

County of Santa Clara

Finance Agency
Controller-Treasurer



County Government Center
70 West Hedding Street, East Wing 2nd floor
San Jose, California 95110-1705
(408) 299-5206 FAX 287-7629

TO: School District Finance Officers
Special District Finance Officers

SUBJECT: FY21 Year End Investment Information

In March 1997, the Government Accounting Standards Board (GASB) issued Statement No. 31 “Accounting and Financial Reporting for Certain Investments and for External Investment Pools”. This statement established accounting and financial reporting standards for investments and related investment income. Investments made by the County’s Controller-Treasurer Department for your entity are specifically covered by these guidelines. Your monies are placed with the monies from other entities in a common investment pool. The portions of this pool that apply to your entity can be found on the attached sheet, sorted by fund name. Separate investments for your entity, if applicable, can be found on a different attachment.

Your portions of the fair value of the County’s commingled pool at June 30, 2020 and 2021 are based on your cash positions as of June 30, 2020 and 2021, respectively, in proportion to the entire cash held in the commingled pool. One of the factors that influence fair value is the amortization of premiums and discounts which occurs as investments approach their maturity dates. However, since the County has already included amortization of premiums and discounts in the quarterly computation of investment income already paid (or payable) to you, inclusion of the difference between the cost of investments and the fair value of investments as an adjustment to investment income would represent a double counting of the revenue impact of amortizations. In order to properly correct the impact of this double counting, we have also computed the amortized cost of your share of the portfolio. Differences between amortized cost and fair value affect your investment revenue. Differences between cost and amortized cost will not affect investment revenue, but should be recognized as a reclassification of interest receivable to cash and investments.

Please note that the change in your investment income amount is an estimate based on the change in fair value of the commingled pool’s investments and thus may not necessarily be the earnings to be received by your entity in the future. The investment earnings provided to you by the County will continue based upon interest earnings for each quarter at the stated rate of interest, amortization of premiums and discounts, and actual gains and losses on the sale of investments.

Your auditor will need the information contained in this letter and the attachments for inclusion in your financial statements. The information will not be posted to the County’s general ledger. As stated above, these amounts may or may not be what you receive from the County in the future. We recommend that you do not use these amounts for budget projections as they are based on estimations of fair values only.

Please use the Attached Commingled Pool Information for Financial Statements.

The following describes how to use the information on the attached schedule(s) to develop financial statement data. The explanations are based on the following assumptions:

A.	June 30, 2020 Cash & Investments at Cost	\$ 891,000
B.	June 30, 2020 Cash & Investments at Amortized Cost	890,000
C.	June 30, 2020 Cash & Investments at Fair Value	903,000
D.	June 30, 2021 Cash & Investments at Cost	850,000
E.	June 30, 2021 Cash & Investments at Amortized Cost	848,000
F.	June 30, 2021 Cash & Investments at Fair Value	857,000

Assume that the previous year's GASB 31 entries were not recorded on the general ledger. The current year FY2021 post-closing entries:

	<u>DR</u>	<u>CR</u>
H.	Cash & Investments (C-A)	12,000
H.	Beginning Fund Balance (C-A)	12,000

(Beginning fund balance on the general ledger does not include last year's fair value markdown. This entry will restore it to the beginning fund balance of your FY2021 financial statements.)

I (a)	Accounts Receivable (B-A)	1,000	
I (a)	Beginning Fund Balance (B-A)		1,000
I (b)	Investment Income (B-A)	1,000	
I (b)	Accounts Receivable (B-A)		1,000

(Last year's elimination of the double counting of amortization was not recorded on the general ledger. This entry will include it in your FY2021 financial statement beginning fund balance I (a), with a subsequent reversal to current year investment income I(b). Entries H, I (a) and I (b) together will make the beginning fund balance on your financial statement agree to the ending fund balance of last year. It is not a restatement of beginning fund balance.)

J.	Interest Receivable (E-D)	2,000	
J.	Investment Income (E-D)		2,000

(To remove this year's double counting of amortization included in interest calculation)

K.	Investment Income (F-D)-H	5,000	
K.	Cash & Investment (F-D)-H		5,000

(To adjust entry H to this year's markup. In the footnotes, disclose that fair value was decreased by \$5,000)

Summary of entries for H, I, J and K:

	<u>DR</u>	<u>CR</u>
Cash & Investments	7,000	
Investment Income	4,000	
Interest Receivable	2,000	
Beginning Fund Balance		13,000

Use the Attached Separate Investment Information for Financial Statements.

For separate investments in your portfolio, the County does not include amortization of premiums and discounts in the investment income paid to you quarterly. Such amortization is credited to you upon maturity or sale of the investment. Restating investments in the portfolio at fair value does not double count the revenue impact of amortizations. Accordingly, the separate investment schedule shows only adjustments to cash, and fiscal year 2021 investment revenue. There is no impact to interest receivable. The calculations can be done without amortized cost and therefore such cost is not included in the schedule.

If we use the same example, but consider them to be separate investments, the FY2021 entries, calculated without using amortized cost, are as follows:

	<u>DR</u>	<u>CR</u>
H. Cash & Investments (C-A)	12,000	
H. Beginning Fund Balance (C-A)		12,000
K. Investment Income (F-D)-H	5,000	
K. Cash & Investments (F-D)-H		5,000

These separate investment entries would be in addition to the commingled pool entries. The footnotes would disclose a decrease of \$5,000 in fair value.

If you have any questions regarding the above information, please call me at (408) 299-5224 or Yuhua Chen at (408) 299-5210.