

Office of the State Treasurer

FY 2017



Local Government Investment Pool Trust

LGIP Trust Financial Statements, June 30, 2017

**Local Government Investment Pool Trust
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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, Office of the State Treasurer

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Government Investment Pool (LGIP) Trust, as of and for the year ended June 30, 2017, 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 the Trust's 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, 2017, 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, 2017, 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 operations, 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 by us and other auditors. In our

opinion, based on our audit, the procedures performed as described above, 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 November 13, 2017 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.

Respectfully submitted,



Greg S. Griffin
State Auditor

November 13, 2017

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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”), the 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, 2017.

Financial Highlights

GF1

- At fiscal year end, GF1 reported a net position in the amount of \$12 billion.
- GF1’s net position decreased by \$1.4 billion over the previous fiscal year.
- Net yield paid to participants ranged from 39 basis points (“bp”) to 94 bp for FY17.

GF1 Plus

- At fiscal year end, GF1 Plus reported a net position in the amount of \$2.2 billion.
- GF1 Plus was initiated in FY17 with a net position of \$579.8 million and ended with a net position of \$2.2 billion.
- Net yield paid to participants ranged from 24 bp to 108 bp for FY17.

GEAP

- At fiscal year end, GEAP reported a net position in the amount of \$172.8 million.
- GEAP’s net position decreased by \$43.8 million over the previous fiscal year.
- Though GEAP is a variable net asset value (“NAV”) pool, the NAV remained stable at \$1.99 throughout FY17.

Overview of the Financial Statements

The financial statements report the aggregate activities of GF1, GEAP, GF1 Plus, and the LGIP Trust Reserve. GF1 is internally managed by OST to maintain a stable NAV of \$1.00 and is rated AA+ 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 FY17, a portion of the pool was invested by a subadvisor. For financial reporting purposes, the pool is reported at fair market value.

GEAP is internally managed by OST as a variable NAV pool and is rated AA+f by S&P. GEAP is marked-to-market daily. The NAV of GEAP will vary by a slight amount, due to the changing value of the assets and by the amount of the daily income accrual.

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.

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

- *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.
- *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

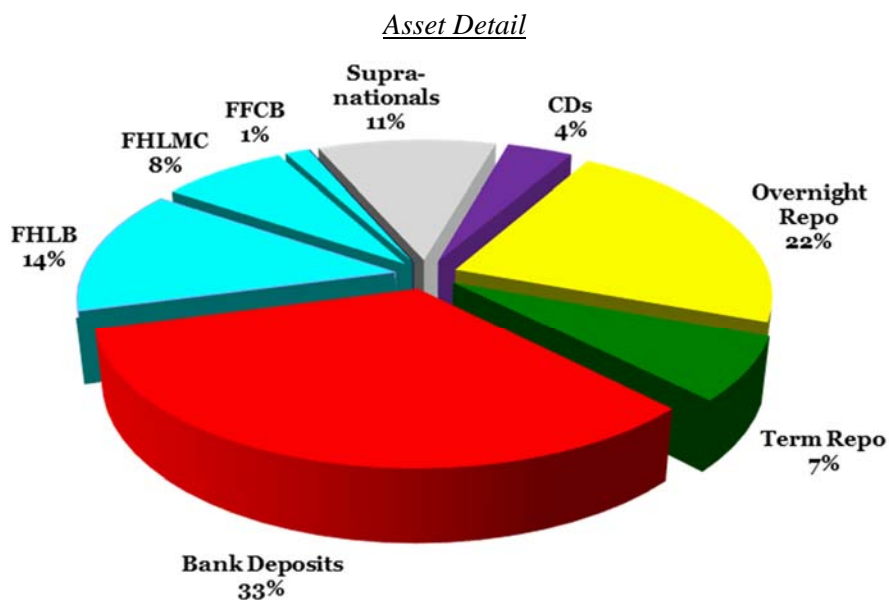
GF1

GF1 experienced a decrease in net position of \$1.4 billion in FY17. Total assets were lower and liabilities were higher compared to last fiscal year. 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. GF1 is a voluntary investment option for state entities and municipalities. In addition, during FY17, GF1 Plus was created and funded with transfers from GF1.

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

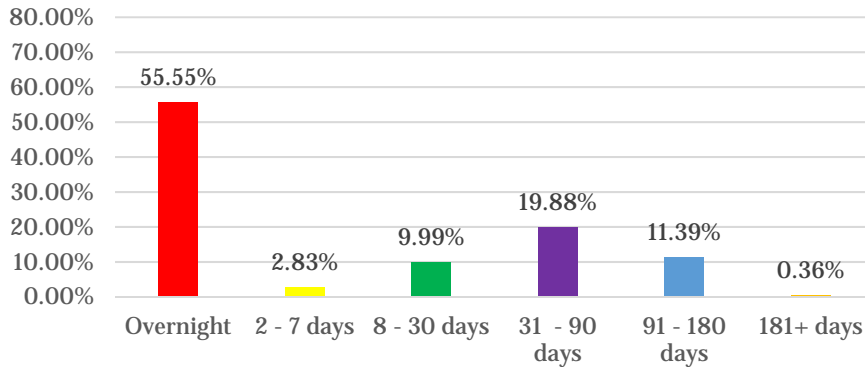
	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Cash and Cash Equivalents	\$ 8,115,157	\$ 8,797,422	\$ (682,265)
Investments in Securities	3,894,396	4,622,873	(728,477)
Accrued Interest & Other Receivables	894	790	104
Less: Accrued Expenses & Other Payables	519	-	519
Net Position	<u>\$ 12,009,928</u>	<u>\$ 13,421,085</u>	<u>\$ (1,411,157)</u>

