

To: Participants in the Florida Municipal Investment Trust
 From: The Administrator, Florida League of Cities, Inc.
 Date: December 4, 2020
 Subject: GASB 40 Deposit and Investment Risk Disclosure

The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* (GASB 40), addresses common deposit and investment risks related to credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. This memo is intended to serve as information relating to GASB 40 and the Florida Municipal Investment Trust (FMIVT) for your governmental entity’s reporting requirements.

The FMIVT is a Local Government Investment Pool (LGIP) and is considered an external investment pool for GASB reporting requirements. Your government owns shares in one or more of the FMIVT portfolios. Your government’s investment is the FMIVT portfolio, not the individual securities held within each portfolio.

The following information is provided to assist you in reporting the types of risks that must be disclosed for your shares in the FMIVT, pursuant to GASB 40 as of September 30, 2020. Please refer to GASB 40 for disclosure requirements in addition to those discussed in this memo.

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities.

Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, S&P). In cases where an investment is unrated, a disclosure noting that the investment is unrated is required.

Credit Risk for FMIVT Funds

<u>Fixed Income Funds:</u>	<u>Fitch Rating</u>
0-2 Year High Quality Bond Fund	AAAf/S1
1-3 Year High Quality Bond Fund	AAAf/S2
Intermediate High Quality Bond Fund	AAAf/S3
Broad Market High Quality Bond Fund	AAf/S4
Expanded High Yield Bond Fund	Not Rated
Core Plus Fixed Income Fund	Not Rated
<u>Equity Funds:</u>	<u>Rating</u>
Diversified Large Cap Equity Portfolio	Not Rated
Diversified Small to Mid Cap Equity Portfolio	Not Rated
International Equity Portfolio	Not Rated
Core Real Estate Portfolio	Not Rated



Custodial Credit Risk

GASB 40 modifies the existing GASB 3 custodial credit risk reporting requirements. Under GASB 3, governments had to categorize their investments into one of three custodial credit risk categories. This is no longer required. Under GASB 40, disclosure is only required if investments are uninsured, unregistered and held by either the counterparty or the counterparty’s trust department or agent but not in the government’s name. (This was “Category 3” in GASB Statement 3.)

Participants’ investments in the FMIVT are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized, because they are not evidenced by securities that exist in physical or book-entry form. The public entity’s investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

Concentration Risk

In addition to describing the credit risk of investments in the portfolio, governmental entities will need to disclose the concentration of credit risk with a single issuer. If five or more percent of the total assets of the portfolio are invested with one issuer, a footnote disclosure will be required. 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 concentration of credit risk disclosure requirements.

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: Segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

FMIvT Interest Rate Risk Information in Years

<u>Fixed Income Funds:</u>	<u>Modified Duration</u>	<u>WAM</u>
0-2 Year High Quality Bond Fund	0.65	0.70
1-3 Year High Quality Bond Fund	1.49	1.60
Intermediate High Quality Bond Fund	3.10	3.40
Broad Market High Quality Bond Fund	5.52	6.60
Expanded High Yield Bond Fund	3.61	6.47
Core Plus Fixed Income Fund	3.35	5.82

Foreign Currency Risk

This category applies only if a government’s deposits or investments are exposed to foreign currency risk. If subject to such exposure, the government should disclose the dollar balances subject to such risks, organized by currency denomination and investment type. Members’ investments in the FMIVT are not subject to foreign currency risk.

For additional information, please contact Jeff Blomeley at 850-701-3614 or jblomeley@flcities.com.

