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SECTION 1—INTRODUCTION

THE NEW FINANCIAL REPORTING MODEL FOR GOVERNMENTS

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34). Subsequently, the GASB issued Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* (GASB 35); Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33* (GASB 36); Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* (GASB 37); and Statement No. 38, *Certain Financial Statement Note Disclosures* (GASB 38).

These statements provide a new look and focus of reporting for state and local governments in the United States and are the most significant single change in the history of governmental accounting. The new standards become effective for the State of South Carolina for the fiscal year ending June 30, 2002. This standard will affect accounting and financial reporting both (a) for State agencies that provide year-end GAAP closing packages to the Office of the Comptroller General (OCG) and (b) for State agencies, colleges and universities, and other entities that are incorporated into the statewide Comprehensive Annual Financial Report (CAFR) from separately audited financial statements.

SUBMITTING AUDITED FINANCIAL STATEMENTS TO THE OFFICE OF THE COMPTROLLER GENERAL

The Office of the Comptroller General expects to receive draft and final financial statements in accordance with the auditors' contractual arrangements with the State Auditor's Office. In each case, the Office of the Comptroller General expects to receive at least draft financial statements for the most recently ended fiscal year <u>no later than October 15</u>.

To maximize efficiency in preparation of the statewide financial statements, the Office of the Comptroller General (OCG) asks that auditors send a copy of the draft and final financial statements to the following address at the same time as they submit the materials to the State Auditor's Office or to the State Board for Technical and Comprehensive Education:

Central State Financial Reporting Division
Office of the Comptroller General
Post Office Box 11228
Columbia, South Carolina 29211-1228

Those preferring to do so may submit financial statements to the OCG electronically as follows:

Fax: (803) 758-5745
E-mail: *financial.statements@cg.state.sc.us*

In-person deliveries may be made to Room 490, Fourth Floor of the Wade Hampton Office Building, Capitol Complex (directly behind the State House). The division's main telephone number is (803) 734-2128.

ABOUT THIS MANUAL

Purpose of This Manual; Limitations

This policy manual is designed to provide policies and guidance to the accountants and auditors of those State agencies, higher education institutions, and other entities that have separate audits of their financial statements and that submit their audited reports to the State of South Carolina's Office of the Comptroller General for incorporation into the statewide CAFR.

This policy manual is not intended to constitute a comprehensive guide to Generally Accepted Accounting Principles (GAAP) applicable to entities reported as part of the State of South Carolina. In fact, it assumes that users are thoroughly knowledgeable about basic GAAP for governments. Instead, this manual focuses on selected complex GAAP issues that have caused problems in the past and on reporting requirements that derive from the State's participation in the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program and go beyond the requirements of GAAP pronouncements.

Further, this manual is limited to matters that directly affect incorporation of agency financial statements into the State of South Carolina's Comprehensive Annual Financial Report. For example, the manual does not address pension or post-employment benefit disclosures because the Office of the Comptroller General (OCG) obtains information for these statewide CAFR disclosures directly from the South Carolina Retirement Systems and the Office of Insurance Services. Stand-alone agency financial statements must be produced in such a way as to satisfy the requirements of the State Auditor's Office as well as the requirements of the OCG.

Scope of Application of This Manual's Policies

In accordance with State law[1], the Office of the Comptroller General (OCG) determines and issues policies that will apply to entities within the State's primary government submitting financial statements for incorporation into the statewide Comprehensive Annual Financial Report (CAFR). These policies also apply to component units that meet GASB 14's criteria for blending.

Discretely presented component units are encouraged, but not required, to adopt the same accounting policies that apply to the State primary government. Regardless of possible differences in policies, the Office of the Comptroller General depends on the management of discretely presented component units to supply to it supplementary data needed for inclusion in the statewide CAFR if not supplied in the component unit's stand-alone financial statements.

[1] See, for example, Section 59.2 of the State's General Appropriation Act for the fiscal year ending June 30, 2002.

The guidance in this policy manual does not apply to agency audited financial statements for agencies that submit non-college closing packages (such as Department of Public Safety and Department of Disabilities and Special Needs) to the OCG.

Organization and Format

This policy manual is divided into eight sections. The sections related to the Department of Transportation and to colleges and universities (Sections 7 and 8) are specific to those agencies and apply exclusively to those agencies. The remaining sections (Sections 1 through 6, plus this introductory section) apply to *all* State agencies, colleges and universities, and other entities that submit audited financial statements for inclusion in the statewide CAFR.

Agency Policies Printed Within a Boxed Border

State policies for entities incorporated into the statewide Comprehensive Annual Financial Report from audited financial statements are formatted with a boxed border for emphasis.

Citations Referencing the GASB Codification and GASB Statements

Most references to the GASB's *Codification of Governmental Accounting and Financial Reporting Standards, Statement 34 Edition*, are cited by specific paragraph—for example, GASB Cod. Sec. 2300.103 (Section 2300, paragraph .103), rather than by reference to a specific GASB, NCGA, or AICPA pronouncement (in this example, GASB Statement 38, paragraph 5).

If we refer to a particular GASB statement, we generally use a short abbreviated form such as “GASB 34” rather than “GASB Statement No. 34.”

June 30 vs. December 31

Policies within this manual focus on reporting at June 30 because the State's fiscal year ends on June 30. Some entities incorporated into the statewide CAFR from audited financial statements have a fiscal year ending December 31. When reading this manual, those entities generally should substitute "December 31" for "June 30."

Annual Updates; Questions About Policies

The OCG plans to update this policy manual at least annually for new authoritative literature, changes in State policy and clarifications on issues identified in the preceding year. The manual will be posted to the Office of the Comptroller General's website, http://www.cg.state.sc.us/. Due to budgetary constraints, the manual is available only in electronic format.

Agencies should address questions related to State accounting policies to the staff of the Central State Financial Reporting Division of the Office of the Comptroller General.

AVAILABILITY OF THE STATEWIDE CAFR

The State of South Carolina's CAFR for the fiscal year ended June 30, 2001, is available in electronic format on the Internet at http://www.cg.state.sc.us/cafr01/index.htm. Interested parties may also request a printed copy by contacting the Office of the Comptroller General.

The OCG strongly recommends that accountants responsible for preparing financial statements incorporated into the statewide CAFR as well as their auditors refer to the most recently issued statewide CAFR in conjunction with their use of this policy manual.

SECTION 2—APPLICATION OF PROFESSIONAL LITERATURE

STATEWIDE ACCOUNTING POLICIES

Generally Accepted Accounting Principles require that governments establish various policies. Some of these policies must be disclosed in the notes to the financial statements.

In accordance with State law[2], the Office of the Comptroller General (OCG) determines and issues policies that will apply to entities in the State primary government that submit financial statements for inclusion in the statewide Comprehensive Annual Financial Report (CAFR). These policies also apply to component units that meet GASB 14's criteria for blending.

THE GAAP HIERARCHY'S APPLICATION TO GOVERNMENTAL ENTITIES

The GAAP hierarchy[3], summarized below, determines the status of various professional pronouncements with respect to their application to governments.

Lower-numbered levels take precedence over higher-numbered levels.

Level 1 GAAP

Rule 203 of the AICPA's *Code of Professional Ethics*, "Accounting Principles," makes it an ethical violation for an auditor to state that financial statements are fairly presented in conformity with GAAP if those statements materially violate Level 1 GAAP guidance. Level 1 guidance for governments includes all of the following pronouncements:

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[2] *Ibid*.

[3] Statement on Auditing Standards (SAS) No. 69, The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report as amended, published by the AICPA.

- All GASB statements and interpretations that have not been amended or superseded apply to all activities, funds, and governmental component units (but *not* to *non*-governmental component units) reported in the State of South Carolina's Comprehensive Annual Financial Report (CAFR).

- Paragraph 17 of GASB 34 requires that governmental and business-type activities (government-wide financial statements) adopt all of the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements:

  - Financial Accounting Standards Board (FASB) Statements (No. 1 through No. 102).
  - FASB Interpretations (No. 1 through No. 38).
  - Accounting Principles Board (APB) Opinions.
  - Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

Paragraph 93 of GASB 34 also requires that all enterprise funds adopt the above pronouncements. Note that the above pronouncements do ***not*** apply to governmental *fund* statements—only to governmental *activities* reported in the government-wide statements.

The State has elected not to adopt the FASB Statements and Interpretations issued after November 30, 1989, for its governmental and business-type activities and for its enterprise funds.[4]

[4] For exception regarding business-type discretely presented component units, see SCOPE OF APPLICATION OF THIS MANUAL'S POLICIES in Section 1, INTRODUCTION.

- The following are among the most important private-sector standards that apply to governmental and business-type activities as reported in the government-wide statements and to enterprise funds as reported in the fund financial statements because the GASB (or its predecessor organization, NCGA) has incorporated them "by reference":

  - APB 20, *Accounting Changes* applies to governments in many situations, but Footnote 13 of GASB 34 states the following exception: "Changes in accounting principles, addressed in APB Opinion No. 20, *Accounting Changes*, as amended, should be reported as restatements of beginning net assets/fund equity, not as a separately identified cumulative effect in the current-period Statement of Activities or proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Assets."

  - APB 22, *Disclosure of Accounting Policies* (requiring presentation of a Summary of Significant Accounting Policies).

  - APB 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, relating to extraordinary items.

  - FASB 5, *Accounting for Contingencies*, guidance on recognizing loss liabilities.

  - FASB 6, *Classification of Short-Term Obligations Expected to be Refinanced*, in connection with the proper classification of bond anticipation notes.

  - FASB 13, *Accounting for Leases*, as amended and interpreted.

  - FASB 74, *Accounting for Special Termination Benefits Paid to Employees*, as amended by GASB 27, *Accounting for Pensions by State and Local Governmental Employers*. [NOTE: FASB 74 remains in effect for state governments, even though it was superseded in the private sector by FASB 88.]

As noted previously, the above pronouncements do ***not*** apply to governmental *fund* statements—but they do apply to governmental *activities* reported in the government-wide statements.

- The provisions of FASB 34, *Capitalization of Interest Cost,* as amended, are applicable to business-type activities and to enterprise funds but *not* to governmental funds or activities.[5]

Agencies and their auditors are encouraged to visit the GASB's website at http://www.gasb.org/. The FASB's website is at http://www.fasb.org/. These websites provide information on obtaining copies of pronouncements and other valuable information of interest to financial statement preparers and their auditors.

Level 2 GAAP

Rule 202 of the AICPA's Code of Professional Conduct, "Compliance with Standards," places on auditors the burden of proof to justify any material departures from guidance found in Levels 2, 3, or 4 of the GAAP hierarchy. Level 2 guidance includes the following pronouncements:

- GASB technical bulletins.

[5] The GASB decided in its Omnibus amendments to GASB 34 that allocation of construction-period interest expense to the cost of capital assets would be *contradictory* to the provision in paragraph 46 of GASB 34 that states that interest on general long-term liabilities generally should be considered an indirect expense and thus not be allocated to functions or programs. (Paragraph 46, however, does not apply to interest on *business-type activities'* debt.)

- The AICPA Audit Guide, *Audits of State and Local Governmental Units* (2002 edition expected to be released in August 2002).

- Other AICPA audit guides and AICPA Statements of Position (SOPs) if they *specifically* apply to state and local governments *and* the GASB has cleared them for issuance.

NOTE: Page 12 of the 2001 edition of GFOA's *Governmental Accounting, Auditing, and Financial Reporting* states: "As a practical matter, the assertion that a given Audit Guide or SOP is applicable to all entities is *not* considered a specific application to state and local governments. Also, practitioners may presume that the AICPA's Audit Guides and SOPs that specifically reference state and local governments have been cleared by the GASB absent a notice to the contrary in that same guidance."