Below are charts reflecting the assets of GF1, the maturity distribution of holdings, and account holder information at June 30, 2017. Historical information can be found on the website at www.ost.ga.gov.

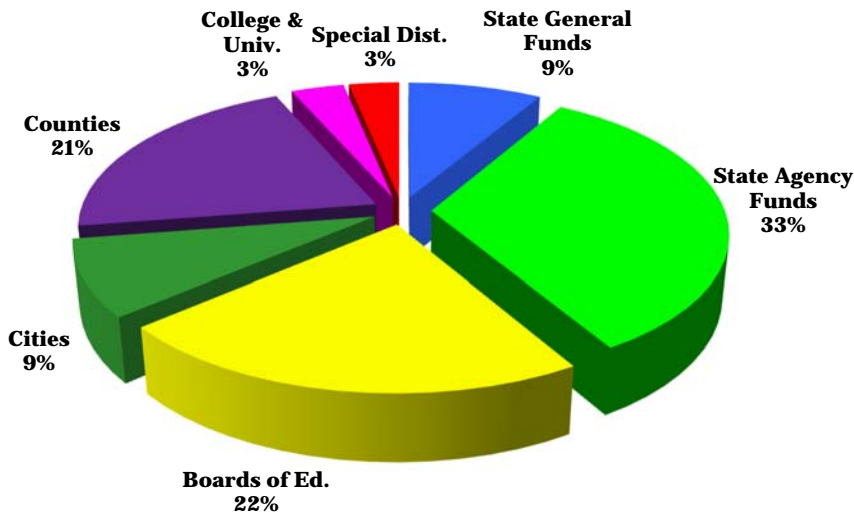


**Local Government Investment Pool Trust
Management’s Discussion and Analysis
(Unaudited)**

Maturity Distribution



Account Holder Distribution



GF1 Plus

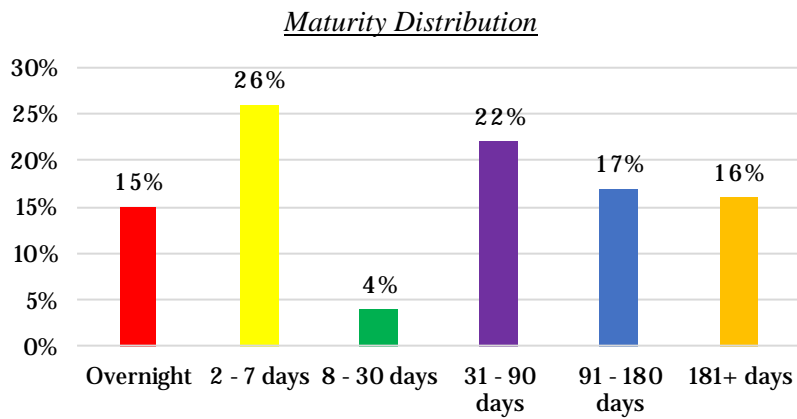
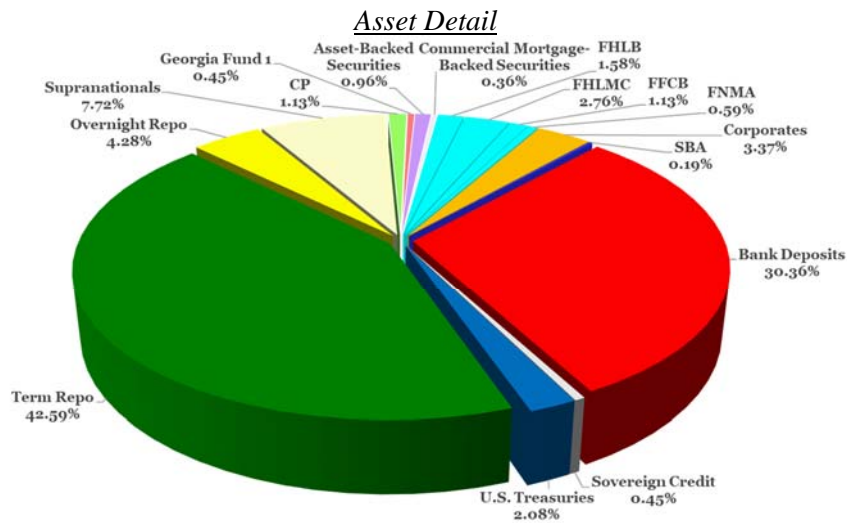
GF1 Plus was established as an additional LGIP investment option in FY17 and currently consists of funds for the state as well as state agencies looking to benefit from higher yields available by adding credit exposure. GF1 Plus was primarily funded through redemptions in GF1. Although GF1 Plus serves as an investment option for state entities, as an LGIP offering, it could accept investments from other eligible municipalities with approval of the State Depository Board.

