

Office of the State Treasurer

FY 2016



Local Government Investment Pool

LGIP Trust Financial Statements, June 30, 2016

Local Government Investment Pool Trust Fund

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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 Trust (Trust) of the Office of the State Treasurer (OST), as of and for the year ended June 30, 2016, 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 opinions 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 opinions.

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Opinions

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, 2016, 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 OST Local Government Investment Pools, investment trust funds of the State of Georgia and do not purport to, and do not, present fairly the financial position of the State Treasurer's Office of the State of Georgia, or the State of Georgia, as of June 30, 2016, and 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.

Also as discussed in Note 1 to the financial statements, the Trust implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to these matters.

Other Matter

Management has omitted the Management Discussion and Analysis that is required by generally accepted accounting principles to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17th, 2016 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 17, 2016

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Financial Statements

**Combined LGIP Trust
Statement of Net Position
As of June 30, 2016**

(amounts in thousands)

	<u>Georgia Fund 1</u>	<u>GEAP</u>	<u>Trust Reserve</u>	<u>Total</u>
Assets				
Cash and Cash Equivalents	\$ 8,797,422	\$ 156,370	\$ 7,814	\$ 8,961,606
Investments in Securities	4,622,873	60,012	-	4,682,885
Accrued Interest and Other Receivables	790	210	-	1,000
TOTAL NET POSITION	<u><u>\$ 13,421,085</u></u>	<u><u>\$ 216,592</u></u>	<u><u>\$ 7,814</u></u>	<u><u>\$ 13,645,491</u></u>
Net Position Consists of				
Net Position Held in Trust for Internal Pool Participants	\$ 6,556,535	\$ 99,324	\$ -	\$ 6,655,859
Net Position Held in Trust for External Pool Participants	6,864,533	117,268	-	6,981,801
Restricted Reserve Funds ⁽¹⁾	-	-	7,814	7,814
Unrealized Fair Market Value Adjustment	17	-	-	17
TOTAL NET POSITION	<u><u>\$ 13,421,085</u></u>	<u><u>\$ 216,592</u></u>	<u><u>\$ 7,814</u></u>	<u><u>\$ 13,645,491</u></u>

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

Combined LGIP Trust
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2016

(amounts in thousands)

	<u>Georgia Fund 1</u>	<u>GEAP</u>	<u>Trust Reserve</u>	<u>Total</u>
Additions				
Interest Income	\$ 27,726	\$ 1,147	\$ 21	\$ 28,894
Net Increase (Decrease) in Fair Value of Investments	11,433	(93)	-	11,340
Less: Administrative Fees	(4,184)	(111)	4,295	-
Net Investment Income	34,975	943	4,316	40,234
Pool Participant Deposits and Reinvestment of Distributions	50,366,757	24,132	-	50,390,889
TOTAL ADDITIONS	\$ 50,401,732	\$ 25,075	\$ 4,316	\$ 50,431,123
Deductions				
Distribution of Earnings	\$ 35,233	\$ 1,032	\$ -	\$ 36,265
Operating Expenses	-	-	2,571	2,571
Pool Participant Withdrawals	48,158,005	29,000	-	48,187,005
TOTAL DEDUCTIONS	\$ 48,193,238	\$ 30,032	\$ 2,571	\$ 48,225,841
Change in Net Position	2,208,494	(4,957)	1,745	2,205,282
Net Position				
Beginning of Year	11,212,591 ⁽¹⁾	221,549	6,069 ⁽¹⁾	11,440,209
End of Year	<u>\$ 13,421,085</u>	<u>\$ 216,592</u>	<u>\$ 7,814</u>	<u>\$ 13,645,491</u>

(1) In fiscal year 2015, the balances in Georgia Fund 1 and the Trust Reserve were reported as a combined balance in Georgia Fund 1.