Because of the applicability of Rule 202, the Office of the Comptroller General expects that agency financial statements generally will comply with all of the guidance listed above unless it is clearly inapplicable.

Level 3 GAAP

No Level 3 GAAP currently applies to governments.

Level 4 GAAP

Rule 202 of the AICPA's *Code of Professional Conduct*, "Compliance with Standards," places on auditors the burden of proof to justify any material departures from guidance found in Levels 2, 3, or 4 of the GAAP hierarchy. Level 4 guidance includes the following pronouncements:

- GASB Implementation Guides, including the following:
  - GASB 3 Implementation Guide: *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

- GASB 9 Implementation Guide: *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

- GASB 10 Implementation Guide: *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

- GASB 14 Implementation Guide: *The Financial Reporting Entity*.

- GASB 31 Implementation Guide: *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

- GASB 34 Implementation Guide: *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* published in 2000 and referred to in this manual as "the first GASB 34 Implementation Guide."

- Second GASB 34 Implementation Guide: *Guide to Implementation of GASB Statement 34 and Related Pronouncements,* published in 2001 and referred to in this manual as "the second GASB 34 Implementation Guide."

- AICPA Audit Guides, SOPs, or Practice Bulletins (if any) specific to government but not cleared by the GASB.

Because of the applicability of Rule 202, the Office of the Comptroller General expects that agency financial statements generally will comply with all of the guidance listed above unless it is clearly inapplicable.

Other Sources—Level 5 GAAP

In the absence of other authoritative sources of GAAP, financial statement preparers are to follow widely recognized and prevalent practice. This is consistent with the fundamental notion of generally accepted accounting principles. Such other sources (sometimes referred to as "Level 5 GAAP") include professional publications, textbooks, position papers of professional organizations, and FASB guidance that is not authoritative for governments.

Financial statement preparers should apply these sources of "Level 5 GAAP" in the following order of priority (listed from highest to lowest priority):

- GASB Concepts Statements.
- Up-to-date accounting publications of the Government Finance Officers Association (GFOA). Of particular note are the following:
  - The GFOA Certificate of Achievement Checklist—New Financial Model. To access the GFOA checklists, go to http://www.gfoa.org/forms/, and click on the appropriate "questions" or "explanations" choice.
  - The 2001 edition of *Governmental Accounting, Auditing, and Financial Reporting*, otherwise known as the "Blue Book."
  - The *GAAFR Review* monthly newsletter (taking care to note that applicability of old newsletters may be limited if authoritative GAAP changed at a date later than that on the newsletter).
- Up-to-date publications of the National Association of College and University Business Officers (NACUBO) with respect to the State's higher education enterprise fund. Of particular note are:
  - The *GASB 35 Implementation Guide*.
  - NACUBO Advisory Reports effective beginning with implementation of GASB 34/35. Access these reports at http://www.nacubo.org/public_policy/advisory_reports/.
- Resolutions or accounting pronouncements (if any) of the

National Association of State Auditors, Comptrollers, and Treasurers (NASACT) or its component organizations such as the National Association of State Comptrollers (NASC). Website is at http://www.nasact.org/.

- Publications of any other government-sector organization with respect to accounting for the particular funds involved in that government sector.

- Understanding and Implementing GASB's New Financial Reporting Model, A Question and Answer Guide for Preparers and Auditors of State and Local Governmental Financial Statements, by Venita M. Wood, published by the AICPA. (NOTE: A revised edition was issued in spring of 2002.)

- *Guide to Governmental Financial Reporting Model, Implementing GASBS No. 34* (by Susan R. Patton, Terry K. Patton, et al.; published by Practitioners Publishing Company, www.ppcnet.com).

APPLICABILITY OF FASB PRONOUNCEMENTS

Agencies must apply all GASB pronouncements as well as all applicable FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, to their governmental and business-type activities (reported in government-wide financial statements), and their enterprise and internal service funds (reported in fund financial statements), unless those pronouncements conflict with or contradict GASB pronouncements.[6]

Generally Accepted Accounting Principles[7] do not require (but allow) enterprise funds to elect to apply FASB Statements and Interpretations issued after November 30, 1989. Paragraph 94 encourages governments to use the same application of FASB

[6] Paragraphs 17 and 93 of GASB 34.

[7] Paragraphs 17 and 94 of GASB 34.

pronouncements for *all* of its enterprise funds. The State of South Carolina chooses not to apply any FASB Statements or Interpretations issued after November 30, 1989, to enterprise funds within its primary government.

Activities and funds reported within the State's primary government should ***not*** adopt FASB Statements and Interpretations issued after November 30, 1989. This policy should be disclosed in the notes to the basic financial statements if the agency reports any enterprise funds.

GFOA CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The State of South Carolina's policy is to prepare the statewide CAFR in accordance with the requirements for the Government Finance Officers Association's (GFOA's) Certificate of Achievement for Excellence in Financial Reporting.

The Office of the Comptroller General encourages preparers and auditors to apply the appropriate Certificate of Achievement Program's checklist to the stand-alone financial statements of State of South Carolina entities that will be incorporated into the statewide CAFR.

To access the GFOA checklists, go to http://www.gfoa.org/forms/, scroll down in the listing, and click on the appropriate checklist to access it.

TRANSITION TO GASB 34—PROSPECTIVE APPLICATION OF SOME PRONOUNCEMENTS

Paragraph 146 of GASB 34 allows prospective (rather than retroactive) application of the following pronouncements to governmental activities reported in government-wide financial statements:

- APB 12, *Omnibus Opinion—1967*.
- APB 21, Interest on Receivables and Payables.

- GASB 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, which requires deferral and amortization of the difference between the reacquisition price and the net carrying amount of old debt in debt-refunding transactions.

[NOTE: Although Paragraph 146 of GASB 34 required governmental activities to implement FASB 34, *Capitalization of Interest Cost*, as amended, Paragraph 6 of GASB 37 eliminated the requirement to capitalize construction-period interest on capital assets used in governmental activities.]

The State plans to apply the above pronouncements prospectively rather than retroactively to its governmental activities.

Agency financial statements to be incorporated into the statewide CAFR should apply the above pronouncements prospectively beginning with July 1, 2001 (rather than retroactively), to their governmental activities reported in government-wide financial statements.

SECTION 3—FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Minimum Requirements for MD&A

Paragraph 11 (including subparagraphs *a* through *h*) of GASB 34 establishes the general requirements for MD&A. As noted in Question 10 of the first GASB 34 Implementation Guide[8], the information presented should be limited to areas required in subparagraphs *a* through *h*. Nevertheless, each specific requirement, if applicable, in paragraph 11 should be addressed at a minimum as described in the respective subparagraphs *a* through *h*.

That is, agencies *may* provide additional details about the required elements in subparagraphs *a* through *h* within MD&A. Information that does not relate to the required topics may not be included in MD&A but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary information.

MD&A is considered to be Required Supplementary Information (RSI).

Charts and Graphs

Paragraph 9 of GASB 34 indicates that MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

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[8] *Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, published by the GASB in 2000.

The information required by paragraph 11b should be presented in the form of *condensed financial statements*. Charts and graphs may be used to supplement, or elaborate on, information in the condensed financial statements, but should not be used *in place* of them.

Transition to New Financial Reporting Model

Paragraph 145 of GASB does not require governments to provide comparative data for MD&A in the first year that GASB 34 is adopted.

The State of South Carolina does not plan to provide comparative data in its MD&A for the fiscal year ended June 30, 2002. Accordingly, agency financial statements, likewise, ***need not*** provide comparative data in MD&A for the fiscal year ended June 30, 2002.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Requirement to Present Government-Wide Financial Statements

The State's policy is that agencies reporting any governmental funds must present government-wide statements within their basic financial statements as required by GASB 34. The purpose of agency government-wide statements is to present the agency's balances that should be incorporated into the State's government-wide statements. Auditors may wish to include a note disclosure explaining how the reader should interpret the agency's government-wide statements and the fact that the agency is merely a part of the State, not a separate independently operated government.

Stand-alone business-type activities (see definition below) if not required by GAAP to present government-wide financial statements must comply with the policies set forth in Section 6, FOOTNOTE DISCLOSURES, of this manual within the sub-section on REQUIRED INFORMATION ON BUSINESS-TYPE ACTIVITIES FOR THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (on page 120).

Governmental and Business-Type Activities Defined

Governmental activities of the State of South Carolina include general, special revenue funds, capital projects funds, permanent funds, and internal service funds.[9] Business-type activities of the State include only enterprise funds. Agency financial statements should reflect this policy.

FUND FINANCIAL STATEMENTS

All agencies submitting financial statements to be incorporated into the statewide CAFR must prepare fund financial statements to comply with GAAP.

Presentation of Combining Financial Statements for Non-Major Funds and Multiple Fiduciary Funds

The State of South Carolina participates in the Certificate of Achievement for Excellence in Financial Reporting Program of the Governmental Finance Officers Association. To be eligible for the Certificate of Achievement, the State must present combining statements for non-major funds and for multiple fiduciary funds as supplementary information, even though this is not required by GAAP. As a result, the State's policy is to present combining financial statements for its nonmajor funds and for its fiduciary funds.

State agency financial statements incorporated in the statewide CAFR must present combining statements for all non-major funds (including non-major blended component units) and for any multiple fiduciary funds.

[9] Paragraph 62 of GASB 34 explains that although internal service funds are reported as proprietary funds in the fund financial statements, the activities accounted for in them (the financing of goods and services for other funds of the government) are usually more governmental than business-type in nature. Therefore, internal service funds are reported as governmental activities in the government-wide financial statements.

STATEMENTS OF POSITION

Government-wide Statement of Net Assets—Classified Format

The State of South Carolina's policy is to use a classified format (rather than an order-of-liquidity format) for its government-wide Statement of Net Assets.[10]

Agencies should use the classified format for their government-wide Statement of Net Assets if they are required to present that statement.

The OCG believes that the State's financial statement users will find the classified format easier to comprehend because that format is required for certain other financial statements. The classified format distinguishes between current and long-term assets as well as between current and long-term liabilities.

Government-wide Statement of Net Assets—Net Assets Format

Paragraph 30 of GASB 34 encourages governments to present the government-wide Statement of Net Assets using a net assets format, rather than a traditional balance sheet format. The OCG plans to present a statewide Statement of Net Assets using a net assets format.

The OCG, however, has concluded that the difference between the two formats is a purely formal difference and that it can determine the information it needs for the statewide CAFR from agency financial statements, regardless of which format agencies use.

Agencies that present a government-wide statement of position may use either the net assets format or the traditional balance sheet format.

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[10] Footnote 23 of GASB 34 and the answer to Question 81 in the first *GASB 34 Implementation Guide* make it clear that governments may use a classified format for their government-wide statements of net assets.

Governmental Fund Balance Sheets—Minimum Level of Detail for Fund Balances

Paragraph 83 of GASB 34 requires that governmental funds present a balance sheet. Under the balance sheet format, assets equal liabilities plus fund balances.

Paragraph 84 of GASB 34 states that governmental fund balances shall be segregated into *reserved* and *unreserved* amounts. (See paragraph 118-121 of NCGA Statement 1.) Reserved fund balances of the combined nonmajor funds should be displayed in sufficient detail on the face of the governmental funds balance sheet to disclose the purposes of the reservations (for example, Reserved for Debt Service).

In addition, unreserved fund balances of nonmajor funds must be displayed *by fund type* on the face of the balance sheet for governmental funds.

Proprietary Funds Statement of Net Assets—Classified Format

Paragraph 97 of GASB 34 requires that assets and liabilities of proprietary funds be presented in a classified format to distinguish between current and long-term assets and liabilities.