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

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Cash and Cash Equivalents	\$ 1,348,614	n/a	n/a
Investments in Securities	858,929	n/a	n/a
Accrued Interest & Other Receivables	1,762	n/a	n/a
Investment in Georgia Fund 1	9,952	n/a	n/a
Less: Accrued Expenses & Other Payables	122	n/a	n/a
Net Position	\$ 2,219,135	n/a	n/a

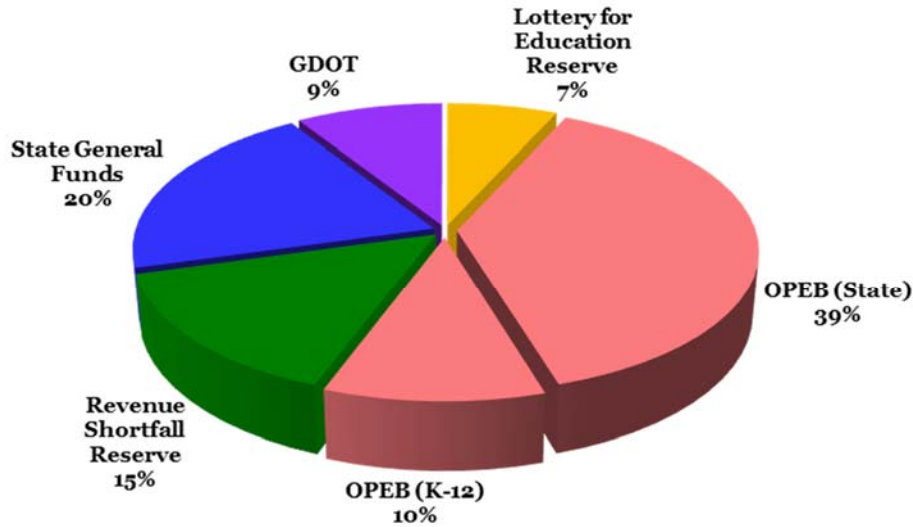
Local Government Investment Pool Trust Management's Discussion and Analysis (Unaudited)

Below are charts reflecting the assets of GF1 Plus, the maturity distribution of holdings, and account holder information at June 30, 2017.



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

Account Holder Distribution



GEAP

GEAP experienced a decrease in net position of \$43.8 million in FY17. Total assets were lower while liabilities were higher compared to FY16. GEAP’s net position is a function of several parameters, some of which are independent of GEAP’s performance. The resulting change in net position is primarily from changes in deposits and withdrawals of the participants in the pool. GEAP is a voluntary investment option for eligible state entities and municipalities.

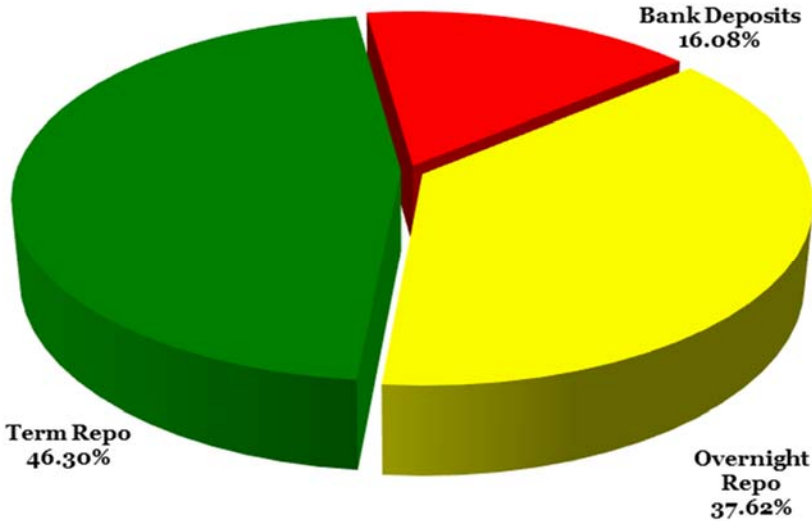
A summary of GEAP’s net position is presented below (amounts in thousands):

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Cash and Cash Equivalents	\$ 172,775	\$ 156,370	\$ 16,405
Investments in Securities	-	60,012	(60,012)
Accrued Interest & Other Receivables	6	210	(204)
Less: Accrued Expenses & Other Payables	7	-	7
Net Position	<u>\$ 172,774</u>	<u>\$ 216,592</u>	<u>\$ (43,818)</u>

