

Office of the State Treasurer

FY 2018



Local Government Investment Pool Trust

LGIP Trust Financial Statements, June 30, 2018

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SECTION I
FINANCIAL

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DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156

Atlanta, Georgia 30334-8400

GREG S. GRIFFIN
STATE AUDITOR

(404) 656-2174

Independent Auditor's Report

The Honorable Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the State Depository Board
and
Mr. Steven N. McCoy, State Treasurer

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Government Investment Pool Trust of the State Treasurer of the State of Georgia (together the Trust), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Office of the State Treasurer Local Government Investment Pool Trust of the State of Georgia and do not purport to, and do not, present fairly the financial position of the Office of the State Treasurer of the State of Georgia, or the State of Georgia, as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The combining LGIP Trust financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining LGIP Trust financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining LGIP Trust financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

October 18, 2018

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Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

The Office of the State Treasurer (“OST”) for the State of Georgia provides the Management’s Discussion and Analysis of the Local Government Investment Pool (“LGIP”) Trust’s Financial Statements. The LGIP Trust consists of 3 pools: Georgia Fund 1 (“GF1”), Georgia Extended Asset Pool (“GEAP”), and Georgia Fund 1 Plus (“GF1 Plus”), and the LGIP Trust Reserve. This overview and analysis of the LGIP Trust’s financial activity is for the fiscal year ended (“FY”) June 30, 2018.

Financial Highlights

GF1

- At fiscal year end, GF1 reported a net position in the amount of \$14.5 billion.
- GF1’s net position increased by \$2.5 billion over the previous fiscal year.
- Net yield paid to participants ranged from 103 basis points (“bp”) to 186 bp for FY18.

GF1 Plus

- At fiscal year end, GF1 Plus reported a net position in the amount of \$1.5 billion.
- GF1 Plus’ net position decreased by \$752.9 million over the previous fiscal year.
- Net yield paid to participants ranged from 103 bp to 186 bp for FY18.

GEAP

- In FY18, GEAP was liquidated and all assets were distributed to participants.

Overview of the Financial Statements

The financial statements report the aggregate activities of GF1, GEAP, GF1 Plus, and the LGIP Trust Reserve. GF1 is managed by OST to maintain a stable NAV of \$1.00 and is rated AAf by Standard & Poor’s (“S&P”). The primary objective since the pool’s inception is preservation of principal. OST continues to operate and report monthly to participants on an amortized cost basis. Per the Governmental Accounting Standards Board (“GASB”) 79, to qualify for the use of amortized cost accounting for financial reporting purposes, an investment pool must meet all the criteria listed in GASB 79. GF1 is managed as a stable NAV pool but does not comply with all the requirements listed in GASB 79; therefore, the investments of the pool are reported at fair market value at fiscal year end.

GF1 Plus was established on July 1, 2016 and is managed to maintain a stable NAV of \$1.00. GF1 Plus is primarily managed by OST. For FY18, a portion of the pool was invested by a subadvisor. GF1 Plus is managed to maintain a stable \$1.00 NAV and accrues investment income on a daily basis. GF1 Plus distributes income to participants on a monthly basis and reinvests at \$1.00 based on the amortized cost of the investments in the pool. Per GASB 79, to qualify for the use of amortized cost accounting for financial reporting purposes, an investment pool must meet all the criteria listed in GASB 79. GF1 Plus is managed as a stable NAV pool but does not comply with all the requirements listed in GASB 79; therefore, the investments of the pool are reported at fair market value at fiscal year end.

During FY18, GEAP was managed by OST as a variable NAV pool, marked-to-market daily, and rated AA+f by S&P.

Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

The LGIP Trust’s Financial Statements consist of the Statement of Net Position, Statement of Changes in Net Position, and Notes to the Financial Statements. The following is a description of the basic financial statements:

- *Statement of Net Position* – The Statement of Net Position presents the assets and liabilities of the LGIP Trust. The difference between the assets and liabilities is reported as net position. The Statement of Net Position provides a breakdown of pool participants.
- *Statement of Changes in Net Position* – The Statement of Changes in Net Position presents information on how the net position changed during the fiscal year. Additions consist of contributions from participants and net investment income. Deductions consist of distributions to participants and operating expenses.
- *Notes to the Financial Statements* – The Notes to the Financial Statements describe the LGIP Trust as a reporting entity and further clarify financial activity as reported in the financial statements.

Net Position

GF1

GF1 experienced an increase in net position of \$2.5 billion in FY18. Total assets and liabilities were higher compared to last fiscal year. Deposits increased by 4%, and withdrawals decreased by 3% in comparison to FY17. GF1’s net position is a function of several parameters some of which are independent of the pool’s performance. The resulting change in net position is primarily from changes in deposits and withdrawals of the participants in the pool. In June of FY18, approximately \$1.6 billion of OPEB funds was transferred to GF1 from GF1 Plus to be available for the investment of the OPEB trust in FY19 (see subsequent event). GF1 is a voluntary investment option for state entities and municipalities.

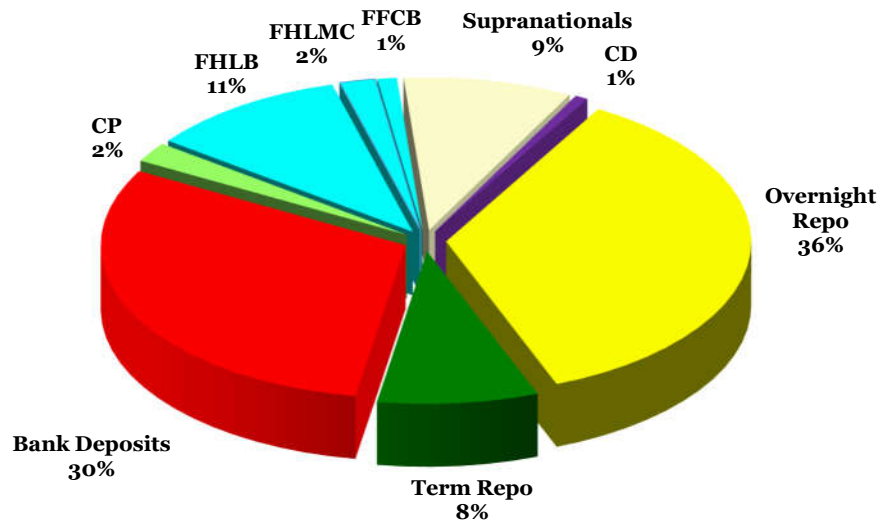
A summary of GF1’s net position is presented below (amounts in thousands):