Paragraph 98 of GASB 34 allows the State to use either a net assets format or a balance sheet format to report the State's proprietary funds. The State of South Carolina will use the net assets format (rather than the balance sheet format) for its proprietary fund statement of position.

The OCG, however, has concluded that the difference between the net assets format and the balance sheet format is a purely formal difference and that it can determine the information it needs for the statewide CAFR from agency proprietary fund financial statements, regardless of which format agencies use.

Agencies that present proprietary funds must present a *classified* statement of position but may use either the net assets format or the traditional balance sheet format.

Fiduciary Funds Statement of Net Assets

Paragraph 108 of GASB 34 requires that fiduciary funds present a Statement of Fiduciary Net Assets using a net assets format (i.e., assets less liabilities equal net assets).

Paragraph 110 of GASB 34 confirms that agency fund assets equal liabilities, and the illustration on page 235 in GASB 34 shows double underlining under the total assets and total liabilities amounts for agency funds.

OPERATING STATEMENTS AND STATEMENTS OF ACTIVITIES

Government-wide Statement of Activities—Intergovernmental Expenses, Grants and Revenue-Sharing

States may include an "intergovernmental" functional category on their government-wide Statement of Activities (as shown on page 169 of the first GASB 34 Implementation Guide) rather than reporting state grants issued to local governments and state revenues shared with local governments in their other functional categories.

The State of South Carolina uses the "intergovernmental" functional category on its Statement of Activities.

Agency financial statements that report governmental funds must report any grants or State shared revenues disbursed to non-State governmental entities separately from other "programs" or "functions" that they include on their Statement of Activities.

Statement of Revenues, Expenditures, and Changes in Fund Balances—Level of Detail

Revenues should be presented by source. Expenditures in governmental funds should be presented by character and function within character. Additional detail (such as department, object of expenditure) may be presented but is not required by GAAP.

The expenditure's character is based on the periods it is presumed to benefit. Expenditures that benefit the present period (current expenditures) are distinguished from those that benefit both present and future periods (debt service expenditures) and from those presumed to benefit both the present and future fiscal periods (capital outlay expenditures). GASB Cod. Sec. 1800.120 states: "'Intergovernmental,' a fourth character classification, is appropriate where one governmental unit transfers resources to another, such as when states transfer 'shared revenues' to local governments or act as an intermediary in federally financed programs." The State of South Carolina uses the "intergovernmental" functional category on its Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds.

> Agency financial statements that report governmental funds must report grants or State shared revenues disbursed to external parties separately from other expenditures that they include in their fund operating statement.

Statement of Revenues, Expenses, and Changes in Net Assets—Proprietary Fund Revenues

Paragraph 100 of GASB 34 and footnote 41 of that paragraph requires revenues be presented by major source on the operating statements for proprietary funds. Paragraph 100 further requires that the operating statement for proprietary funds identify revenues used as security for revenue bonds.

Further, the presentation of revenues should reflect the effect of discounts and allowances. This must be accomplished in one of two ways. One approach is to report revenues on a net basis, with discounts and allowances disclosed separately, either parenthetically or in the notes to the financial statements. The other approach is to report gross revenues followed immediately by deductions for discounts and allowances to arrive at net revenues.

> The State's policy is to report revenues on a net basis with a detailed note on receivables. Please see RECEIVABLES FOOTNOTE in Section 6 on page 97 for agency presentation requirements.

STATEMENTS OF CASH FLOWS

Statements of Cash Flows—Direct Method

Paragraph 105 of GASB 34 requires presentation of a Statement of Cash Flows for proprietary funds based upon the provisions of Statement 9, as amended by GASB 34. The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) is required.

The GASB 9 Implementation Guide and Exercise #7 on pages 241 through 243 of the first GASB 34 Implementation Guide provide additional guidance relative to preparing the direct-method cash flows statement.

Statements of Cash Flows—Focus on Cash and Cash Equivalents

The focus of the statewide statements of cash flows is Cash and Cash Equivalents (also see Cash Equivalents on page 84).

The focus of agency cash flows statements to be incorporated into the statewide basic financial statements must be Cash and Cash Equivalents.

Statements of Cash Flows—Appreciation/Depreciation in Investments

Paragraph 37, "Information about Noncash Investing, Capital, and Financing Activities," of GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, requires that your agency's financial statements report all noncash investing, capital, and financing activities that affect recognized assets or liabilities (i.e., investing, capital, and financing activities that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period). Paragraph 37 further requires that such activities be presented in either narrative or tabular form in a separate schedule accompanying the Statement of Cash Flows.

An often-overlooked example of a noncash transaction that must be reported in accordance with the above guidance is the net appreciation/depreciation in the value of investments reported at fair value but *not* classified as cash and cash equivalents.[11]

Agencies must include any net appreciation/depreciation in the fair value of any investments *not* classified as cash and cash equivalents in a narrative or tabular schedule of noncash activities accompanying the Statement of Cash Flows.

RECONCILIATION OF GOVERNMENT-WIDE STATEMENTS TO FUND FINANACIAL STATEMENTS

Paragraph 77 of GASB 34 requires governments to present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. In many cases, brief explanations presented on the face of the statements will be sufficient to allow users to assess the relationship between the statements. However, if aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item, governments should provide a more detailed explanation in the notes to financial statements.

Generally, the amounts reported as net assets and changes in net assets in the proprietary fund statements for total enterprise funds will be the same as the net assets and changes in net assets of business-type activities in the government-wide Statement of Activities. However, if there are differences (for example, in connection with consolidating the activities of internal service funds), they should be explained on the face of the fund financial statement or in an accompanying schedule as discussed in paragraph 77 of GASB 34.

Generally Accepted Accounting Principles do not specify the minimum level of detail required for a summary reconciliation. The OCG has concluded that the minimum level of detail should be at least that described in paragraph 90 of GASB 34. That is the

[11] Page 173, 2001 edition, *Governmental Accounting, Auditing, and Financial Reporting*, published by the Government Finance Officers Association.

State's summary reconciliation will separately address the following:

- Reporting revenues on the accrual basis.
- Reporting annual depreciation expense instead of expenditures for capital outlays.
- Reporting long-term debt proceeds in the Statement of Net Assets as liabilities instead of other financing sources; also, reporting debt principal payments in the Statement of Net Assets as reductions of liabilities instead of expenditures.
- Reporting other expenses on the accrual basis.
- Adding the net revenue (expense) of internal service funds, as discussed in paragraph 62 of GASB 34.

Each agency presenting government-wide financial statements must present a reconciliation meeting the specifications outlined above. An agency also is required to present a reconciliation meeting the above specifications if it presents only business-type activities and the amounts reported as net assets and changes in net assets in the proprietary fund statements for total enterprise assets differ in any way from the net assets and changes in net assets of the agency's business-type activities to be reported in the State's government-wide Statement of Activities.

ELIMINATIONS

Eliminations Within Government-wide Financial Statements

Paragraph 13 of GASB 34 states that the Statement of Net Assets and the Statement of Activities should display information about the reporting government as a whole. The statements should include the primary government and its component units, except for the fiduciary funds of the primary government and component units that are fiduciary in nature. Those funds and component units should be reported only in the statements of fiduciary net assets and changes in fiduciary net assets. Paragraphs 57 through 62 of GASB 34 specify certain eliminations and reclassifications that are to be performed with respect to government-wide financial statements.

Eliminations Within Fund Financial Statements

Although GAAP do not require *inter*fund eliminations (between funds), GAAP implicitly require *intra*fund eliminations (within the same fund) by virtue of the fact that all GASB references to internal activity and balances reported in the basic financial statements discuss only interfund activity and balances and by virtue of its use of the word "consolidation" in a number of places. Another indication that the GASB intends governments to eliminate intrafund activity and balances is the answer to Question 128 in the second GASB 34 Implementation Guide.[12]

The State's policy is to eliminate revenue/expenditure activity and receivable/payable balances that exist wholly internal to a single reported fund (i.e., to perform *intra*fund eliminations), but to record no *inter*fund eliminations except for certain assets held for others (certain deposits, for example). Agency financial statements must reflect this policy.

[12] *Guide to Implementation of GASB Statement 34 and Related Pronouncements*, published in 2001.

SECTION 4—COMPONENT UNITS

Governments are required to report their component units in accordance with GASB 14 as amended by paragraphs 124 – 128 of GASB 34 and the guidance outlined in *Guide to Implementation of GASB Statement 14 on the Financial Reporting Entity—Questions and Answers* published by the GASB.

GOVERNMENTAL AND NON-GOVERNMENTAL COMPONENT UNITS

Component units may be *governmental* or *non-governmental*. Financial statement preparers should classify each component unit based on the following definition that has been agreed upon by the FASB and the GASB[13]:

- Public corporations and bodies corporate and politic are governmental organizations. Other organizations are governmental organizations if they have one or more of the characteristics listed below:

  - Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments.

  - The potential for unilateral dissolution by a government with the net assets reverting to a government.

  - The power to enact and enforce a tax levy.

- Furthermore, organizations are presumed to be governmental if they have the ability to issue directly (rather than through a state or municipal authority) debt that pays interest exempt from federal taxation. However, organizations possessing only that ability (to issue tax-exempt debt) and none of the other governmental characteristics may rebut the presumption that they are

[13] Pages 16-17, July 1996 issue, *Journal of Accountancy*.

governmental if their determination is supported by compelling, relevant evidence.

Component units that meet the above definition of governmental follow GASB accounting. With implementation of GASB 34 on July 1, 2001, it is no longer acceptable for a governmental component unit to use a not-for-profit model. Question 140 of the second GASB 34 Implementation Guide provides guidance on this issue. Non-governmental organizations (ones that do not meet the above definition of governmental) follow FASB accounting but can qualify as component units of state government entities.

It is the policy of the Office of the Comptroller General (OCG) that agencies preparing financial statements for inclusion in the statewide CAFR provide to the OCG the following information about component units that meet the GASB 14 criteria for blending:

- The identity of each *non-governmental* component unit and why it does not meet the above FASB/GASB definition of a governmental entity; and
- An assertion that the remaining component units that meet the criteria for blending are *governmental.* (A list that identifies each component unit that meets the criteria for blending as governmental or non-governmental also would satisfy this second requirement.)

If the State agency and/or its auditor do not wish to include the above data within the audited financial statements (such as within the notes to the financial statements or as other supplementary information), the agency annually shall submit a letter detailing this information to the OCG at the same time as it submits draft financial statements to that office.

SEPARATE COLUMN REQUIRED FOR EACH BLENDED COMPONENT UNIT

Financial statements to be incorporated into the statewide CAFR must display each blended component unit in a separate column of either the basic financial statements or combining non-major financial statements. This requirement applies whether the blended component unit is governmental or non-governmental.

Additional details regarding this policy are provided below.

Governmental Blended Component Units

In accordance with Question 181 of the first GASB 34 Implementation Guide, governmental component units presented as governmental or enterprise funds must be evaluated under the major fund criteria if they meet the GASB 14 criteria for blending (see GASB Cod. Sec. 2600.113). That is, in the basic financial statements, component units that both meet the criteria for blending and qualify as major funds must be presented as separate columns, while component units that meet the criteria for blending but *do not* qualify as major funds must be aggregated (along with any other non-major funds) into the single non-major funds column.