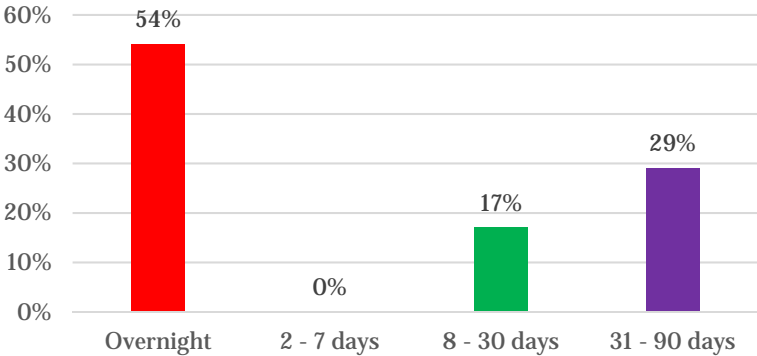
Below are charts reflecting the assets of GEAP, the maturity distribution of holdings, and account holder information at June 30, 2017. Historical information can be found on the website at www.ost.ga.gov.

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

Asset Detail

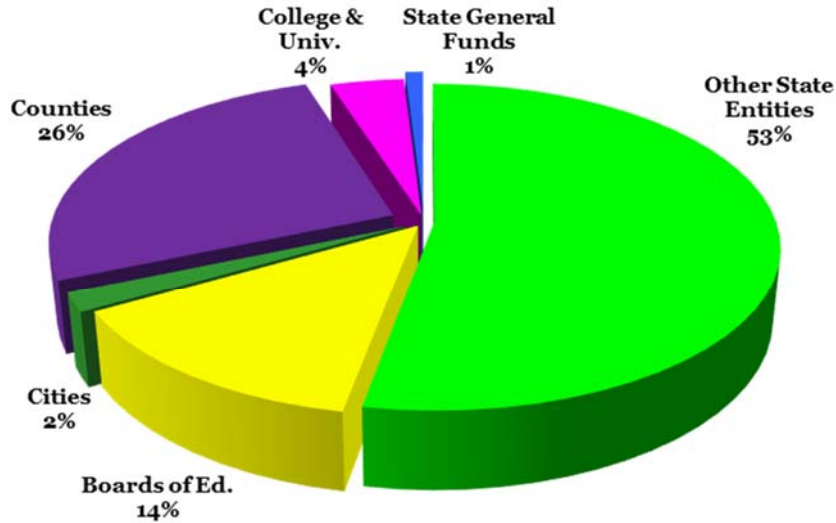


Maturity Distribution



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

Account Holder Distribution



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, the LGIP Trust Reserve’s net position stands at \$12.6 million reflecting an increase in net position of \$4.8 million in FY17. 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. For FY17, the administrative fees were raised from 3.3 bp to 5 bp for GF1 and the introduction of GF1 Plus at 7.5 bp.

Change in Net Position

GF1

Net investment income (i.e. total investment income plus miscellaneous income less administrative expenses) increased 101% compared to FY16. This rise was primarily due to an increase of 55 bp in GF1’s portfolio yield from FY16.

Deposits and withdrawals increased by 2% and 10%, respectively, in comparison to FY16. Withdrawals from the state’s position as well as other state agencies’ position in GF1 were used to fund other state portfolios including GF1 Plus. These transfers are reflected in the chart for GF1 titled “GF1 Average Monthly Balances.”

After seven years of accommodative monetary policy in the U.S., the Federal Reserve raised the Fed Funds target from 0% – 0.25% to 0.25% - 0.50% in December 2015. Subsequently, the Fed raised the target three times for FY17 taking the Fed Funds target to 1.00% - 1.25% (see chart on next page). This move in the Fed Funds target has led to higher yields for GF1 as well as higher overall investment income and distribution of earnings to participants. The pool distributes income to participants monthly, based on

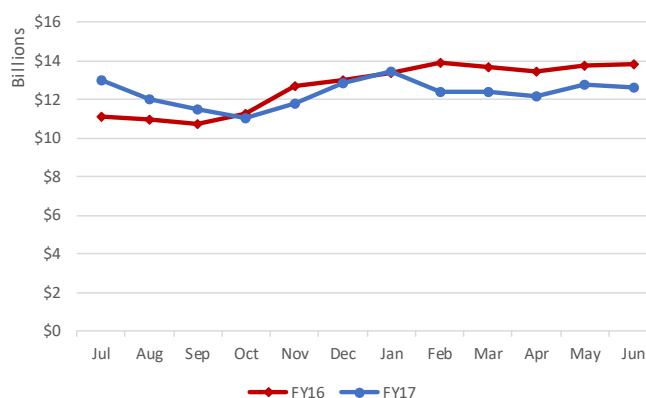
Local Government Investment Pool Trust Management's Discussion and Analysis (Unaudited)

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):