	2018	2017	Variance
Cash and Cash Equivalents	\$ 13,091,678	\$ 8,115,157	\$ 4,976,521
Investments in Securities	1,377,399	3,894,396	(2,516,997)
Accrued Interest & Other Receivables	3,244	894	2,350
Less: Accrued Expenses & Other Payables	562	519	43
Net Position	\$ 14,471,759	\$ 12,009,928	\$ 2,461,831

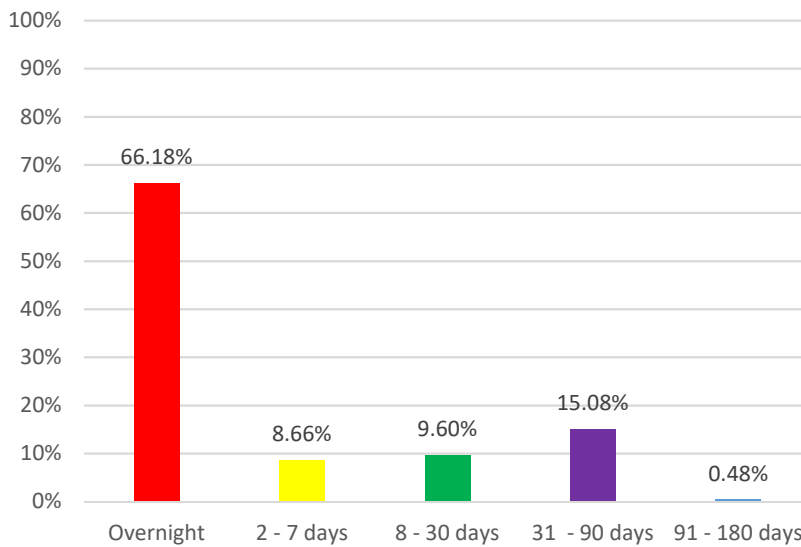
Local Government Investment Pool Trust Management's Discussion and Analysis (Unaudited)

Below are charts reflecting the assets of GF1, the maturity distribution of holdings, and account holder information at June 30, 2018. Historical information can be found on the website at www.ost.ga.gov.

GF1 Asset Detail

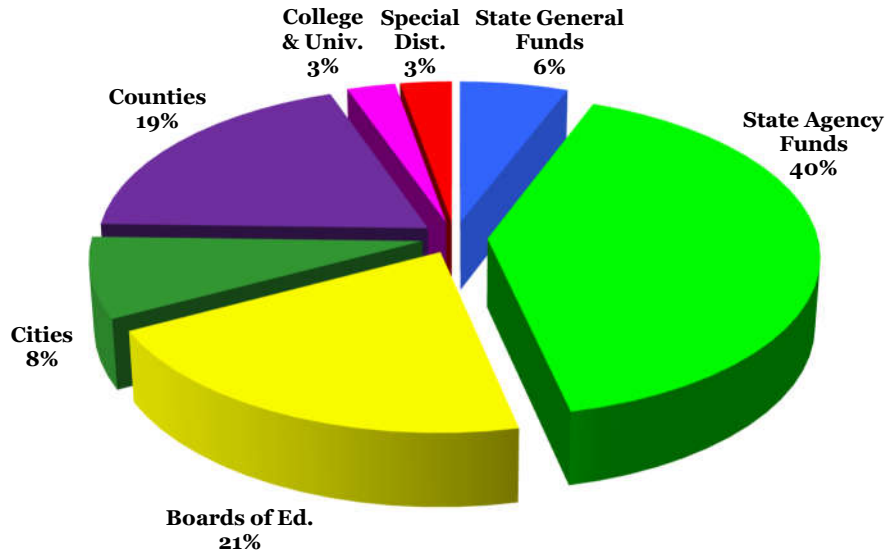


GF1 Maturity Distribution



Local Government Investment Pool Trust Management's Discussion and Analysis (Unaudited)

GF1 Account Holder Distribution



GF1 Plus

GF1 Plus was established as an additional LGIP investment option in FY17 for the state, state agencies, and eligible municipalities looking to benefit from higher yields available by adding credit exposure. In FY18, OST implemented a pilot program to include an eligible municipality. As of the close of FY18, GF1 Plus participants include a municipality as well as the state and state agencies.

GF1 Plus experienced a decrease in net position of \$752.9 million in FY18. Total assets were lower compared to last fiscal year. Deposits decreased by 41% and withdrawals increased 546% in comparison to FY17. GF1 Plus' net position is a function of several parameters some of which are independent of the pool's performance. The resulting change in net position is primarily from changes in deposits and withdrawals of the participants in the pool. GF1 Plus was opened in FY17 with significant deposits from the state and state agencies. The increase in withdrawals was primarily from the transfer of approximately \$1.6 billion of OPEB funds from GF1 Plus to GF1 to be used for the investment of the OPEB trust in FY19 (see subsequent event).

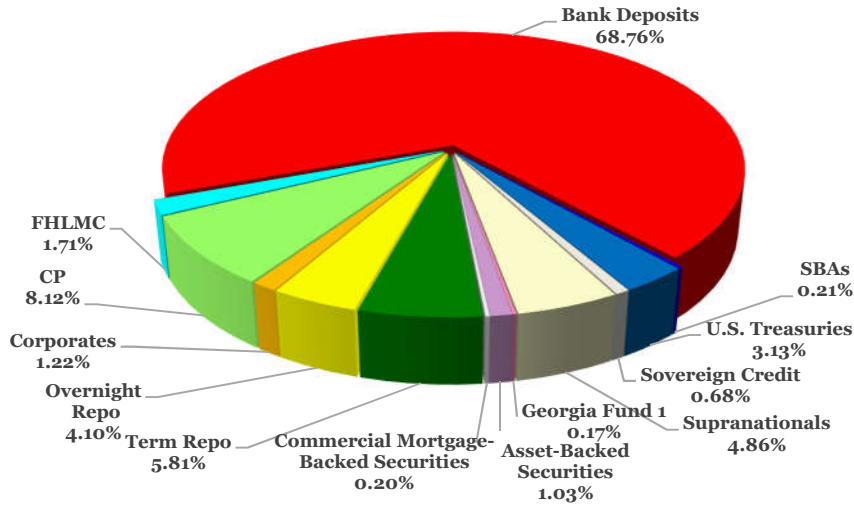
A summary of GF1 Plus' net position is presented below (amounts in thousands):

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Cash and Cash Equivalents	\$ 1,128,450	\$ 1,358,566	\$ (230,116)
Investments in Securities	336,265	858,929	(522,664)
Accrued Interest & Other Receivables	1,641	1,762	(121)
Less: Accrued Expenses & Other Payables	139	122	17
Net Position	<u>\$ 1,466,217</u>	<u>\$ 2,219,135</u>	<u>\$ (752,918)</u>

