AUDITOR OF STATE BULLETIN 97-002
JANUARY 20, 1997

TO: ALL TOWNSHIP CLERKS
ALL VILLAGE CLERKS/CLERKS TREASURERS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: INVESTMENT RECORDS

This bulletin replaces MAS Bulletin No. 87-03, issued January 20, 1987.

The purpose of this bulletin is to provide a recommended method of accounting for investments if you are investing public moneys. A properly maintained investment record discloses how each investment was made, and the return of each investment to the active funds of the entity.

The investment record should include a description of the investment, maturity date, financial institution or broker involved, amount invested, date purchased or redeemed, and any applicable receipt or check number.

The necessary records to adequately account for investment activity are as follows:

1. Cash journal (Exhibit A)
2. Investment record (Exhibit B)
3. Receipt ledger (for posting interest) (Exhibit C)
4. Checks (for purchasing investments)
5. Receipts (for recording interest received) (Exhibit D)

At the time an investment is purchased, fund balances are not reduced. The transaction is recorded in the cash journal as a "memorandum entry" and all pertinent information is recorded on the investment record.

Some investments sell at a premium or discount, that is more or less than their face value, depending on current interest rates. The effect of purchasing an investment at a premium or discount is to decrease or increase the entity’s interest rate of return. If an investment is purchased at a premium, each time the entity receives an interest payment on the investment, a portion should be treated by the entity as a partial return of the premium rather than interest. The allocation should be large enough to reduce the premium to zero by the time the investment reaches maturity. For example, take a 5%, $100,000 investment purchased at a premium of $1,200 that will mature in two years. The investment is recorded as $101,200. Interest payments are made every six months of $2,500. Each interest payment would be receipted as $2,200 interest and $300 as a return of the premium.

If the investment had been purchased at a discount of $1,200, the entity will receive $1,200 more in interest over the life of the investment. This may be receipted as additional interest of $300 each time an interest payment is received or the entire $1,200 may be recognized upon maturity. If recognized periodically, the extra interest will be a reconciling item on the monthly cash reconciliation since it will have been recorded as interest prior to receiving the cash.

When an investment is redeemed, a "memorandum entry" is recorded in the cash journal for the return of the initial investment, a receipt is issued for the interest earned, the interest receipt is recorded in the cash journal and the receipt ledger, and the redemption of the investment is recorded in the investment record.

To illustrate the recommended procedure, we have attached examples of the records required to record the following transactions:

Transaction 1 -	A certificate of deposit, number C.D. 80573, was purchased on September 1, 1996.
Transaction 2 -	Treasury bills were purchased on October 22, 1996.
Transaction 3 -	Certificate of deposit number C.D. 80573 was redeemed on January 2, 1997. Interest received on the investment was $ 112.50.

It is recommended that the investment information be shared with the legislative authority on a periodic basis.

A written policy should be established as to the distribution of interest on investments in accordance with the applicable statutory requirements.

Should you have questions pertaining to this bulletin, please contact the Auditor of State's Local Government Services Division at (800) 345-2519.