	2017	2016	Variance
Net Investment Income	\$ 70,279	\$ 34,975	\$ 35,304
Pool Participant Deposits and Reinvestment of Distributions	51,582,323	50,366,757	1,215,566
Less: Distribution of Earnings	70,463	35,233	35,230
Less: Pool Participant Withdrawals	52,993,296	48,158,005	4,835,291
Change in Net Position	\$ (1,411,157)	\$ 2,208,494	\$ (3,619,651)

GF1 Average Monthly Balances



GF1 Plus

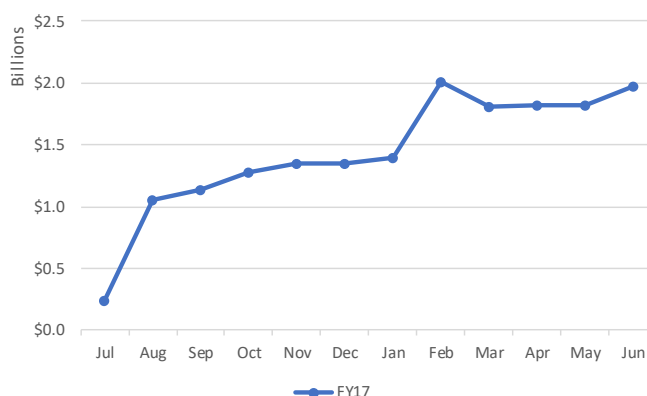
As a new investment option in FY17, a change in net position comparison is not available for GF1 Plus. However, the chart below reflects contributions from participants and distributions for participants throughout FY17.

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

	2017	2016	Variance
Net Investment Income	\$ 10,329	n/a	n/a
Pool Participant Deposits and Reinvestment of Distributions	2,570,016	n/a	n/a
Less: Distribution of Earnings	11,210	n/a	n/a
Less: Pool Participant Withdrawals	350,000	n/a	n/a
Change in Net Position	\$ 2,219,135	n/a	n/a

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

GF1 Plus Average Monthly Balances



GEAP

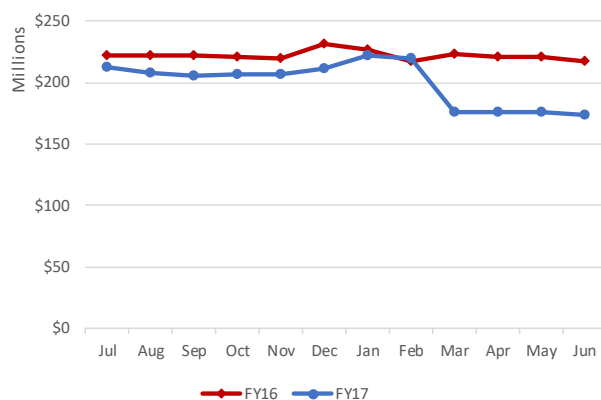
Net investment income increased 54% compared to FY16. This rise was primarily due to an increase of 42 basis points in GEAP’s portfolio yield from FY16.

Deposits and withdrawals decreased by 27% and increased by 112%, respectively, in comparison to FY16. For the change in average monthly balances (see chart below), the decrease in average monthly balances from February to March was due to an accountholder withdrawing approximately \$45.8 million to reduce their exposure in GEAP. 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.

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

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Net Investment Income	\$ 1,455	\$ 943	\$ 512
Pool Participant Deposits and Reinvestment of Distributions	17,590	24,132	(6,542)
Less: Distribution of Earnings	1,490	1,032	458
Less: Pool Participant Withdrawals	61,373	29,000	32,373
Change in Net Position	<u>\$ (43,818)</u>	<u>\$ (4,957)</u>	<u>\$ (38,861)</u>

GEAP Average Monthly Balances



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

LGIP Trust Reserve

The change in net position increased by 62% compared to the FY16, which was primarily due to increased administrative fees on GF1 and additional fees from GF1 Plus. Administrative fees increased by 74% compared to FY16. In FY16, OST experienced an increase in custody fees, as well as a rise in costs for both investment technology and cyber security.

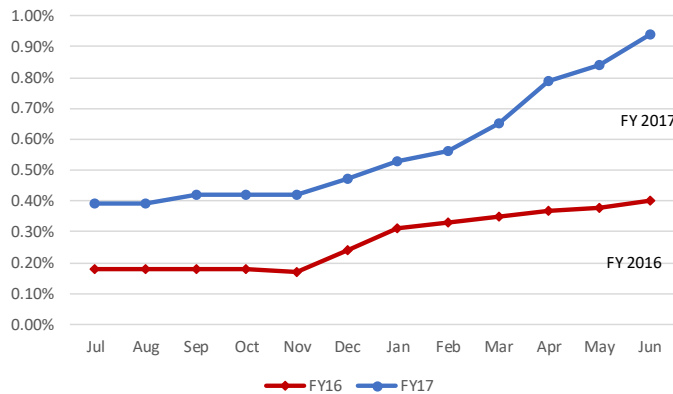
Monthly Yield

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. Due primarily to increased custody fees and costs for investment technology and cyber security, in accordance with the LGIP Trust Policy and pursuant to O.C.G.A §36-83-8(b)(3)(B), the State Treasurer increased the administrative fee for GF1 for FY17 from 3.3 bp to 5 bp.