The Certificate of Achievement for Excellence in Financial Reporting Program of the Government Finance Officers Association also requires that each blended component unit be presented in a separate column—in the basic financial statements if it qualifies as a major fund and otherwise in combining financial statements for non-major funds. (The Certificate Program requires combining statements for non-major funds even though this is not a requirement of GAAP.) *Governmental Accounting, Auditing, and Financial Reporting,* published by the Government Finance Officers Association in 2001 (pages 259-260), expresses this as follows:

- Normally, a government has considerable flexibility in determining what constitutes a "fund" for external financial reporting purposes. Such is not the case, however, for funds that represent blended component units. In such cases, the activity's status as a separate fund for external financial reporting purposes is established automatically by virtue of its status as a legally separate entity.

- By definition, information on each individual fund and component unit must be provided in either the basic financial statements or the combining financial statements.

Non-Governmental Blended Component Units

Question 131 in the second GASB 34 Implementation Guide provides guidance regarding the mechanics of incorporating a non-governmental component unit that uses a GAAP financial reporting model that is inconsistent with or incompatible with the governmental model. An example would be a non-governmental blended component unit that reports using the FASB's not-for-profit financial reporting model (FASB Statement 117). In accordance with the GASB's answer to Question 131, the State's policy is as follows:

When it is possible to do so, the financial statements for non-governmental blended component units should be presented within the governmental, proprietary, or fiduciary fund financial statements in the basic financial statements. Any "noncompatible" or additional statements required by the component unit's reporting model, however, should *not* be combined with either governmental or proprietary funds or component units but instead should be presented as separate financial statements within the basic financial statements.

"The Number of Funds Principle" and the Notion of "Functional Basis Combining"

As stated above, blended component units generally must be presented in separate columns in financial statements. However, GAAP's "number of funds principle" reads as follows: "The general rule is to establish the minimum number of separate funds consistent with legal specifications, operational requirements, and the principles of fund classification ... . Using too many funds causes inflexibility and undue complexity ... and is best avoided in the interest of efficient and economical financial administration."[14] The Government Finance

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[14] GASB Cod. Sec. 1300.118.

Officers Association advises governments to "carefully consider the proper application of the number of funds principle to its particular situation before proceeding to present a large number of individual funds in its CAFR." The GFOA states: "The notion of *functional basis combining* may be useful for this purpose. Using this notion, numerous individual *funds* that serve an identical purpose may be combined, for financial reporting purposes, into a single fund."[15]

The State's CAFR currently presents a moderately large number of individual funds. Accordingly, the Office of the Comptroller General is beginning to consider whether any of the State's blended component units might "serve an identical purpose." If so, they may be combined for statewide financial reporting purposes into a single fund.

> The Office of the Comptroller General encourages agencies to consider whether any of their blended component units might serve an identical purpose and, therefore, in accordance with the notion of "functional basis combining," be combined, for agency financial reporting purposes and/or for statewide financial reporting purposes, into a single fund. If an agency believes that two or more of its blended component units serve an essentially identical purpose, it is asked to disclose this fact in the notes to the financial statements or as supplemental information.

AUDITED FINANCIAL STATEMENTS REQUIRED FOR EACH DISCRETELY PRESENTED COMPONENT UNIT

Component units that do not meet the GASB 14 criteria for blending are called *discretely presented component units*. The GAAP rules for reporting discretely presented component units are extensive, and they can be complicated.

[15] Page 259, *Governmental Accounting, Auditing, and Financial Reporting*, published in 2001 by the Government Finance Officers Association.

To ensure that the Office of the Comptroller General has the data it needs to properly report these component units and to supply the statewide auditors with all the information they require with respect to these entities, these component units are incorporated into the statewide financial statements from separately issued audited financial statements.

If a discretely presented component unit has been presented within your agency's financial statements in the past, please be assured that the Office of the Comptroller General has arranged to receive the component unit's financial statements for its most recently ended fiscal year directly from the component unit itself no later than October 15. Agencies must, however, notify the OCG as soon as they learn that a *new* discretely presented component unit is to be presented within their agency's financial statements.

Discretely presented component units are encouraged, but not required, to adopt the same accounting policies that apply to the State primary government. Regardless of possible differences in policies, the Office of the Comptroller General depends on the management of discretely presented component units to supply to it supplementary data needed for inclusion in the statewide CAFR but not supplied in the component unit's stand-alone financial statements.

SECTION 5—FINANCIAL STATEMENT COMPONENTS

RESTRICTED ASSETS AND LIABILITIES

Generally Accepted Accounting Principles require that externally restricted assets and liabilities be reported separately from other assets and liabilities.[16] For example, assets being used to repay maturing debt may need to be reported as restricted assets because of the existence of certain bond covenants.

The GFOA's Certificate of Achievement for Excellence in Financial Reporting Program[17] requires that governmental entities using a classified format report their Restricted Assets and their Liabilities Payable from Restricted Assets in the same classified category (i.e., current or non-current).

Agency financial statements must separately report, by specific asset category (e.g., cash, investments, etc.), any of the following that are applicable:

- Current restricted assets.
- Liabilities payable from current restricted assets.
- Non-current restricted assets.

CASH AND INVESTMENTS

Generally Accepted Accounting Principles require that the State's balance sheet include all cash and investments under State control at midnight, June 30. This includes all:

- Cash and investments that the State or its agencies own.

[16] Footnote 23 and paragraph 99 of GASB 34 (GASB Cod. Sec. 2200.165).

[17] See the GFOA Certificate of Achievement Program Checklist, Question 9.9a.

- Cash and investments that the State or its agencies hold as trustee or agent for others.

Agencies will provide data regarding cash and investments not under direct State Treasurer's Office control. This includes:

- Petty cash accounts.

- Composite reservoir bank accounts.

- All other cash and investment accounts that agencies control.

Agencies will report cash and investments on June 30 that are:

- On hand.

- On deposit in financial institutions.

- Held by a financial institution or other party for the agency or State.

In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the State values its securities and other instruments held for investment purposes at <u>fair value</u>. Also see the subsection on Cash Equivalents in the Footnote Disclosure section.

CAPITAL IMPROVEMENT BOND RECEIVABLES/REVENUE

Agencies and higher education institutions should report Capital Improvement Bonds receivable from the State's capital projects fund (and a corresponding revenue) ***<u>only</u>*** if they are entitled to submit a valid request to the State Treasurer's Office to draw down proceeds on or before the balance sheet date, but they have not yet received the related cash by that date.

In the past, some agencies/institutions have reported revenue and receivable as soon as a Capital Improvement Bond Bill mentioning a planned project for that agency/institution was signed. When the agency/institution is incorporated into the statewide CAFR, however, such a receivable must be converted to an Interfund Receivable (From Capital Projects Fund) and a corresponding Interfund Payable balance in the State's capital projects fund. If the related bonds have not yet been issued, this process would create an artificial deficit in the State capital projects fund. (Existing technical guidance[18] prevents the State's capital projects fund from recording revenue related to a bond issue until the bond sale closing date—i.e., on or after the sale date for the bonds.)

The Office of the Comptroller General (OCG) takes the position that the "capital budget" included within a Capital Improvement Bond Bill does not represent a legal liability of the State's capital projects fund to the accounts of the particular State agencies mentioned in such Bond Bill and, therefore, also does not represent a receivable of the particular State agency mentioned in such Bond Bill. The primary reasons for this position are as follows:

- The total amount of bonds "authorized" in bond bills for the State often would cause the Constitutional limit on debt service to be exceeded if *all* such "authorized" bonds were actually issued when authorized. It is the Budget and Control Board's responsibility to control actual bond issuances in such a manner as to ensure compliance with the Constitutional limitation. The Constitutional limitation takes precedence over the authorizing statutory bond bills.

- A bond bill merely authorizes the *eventual* issuance of bonds, possibly several years in the future. Operating agencies lack substantial control over when bond proceeds will become available to them. Code of Laws Section 11-1-100 specifically directs the Budget and Control Board and the Joint Bond Review Committee to "regulate the starting date of the various projects

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[18] December 1990 issue of *GAAFR Review*; GFOA Technical Inquiry, "Recognition of Bond Proceeds: Timing Issues."

approved for funding through the issuance of Capital Improvement Bonds" so as to ensure that the appropriations for debt service on these bonds are sufficient.

- In effect, federal arbitrage regulations prevent the State from issuing bonds as soon as they are authorized by preventing the State from investing bond proceeds for any substantial amount of time until needed to pay for construction projects. In practice, the existence of these federal regulations means that the State issues bonds only to meet its immediate cash flow needs.

- Projects and amounts to be funded are subject to change after a bond bill is signed. As an example, Code of Laws Section 11-9-140 provides for the transfer of certain project balances determined "not to be usable or needed."

- In practice, agencies/institutions are entitled to seek reimbursement for costs, including construction costs, only when they have bills that are "owing and due." (This principle is set forth in each year's Annual Appropriation Act; see, for example, Section 72.9 of the 2001-2002 Act.)

INTERFUND RECEIVABLES AND PAYABLES

Paragraph 112a of GASB 34 describes reciprocal interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) as the internal counterpart to exchange and exchange-like transactions which include interfund receivables in lender funds and interfund payables in borrower funds. See also Questions 196 and 227 of the first *GASB 34 Implementation Guide.* This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

State budgetary accounting practices require that the State record revenues, expenditures, and interfund receivables or payables in the fiscal year in which your agency received goods or services from, owes a refund of revenue to, or owes grant funds to, another State agency or another GAAP fund within your agency.

The State will record Interfund Payables (Interfund Receivables) as current liabilities (current assets) in the appropriate individual GAAP funds.

INVENTORY REPORTING METHOD

Generally Accepted Accounting Principles specifically provide for the use of the *purchase method* to account for inventories in governmental funds. Since inventories are commonly consumed during a relatively short period after purchase, GAAP also permits inventories in governmental funds to be reported using the *consumption approach* characteristic of accrual accounting. That is, governments may initially report the inventories they purchase as an asset and defer the recognition of an expenditure until the period in which the inventories actually are consumed.

GAAP specifically allow governments to account for the inventories and prepaid items in governmental funds using either the purchase method or the consumption method. Consistent with requirements of APB Opinion No. 22, the option selected must be disclosed in the Summary of Significant Accounting Policies. Also disclosed should be the basis used to value inventories as well as the method used to apply that basis.

It is the State's policy to report inventories using the consumption method in all funds. Financial statements incorporated into the statewide CAFR should be prepared using the same policy.

PREPAID EXPENSES

Generally Accepted Accounting Principles allow governmental funds in the fund financial statements (a) to apply the consumption approach to reporting prepaid expenses or (b) to apply the purchase method to prepaid expenses and *not* report balances of prepaid items in the governmental fund financial statements at all. However, governmental activities must report prepaid items using the consumption approach in the government-wide financial statements.

It is the State's policy to report prepaid expenses using the consumption method in all funds. Financial statements incorporated into the statewide CAFR should be prepared using the same policy.

CAPITAL ASSETS DEFINED

Capital assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period (GASB Cod. Sec. 1400.103). Capital assets also include assets purchased with federal funds in which the federal government retains a reversionary interest. In order to be considered capital assets, however, the assets must meet the State's established capitalization policies (see the CAPITALIZATION CRITERIA section below.)

CAPITAL ASSETS—CATEGORIES FOR FINANCIAL REPORTING

The State will report the following categories of capital assets in its Comprehensive Annual Financial Report: Land and Non-Depreciable Land Improvements, Depreciable Land Improvements, Infrastructure, Buildings and Improvements, Construction in Progress, Vehicles, Machinery and Equipment, Non-Depreciable Works of Art and Historical Treasures, Depreciable Works of Art and Historical Treasures, Non-Depreciable Intangible Assets, and Depreciable Intangible Assets. Agency financial statements also should separately report the above categories of capital assets.

Land and Non-Depreciable Land Improvements

Agencies should report parcels of real estate that they own as Land. They should also report easements and rights-of-way as Land.