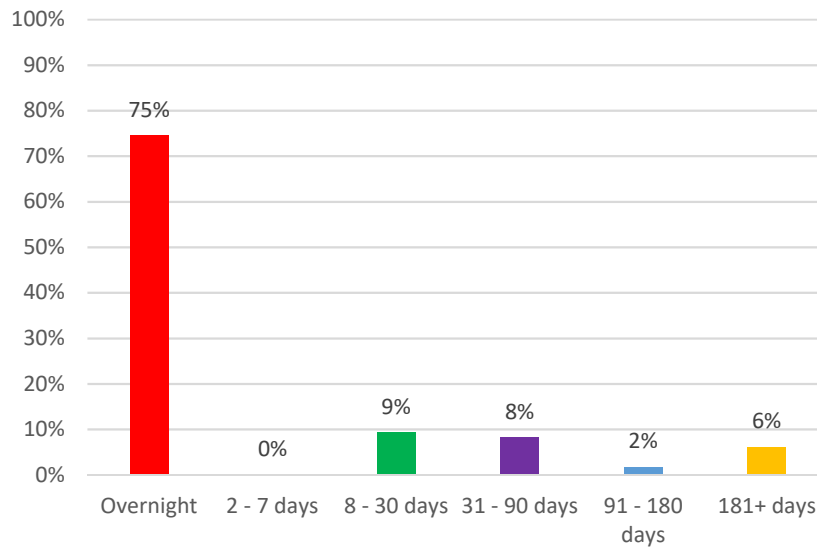
Local Government Investment Pool Trust Management's Discussion and Analysis (Unaudited)

Below are charts reflecting the assets of GF1 Plus, the maturity distribution of holdings, and account holder information at June 30, 2018.

GF1 Plus Asset Detail

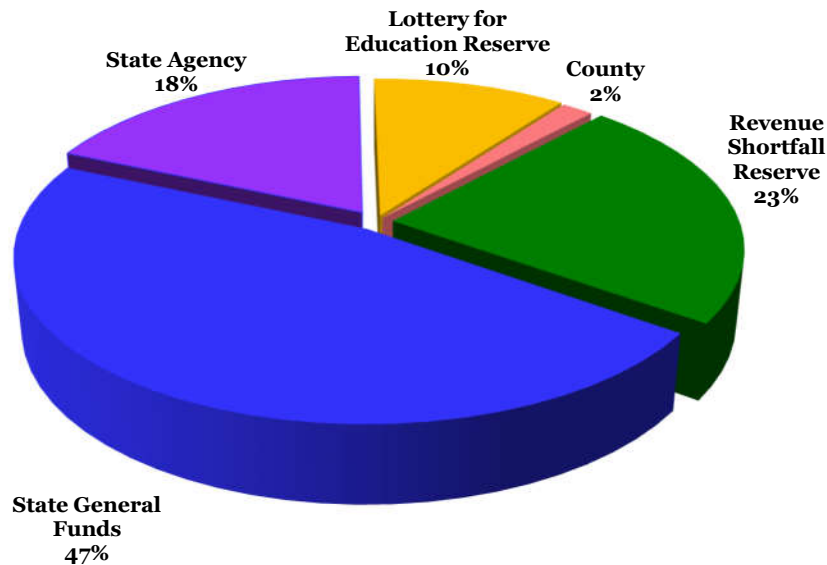


GF1 Plus Maturity Distribution



Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

GF1 Plus Account Holder Distribution



GEAP

In FY18, GEAP was liquidated and all assets were distributed to participants. Comparable statements for a change in net position between FY18 and FY17 are not presented.

LGIP Trust Reserve

The LGIP Trust Reserve retains all unexpended administrative fees and interest earned on the reserve balance. According to O.C.G.A § 36-83-8(1), “payments of amounts for administrative expenses shall be deemed contractually obligated funds held in trust for the benefit of the local government investment pool and shall not lapse” and will be held in trust for the benefit of the LGIP. The LGIP Trust Reserve is to be maintained for the benefit of all LGIP participants, whether pooled participants or separately managed accounts, and may be utilized at the discretion of the State Treasurer in the interest of the LGIP.

As of June 30, 2018, the LGIP Trust Reserve’s net position was \$17.8 million reflecting an increase in net position of \$5.2 million in FY18. The LGIP Trust Reserve’s net position is primarily a function of the administrative fees collected from the three pools in the LGIP Trust less operating expenses related to the pools. During FY18, the administrative fees were 5 bp for GF1, 5 bp for GEAP, and lowered from 7.5 bp to 5 bp for GF1 Plus.

Change in Net Position

GF1

Net investment income (i.e. total investment income plus miscellaneous income less administrative expenses) increased 143% compared to FY17. This rise was primarily due to an increase of 83 bp in GF1’s portfolio yield from FY17.

Deposits increased by 4%, and withdrawals decreased by 3% in comparison to FY17. Deposits from OPEB’s investment position in GF1 Plus were transferred to GF1 prior to fiscal year end.

The Fed Funds target started FY18 at a range of 1.00% - 1.25% and ended the fiscal year at a range of 1.75% - 2.00%. The Fed raised interest rates three times in FY18 as inflation fears escalated and a strong

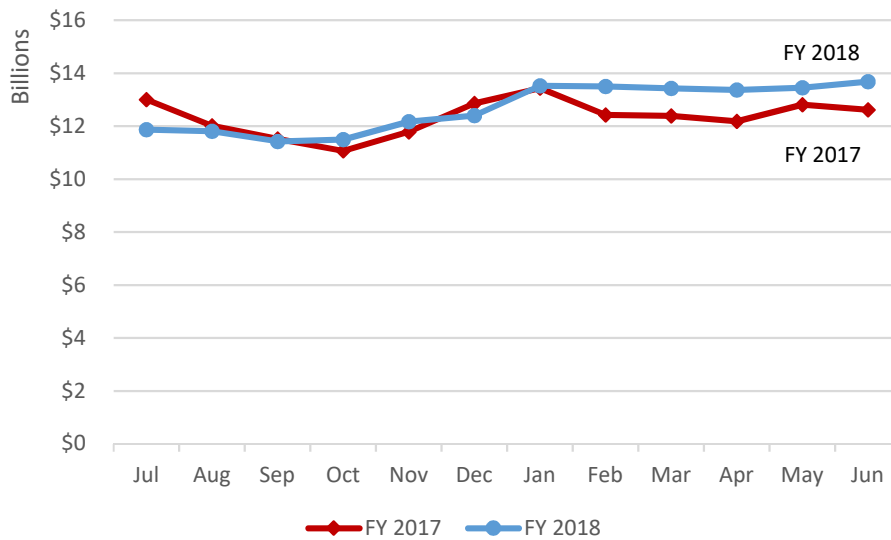
Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

jobs market pushed the unemployment rate down to 4.00% by the end of FY18. This move in the Fed Funds target led to higher yields for GF1 as well as higher overall investment income and distribution of earnings to participants. GF1 distributes income to participants monthly, based on their average daily balance. Distributions include interest income based on stated rates (both received and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and are net of investment expenses and administrative fees.