GF1 Monthly Net Yields

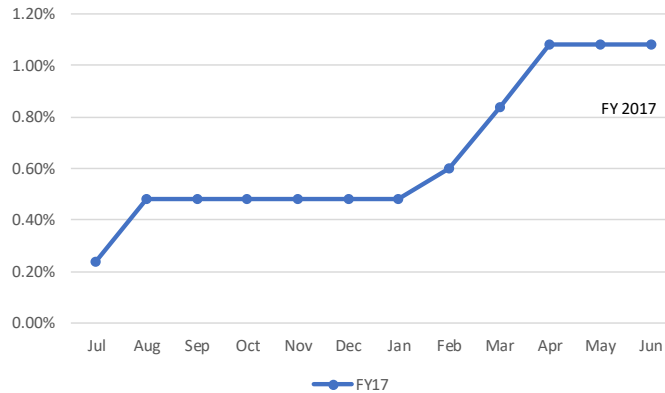


Local Government Investment Pool Trust Management’s Discussion and Analysis (Unaudited)

GF1 Plus

The annualized monthly net yield represents the annualized percent return of GF1 Plus investments. The administrative fee was set at 7.5 bp at GF1’s inception. GF1 Plus’ performance is measured against the net yield for GF1.

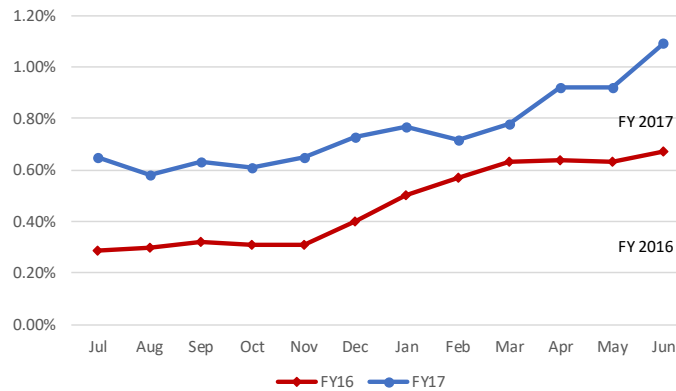
GF1 Plus Monthly Yields



GEAP

The annualized monthly net yield distributed to participants represents the annualized percent return of GEAP investments. The administrative fee for GEAP is 5 basis points. GEAP’s performance is measured against the Bank of America Merrill Lynch 1-Year U.S. Treasury Note Index.

GEAP Monthly Yields



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BASIC FINANCIAL STATEMENTS

Local Government Investment Pool Trust
Statement of Net Position
As of June 30, 2017

(amounts in thousands)

Assets

Cash and Cash Equivalents	\$	9,648,512
Investments in Securities		4,753,325
Accrued Interest and Other Receivables		2,668
TOTAL NET POSITION	\$	14,404,505

Net Position Consists of

Net Position Held in Trust for Internal Pool Participants	\$	7,693,986
Net Position Held in Trust for External Pool Participants		6,699,600
Restricted Reserve Funds		11,966
Unrealized Fair Market Value Adjustment		(1,047)
TOTAL NET POSITION	\$	14,404,505

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

Local Government Investment Pool Trust
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2017

(amounts in thousands)

Additions

Interest Income	\$	67,041
Net Increase (Decrease) in Fair Value of Investments		<u>22,564</u>
Net Investment Income		89,605
Pool Participant Deposits and Reinvestment of Distributions		<u>53,900,742</u>
TOTAL ADDITIONS	\$	<u>53,990,347</u>

Deductions

Distribution of Earnings	\$	83,163
Operating Expenses		2,732
Pool Participant Withdrawals		<u>53,145,438</u>
TOTAL DEDUCTIONS	\$	<u>53,231,333</u>

Change in Net Position	759,014
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Net Position

Beginning of Year	<u>13,645,491</u>
End of Year	<u><u>\$ 14,404,505</u></u>

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

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Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

(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, 2017, 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, 2017 (“FY17”). 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, 2017, 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.

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

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

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 FY17, 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.

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.

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

Administrative Fees and LGIP Trust Reserve

According to O.C.G.A. § 36-83-8(l), “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 FY17, OST assessed an administrative fee of 5 basis points on the average daily balances of GF1 participant accounts. For GF1 Plus, OST assessed an administrative fee of 7.5 basis points 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 \$7.5 million, of which \$6.2 million were GF1 fees, \$1.2 million were GF1 Plus fees, and \$125 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. With the approval of the State Treasurer, gains not distributed to current participants of any LGIP Offering may be deposited into the LGIP Trust Reserve. The total LGIP Trust expenses paid from the administrative fees collected were \$7.5 million resulting in a net increase in the LGIP Trust Reserve of \$4.8 million from administrative fees, leaving a balance of \$12.6 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. In GF1, these deposits are commingled with deposits of other participants and not separately managed, so the deposits cannot be separately identified.

