, Revenue Source Code 0401 “Investment Income” or Revenue Source Code 0411 “Dividend Income”),
- The earnings or portion thereof as agreed upon by affected parties from sale or exchange of the permanent fund investments for the period (GL Codes 3205 or 3210, Revenue Source Codes 0413 and 0414),
- The amortization of premiums and discounts on permanent fund fixed income investments for the period (GL Code 3220 “Noncash Revenues,” Revenue Source Code 0489 “Amortization”),
- Less the cost of investing activities (Revenue Source Code 0473), and
- Less the amount of the accumulated loss amortization for the period.

For distribution purposes, earnings do not include non-cash fair value adjustments (GL Code 3220, Revenue Source Codes 0413 and 0414). Refer to Subsection 85.65.26 for illustrative entries.

85.52.50.c

**Separate Reporting of Expendable and Nonexpendable Fund Balance** - If balances are retained in permanent funds and permanent endowments that exceed the legal or other externally mandated permanent balance (corpus), the expendable and nonexpendable portions must be tracked separately.

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**85.52.60**

July 1, 2001

**Deferred compensation plans (IRC Section 457)**

In accordance with Statement No. 34 of the Governmental Accounting Standards Board, the state's Internal Revenue Code Section 457 deferred compensation plan is reported for GAAP reporting purposes as a pension trust fund. Plan investments should be valued in accordance with Subsection 85.52.30.b.

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**85.52.70**

May 1, 1999

**Securities lending**

Investments in securities lending agreements where the state has the ability to pledge or sell the collateral without borrower default are to be recorded in the accounting records in GL Codes 1216 "Collateral held under Securities Lending Agreements" and 5197 "Obligations under Securities Lending Agreements." For recording purposes, the investment in securities lending agreements may be recorded in the general ledger at the summary level based on a detail report from the securities lending agent. No subsidiary records are required.

For GAAP reporting purposes, if these investments are acquired with resources pooled from multiple accounts, the investments and obligations resulting from the securities lending agreements are to be allocated on a pro rata basis to the accounts that have the risk of loss for the collateral investments. Income and costs associated with securities lending agreements are to be recorded in the accounts that report the investments and obligations unless legal or contractual provisions require transfer of the amounts to another account.

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**85.52.80**

May 1, 1999

**Reverse repurchase agreements**

Investments in reverse repurchase agreements are to be recorded in the accounting records in GL Codes 1215 “Investments under Reverse Repurchase Agreements” and 5196 “Obligations under Reverse Repurchase Agreements.” No subsidiary records are required. For GAAP reporting purposes, if these investments are acquired with resources pooled from multiple accounts, the assets and liabilities arising from the reverse repurchase agreements are to be reported in the accounts that have the risk of loss for the investments.

Income and costs associated with pooled reverse repurchase agreements are to be recorded in the accounts that report the assets and liabilities unless legal or contractual provisions require transfer of the amounts to another account.

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**85.52.90**

May 1, 1999

**Subsidiary ledgers are required for certain investments**

85.52.90.a

In addition to the required general ledger accounts, subsidiary ledgers are to be maintained to record the details of each investment with the exception of investments in securities lending agreements and reverse repurchase agreements.

85.52.90.b

Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly and at fiscal year end.

85.52.90.c

Subsidiary ledgers are to contain, at a minimum, the following specific information for each investment held:

- Description of the item
- Identification number
- Location of security or collateral
- Date purchased (trade date)
- Interest rate (fixed income only)
- Interest dates (fixed income only)

- Issue date (fixed income only)
- Maturity date (fixed income only)
- Par or face value
- Cost
- Unamortized premium or discount (updated at least quarterly) (fixed income only, if applicable)
- Carrying value
- Fair value (updated at least quarterly)
- Date of sale (trade date) and sales amount