A summary of the changes in GF1’s net position is presented below (amounts in thousands):

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Net Investment Income	\$ 170,884	\$ 70,279	\$ 100,605
Pool Participant Deposits and Reinvestment of Distributions	53,648,826	51,582,323	2,066,503
Less: Distribution of Earnings	170,685	70,463	100,222
Less: Pool Participant Withdrawals	51,187,194	52,993,296	(1,806,102)
Change in Net Position	<u>\$ 2,461,831</u>	<u>\$ (1,411,157)</u>	<u>\$ 3,872,988</u>

GF1 Average Monthly Balances



GF1 Plus

Net investment income (i.e. total investment income plus miscellaneous income less administrative expenses) increased 270% compared to FY17. This rise was primarily due to an increase of 78 bp in GF1 Plus’ portfolio yield from FY17.

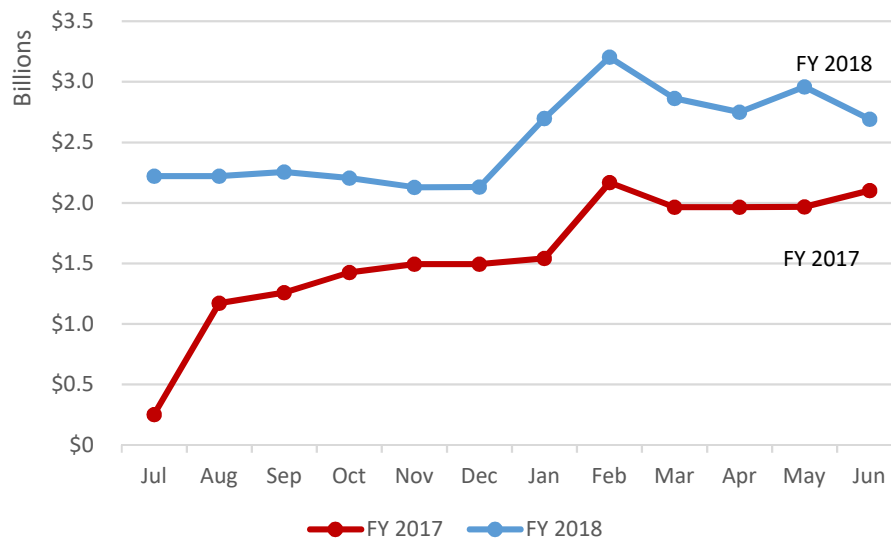
Deposits decreased by 41%, and withdrawals increased 546% in comparison to FY17. GF1 Plus was opened in FY17 with significant deposits from the state and state agencies. The increase in withdrawals was primarily from the transfer of approximately \$1.6 billion of OPEB funds from GF1 Plus to GF1 to be used for the investment of the OPEB trust in FY19 (see subsequent event).

Local Government Investment Pool Trust Management's Discussion and Analysis (Unaudited)

A summary of the changes in GF1 Plus' net position is presented below (amounts in thousands):

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Net Investment Income	\$ 38,233	\$ 10,329	\$ 27,904
Pool Participant Deposits and Reinvestment of Distributions	1,506,754	2,570,016	(1,063,262)
Less: Distribution of Earnings	38,111	11,210	26,901
Less: Operating Expense	151	-	151
Less: Pool Participant Withdrawals	2,259,643	350,000	1,909,643
Change in Net Position	<u>\$ (752,918)</u>	<u>\$ 2,219,135</u>	<u>\$ (2,972,053)</u>

GF1 Plus Average Monthly Balances



GEAP

Net investment income increased 48% compared to FY17. This rise was primarily due to an increase of 62 basis points in GEAP's portfolio yield from FY17.

Deposits and withdrawals increased by 15% and 215%, respectively, in comparison to FY17. The increase in withdrawals was due to the liquidation of GEAP and the distribution of assets to its participants.

A summary of the changes in GEAP's net position is presented below (amounts in thousands):

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Net Investment Income	\$ 2,155	\$ 1,455	\$ 700
Pool Participant Deposits and Reinvestment of Distributions	20,269	17,590	2,679
Less: Distribution of Earnings	2,169	1,490	679
Less: Pool Participant Withdrawals	193,029	61,373	131,656
Change in Net Position	<u>\$ (172,774)</u>	<u>\$ (43,818)</u>	<u>\$ (128,956)</u>

Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

LGIP Trust Reserve

The LGIP Trust Reserve retains all unexpended administrative fees and interest earned on the reserve balance. The LGIP Trust Reserve grew \$5.2 million from \$12.6 million in FY17 to \$17.8 million in FY18. This resulted in an 8% Change in Net Position of the LGIP Trust Reserve for FY18. Interest income on the LGIP Trust Reserve increased by 174% due to an increase in the yield on its investments. Administrative fees from the pools in the Trust increased by 3% compared to FY17.

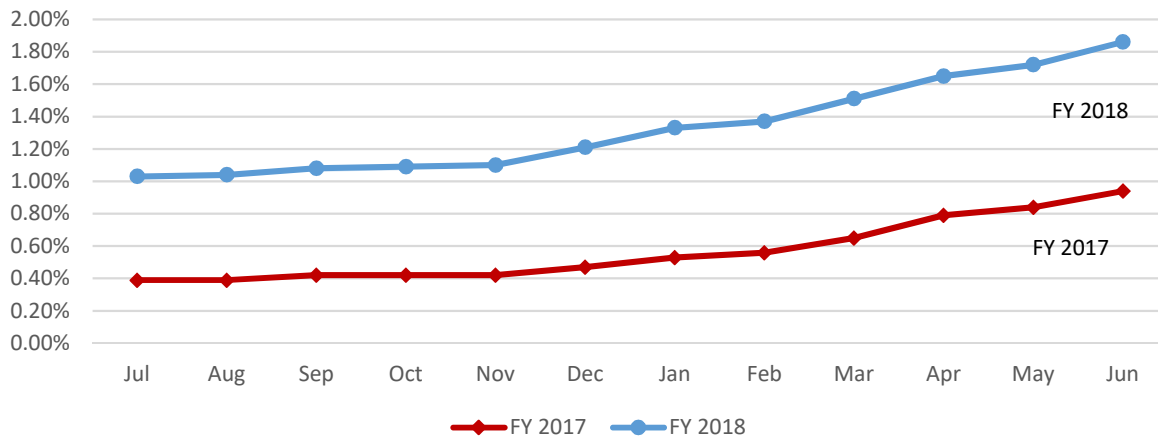
Monthly Yield

GF1

The annualized monthly net yield distributed to participants represents the annualized percent return of GF1 investments based on net investment income distributed to participant’s average daily balances in the pool. GF1’s yield is closely tied to the Fed Funds target which is a rate to which other money market rates are anchored. These maturities are typically 397 days or less. GF1 invests in high quality investments that are permitted by the OST Investment Policy, as approved by the State Depository Board.