An easement gives one party (party *A*) the right to go onto, and/or to use, another party's (party *B*'s) property for specified purposes without disturbing party *B*'s ownership of, or ability to use, the property for other purposes. For example, a conservation easement is a legal agreement a property owner makes to restrict the type and amount of development that may take place on his or her property. The easement spells out the rights the landowner retains and the restrictions on use of the property. Each of these rights and restrictions is negotiated between the landowner and the State agency that holds the easement.

A right-of-way is land, property, or interest therein, often in a strip, acquired for infrastructure such as a highway, rail bed, pipeline, electric power lines, or telephone facilities.

Non-depreciable land improvements are improvements that produce *permanent* benefits, primarily related to preparing land for its intended use. Examples include filling and grading costs.

Depreciable Land Improvements

Depreciable land improvements are those that are considered part of a structure or that deteriorate with use or with the passage of time. Examples include fencing, landscaping, parking lots, pavements, and signs.

Infrastructure

GASB Cod. Sec. 1400.103 defines infrastructure as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

The State of South Carolina's primary government will report only the Department of Transportation's roads and bridges as Infrastructure in the State's basic financial statements. All other State agencies that have assets that *appear* to meet the definition of infrastructure should report those assets as

Depreciable Land Improvements or Buildings and Improvements if their cost exceeds the applicable capitalization limit.

The following list is not all-inclusive but provides examples of assets that State agencies should report in the Depreciable Land Improvements or the Buildings and Improvements categories of capital assets:

Access roads	Power lines/electrical systems
Drainage systems	Fiber optic cable networks
Water and sewer systems	Fencing
Lighting systems	Parking lots

Agencies should choose the Buildings and Improvements category if the asset is associated with a particular building or group of buildings. In contrast, agencies should use the Depreciable Land Improvements category if the asset would continue to retain its usefulness without the presence of any existing building.

Buildings and Improvements

Buildings are permanent structures housing persons or personal property.

Building improvements are subsequent additions to, or renovations to, existing buildings that meet any *one* of the following three criteria:

- The improvement adds square footage to the existing building.
- The improvement is a major renovation that prepares an existing building for a new use.
- The improvement extends the useful life of the existing building. (For an improvement costing more than $10 million, the Office of the Comptroller General recommends that your agency obtain a formal engineering assessment as to whether the building's useful life has

been extended, even if you believe that other available documentation clearly shows whether the improvement extends the useful life of the existing building. Engineering assessments are recommended, if practicable, in any case where other documentation does not clearly show whether the improvement extends the useful life of the building.)

Ordinary repairs and maintenance, such as a roof replacement, are not building improvements, even though they could cost a significant amount.

When a building is improved, the improvement should be capitalized as a separate asset from the original building and assigned its own useful life for depreciation, which may or may not be the same as the original building's useful life.

Leasehold improvements include capitalizable improvements to a leased building rather than to an owned building. Agencies must report leasehold improvements in the Buildings and Improvements category. The depreciation period for leasehold improvements may be limited by the lease term. If renewal of the lease is likely, and the useful life of the leasehold improvement extends beyond the lease term, the depreciation period should include all or part of the renewal period. If renewal of the lease is uncertain, the depreciation period is limited to the remaining lease term, and the salvage value is the amount, if any, that the lessor will pay to the lessee at the end of the lease term.

Equipment that becomes a permanent fixture of a building and is not easily separable from the building should be recorded in Buildings and Improvements; otherwise, it should be recorded in Machinery and Equipment.

Construction in Progress

The balance reported in Construction in Progress represents the costs incurred through June 30 for construction of capital assets that are not yet substantially complete as of June 30. Do not depreciate Construction in Progress. When construction is substantially complete and the asset(s) is/are placed into service, you must reclassify Construction in Progress to the appropriate capital asset categories.

The Construction in Progress balance your agency reports must include contract retentions, if any. On some construction project contracts (or other long-term project contracts, such as systems projects), your agency may withhold part of each payment from the contractor until the project is complete. The amounts you withhold are contract retentions.

Vehicles

The Vehicles category includes all cars, trucks, vans, buses, aircraft, boats, trailers, and other vehicles used for operations.

Machinery and Equipment

Machinery and Equipment consists of all movable tangible assets used for operations. Examples include furniture and fixtures, office equipment, and other miscellaneous movable equipment. Equipment that becomes a permanent fixture of a building and is not easily separable from the building should be recorded in Buildings and Improvements; otherwise, it should be recorded in Machinery and Equipment.

> Report breeding livestock in Machinery and Equipment. The State's policy is to report its Vehicles separately from other types of Machinery and Equipment. Agency financial statements likewise should reflect these policies.

Works of Art and Historical Treasures

The requirements of GAAP regarding capitalization and depreciation of *individual* works of art and historical treasures differ from the requirements for *collections* of such items (GASB Cod. Sec. 1400.109 and 1400.111.)

Agencies must capitalize individual works of art or historical treasures that exceed $5,000. Agencies must record depreciation on exhaustible individual works or treasures. A work or treasure is considered exhaustible if its useful life is expected to be diminished by its display or by its educational or research uses.

Agencies must continue to capitalize collections of works of art or historical treasures that exceed $5,000 if those collections were capitalized as of June 30, 1999.

Agencies should apply the $5,000 capitalization threshold to a collection as a whole only if the individual cost of collection items cannot be easily determined. When adding an asset to a capitalized collection, agencies should apply the $5,000 threshold to the individual collection item.

A collection not capitalized as of June 30, 1999, is not required to be capitalized if it meets all three of the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than for financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Agencies must record depreciation on exhaustible collections.

GASB Cod. Sec. 1400.110 requires agencies to recognize as revenues donations of works of art and historical treasures, in accordance with Section N50, "Non-exchange Transactions." When donated collection items are added to noncapitalized collections, agencies should recognize program expense equal to the amount of revenues recognized.

Intangible Assets

Intangible assets generally lack a physical existence. This category includes such items as computer software, trademarks, and patents. (Note that although computer software exists as a sequence of electrical/magnetic signals stored on a physical medium such as a CD-ROM or diskette, the software itself—i.e., a set of instructions to be run on a computer—lacks physical existence.)

State agencies, with the exception of colleges and universities, are required to capitalize purchased software only—not software developed solely with internal resources.

If your agency is not a college or university and is paying a consultant to develop software for your agency's internal use, you should capitalize only the external direct costs of materials acquired and services received in developing the software, such as fees paid to the consultants for developing, installing, and testing code. Agencies other than colleges and universities should not capitalize the following costs: (1) preliminary costs such as evaluating alternatives and determining technology needs, (2) costs associated with internal resources such as payroll costs or travel costs for the agency's data processing employees, (3) training costs, and (4) data conversion costs.

Agencies should view the purchase of a single software program as the purchase of a single intangible asset subject to the $100,000 capitalization threshold, regardless of the number of licensed seats the agency purchases. (The Comptroller General's Office views the seats as components of the cost of a single piece of intellectual property rather than viewing each seat as a separate capital asset.) If your agency purchases additional seats after initial capitalization, you should not capitalize the cost of the additional seats unless their cost exceeds $100,000 in total. (The Comptroller General's Office would consider seat costs totaling more than $100,000 as representing a substantial addition to the initial software purchase that should be capitalized.

State agencies sometimes purchase software modules that are attached to a base software program owned by their own agency or another State agency. Because the base software can operate without the module, and because the module increases the capabilities of the base software, the module should be accounted for as an asset separate from the base software. Agencies should capitalize a software module if its cost exceeds the $100,000 capitalization threshold.

Agencies should capitalize software upgrades that exceed $100,000 only if the upgrades increase the software's functionality.

Agreements to use software that expire each year and are renewed on a year-to-year basis are not capitalizable.

Most intangible assets are depreciable, but an intangible asset may be non-depreciable if it is considered to have an infinite useful life.

CAPITAL ASSETS—CAPITALIZATION CRITERIA

Short-lived assets and those costing small amounts are not capital assets. "Capitalization criteria" are policies regarding the minimum useful life and minimum dollar value of capital assets.

The State's capitalization policy requires agencies to capitalize assets that meet both the minimum dollar value and minimum useful life requirements described below:

ASSET CATEGORY	ITEMS TO CAPITALIZE
Land	All, regardless of cost
Non-Depreciable Land Improvements	All, regardless of cost
Depreciable Land Improvements	Any costing more than $100,000
Infrastructure (DOT Roads and Bridges Only)	Any costing more than $500,000
Buildings and Building Improvements	Any costing more than $100,000
Vehicles	Any costing more than $5,000
Machinery and Equipment	Any costing more than $5,000
Breeding Livestock	Any costing more than $5,000
Works of Art and Historical Treasures*	Any costing more than $5,000
Intangible Assets	Any costing more than $100,000

* GAAP requirements regarding capitalization and depreciation of *individual* works of art and historical treasures differ from the requirements for *collections* of such items. See the definition of Works of Art and Historical Treasures above for explanation of requirements.

Do ***not*** capitalize any assets with a cost below the thresholds described above.

The State's policy is to apply the above capitalization thresholds to *individual items* rather than to groups. This means that if you purchase several items of the same type at one time (for example, 5 computer workstations, 25 library books, or 15 pieces of modular furniture (cubicles)), you must examine the cost of each individual item to determine if it should be capitalized.

USEFUL LIFE	STATE POLICY
If less than 1 year	Do ***not*** capitalize
If 1 year or greater but less than 2 years	Capitalize only if your *agency's* policy requires capitalization
If 2 years or greater	Capitalization is ***required***

Assets on the books at July 1, 2001, that do not meet the capitalization criteria described above must be removed from the books. See below for more information on implementation of a change in capitalization criteria.

Implementation of a Change in Capitalization Threshold or Minimum Useful Life

Upon implementation of a change in capitalization criteria, you must remove all existing assets that do not cost in excess of the new capitalization thresholds or have a minimum useful life that meets the new requirements from your agency's books. Generally Accepted Accounting Principles (Footnote 3, GASB Cod. Sec. 1600; page 241, *Governmental Accounting, Auditing, and Financial Reporting* published in 2001 by the Government Finance Officers Association) require that this change in policy be reported retroactively as a change in principle (i.e., as adjustments to the beginning balances of capital assets). If your agency has depreciated an asset that is being removed from the capital assets ledger, the associated accumulated depreciation also must be removed.

Internal Control

As has always been the case, agency directors will be responsible for maintaining appropriate controls over all agency assets, including items costing less than the capitalization threshold. In addition to tagging reported movable capital assets, agencies will be required to tag all movable assets between $1,000 and $5,000, and maintain a listing of these assets. The listing must include information such as tag number, description, location, and cost and must be made available upon request. Computer software costing between $1,000 and $100,000 that is purchased after June 30, 2001, also should be included on this control listing; tags should be applied to software only if practicable. No depreciation should be recorded on these assets. This listing is for control purposes only.

CAPITAL ASSETS—BOOK VALUE

Book value is the dollar amount of a capital asset that appears on the agency's (and the State's) financial statements and ledgers. A capital asset's book value depends on how the agency acquired the asset.

Book Value of Purchased or Constructed Capital Assets

Capital assets that are purchased or constructed must be recorded at historical cost. Historical cost equals the original cost of the asset, including all charges necessary to place the asset into service. For example, taxes, freight charges, site preparation costs, and professional fees are included in the historical cost of a capital asset (GASB Cod. Sec. 1400.102). If actual cost records are not available, agencies should estimate the cost as of the date acquired. If the agency estimates the cost, it should fully document its estimate and the estimation methods it used.

Book Value of Donated Capital Assets

In the case of a capital asset given to a State agency by a non-State party, the asset should be recorded at its fair market value on the date of donation (GASB Cod. Sec. 1400.102). Fair market value is the price at which an asset would change hands if both buyer and seller are willing parties and have knowledge of all related facts.