Georgia Fund 1
Statement of Net Position
As of June 30, 2016

(amounts in thousands)

Assets

Cash and Cash Equivalents	\$	8,797,422
Investments in Securities		4,622,873
Accrued Interest and Other Receivables		790
TOTAL NET POSITION	\$	13,421,085

Net Position Consists of

Net Position Held in Trust for Internal Pool Participants	\$	6,556,535
Net Position Held in Trust for External Pool Participants		6,864,533
Unrealized Fair Market Value Adjustment		17
TOTAL NET POSITION	\$	13,421,085

Beneficial Interest

		13,421,068
Net Asset Value	\$	1.00

Georgia Fund 1
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2016

(amounts in thousands)

Additions

Interest Income	\$	27,726
Net Increase (Decrease) in Fair Value of Investments		11,433
Less: Administrative Fees		(4,184)
Net Investment Income		<u>34,975</u>
Pool Participant Deposits and Reinvestment of Distributions		<u>50,366,757</u>
TOTAL ADDITIONS	\$	<u><u>50,401,732</u></u>

Deductions

Distribution of Earnings	\$	35,233
Pool Participant Withdrawals		48,158,005
TOTAL DEDUCTIONS	\$	<u><u>48,193,238</u></u>

Change in Net Position	2,208,494
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Net Position

Beginning of Year	<u>11,212,591</u>
End of Year	<u><u>\$ 13,421,085</u></u>

GEAP
Statement of Net Position
As of June 30, 2016

(amounts in thousands)

Assets

Cash and Cash Equivalents	\$	156,370
Investments in Securities		60,012
Accrued Interest and Other Receivables		210
TOTAL NET POSITION	\$	216,592

Net Position Consists of

Net Position Held in Trust for Internal Pool Participants	\$	99,324
Net Position Held in Trust for External Pool Participants		117,268
TOTAL NET POSITION	\$	216,592

Beneficial Interest

Net Asset Value	\$	1.99
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GEAP
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2016

(amounts in thousands)

Additions

Interest Income	\$	1,147
Net Increase (Decrease) in Fair Value of Investments		(93)
Less: Administrative Fees		(111)
Net Investment Income		943
Pool Participant Deposits and Reinvestment of Distributions		24,132
TOTAL ADDITIONS	\$	25,075

Deductions

Distribution of Earnings		1,032
Pool Participant Withdrawals		29,000
TOTAL DEDUCTIONS	\$	30,032

Change in Net Position (4,957)

Net Position

Beginning of Year		221,549
End of Year	\$	216,592

LGIP Trust Reserve
Statement of Net Position
As of June 30, 2016

(amounts in thousands)

Assets

Cash and Cash Equivalents	\$	7,814
Investments in Securities		-
Accrued Interest and Other Receivables		-
TOTAL NET POSITION	<u>\$</u>	<u>7,814</u>

LGIP Trust Reserve
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2016

(amounts in thousands)

Additions

Interest Income	\$	21
Administrative Fees		4,295
TOTAL ADDITIONS	\$	4,316

Deductions

Operating Expenses	\$	2,571
TOTAL DEDUCTIONS	\$	2,571

Change in Net Position 1,745

Net Position

Beginning of Year		6,069
End of Year	\$	7,814

Notes to the Financial Statements

Year Ended June 30, 2016

(1) Significant Accounting Policies

Reporting Entity

Georgia Fund 1 (“GF1”) 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 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, 2016 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 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 and results of the operations of the pools. In the State’s Comprehensive Annual Financial Report (“CAFR”), the Trust is not reported as a separate fund. Instead, the State’s portion of the Trust is reported on the balance sheet as “Cash and Cash Equivalents” for GF1 and as “Investments” for GEAP. The portion of the Trust belonging to external participants is reported as the Investment Trust Fund.

Changes in Financial Accounting and Reporting

In fiscal year 2016, the Trust implemented the following GASB Statements:

- No. 72 – Fair Value Measurement and Application
- No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The implementation of these Statements did not require the modification of the financial statements.

Notes to the Financial Statements

Year Ended June 30, 2016

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, as defined by GASB, 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 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.

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 the fiscal year ended June 30, 2016, OST assessed an administrative fee of 3.3 basis points on the average daily balances of GF1 participant accounts. For GEAP, OST assessed an administrative fee of 5 basis points on the daily fund balance. The total fees assessed were \$4.3 million, of which \$4.2 million were GF1 fees and \$110 thousand were GEAP fees.