Administrative fees collected from GF1 participants are used to fund expenses related to carrying out the investment functions and operations of OST.

GF1 Monthly Net Yields

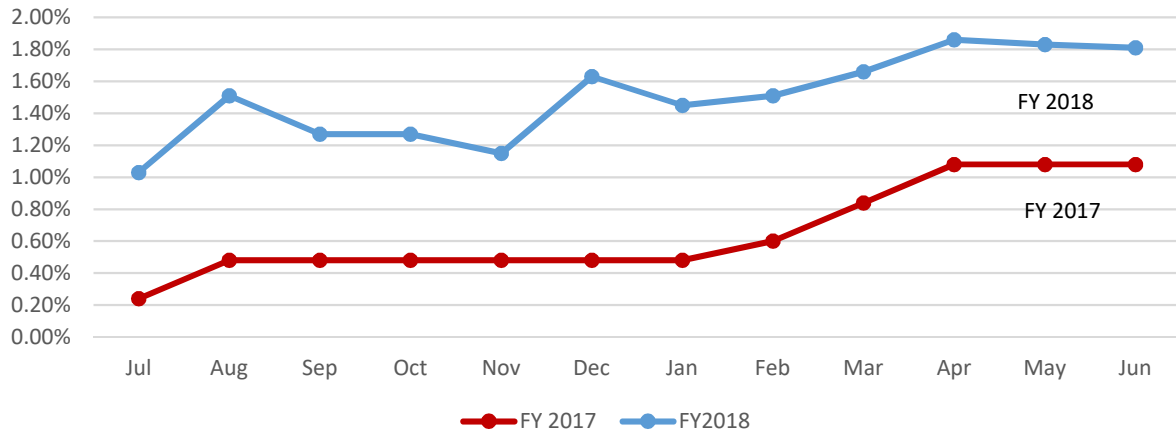


Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

GF1 Plus

The annualized monthly net yield represents the annualized percent return of GF1 Plus investments. For FY18, the administrative fee for GF1 Plus was lowered from 7.5 bp to 5 bp. GF1 Plus performance is measured against the net yield for GF1.

GF1 Plus Monthly Yields



FY19 Outlook

At the May 30, 2018 board meeting, the State Depository Board authorized two new LGIP Trust offerings for FY19. The offerings, GEAP and GEAP Plus, will be a series of target maturity portfolios with an emphasis on principal preservation and income. Each portfolio seeks to achieve a return for a given holding period that outperforms the return of a similar maturity U.S. Treasury.

BASIC FINANCIAL STATEMENTS

Local Government Investment Pool Trust
Statement of Net Position
As of June 30, 2018

(amounts in thousands)

Assets

Cash and Cash Equivalents	\$	14,234,836
Investments in Securities		1,713,664
Accrued Interest and Other Receivables		4,885
TOTAL ASSETS		15,953,385

Liabilities

Accrued Expenses and Other Payables		26
TOTAL LIABILITIES		26
TOTAL NET POSITION	\$	15,953,359

Net Position Consists of

Net Position Held in Trust for Internal Pool Participants	\$	8,576,117
Net Position Held in Trust for External Pool Participants		7,360,300
Restricted Reserve Funds		17,819
Unrealized Fair Market Value Adjustment		(877)
TOTAL NET POSITION	\$	15,953,359

The notes to the financial statements are an integral part of this statement.

Local Government Investment Pool Trust
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2018

(amounts in thousands)

Additions

Interest Income	\$	173,710
Net Increase (Decrease) in Fair Value of Investments		45,476
Net Investment Income		219,186
Pool Participant Deposits and Reinvestment of Distributions		55,139,204
TOTAL ADDITIONS	\$	55,358,390

Deductions

Distribution of Earnings	\$	210,965
Operating Expenses		2,863
Pool Participant Withdrawals		53,595,708
TOTAL DEDUCTIONS	\$	53,809,536

Change in Net Position		1,548,854
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Net Position

Beginning of Year		14,404,505
End of Year	\$	15,953,359

The notes to the financial statements are an integral part of this statement.

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Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(1) Significant Accounting Policies

Reporting Entity

Georgia Fund 1 (“GF1”), Georgia Fund 1 Plus (“GF1 Plus”), and Georgia Extended Asset Pool (“GEAP”) are investment pools of the Local Government Investment Pool Trust (the “LGIP Trust” or “Trust”) and are investment pools for the State of Georgia (the “State”) and local governments, including state agencies, colleges and universities, counties, school districts, special districts, or any department, agency, or board of a political subdivision. The State Depository Board (“Board”) prescribes cash management policies and procedures for the State and provides oversight for the pools. The Board meets regularly and is comprised of the Governor, the State Chief Financial Officer, the State Accounting Officer, the Commissioner of Transportation, the Commissioner of Banking and Finance, the State Revenue Commissioner, and the State Treasurer. The pools are managed by the Office of the State Treasurer (“OST”). The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as issued by the Governmental Accounting Standards Board (“GASB”) which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Subsequent events, if any, through the date the financial statements were issued have been evaluated in the preparation of the financial statements. All applicable pronouncements required by GASB are presented in the financial statements. The pools in the Trust are not registered with the SEC.

GF1 is managed as a stable Net Asset Value (“NAV”) pool. Investments are restricted to those enumerated in O.C.G.A. §50-5A-7, § 50-17-2, and § 50-17-63. The primary objectives of the pool are safety of capital, liquidity, investment income, and diversification. GF1 participant deposits are not guaranteed or insured by any bank, the Federal Deposit Insurance Corporation (“FDIC”), the State, or any other government agency. It is possible to lose money investing in GF1.

OST operates GF1 and provides monthly statements of balances and interest income to participants on an amortized cost basis. While GF1 transacts at \$1.00 based on the amortized cost of the investments in the pool, GF1 participants should report their investments in GF1 at their respective fiscal year end at fair market value. The fair market valuation factor for GF1 at June 30, 2018, was \$1.00.

GF1 Plus is managed as a stable NAV pool. It was established as an alternative to GF1 to provide higher yields by increasing credit exposure. The credit portion of the pool was primarily managed by a subadvisor during the fiscal year ending June 30, 2018. GF1 Plus participant deposits are not guaranteed or insured by any bank, the FDIC, the State, or any other government agency. It is possible to lose money investing in GF1 Plus.

