

**Illinois Government Finance Officers Association
Technical Accounting Review Committee (TARC)
Recommended Practice for Treatment of Balances in IMET Liquidating Trust**

Background: The Illinois Metropolitan Investment Trust (IMET) was notified on September 29, 2014 that certain repurchase agreements between Pennant Management, Inc. (Pennant) and IMET, that were backed by First Farmers Financial, LLC (FFF) securities, that were believed to be guaranteed by the United States Department of Agriculture (USDA), were in default. The repurchase agreements were part of IMET's Convenience Fund. The loans were allegedly guaranteed by the (USDA) but since the loan documents were forged, by FFF, the USDA has decided at this time to not provide a financial guarantee for the loans. IMET was just one of several entities that were affected by the fraudulent FFF loans.

The value of IMET's share of the Pennant repo was \$50,442,142.78 as of September 30, 2014 or at the time approximately 2.8% of the total value of the Convenience Fund. Each member's proportionate share of the Convenience Fund was placed into a restricted account at IMET as of September 30, 2014 and not eligible for withdrawal.

On October 24, 2014 the IMET Board of Trustees voted to remove the value of the Pennant repo from the books and records of the Convenience Fund and transfer the member's proportionate share of the IMET restricted account. IMET then set up a Liquidating Trust with each member's proportionate share from which IMET will distribute future proceeds from multiple recovery efforts that are currently on-going. *For further background information readers are directed to review IMET's official disclosures regarding the legal and recovery effort.* This document is not meant to be an official, complete or up-to-date summary of this issue.

Authoritative Citations: An Investment is defined in the GASB Cod. Sec I50.531 as "A security or other asset acquired primarily for the purpose of obtaining income or profit."

An External investment pool is defined in the GASB Cod. Sec I50.521 as "An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool. (Paragraphs .101–.119) [GASBS 31, ¶22]" IMET is an external investment pool.

GASB Cod Sec. I50.110 explains that investments in external investment pools that are not SEC-registered should be reported at fair value.

GASB Cod Sec. I50.112 explains that all investment income, including changes in the fair value of investments, should be recognized as revenue in the operating statement. When separately identified as an element of investment income, the change in the fair value of investments should be captioned *net increase (decrease) in the fair value of investments*. Changes in the fair value of investments is defined in I50.505 as “The difference between the fair value of investments at the beginning of the year and at the end of the year, taking into consideration investment purchases, sales, and redemptions. (Paragraphs .101–.119) [GASBS 31, ¶22]”

GASB Cod Sec. I50.105, “Investment Pools (External),” governmental entities, including governmental external investment pools, should report investments at fair value in their basic statements. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an investment, the fair value to be used in applying this section is the total of the number of trading units of the instrument times the market price per unit. Investments that are fully benefit-responsive synthetic guaranteed investment contracts should be measured at contract value.

GASB Cod Sec. I50.106 Land and other real estate held as investments by endowments should be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income.

Current Treatment: As noted above, the fair value of the instruments that the IMET Convenience Fund invested in were placed in the Liquidating Trust, with each member having a right to their proportional share of the Trust. The value of the trust will be the fair value of the underlying assets that will be recovered. As of this date a fair value has not been determined. Therefore for financial reporting purposes it is recommended that, as of the date of this paper, entities that had a restricted amount from IMET record an allowance for unrealized losses or write down the value of their share of the Liquidating Trust, with an offset in an appropriate investment income/(loss) account.

IMET Recovery Efforts and Valuation of Assets: IMET anticipates recovering a portion of the value of those investments through various on-going recovery efforts. Some of those recovery efforts have already resulted in the recovery of cash or conversion of seized assets to cash which are or will be held by a court-appointed receiver. It has been communicated that the IMET Liquidating Trust will receive its proportionate share of the assets from the receiver in the future on an on-going basis. IMET has communicated that they have distributed and will continue to distribute to members their proportionate shares from the Liquidating Trust once distributions are declared by IMET after taking into account expenses that may be deducted.

Other Considerations: It is **very important** that each government work with their auditor to determine the approach that best meets the available information, when they need to make their decision, and the accounting and auditing standards. This paper is considered a general guideline and is NOT a substitute for careful, professional evaluation of the individual government's situation in consultation with their external auditors.