Notes to the Financial Statements
Year Ended June 30, 2016

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 \$2.6 million resulting in a net increase in the LGIP Trust Reserve of \$1.7 million from administrative fees, leaving a balance of \$7.8 million in the LGIP Trust Reserve.

(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 uses 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.

At June 30, 2016, GF1’s WAM was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>WAM (Days)</u>
Repurchase Agreements	\$ 4,286,125	5
U.S. Agency Obligations	4,844,413	108
Commercial Paper	502,738	33
Total	\$ 9,633,276	
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GF1 Weighted Average Maturity (Days)		42
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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, 2016, GEAP’s duration was as follows:

<u>Investment Type</u>	<u>Carrying Value (amounts in thousands)</u>	<u>Duration</u>
Repurchase Agreements	\$ 180,000	.23
U.S. Agency Obligations	10,012	.08
Total	\$ 190,012	
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GEAP Duration		.23
		<hr style="border-top: 3px double black;"/>

Notes to the Financial Statements
Year Ended June 30, 2016

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, 2016, the pool’s securities and collateral for repurchase agreements were rated as follows (amounts in thousands):

Long-Term Ratings	Short-Term Ratings	Repurchase Agreements Collateral	U.S. Agency Obligations	Commercial Paper	Total Carrying Value
AAA		\$ 14,674	\$ -	\$ -	\$ 14,674
	A-1+	-	4,804,398	502,738	5,307,136
AA		2,180,589	40,015	-	2,220,604
A		166,095	-	-	166,095
BBB		296,864	-	-	296,864
Total Credit Risk Investments		\$ 2,658,222	\$ 4,844,413	\$ 502,738	\$ 8,005,373
Repurchase Agreements Backed by:					
U.S. Treasury Obligations					1,391,185
U.S. Agency Obligations Explicitly Guaranteed					236,718
Total Securities					\$ 9,633,276

GEAP

At June 30, 2016, the pool’s securities and collateral for repurchase agreements were rated as follows (amounts in thousands):

Long-Term Ratings	Repurchase Agreements Collateral	U.S. Agency Obligations	Total Carrying Value
AAA	\$ 46,484	\$ -	\$ 46,484
AA	77,067	10,012	87,079
A	6,000	-	6,000
BBB	31,136	-	31,136
Total Credit Risk Investments	\$ 160,687	\$ 10,012	\$ 170,699
Repurchase Agreements Backed by:			
U.S. Agency Obligations Explicitly Guaranteed			19,313
Total Securities			\$ 190,012

Notes to the Financial Statements

Year Ended June 30, 2016

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, 2016, bank balances of the Trust were \$3.821 billion invested in negotiated deposit agreements, of which \$760 million were insured, secured, or fully collateralized and \$3.061 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. At June 30, 2016, approximately 52.2% of GF1 and 40.2% of GEAP were 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. Government.

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.
- 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, which at June 30, 2016, are as follows:

- GF1 has \$4.844 billion of U.S. agency obligations valued using matrix pricing (Level 2 inputs).
- GEAP has \$10 million of U.S. agency obligations valued using matrix pricing (Level 2 inputs).

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):

Notes to the Financial Statements
Year Ended June 30, 2016

(3) Equity of Internal and External Participants (Continued)

	<u>Georgia Fund 1</u>	<u>GEAP</u>	<u>Trust Reserve</u>	<u>Total</u>
Internal Participants	\$ 6,556,535	\$ 99,324	\$ -	\$ 6,655,859
External Participants	6,864,533	117,268	-	6,981,801
Restricted Reserve Funds	-	-	7,814	7,814
Unrealized Fair Market Value Adjustment	17	-	-	17
Total Net Position	<u>\$ 13,421,085</u>	<u>\$ 216,592</u>	<u>\$ 7,814</u>	<u>\$ 13,645,491</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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DEPARTMENT OF AUDITS AND ACCOUNTS

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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 (Trust) of the Office of the State Treasurer (OST), as of and for the year ended June 30, 2016, 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 17, 2016.

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.

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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

November 17, 2016