Similar to GF1, GF1 Plus transacts at \$1.00 based on the amortized cost of the investments in the pool. Participants should report their investments in GF1 Plus at fair value. The current fair market valuation factor for GF1 Plus at June 30, 2018, was \$1.00.

GEAP is managed as a variable NAV pool. It was established as a second investment option for state agencies and municipalities within the state that have longer-term investment needs. The primary objective of GEAP is to provide secondary liquidity and the preservation of principal through the management of minimum NAV fluctuations while providing current income. GEAP participant deposits are not guaranteed or insured by any bank, the FDIC, the State, or any other government agency. The value of an investment in GEAP will fluctuate over time, and it is possible to lose money investing in GEAP. In FY18, GEAP was liquidated and all assets were distributed to participants. In FY19, GEAP will be converted to a series of target maturity funds.

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(1) Significant Accounting Policies (Continued)

The accompanying financial statements present the financial position of only GF1, GEAP, GF1 Plus, and the LGIP Trust Reserve, and they do not include any other agencies or component units of the State or any other funds of OST. In the State's Comprehensive Annual Financial Report, the Trust is not reported as a separate fund. Instead, the State's portion of the Trust is reported on the balance sheet as "Pooled Investments in State Treasury." The portion of the Trust belonging to external participating institutions is reported as the Investment Trust Fund.

Changes in Financial Accounting and Reporting

In FY18, the Trust did not implement any new GASB Statements.

Basis of Accounting

The accompanying statements are prepared based on the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and realized. Expenses are recognized in the period incurred.

Cash and Cash Equivalents

Cash includes bank deposits, which are reported at carrying value. Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near the maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, investments with original maturities of three months or less meet this definition.

Investments

All pools generally value investments as follows:

- All investments except repurchase agreements, non-negotiable certificates of deposit ("CD"), direct-issued commercial paper, and other such nonparticipating investments are priced at fair value.
- Per GASB 31, repurchase agreements, non-negotiable CD's, direct-issued commercial paper, and other such nonparticipating investments are carried at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

Security transactions are accounted for on a trade date basis which means that the purchases and sales of securities are recorded on the day the trade takes place with a corresponding payable or receivable.

Investment Income, Gains, and Losses, Expenses, and Distributions

GF1 is managed to maintain a stable \$1.00 NAV. For purposes of calculating earnings to each participant, all investments are valued at amortized cost. The pool distributes income to participants monthly, based on their average daily balance. Distributions include interest income based on stated rates (both received and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and are net of investment expenses and administrative fees. Unrealized gains (losses) are reported in the equity section of the Statement of Net Position as "Unrealized Fair Market Value Adjustment." Changes in the fair value of marketable securities are recognized at the end of the fiscal year.

GF1 Plus is managed to maintain a stable \$1.00 NAV and accrues investment income on a daily basis. GF1 Plus distributes income to participants on a monthly basis and reinvests at \$1.00 based on the amortized cost of the investments in the pool.

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(1) Significant Accounting Policies (Continued)

GEAP accrues investment income on a daily basis and distributes to participants on a monthly basis. Interest income is reinvested at the month ending NAV.

Administrative Fees and LGIP Trust Reserve

According to O.C.G.A. § 36-83-8(1), “payments of amounts for administrative expenses shall be deemed contractually obligated funds held in trust for the benefit of the local government investment pool and shall not lapse” and will be held in trust (the “LGIP Trust Reserve”) for the benefit of the LGIP. The LGIP Trust Reserve shall retain all unexpended administrative fees and interest earned on the reserve balance. During FY18, OST assessed an administrative fee of 5 basis points on the average daily balances of GF1 participant accounts. For GF1 Plus, OST reduced the administrative fee from 7.5 basis points to 5 basis points assessed on the daily fund balance. For GEAP, OST assessed an administrative fee of 5 basis points on the daily fund balance. The total fees assessed were \$7.7 million, of which \$6.3 million were GF1 fees, \$1.3 million were GF1 Plus fees, and \$109 thousand were GEAP fees.

The LGIP Trust Reserve may be utilized at the discretion of the State Treasurer in the interest of the LGIP. According to the Trust Policy, administrative fees collected from LGIP participants are to be used to fund expenses related to carrying out the investment functions and operations of the OST. The total LGIP Trust expenses paid from the administrative fees collected were \$2.7 million resulting in a net increase in the LGIP Trust Reserve of \$5.2 million from administrative fees and interest, leaving a balance of \$17.8 million in the LGIP Trust Reserve.

Investments in Georgia Fund 1

GF1 Plus and the LGIP Trust Reserve invested a portion of their assets in GF1. This portion appears in the Statement of Net Position for GF1 Plus and the LGIP Trust Reserve under the “Cash and Cash Equivalent” account.

(2) Subsequent Event

On July 2, 2018, approximately \$1.6 billion of OPEB’s investment position was transferred from GF1 to establish GEAP Plus. The transfer was to invest OPEB Trust Funds in accordance with the OPEB Trust Investment Policy approved by the State Depository Board on May 30, 2018. The transfer will have no effect on the total assets in the Trust but will reduce the assets in GF1. This transaction is related to FY19, so it was not recognized in the financial statements.

(3) Investment Disclosures

Interest Rate Risk

Interest rate risk is the risk associated with changes in interest rates that could adversely affect the fair value of an investment. GF1 and GF1 Plus use the weighted average maturity (“WAM”) method to analyze interest rate risk. WAM expresses the average time until maturity for the investments in a portfolio weighted to reflect the dollar size of the individual investments within the portfolio. WAM is an acceptable method for reporting interest rate risk according to GASB 40. OST seeks to match investment terms to the cash requirements of the pool.

OST’s investment policy allows the Trust to hold bank deposits for investment purposes. These bank deposits held for investment purposes are included in the following disclosures:

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(3) Investment Disclosures (Continued)

Georgia Fund 1

At June 30, 2018, GF1's WAM was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>WAM (Days)</u>
Bank Deposits Held for Investment Purposes	\$ 4,403,335	3
Commercial Paper	303,246	3
Repurchase Agreements	6,409,000	5
Supranational Obligations	1,298,658	23
U.S. Agency Obligations	1,954,838	39
Total	<u>\$ 14,369,077</u>	
GF1 WAM (Days)		10

Georgia Fund 1 Plus

At June 30, 2018, GF1 Plus' WAM was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>WAM (Days)</u>
Asset-Backed Securities	\$ 15,138	264
Bank Deposits Held for Investment Purposes	1,006,014	3
Commercial Mortgage-Backed Securities	2,918	227
Commercial Paper	119,856	25
Corporates	18,044	325
Repurchase Agreements	145,000	10
Sovereign Credit	10,000	180
Supranational Obligations	71,169	45
U.S. Agency Obligations	24,997	47
U.S. Agency Obligations Guaranteed	3,177	835
U.S. Treasury Obligations	45,966	400
Total	<u>\$ 1,462,279</u>	
GF1 Plus WAM (Days)		31

LGIP Trust Reserve

At June 30, 2018, the LGIP Trust Reserve's WAM was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>WAM (Days)</u>
Bank Deposits Held for Investment Purposes	\$ 17,145	3
LGIP Trust Reserve WAM (Days)		3

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(3) Investment Disclosures (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. OST utilizes a counterparty risk assessment model to assess the credit risk of counterparties that have been approved to serve as repurchase agreement counterparties or depositories. OST has assigned credit limits to each counterparty based upon the counterparty risk assessment model which incorporates market indicators, default probabilities, issuer research and issuer ratings to determine maximum credit exposure per institution, term of investment for respective counterparties, and collateralization requirements in accordance with the OST Investment Policy.