Record depreciation for a depreciable donated asset using its estimated remaining useful life at the date of donation.

Book Value of Capital Assets Acquired by Forfeiture or Condemnation

The book value at acquisition of an asset acquired by forfeiture or condemnation is the lesser of:

- The asset's fair market value.
- The amount the former owner owes plus amounts the State pays to obtain the forfeiture and put the asset into use.

Record depreciation for a depreciable asset acquired by forfeiture or condemnation using its estimated remaining useful life at the date of forfeiture or condemnation.

Book Value of Capital Assets Received Through Intra-State Transfers

An agency may receive capital assets through an intra-State transfer from another agency within State government. The receiving agency should record the capital asset and accumulated depreciation at the same amount the transferring agency or fund removes from its books.

As explained in the "Depreciation Requirements" section, the State's general policy is to record a full year of depreciation in the first year a capital asset is in service and to record no depreciation in the final year of the asset's useful life. To be consistent with this depreciation policy as it relates to intra-State transfers, agencies should record no depreciation on a capital asset during the year that it is transferred out to another agency. You should record depreciation during the current year for capital assets that were transferred in from another agency during the current year. (An exception to this policy may occur if your agency calculates depreciation monthly.)

The most important part of accounting for transfers between agencies is making sure the dollar amounts for book value and accumulated depreciation being added to the receiving agency are the same dollar amounts being removed from the transferring agency. Communication between agencies is extremely important when accounting for intra-State transfers.

Question 101 of the second GASB 34 Implementation Guide provides guidance regarding the recording of transfers of capital assets between and among a government's various funds. That guidance specifically requires that the State report a transfer of capital assets from a governmental fund to an enterprise fund as an inflow of resources in the "capital contributions" section of the enterprise fund's financial statements and as a transfer in and out in the government-wide Statement of Activities.

Book Value of Capital Assets Acquired Through Trade-in

The book value of an asset acquired through trade-in is:

- The invoice or contract price of the new asset.
- Less the trade-in value of the old asset.
- Plus the net book value of the old asset.

Record depreciation for a depreciable asset acquired through trade-in using its estimated remaining useful life at the date acquired.

Book Value of Capital Assets Acquired Through Capital Lease

Assets acquired by capital leases are capital assets of the State, even if the State does not legally own them. A capital lease transfers substantially all the benefits and risks of asset ownership to the State. A lease *may* be a capital lease if:

- The State will own the asset at the end of the lease term.
- The lease allows the State to purchase the asset at quite a bit less than fair market value.
- The lease term is almost as long as the estimated useful life of the leased asset.
- The cost to lease the asset is almost as great as the cost to buy it on the installment plan.

For more specific guidance regarding the proper classification of leases, please consult FASB 13 (as updated and interpreted).

The book value of a capital asset acquired by a capital lease is the lower of:

- The fair market value of the leased asset.
- The present value of the minimum lease payments.

Depreciation of capital leased assets depends on which of the four criteria listed above was used to determine that the lease is capital. If the lease was determined to be a capital lease because of the first or second criteria listed above, the asset should be depreciated over the asset's useful life. If the lease was determined to be a capital lease because of the third or fourth criteria listed above, the asset should be depreciated over the lease term.

CAPITAL ASSETS—DEPRECIATION REQUIREMENTS

Generally Accepted Accounting Principles now require depreciation of assets previously recorded in the General Fixed Assets Account Group. This new requirement to record depreciation includes both current year depreciation and the calculation of accumulated depreciation as of July 1, 2001 (as if the assets had always been subject to depreciation.)

Excel Depreciation Workbook

The Office of the Comptroller General has prepared an Excel workbook that can be used to maintain a capital assets listing, calculate depreciation expense, and maintain accumulated depreciation balances. All agencies, including those that currently maintain highly automated fixed assets systems, are strongly encouraged to review the design of the spreadsheet model as a step toward understanding system requirements. The workbook is available on the Internet at http://www.cg.state.sc.us/gasb34/CapAssets.

Calculation of Depreciation Using the Straight-Line Method

The State will record depreciation for its depreciable capital assets using the straight-line method over the asset's useful life.

When using the straight-line method, we recommend that you record a full year of depreciation in the year the asset is placed in service; therefore, no depreciation will be recorded in the last year of the asset's useful life. If an asset is retired before it is fully depreciated, no depreciation should be taken in the year of disposition. Agencies must use straight-line depreciation, but may apply a convention other than the full-year convention previously described or choose a useful life based on months rather than whole years if it has a valid reason to do so and the policies are applied consistently. Salvage value should not be considered in the calculation of depreciation unless it is substantial.

Selection of Useful Life for Depreciation Purposes

The useful life you choose should fall within the range provided in the schedule below for the particular type of asset and should be expressed in a whole number of years. If you disagree with the range of useful lives for a particular type of asset as listed on the useful lives schedule, please contact the Office of the Comptroller General so that we may agree on an appropriate useful life.

If your agency owns a type of asset not listed on the useful lives schedule, please select a useful life that falls within the range provided for the broad category of capital assets under which the asset in question will be reported. For example, if the type of asset in question belongs in Machinery and Equipment but is not listed on the schedule, choose a useful life that falls within the range of 2 to 25 years (i.e., the range from the shortest to the longest useful life allowable for Machinery and Equipment). *Please restrict the use of this procedure, however, to situations where the type of asset is not listed on the useful lives schedule.* Also, when using this procedure, you should prepare and maintain documentation of the reasoning for your specific useful life decision (for example, a statement that, in your agency's experience, the type of asset in question generally lasts for *X* years as well as any other documentation you may have to support this statement.)

Use the following schedule to determine the useful life over which to depreciate a capital asset:

Depreciable Land Improvements:	
Fencing	10-20 years
Landscaping	5-15 years
Lighting	15-20 years
Parking Lots	15-20 years
Paving (Access Roadways and Walks)	10-15 years
Signs	10-15 years
Ports Authority Wando River Channel Dredging Project	50 years
Other Land Improvements (drainage systems, water and sewer systems, power lines, etc.)	3-60 years
Infrastructure:	
DOT's Bridges	50 years
DOT's Roads	75 years
Buildings and Improvements:	
Hospitals	Determine individually
Maintenance Facilities/Garages/ Machine Shops	20-40 years
Military Facilities (Armories)	Determine individually
Office Buildings	40-50 years
Prison Facilities	Determine individually
Recreational Buildings	Determine individually
Residential Buildings	20-30 years
Schools and Libraries	Determine individually
Storage Facilities/Warehouses:	
Wooden Sheds/Metal Buildings	10-20 years
Concrete/Masonry Buildings	20-40 years
Other Buildings	5-50 years
Hydroelectric Utility Plants	55 years
Other Utility Plants	22-37 years
Building Improvements	Determine individually
Vehicles:	
Airplanes and Helicopters	15-20 years
Automobiles	3-6 years

Light General Purpose Trucks and Vans	4-8 years
Heavy General Purpose Trucks and Vans	6-15 years
Tractors	4-10 years
Trailers	6-10 years
Boats	5-10 years

Machinery and Equipment:

Computer Equipment (Hardware)	3-7 years
Office Equipment (Copiers, Fax Machines, Paper Shredders, Filing Systems, etc.)	3-10 years
Office Furniture (Desks, Chairs, Bookcases, Cabinets, Credenzas, Tables, etc.)	10-20 years
Other Furnishings and Equipment	2-25 years
Hospital Equipment	Determine individually
Breeding Livestock	Determine individually
Assets for the Storage of Petroleum Products	10-20 years
Assets Used in the Manufacture of Fabricated Metal Products	5-15 years
Assets Used in the Manufacture or Repair of Furniture	5-15 years
Assets Used in Printing Activities	5-15 years
Nurseries, Greenhouses, and Related Equipment	10-15 years

Works of Art and Historical Treasures:

Patriots Point Naval Museum Exhibits	10-25 years
All Other Items	Determine individually

Intangible Assets:

Externally Acquired Computer Software	3 years
Internally Generated Computer Software (Colleges/Universities Only)	Determine individually
Other Intangible Assets	Determine individually based on type of asset or life of related contract

Re-evaluation of Assets' Useful Lives

At some point in time after an agency has placed a capital asset into service, the agency may realize that the asset will not last for the remaining assigned useful life. Many factors may contribute to an asset not meeting its originally estimated useful life, including damage to the asset or failure to perform periodic maintenance. It is important for the useful life of an asset to approximate its true service life because the purpose of depreciation is to spread an asset's cost over the period of time in which it is used.

Agencies are required to re-evaluate the useful lives of their reported assets annually and adjust them downward if necessary to reflect the remaining service life.

A change in the estimated useful life of a capital asset is considered a change in accounting estimate, which must be accounted for prospectively (i.e., the change in estimate is accounted for and reported in current and future periods). The following example demonstrates the proper way to account for a change in the estimated useful life of a capital asset:

Assume you purchased equipment for $50,000 in FY 99 and assigned it a useful life of 10 years. Depreciation expense would be $5,000 per year ($50,000 divided by 10 years). At June 30, 2002, the asset has a net book value of $30,000, calculated as follows:

Original cost	$50,000
Accumulated depreciation ($5,000/year x 4 years)	(20,000)
Net book value	$30,000

During FY 03, you realize that the asset's usefulness will end during FY 06 (total useful life is expected to be only 7 years instead of the original estimate of 10 years). Depreciation expense for FY 03 and later years is calculated as follows:

$$\frac{\text{Book value at beginning of FY 03 (\$30,000)}}{\text{Remaining life based on new estimate (3 years)}} = \text{\$10,000/year}$$

By recognizing depreciation expense of $10,000 per year for the remainder of the asset's useful life, the accumulated depreciation will reach $50,000 in FY 05. (Remember that because we took a full year of depreciation in the year of acquisition, we do not take depreciation in the year of disposition.) The asset will be fully depreciated after 7 years instead of the original estimate of 10 years.

CAPITAL ASSETS—GAIN/LOSS ON SALES

The State's policy for reporting gains and losses on sales of capital assets in the government-wide Statement of Activities is to report losses as general government-type expenses and to report gains as general revenues (Question 131 of the second GASB 34 Implementation Guide). Agency financial statements should reflect this State policy.

In enterprise fund financial statements, agencies should report gains as nonoperating revenues and losses as nonoperating expenses.

CAPITAL ASSETS—IMPLEMENTATION OF CAPITALIZATION LIMIT CHANGES—A TRANSITION ISSUE

In the year of transition to GASB 34 (i.e., the fiscal year ended June 30, 2002), agencies should implement any change in capitalization limits <u>before</u> implementing the provisions of GASB 34, which require calculation of depreciation on capital assets. Agencies are required to adopt a capitalization limit of $5,000 for movable personal property and $100,000 for depreciable land improvements, buildings and improvements, and intangible assets, as of July 1, 2001. Agencies must write off their books all capital assets that do not meet these capitalization limits. Agencies should first write off the assets that do not meet the new capitalization limits and then calculate a beginning accumulated depreciation balance only on the items that remained capitalized after the capitalization changes are implemented.

GOVERNMENTAL FUND LIABILITIES

GASB Interpretation 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

For governmental funds, a series of specific accrual modifications have been established pertaining to the reporting of certain forms of long-term indebtedness. For example:

- Debt service on formal debt issues (such as bonds and capital leases) generally should be recognized as a governmental fund liability and expenditure when due (matured)—with optional additional accrual under certain conditions, as interpreted in paragraph 13, regarding debt service funds.