(2) 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.

Georgia Fund 1

At June 30, 2017, GF1’s WAM was as follows:

Investment Type	Carrying Value (amounts in thousands)	WAM (Days)
Repurchase Agreements	\$ 3,510,000	10
Supranational Obligations	1,298,807	47
U.S. Agency Obligations	2,726,854	75
Total	\$ 7,535,661	
 GF1 WAM (Days)		 26

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

Georgia Fund 1 Plus

At June 30, 2017, GF1 Plus's WAM was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>WAM (Days)</u>
Asset-Backed Securities	\$ 21,277	450
Commercial Mortgage-Backed Securities	8,010	335
Commercial Papers	24,938	74
Corporates	74,418	287
Repurchase Agreements	1,040,000	77
Sovereign Credit	10,000	640
Supranational Obligations	171,041	296
U.S. Agency Obligations	134,003	175
U.S. Agency Obligations Guaranteed	4,165	934
U.S. Treasury Obligations	46,077	764
Total	\$ 1,533,929	

GF1 Plus WAM (Days) 107

GEAP

According to GASB 40, an acceptable method for reporting interest rate risk is duration. Duration is the approximate percentage change in value for a 100 basis point change in rates. Duration is the method used for reporting purposes for GEAP.

As of June 30, 2017, GEAP's duration was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>Duration</u>
Repurchase Agreements	\$ 145,000	.09

GEAP Duration .09

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.

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

Georgia Fund 1

At June 30, 2017, 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+	
Repurchase Agreements	\$ 5,791	\$ 1,955,549	\$ 399,509	\$ 370,114	\$ -	\$ 2,730,963
Supranational Obligations	99,998	-	-	-	1,198,809	1,298,807
U.S. Agency Obligations	-	255,691	-	-	2,471,163	2,726,854
Total Credit Risk Investments	\$ 105,789	\$ 2,211,240	\$ 399,509	\$ 370,114	\$ 3,669,972	\$ 6,756,624
Repurchase Agreements Backed by:						
U.S. Treasury Obligations						577,259
U.S. Agency Obligations Explicitly Guaranteed						201,778
Total Securities						\$ 7,535,661

Georgia Fund 1 Plus

At June 30, 2017, 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	\$ 21,277	\$ -	\$ -	\$ -	\$ -	\$ 21,277
Commercial Mortgage-Backed Securities	7,150	860	-	-	-	8,010
Commercial Papers	-	-	-	-	24,938	24,938
Corporates	1,087	3,732	53,257	16,342	-	74,418
Repurchase Agreements	242,666	295,665	180,101	257,334	54,802	1,030,568
Sovereign Credit	-	-	10,000	-	-	10,000
Supranational Obligations	171,041	-	-	-	-	171,041
U.S. Agency Obligations	-	134,003	-	-	-	134,003
Total Credit Risk Investments	\$ 443,221	\$ 434,260	\$ 243,358	\$ 273,676	\$ 79,740	\$ 1,474,255
U.S. Treasury Obligations						46,077
U.S. Agency Obligations Explicitly Guaranteed						4,165
Repurchase Agreements Backed by:						
U.S. Agency Obligations Explicitly Guaranteed						9,432
Total Securities						\$ 1,533,929

GEAP

At June 30, 2017, the pool's securities and underlying collateral for repurchase agreements were rated as follows (amounts in thousands):

Credit Risk Investments	Long-Term Ratings			Carrying Value
	AA	A	BBB	
Repurchase Agreements	\$ 27,198	\$ 37,868	\$ 39,934	\$ 105,000
Repurchase Agreements Backed by:				
U.S. Treasury Obligations				40,000
Total Securities				\$ 145,000

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.

OST does not maintain separate bank accounts for each pool; therefore, separate custodial credit risk disclosures for each pool in the Trust cannot be presented. As of June 30, 2017, bank deposits of the

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

Trust were \$5.2 billion, of which \$1.6 billion were insured, secured, or fully collateralized and \$3.6 billion were non-collateralized.

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, 2017, the concentration of credit risk for the pools in the Trust is as follows:

- Approximately 38.7% 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 10.8% was invested in supranational obligations.
- Approximately 18.1% of GF1 Plus 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 7.7% was invested in supranational obligations.
- Approximately 14.5% of GEAP was invested in repurchase agreements collateralized with U.S. agency obligations not explicitly guaranteed by the U.S. Government and 7.0% was invested in repurchase agreements collateralized with corporate bonds issued by the Altria Group Inc., rated by the NRSROs as A-.

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.