The nationally recognized statistical rating organizations (“NRSROs”) rate the long-term senior debt (with original maturity longer than 1 year) of the government-sponsored enterprises (“GSEs”) with split ratings equivalent to AAA and AA+ ratings. In the credit risk disclosure tables, the rating for the long-term senior debt of the GSEs is listed as AA. The short-term rating of the GSEs is equivalent to an A-1+ rating. The issuing GSEs are rated but specific bonds are not always individually rated.

Georgia Fund 1

At June 30, 2018, the pool’s securities and underlying collateral for repurchase agreements were rated as follows (amounts in thousands):

Credit Risk Investments	Long-Term Ratings					Short-Term	Carrying Value
	AAA	AA	A	BBB	BB	A-1+	
Commercial Paper	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 303,246	\$ 303,246
Repurchase Agreements	329,622	3,526,626	337,257	429,370	45	501	4,623,421
Supranational Obligations	24,985	24,995	-	-	-	1,248,678	1,298,658
U.S. Agency Obligations	-	100,070	-	-	-	1,854,768	1,954,838
Total Credit Risk Investments	\$ 354,607	\$ 3,651,691	\$ 337,257	\$ 429,370	\$ 45	\$ 3,407,193	\$ 8,180,163
Repurchase Agreements Backed by:							
U.S. Agency Obligations Explicitly Guaranteed							537,968
U.S. Treasury Obligations							1,247,611
Total Securities							\$ 9,965,742

Georgia Fund 1 Plus

At June 30, 2018, the pool’s securities and underlying collateral for repurchase agreements were rated as follows (amounts in thousands):

Credit Risk Investments	Long-Term Ratings				Short-Term	Carrying Value	
	AAA	AA	A	BBB	A-1		
Asset-Backed Securities	\$ 15,138	\$ -	\$ -	\$ -	\$ -	\$ 15,138	
Commercial Mortgage-Backed Securities	2,164	754	-	-	-	2,918	
Commercial Paper	-	-	-	-	119,856	119,856	
Corporates	-	2,488	10,177	5,379	-	18,044	
Repurchase Agreements	16,259	1,432	49,926	17,383	-	85,000	
Sovereign Credit	-	-	10,000	-	-	10,000	
Supranational Obligations	71,169	-	-	-	-	71,169	
U.S. Agency Obligations	-	24,997	-	-	-	24,997	
Total Credit Risk Investments	\$ 104,730	\$ 29,671	\$ 70,103	\$ 22,762	\$ 119,856	\$ 347,122	
U.S. Agency Obligations Explicitly Guaranteed						3,177	
U.S. Treasury Obligations						45,966	
Repurchase Agreements Backed by:							
U.S. Treasury Obligations						60,000	
Total Securities							\$ 456,265

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(3) Investment Disclosures (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Trust's deposits may not be fully recovered. The OST Investment Policy specifies safety of capital, liquidity, investment return and diversification as its objectives. In carrying out these objectives, OST maintains balances in accounts in banks approved for investment by the Board.

As of June 30, 2018, bank deposits of the Trust were as follows (amounts in thousands):

	Insured or Collateralized	Uninsured and Uncollateralized	Total Bank Balance
Georgia Fund 1	\$ 1,219,070	\$ 3,284,265	\$ 4,503,335
Georgia Fund 1 Plus	974,871	31,143	1,006,014
LGIP Trust Reserve	17,145	-	17,145
Total	\$ 2,211,086	\$ 3,315,408	\$ 5,526,494

Concentration of Credit Risk

Concentration of credit risk is the risk associated with losses that may occur due to lack of diversification. Concentration of credit risk is mitigated by limiting the percentage of total investments with any one issuer. OST limits concentration of credit risk by establishing maximum issuer exposure limits based on criteria established using OST's counterparty risk assessment model.

GASB 40 requires the disclosure of the concentration of credit risk in any issuer that represents 5% or more of total investments. As of June 30, 2018, the concentration of credit risk for the pools in the Trust is as follows:

- Approximately 45.5% of GF1 was invested in U.S. agency obligations not explicitly guaranteed by the U.S. Government or in repurchase agreements collateralized with U.S. agency obligations not explicitly guaranteed by the U.S and 9% was invested in supranational obligations.
- Approximately 8.2% of GF1 Plus was invested in commercial paper issued by the Bank of Montreal, which were rated by the NRSROs as A-1.

Fair Value Measurements

In accordance with GASB 72, some investments in the pools are measured using inputs divided into three fair value hierarchies:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. Matrix pricing is used for the securities classified in Level 2 of the fair value hierarchy in the Trust.
- Level 3 – Unobservable inputs for an asset or liability.

Fixed-income securities use price evaluations provided by State Street Corporation, the Trust's custodian. The Trust reports recurring fair value measurements.

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(3) Investment Disclosures (Continued)

Georgia Fund 1

At June 30, 2018, GF1 has the following investments reported at fair value (amount in thousands):

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Supranational Obligations	\$ -	\$ 1,298,658	\$ -	\$ 1,298,658
U.S. Agency Obligations	-	1,954,838	-	1,954,838
Total	<u>\$ -</u>	<u>\$ 3,253,496</u>	<u>\$ -</u>	<u>\$ 3,253,496</u>

Georgia Fund 1 Plus

At June 30, 2018, GF1 Plus has the following investments reported at fair value (amount in thousands):

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Asset-Backed Securities	\$ -	\$ 15,138	\$ -	\$ 15,138
Commercial Mortgage-Backed Securities	-	2,918	-	2,918
Commercial Paper	-	119,856	-	119,856
Corporates	-	18,044	-	18,044
Sovereign Credit	-	-	10,000	10,000
Supranational Obligations	-	71,169	-	71,169
U.S. Agency Obligations	-	24,997	-	24,997
U.S. Agency Obligations Guaranteed	-	3,177	-	3,177
U.S. Treasury Obligations	45,966	-	-	45,966
Total	<u>\$ 45,966</u>	<u>\$ 255,299</u>	<u>\$ 10,000</u>	<u>\$ 311,265</u>