- Compensated absences, claims and judgments, special termination benefits, and landfill closure and postclosure care costs should be recognized as governmental fund obligations and expenditures to the extent the liabilities are "normally expected to be liquidated with expendable available financial resources." In all cases, the criterion for modified accrual recognition is whether and to what extent the liability has matured, independent of the method and timing of resource accumulation.

The Office of the Comptroller General agrees with the GFOA interpretation of these requirements for governmental funds. Accordingly, no expenditure and liability ordinarily should be reported in a governmental fund in connection with the unmatured principal and interest of long-term debt. Similarly, no expenditure and liability should be reported in a governmental fund for compensated absences, claims and judgments, special termination benefits, and landfill closure and postclosure care costs. Such amounts are considered to function as unmatured liabilities of the general government. Agencies, however, must report the current and non-current portions of these long-term obligations for their Governmental activities in their government-wide statements as well as in the Changes in Long-Term Obligations note.

LONG-TERM DEBT—LEVEL OF DETAIL

The State's policy is that audited financial statements to be incorporated into the State's basic financial statements must, at a minimum, separately present Bonds Payable, Notes Payable, Certificates of Participation Payable, Loans Payable, Capital Leases Payable, Claims and Judgments Payable, Compensated Absences Payable, etc., on the face of the financial statements.[19]

Bonds Payable and Notes Payable information must be separated further into General Obligation and Revenue debt for the note disclosures. This includes the debt service to maturity schedules. (Also see LONG-TERM OBLIGATIONS on page 104 in Section 6, FOOTNOTE DISCLOSURES.)

COMPENSATED ABSENCES

Accumulated employee balances of annual leave, sick leave, compensatory time, and holiday compensatory time are compensated absences, regardless of whether employees will be compensated in the form of paid time off work or extra pay. In accordance with GASB 16, *Accounting for Compensated Absences*, the basic compensated absences liability should equal the employee's actual accumulated compensated absence balance at the balance sheet date.

The compensated absence liability for an employee is based on the daily or hourly pay rate that is in effect at June 30. The pay rate in effect at June 30 does not include one-time lump sum bonuses that do not increase the employee's base salary. The employer payments for fringe benefits associated with those

[19] However, a college with no blended component units may satisfy this requirement by providing this level of detail to the Office of the Comptroller General on the spreadsheet version of its Statement of Net Assets.

salaries/wages should be calculated and included in the compensated absence liability.

STATE CAPITAL IMPROVEMENT BONDS AND INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

State Capital Improvement Bonds are general obligation bonds repaid from State general government resources rather than from resources of particular agencies. That is, individual agencies may own capital assets acquired with State Capital Improvement Bond proceeds, but those same agencies are not responsible for repaying the Capital Improvement Bonds.

The Invested in Capital Assets, Net of Related Debt account that an agency reports in its financial statements should include any capital assets acquired with State Capital Improvement Bond proceeds *unreduced* by the related debt.

The Office of the Comptroller General will offset the agency-reported Invested in Capital Assets, Net of Related Debt with the related Capital Improvement Bond debt in the statewide CAFR. Annually, the Office of the Comptroller General may contact agencies and ask them to provide certain information regarding assets acquired with State Capital Improvement Bond proceeds.

RESTRICTED NET ASSETS

Definition

Paragraph 34 of GASB 34 requires that net assets should be reported as restricted when constraints placed on the use of net assets are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation.

In addition, paragraph 35 of GASB 34 requires that when permanent endowments or permanent fund principal amounts are included, "restricted net assets" should be displayed in two additional components-expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

Because different measurement focuses and bases of accounting are used in the Statement of Net Assets than in governmental fund statements, and because the definition of reserved includes more than resources that are restricted, amounts reported as reserved fund balances in governmental funds will generally be different from amounts reported as restricted net assets in the Statement of Net Assets.

Each restriction on net assets should be based solely on the criteria of paragraph 34 of GASB 34 noted above.

Also see NET ASSETS CATEGORIZED DIFFERENTLY IN STATEWIDE CAFR THAN IN AGENCY FINANCIAL STATEMENTS on page 121 for required disclosure related to net assets.

Purpose Categories of Restricted Net Assets to be Reported

The State will report the following restricted net asset purposes categories:

- Unemployment Compensation Benefits
- Education
- Health
- Transportation
- Infrastructure
- Capital Projects
- Debt Service

- Other

> Agencies should use purpose categories at least as detailed as those listed above. Titles for purpose category in agency financial statements should be such that the Office of the Comptroller General will be able to determine in which of the above categories the balance in question best fits.

OPERATING VS. NONOPERATING REVENUES AND EXPENSES

Proprietary funds must define operating revenues and expenses and segregate them from non-operating revenues and expenses. These definitions and policies must be disclosed in the Summary of Significant Accounting Policies. Please see Section 6, FOOTNOTE DISCLOSURES, under SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

GRANT/CONTRIBUTION REVENUE—RECOGNITION

Generally Accepted Accounting Principles relating to recognition of Grant/Contribution Revenues differ for different categories of GAAP funds and activities.

Enterprise, Internal Service, and Trust Funds Reported on Fund Financial Statements; Activities of Governmental, Enterprise, and Internal Service Funds Reported on Government-wide Financial Statements

For this group of funds and activities:

- Recognize Grant/Contribution Revenue when your agency has met all applicable eligibility requirements.

- Record Grant/Contribution Receivables at June 30 if, at that date, *both* of the following conditions are true:

  - Your agency has met the revenue recognition criteria above.

  - Your agency has not yet received the related cash from the grantor.

Current Grant/Contribution Receivables must be reported separately from Non-Current Grant/Contribution Receivables for these funds/activities. Current receivables at June 30 are those expected to be collected on or before the next June 30 (within one year) whereas Non-Current Receivables at June 30 are those expected to be collected after the next June 30.

- Record Deferred Revenue at June 30 if, at that date, *both* of the following conditions are true:

  - Your agency has received cash on or before June 30.

  - Your agency has **not** yet met all applicable eligibility requirements.

Governmental Funds Reported on Fund Financial Statements

For this group of funds:

- Recognize Grant/Contribution Revenue when *both* of the following are true:

  - Your agency has met all applicable eligibility requirements.

  - The grant funds or contributions are available. (Funds are considered available at June 30 if they are received or expected to be received by the *next* June 30.)

- Record Grant/Contribution Receivables at June 30 if, at that date, both of the following criteria are met:

  - Your agency has met the revenue recognition criteria above.

  - Your agency has not yet received the related cash from the grantor.

- Record Deferred Revenue at June 30 if **either** of the following is true:

- Your agency has received cash on or before June 30 but has **not** yet met all applicable eligibility requirements.
- Your agency **has** met all applicable eligibility requirements at June 30 but the grant funds or contributions at that date are not yet available (that is, the funds were not yet received or expected to be received by June 30 of the *next* fiscal year).

GRANT/CONTRIBUTION REVENUES IN PROPRIETARY FUNDS—OPERATING OR NON-OPERATING

Agencies are encouraged to reference the examples in Appendix D of GASB 33 and to use the two-page questionnaire in Appendix A of this manual to evaluate grant-like arrangements against the criteria included in the State's policy on distinguishing operating from non-operating revenues. (For further information, please see SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in Section 6, FOOTNOTE DISCLOSURES.)

CLASSIFICATION OF PROGRAM-SPECIFIC GRANTS AND CONTRIBUTIONS—OPERATING VERSUS CAPITAL

Program-specific grants and contributions must be classified as either operating or capital. Operating grants/contributions are used to finance an agency's operations. Capital grants/contributions are ***restricted*** by the grantor/contributor for capital purposes.[20] Capital purposes include the acquisition, construction, or renovation of capital assets but do not include costs to repair or maintain existing capital assets. If a grant/contribution may be used either for operating or capital purposes, the grant/contribution is classified as operating, even if your agency uses it for capital purposes.

[20] See paragraph 50, GASB 34, and Question 134 in the first GASB 34 Implementation Guide.

The capitalization thresholds established by the Office of the Comptroller General for the reporting of capital assets do not affect the classification of capital grants and contributions. In other words, a grant/contribution that is restricted for capital purposes will be reported as capital even if the cost of the asset being acquired falls below the capitalization threshold, resulting in your agency not reporting the acquired asset as a capital asset. The following example illustrates such a situation:

> Assume your agency receives a $25,000 grant, the proceeds of which are restricted by the grantor for the purchase of a network server and four computers. The network server costs $15,000, and the four computers cost $2,500 each. Although the four computers would not be reported as capital assets because their cost does not exceed $5,000 each, the grant would still be considered a capital grant.

INDIRECT EXPENSES

Paragraphs 41 and 42 of GASB 34 establish the requirements for reporting direct and indirect expenses. Paragraph 41 states that governments should report all expenses by function except for those that meet the definitions of special or extraordinary items, discussed in paragraphs 55 and 56 of GASB 34. As a minimum, governments should report direct expenses for each function. Direct expenses are those that are specifically associated with a service, program, or department and, thus, are clearly identifiable to a particular function.

Paragraph 42 of GASB 34 *does not require* governments to allocate indirect expenses to other functions. However, some governments may prefer to allocate some indirect expenses or use a full-cost allocation approach among functions. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns to enhance comparability of direct expenses between governments that allocate indirect expenses and those that do not. A column totaling direct and indirect expenses may be presented but is not required.

Question 56 of the second GASB 34 Implementation Guide states that if the government chooses not to allocate indirect costs in the Statement of Activities, the allocations should be completely reversed so that the indirect expenses are included in "general government" or its equivalent.

It is the State's policy not to allocate indirect expenses. Accordingly, the State does not plan to report indirect expenses in a separate column.

Agencies are encouraged *not* to allocate indirect expenses and *not* to report indirect expenses in a separate column in the agency's government-wide Statement of Activities. If an agency *does* report indirect expenses in a separate column, it also must provide a sufficiently detailed footnote disclosure that would allow the Office of the Comptroller General to completely reverse such allocations.

REQUIRED RECOGNITION OF PLEDGES AS RECEIVABLES AND REVENUES

Generally Accepted Accounting Principles[21] require governmental entities that receive pledges (i.e., promises to provide cash or other assets from nongovernmental donors) to "recognize receivables and revenues (net of estimated uncollectible amounts) when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection." Also see REQUIRED DISCLOSURE OF UNRECOGNIZED PLEDGES DEEMED NOT MEASURABLE on page 116.

INTERNAL SERVICE FUNDS

For the statewide financial statements, the State will be required to eliminate the "doubling-up effect of internal service fund activity." According to paragraphs 59 and 314 of GASB 34, this is accomplished by "adjusting the internal service fund's internal charges to break even." (This requirement is

[21] Paragraph 25 of GASB 33; GASB Cod. (2001-2002 GASB 34 Edition) Sec. N50.122.

for financial reporting purposes only. Internal service funds are not required to actually change the amounts they charge to customers.)

The following information is required to be included in separately issued financial statements for internal service funds:

- The Statement of Revenues, Expenses, and Changes in Fund Net Assets must report separate balances for revenue derived from internal and external customers. With a few exceptions, internal customers can generally be defined as other State agencies (including State-supported colleges and universities). However, the State agencies and entities listed in Appendix B are considered external customers as a result of their classification as discrete component units of the State.

- An example of the required statement is provided in Exhibit 4D on page 231 of the first GASB 34 Implementation Guide.

- The notes to the financial statements must include a breakdown of revenue derived from **internal** customers. For governmental payor funds, revenue must be reported by function. For proprietary payor funds, revenue must be reported by activity.

One other new requirement of GASB 34 for internal service funds is the preparation of the cash flow statement by using the **direct method** in accordance with GASB 9.