Georgia Fund 1

At June 30, 2017, 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	\$ -	\$ 1,298,807	\$ -	\$ 1,298,807
U.S. Agency Obligations	-	2,726,854	-	2,726,854
Total	<u>\$ -</u>	<u>\$ 4,025,661</u>	<u>\$ -</u>	<u>\$ 4,025,661</u>

Local Government Investment Pool Trust
Notes to the Financial Statements
Year Ended June 30, 2017

Georgia Fund 1 Plus

At June 30, 2017, 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	\$ -	\$ 21,277	\$ -	\$ 21,277
Commercial Mortgage-Backed Securities	-	8,010	-	8,010
Corporates	-	74,418	-	74,418
Sovereign Credit	-	-	10,000	10,000
Supranational Obligations	-	171,041	-	171,041
U.S. Agency Obligations	-	134,003	-	134,003
U.S. Agency Obligations Guaranteed	-	4,165	-	4,165
U.S. Treasury Obligations	46,077	-	-	46,077
Total	<u>\$ 46,077</u>	<u>\$ 412,914</u>	<u>\$ 10,000</u>	<u>\$ 468,991</u>

GEAP

At June 30, 2017, GEAP does not have any investments reported at fair value.

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.

(3) 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):

	<u>Georgia Fund 1</u>	<u>Georgia Fund 1 Plus</u>	<u>GEAP</u>	<u>Trust Reserve</u>	<u>Eliminations</u>	<u>Total</u>
Internal Participants	\$ 5,383,167	\$ 2,220,016	\$ 100,101	\$ -	\$ (9,298)	\$ 7,693,986
External Participants	6,626,927	-	72,673	-	-	6,699,600
Restricted Reserve Funds	-	-	-	12,624	(658)	11,966
Unrealized Fair Market Value Adjustment	(166)	(881)	-	-	-	(1,047)
Total Net Position	<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>

(4) 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.

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SUPPLEMENTARY INFORMATION

Local Government Investment Pool Trust
Supplementary Information
Combining Statement of Net Position
As of June 30, 2017

(amounts in thousands)

	Georgia Fund 1	Georgia Fund 1 Plus	GEAP	Trust Reserve	Eliminations	Total
Assets						
Cash and Cash Equivalents	\$ 8,115,157	\$ 1,358,566	\$ 172,775	\$ 11,970	\$ (9,956)	\$ 9,648,512
Investments in Securities	3,894,396	858,929	-	-	-	4,753,325
Accrued Interest and Other Receivables	894	1,768	6	654	(654)	2,668
TOTAL ASSETS	12,010,447	2,219,263	172,781	12,624	(10,610)	14,404,505
Liabilities						
Accrued Expenses and Other Payables	519	128	7	-	(654)	-
TOTAL LIABILITIES	519	128	7	-	(654)	-
TOTAL NET POSITION	\$ 12,009,928	\$ 2,219,135	\$ 172,774	\$ 12,624	\$ (9,956)	\$ 14,404,505
Net Position Consists of						
Net Position Held in Trust for Internal Pool Participants	\$ 5,383,167	\$ 2,220,016	\$ 100,101	\$ -	\$ (9,298)	\$ 7,693,986
Net Position Held in Trust for External Pool Participants	6,626,927	-	72,673	-	-	6,699,600
Restricted Reserve Funds ⁽¹⁾	-	-	-	12,624	(658)	11,966
Unrealized Fair Market Value Adjustment	(166)	(881)	-	-	-	(1,047)
TOTAL NET POSITION	\$ 12,009,928	\$ 2,219,135	\$ 172,774	\$ 12,624	\$ (9,956)	\$ 14,404,505

(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, 2017

(amounts in thousands)

	Georgia Fund 1	Georgia Fund 1 Plus	GEAP	Trust Reserve	Eliminations	Total
Additions						
Interest Income	\$ 53,384	\$ 11,989	\$ 1,592	\$ 76	\$ -	\$ 67,041
Net Increase (Decrease) in Fair Value of Investments	23,069	(493)	(12)	-	-	22,564
Less: Administrative Fees	(6,174)	(1,167)	(125)	7,466	-	-
Net Investment Income	70,279	10,329	1,455	7,542	-	89,605
Pool Participant Deposits and Reinvestment of Distributions	51,582,323	2,570,016	17,590	-	(269,187)	53,900,742
TOTAL ADDITIONS	\$ 51,652,602	\$ 2,580,345	\$ 19,045	\$ 7,542	\$ (269,187)	\$ 53,990,347
Deductions						
Distribution of Earnings	\$ 70,463	\$ 11,210	\$ 1,490	\$ -	\$ -	\$ 83,163
Operating Expenses	-	-	-	2,732	-	2,732
Pool Participant Withdrawals	52,993,296	350,000	61,373	-	(259,231)	53,145,438
TOTAL DEDUCTIONS	\$ 53,063,759	\$ 361,210	\$ 62,863	\$ 2,732	\$ (259,231)	\$ 53,231,333
Change in Net Position	(1,411,157)	2,219,135	(43,818)	4,810	(9,956)	759,014
Net Position						
Beginning of Year	13,421,085	-	216,592	7,814	-	13,645,491
End 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>

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SECTION II
INTERNAL CONTROL AND COMPLIANCE

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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

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 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, 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated November 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool/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 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 Pool/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

November 13, 2017