The remaining investments in the Trust are exempt from GASB 72's disclosure requirement because they are not reported at fair value and are instead valued using cost-based measures

(4) Equity of Internal and External Participants

Per GASB 31, "The external portion of an external investment pool is the portion that belongs to legally separate entities that are not part of the sponsoring government's financial reporting entity. The internal portion of each external investment pool is the portion that belongs to the primary government and its component units." The following table describes the equity of internal and external participants in the pool's net position, and shows that net position is composed of participants' account balances and the unrealized fair market value adjustment (amounts in thousands):

	Georgia					
	Georgia Fund 1	Fund 1 Plus				
Internal Participants	\$ 7,136,429	\$ 1,442,124	\$ -	\$ -	\$ (2,436)	\$ 8,576,117
External Participants	7,335,297	25,003	-	-	-	7,360,300
Restricted Reserve Funds	-	-	-	17,826	(7)	17,819
Unrealized Fair Market Value Adjustment	33	(910)	-	-	-	(877)
Total Net Position	<u>\$ 14,471,759</u>	<u>\$ 1,466,217</u>	<u>\$ -</u>	<u>\$ 17,826</u>	<u>\$ (2,443)</u>	<u>\$ 15,953,359</u>

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2018

(5) Involuntary Participation

GASB 31 requires the disclosure of any involuntary participation in the Trust. The Statement defines involuntary participants as “those that are required by legal provisions to invest in the external investment pool.” O.C.G.A. § 50-5A-7 requires certain internal funds to be invested by the State Treasurer but does not require the funds to be invested in the Trust. External participants are voluntary participants of the pools.

SUPPLEMENTARY INFORMATION

Local Government Investment Pool Trust
Supplementary Information
Combining Statement of Net Position
As of June 30, 2018

(amounts in thousands)

	<u>Georgia Fund 1</u>	<u>Georgia Fund 1 Plus</u>	<u>GEAP</u>	<u>Trust Reserve</u>	<u>Eliminations</u>	<u>Total</u>
Assets						
Cash and Cash Equivalents	\$ 13,091,678	\$ 1,128,450	\$ -	\$ 17,151	\$ (2,443)	\$ 14,234,836
Investments in Securities	1,377,399	336,265	-	-	-	1,713,664
Accrued Interest and Other Receivables	3,244	1,641	-	675	(675)	4,885
TOTAL ASSETS	<u>14,472,321</u>	<u>1,466,356</u>	<u>-</u>	<u>17,826</u>	<u>(3,118)</u>	<u>15,953,385</u>
Liabilities						
Accrued Expenses and Other Payables	562	139	-	-	(675)	26
TOTAL LIABILITIES	<u>562</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>(675)</u>	<u>26</u>
TOTAL NET POSITION	<u>\$ 14,471,759</u>	<u>\$ 1,466,217</u>	<u>\$ -</u>	<u>\$ 17,826</u>	<u>\$ (2,443)</u>	<u>\$ 15,953,359</u>
Net Position Consists of						
Net Position Held in Trust for Internal Pool Participants	\$ 7,136,429	\$ 1,442,124	\$ -	\$ -	\$ (2,436)	\$ 8,576,117
Net Position Held in Trust for External Pool Participants	7,335,297	25,003	-	-	-	7,360,300
Restricted Reserve Funds ⁽¹⁾	-	-	-	17,826	(7)	17,819
Unrealized Fair Market Value Adjustment	33	(910)	-	-	-	(877)
TOTAL NET POSITION	<u>\$ 14,471,759</u>	<u>\$ 1,466,217</u>	<u>\$ -</u>	<u>\$ 17,826</u>	<u>\$ (2,443)</u>	<u>\$ 15,953,359</u>

(1) See Note 1 to the Financial Statements subsection *Administrative Fees and LGIP Trust Reserve* for more information on the Reserve Funds.

**Local Government Investment Pool Trust
Supplementary Information
Combining Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2018**

(amounts in thousands)

	<u>Georgia Fund 1</u>	<u>Georgia Fund 1 Plus</u>	<u>GEAP</u>	<u>Trust Reserve</u>	<u>Eliminations</u>	<u>Total</u>
Additions						
Interest Income	\$ 132,467	\$ 38,771	\$ 2,264	\$ 208	\$ -	\$ 173,710
Net Increase (Decrease) in Fair Value of Investments	44,752	724	-	-	-	45,476
Less: Administrative Fees	<u>(6,335)</u>	<u>(1,262)</u>	<u>(109)</u>	<u>7,706</u>	<u>-</u>	<u>-</u>
Net Investment Income	170,884	38,233	2,155	7,914	-	219,186
Pool Participant Deposits and Reinvestment of Distributions	53,648,826	1,506,754	20,269	-	(36,645)	55,139,204
TOTAL ADDITIONS	<u>\$ 53,819,710</u>	<u>\$ 1,544,987</u>	<u>\$ 22,424</u>	<u>\$ 7,914</u>	<u>\$ (36,645)</u>	<u>\$ 55,358,390</u>
Deductions						
Distribution of Earnings	\$ 170,685	\$ 38,111	\$ 2,169	\$ -	\$ -	\$ 210,965
Operating Expenses	-	151	-	2,712	-	2,863
Pool Participant Withdrawals	<u>51,187,194</u>	<u>2,259,643</u>	<u>193,029</u>	<u>-</u>	<u>(44,158)</u>	<u>53,595,708</u>
TOTAL DEDUCTIONS	<u>\$ 51,357,879</u>	<u>\$ 2,297,905</u>	<u>\$ 195,198</u>	<u>\$ 2,712</u>	<u>\$ (44,158)</u>	<u>\$ 53,809,536</u>
Change in Net Position	2,461,831	(752,918)	(172,774)	5,202	7,513	1,548,854
Net Position						
Beginning of Year	<u>12,009,928</u>	<u>2,219,135</u>	<u>172,774</u>	<u>12,624</u>	<u>(9,956)</u>	<u>14,404,505</u>
End of Year	<u>\$ 14,471,759</u>	<u>\$ 1,466,217</u>	<u>\$ -</u>	<u>\$ 17,826</u>	<u>\$ (2,443)</u>	<u>\$ 15,953,359</u>

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SECTION II
INTERNAL CONTROL AND COMPLIANCE

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DEPARTMENT OF AUDITS AND ACCOUNTS

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GREG S. GRIFFIN
STATE AUDITOR

(404) 656-2174

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

The Honorable Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the State Depository Board
and
Mr. Steven N. McCoy, State Treasurer

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Government Investment Pool Trust of the Office of the State Treasurer of the State of Georgia (together the Trust), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated October 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

October 18, 2018