

## **DEPARTMENT OF FINANCE AND ADMINISTRATION - POLICY 05**

### **Application of GASB Statement 3 - Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements - and Application of GASB Statement 40 – Deposit and Investment Risks, An Amendment of Statement 3 (Revised, August 2005)**

#### **Applicable State Law**

1. According to T.C.A. 4-3-1007, the Department of Finance and Administration "has the power and is required to: (1) maintain a system of general accounts embracing all the financial transactions of the state government; ... (6) prescribe by means of written procedures ... the responsibilities and duties required of each fiscal officer of any and all departments, institutions, offices, and agencies of the state government ... [which] shall become effective upon approval by the commissioner of finance and administration and the comptroller of the treasury; ... (10) exercise the rights, powers and duties (except the power to collect taxes), conferred by law upon the comptroller of the treasury ... insofar as these provisions relate to financial administration and general accounting control of the state government, involving the keeping of general accounts, ... [and] (11) in consultation with the comptroller of the treasury, establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control..."

#### **Applicability and Effective Date**

2. The requirements of this Policy Statement 05 apply to all issuers of financial statements which purport to represent the financial condition of the State of Tennessee or any subdivision (including component units) thereof. Policy Statement 05 shall be effective immediately upon issuance and remain in effect until amended or rescinded.

#### **General Rule**

3. All financial statements which purport to represent the financial condition of the State of Tennessee or any subdivision thereof shall be prepared in accordance with the requirements of this Policy Statement 05 (which serves to interpret Governmental Accounting Standards Board Statements 3 and 40), the requirements

of GASB Statements 3 and 40, other pronouncements provided by the GASB superseding GASB Statements 3 and/or 40, and any subsequent interpretations of GASB Statements 3 and 40, the requirements of any applicable state or federal law, any other applicable policy statement issued by the Department of Finance and Administration, and any other applicable accounting standards issued by the GASB and/or the FASB.

## **Definitions**

4. The following definitions shall apply in the preparation of footnote disclosures required by GASB Statement 3, as amended by GASB Statement 40.

### Deposits Versus Investments

1) Disclosure Purposes: The footnote disclosure required for deposits shall include information relating to cash, cash with fiscal agent, CD's (certificates of deposit), and both open and time accounts with financial institutions, regardless of the maturity date of the instrument. All other items for which note disclosure is required shall be classified as investments. Furthermore, the carrying amount of these items shown in the note disclosures shall equal to, singularly or in sum total, to the amount shown for such items on the face of the financial statements. This requirement does not, however, prohibit additions to or subtractions from the carrying amount shown in the note disclosure in order to attain the most informative or complete disclosure.

2) Statement of Net Assets/Balance Sheet Purposes: The statement of net assets/balance sheet presentation of deposits and investments shall be classified into cash and cash equivalents in accordance with the following definitions:

a) Cash includes currency on hand and demand deposits. Demand deposits include deposits with banks, other financial institutions, and cash management pools, i.e., accounts in which cash deposits may be made at any time and be withdrawn at any time without prior notice or penalty. The Pooled Investment Fund administered by the state Treasurer is considered a demand deposit. Funds (e.g. Highway Fund, Capital Projects Fund, etc.) with deposits in the Local Government Investment Pool, a component of the Pooled Investment Fund, should report the deposits as interfund receivables in the Comprehensive Annual Financial Report.

b) Cash equivalents are both (1) readily convertible to known amounts of cash, and (2) so near their maturity that they present insignificant risk of

changes in value because of changes in interest rates, e.g., Treasury bills, certificates of deposit, or money market funds. Only investments with original maturities of three months or less should be included as a cash equivalent. Original maturity means the original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill, and a three-year Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining term is three months.

### **Rules of Procedure**

5. The definitions and interpretations as stated in Paragraph 4 shall be used in application of GASB Statements 3 and 40. Specifically, these definitions shall be used in the determination of the information to be disclosed, and the classification and categorization of deposits and investments for purposes of note disclosure, as well as statement of net assets/balance sheet presentation.

### **Qualifier Relating to Other Disclosure Requirements**

6. This Policy Statement 05 is intended to aid in the interpretation of the primary requirements of GASB Statements 3 and 40. It is by no means intended to be all encompassing or to take the place of the financial statement preparer's full knowledge of the requirements of GASB Statements 3 and 40.

## **Approvals**

### Approval of Commissioner of Finance and Administration

I, M.D. Goetz, hereby approve of this Policy Statement 05 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
M. D. Goetz, Commissioner  
Department of Finance and Administration

### Approval of the Comptroller of the Treasury

I, John Morgan, hereby approve of this Policy Statement 05 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
John Morgan, Comptroller  
Office of the Comptroller of the Treasury