For the State of South Carolina to prepare cash flow statements by the direct method in accordance with GASB 9, State internal service funds must report transactions with other State funds separately from other operating transactions. For example, amounts representing supplies purchased from **vendors** should be separated on the Statement of Cash Flows from the amounts representing supplies purchased from **other funds of State**

government. This provision also would apply to receipt transactions.

Specific guidance concerning this required presentation appears in the *Content and Format Issues* section of the *GASB 9 Implementation Guide*, questions 65 and 67.

Also see INTERNAL SERVICE FUNDS—REVENUE FROM INTERNAL CUSTOMERS on page 117 for information regarding a required footnote disclosure.

FIDUCIARY FUNDS

Under GAAP, fiduciary funds are limited to reporting assets held in a trustee or agency capacity for others. That is, assets reported in fiduciary funds in the statewide CAFR cannot be used to support the State's own programs.[22]

If an agency's financial statements include a fiduciary fund that holds assets that ***can*** be used to support State programs, the agency's financial statements also must include supplementary information that presents this fund as it should be presented in the statewide CAFR (i.e., as a fund other than a fiduciary fund).

[22] Paragraph 69 of GASB 34.

SECTION 6—FOOTNOTE DISCLOSURES

LIST OF DISCLOSURES REQUIRED BY GAAP

GASB Cod. Secs. 2300.106 and .107 provide a list of footnotes required for fair presentation of basic financial statements. The Office of the Comptroller General needs the data in most of these footnotes in order to properly incorporate agency financial statements into the statewide CAFR.

Agency financial statements to be incorporated into the statewide CAFR must include all footnote disclosures required for fair presentation in accordance with GAAP as well as any additional disclosures described in this manual.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity Disclosures

Generally Accepted Accounting Principles[23] require that the notes to the reporting entity's financial statements include "a discussion of the criteria for including the component units in the financial reporting entity and how the component units are reported."

The Government Finance Officers' Association and the Office of the Comptroller General interpret this as requiring a description of the component unit's specific characteristic(s) that led to its classification as a blended or discretely presented component unit. For example, if a blended component unit provides services entirely or almost entirely to the State, that fact should be disclosed if it is the primary characteristic that distinguishes the component unit from discretely presented component units.

[23] Section 2600.122 of the *Codification of Governmental Accounting and Financial Reporting Standards as of June 30, 2001*.

Generally Accepted Accounting Principles[24] require that the notes to the reporting entity's financial statements "include information about how the separate financial statements for the individual component units may be obtained."

The Office of the Comptroller General interprets this as requiring disclosure of a postal *mailing address* to which the interested reader may write a letter requesting a copy of the agency's financial statements.

Section 4 of this manual (COMPONENT UNITS) discusses the fact that component units may be governmental or non-governmental. That section further requires disclosure or supplemental information regarding whether the component units that you include are governmental or non-governmental and the reasons for that classification. For further details, please see GOVERNMENTAL AND NON-GOVERNMENTAL COMPONENT UNITS in Section 4, COMPONENT UNITS.

Enterprise Funds—Election Not to Apply FASB Pronouncements Issued After November 30, 1989

The State's policy is that enterprise funds within the State's primary government may not adopt FASB Statements and Interpretations issued after November 30, 1989. This policy must be disclosed in the notes to the agency's basic financial statements.

Also see APPLICABILITY OF FASB PRONOUNCEMENTS on page 24.

Basis of Accounting—Modified Accrual Availability Period

GASB Cod. Sec. 1600.106 requires disclosure within the Summary of Significant Accounting Policies of the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements.

[24] Ibid.

The State's policy is to use a one-year availability period for purposes of reporting its governmental funds. Accordingly, for all practical purposes, the definitions of current and long-term liabilities contained in GASB 34 paragraph 31 apply across all fund types and activities. Specifically, current liabilities are those "due within one year," and long-term liabilities are those "due in more than one year."

Also see EFFECTS OF ACCOUNTING AND REPORTING CHANGES ON BEGINNING FUND EQUITY/NET ASSETS(Governmental Funds—Change in Policy Regarding Availability Period—A Transition Issue) on page 90.

Permanent Funds

In accordance with Paragraph 65 of GASB 34, only earnings (not principal) of a permanent fund may be used. Further, the earnings of a permanent fund must be usable to support State government (rather than individuals, private organizations, or other governments).

For each permanent fund displayed in the basic financial statements, the notes to the financial statements should provide enough data regarding the allowed uses of the fund's resources that a financial statement user could readily determine that such resources are usable to support State government.

Enterprise Funds—Reasons for Classification As Enterprise Fund

Paragraph 67 of GASB 34 requires activities for which a fee is charged to external users for goods or services to be reported as enterprise funds if ***any one of three*** criteria is met. Governmental entities should apply each of the three criteria in the context of the activity's *principal revenue sources*.

In accordance with Paragraph 67 of GASB 34, an activity may be classified as an enterprise fund ***only*** if it charges one or more fees to external users for goods or services. "External users" should be interpreted as meaning "users outside State government."

For each enterprise fund (and component unit using enterprise fund accounting) displayed in the basic financial statements, the notes to the financial statements should provide enough information about fund revenues that a financial statement user could readily determine that the fund charges fees for goods and/or services to users external to the government of the State of South Carolina.

Paragraph 67a of GASB 34 requires that certain debt-issuing activities be classified as enterprise funds. (Also see Questions 166 and 167 of the first GASB 34 Implementation Guide.) Specifically, paragraph 67a of GASB 34 requires enterprise fund classification for any activity that is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

If significant debt (generally bonds or notes) is associated with a fund *other than* an enterprise fund, the notes to the financial statements must disclose the specific circumstances that cause the activity *not* to meet the conditions set forth in Paragraph 67a of GASB 34.

Fiduciary Funds

Paragraph 69 of GASB 34 allows an activity to be classified within a fiduciary fund type (pension trust fund, investment trust fund, private-purpose trust fund, or agency fund) ***only*** if it holds assets in a trustee or agency capacity for parties outside State government and the assets ***cannot*** be used to support the State's own programs.

For each fiduciary fund displayed in the basic financial statements, the notes to the financial statements should provide enough data regarding the allowed uses of fund resources that a financial statement user could readily determine that the resources cannot be used to support State programs.

Paragraphs 69 and 73 of GASB 34 explain that **trust funds** (pension trust, investment trust, or private-purpose trust) generally have both of the following characteristics:

- A signed trust agreement between the State agency and one or more non-State parties governs operation of the fund.
- Management of the State agency is significantly involved in managing the operation of the fund.

In contrast, **agency funds** generally are not governed by a formal trust agreement and State managers do not exercise any significant discretion in managing the fund. Agency funds generally exist only to receive and temporarily invest resources that actually belong to parties outside State government.

For each fiduciary fund displayed in the basic financial statements, the notes to the financial statements should describe whether a formal trust agreement exists and the level of discretion that State managers have over the operation of the fund.

Also see FIDUCIARY FUNDS on page 79.

Cash Equivalents

GAAP allows flexibility in the definition of what constitutes cash equivalents. A government's selection must be disclosed in the notes to the financial statements.

Cash and Cash Equivalents generally includes investments in short-term, highly liquid securities with an original maturity of three months or less. (Also see STATEMENTS OF CASH FLOWS in Section 3, FINANCIAL STATEMENTS.)

The State's cash management pool, administered by the State Treasurer, is an internal investment pool. Because this cash management pool operates as a demand deposit account, agencies should classify all amounts invested in the pool as Cash and Cash Equivalents, even though the pool includes some long-term investments.

Capital Assets

In the Summary of Significant Accounting Policies, agencies must disclose their policies for capitalizing assets and estimating the useful lives of those assets for depreciation purposes (GASB Cod. Sec. 2300.106a(7)).

Your agency's policies must be in compliance with the State's policies described in CAPITAL ASSETS—CAPITALIZATION CRITERIA on page 56 and CAPITAL ASSETS—DEPRECIATION REQUIREMENTS on page 62.

Application of Restricted Net Assets Before or After Unrestricted Net Assets

Paragraph 14 of GASB 33 requires recipients of resources with purpose restrictions to report the resulting net assets (or fund balance, as appropriate) as restricted (or reserved, as appropriate) until the purpose restrictions are met. Paragraph 115 of GASB 34 requires that the State formulate a policy to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. This policy must be disclosed in the notes.

The State's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Proprietary Funds—Policy Defining Operating Revenues and Expenses

Paragraph 101 of GASB 34 requires the Statement of Revenues, Expenses, and Changes in Net Assets for proprietary funds (enterprise and internal service fund) to distinguish operating from nonoperating revenues and expenses. Paragraph 102 of GASB 34 requires entities to establish a policy that defines operating revenues and expenses. This policy must be appropriate to the nature of activity being reported, *disclosed* *in the Summary of Significant Accounting Policies*, and used consistently from period to period.

Generally Accepted Accounting Policies (GAAP) do not provide an authoritative definition of operating and nonoperating revenues and expenses for this purpose, although GAAP indicate that financial statement preparers may wish to consider the authoritative guidance in GASB 9 on identifying *cash flows from operating activities* in arriving at their own definition.

Paragraph 102 of GASB 34 states that transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges (such as passenger facilities charges).

The State's policy is to use the authoritative guidance in GASB 9 to distinguish operating from nonoperating revenues and expenses. The State's policy also provides that grants and grant-like transactions are reportable as operating revenues only if they:

- Are essentially the same as contracts for services (i.e., exchange transactions); and
- Finance programs that the proprietary fund would not otherwise undertake (i.e., the activity of the grant is inherently part of the operations of the grantor).[25]

[25] This is consistent with paragraph 102 of GASB 34, which states that most nonexchange and exchange-like revenues normally would not be reported as operating revenues. It is also consistent with the fact that Question 9.12a of the GFOA Certificate of Achievement for Excellence in Financial Reporting checklist for 2002 asks if the government has refrained from including taxes and grants within the operating category for proprietary funds on the Statement of Revenues, Expenses, and Changes in Net Assets.

Nonoperating revenues on agency financial statements include appropriations (from the State of South Carolina, local governments, and the federal government, whether provided directly to the proprietary fund or provided to the proprietary fund by a third party acting as an agent of the grantor government); donations or contributions; subsidies; tax revenues; most nonexchange and exchange-like transactions; and grants except:

- Those reportable as operating revenue as described above; and
- Those restricted by the grantor to be used exclusively for capital purposes.

Agencies that report any proprietary funds must include the above language (except for portions that are entirely inapplicable to its operations) in a footnote disclosure within the agency's Summary of Significant Accounting Policies. Corresponding wording will be included in the statewide CAFR.

One or more additional paragraphs are required in the agency's Summary of Significant Accounting Policies to describe the specific principal operating revenues and expenses of the particular fund(s) in question.

Interest income shall be considered operating revenue only if lending, investing, or other interest-generating activity is the primary activity of the fund. Accordingly, interest income for risk management funds shall be classified as *nonoperating* revenue.

Agencies are encouraged to reference the examples in Appendix D of GASB 33 and to use the two-page questionnaire in Appendix A of this manual to evaluate grants and grant-like arrangements against the criteria included in the State's policy.

EFFECTS OF ACCOUNTING AND REPORTING CHANGES ON BEGINNING FUND EQUITY/NET ASSETS

Generally Accepted Accounting Principles, including paragraph 144 and footnote 13 of GASB 34, require disclosure of the effects of accounting and reporting changes on beginning fund equity and/or net assets. Because the new financial reporting model requires presentation of both fund financial statements and government-wide financial statements, the State's policy is to present two separate schedules to detail these effects.

For the fiscal year ended June 30, 2002, the beginning balance schedules in each agency's note that describes accounting and financial reporting changes must present at least the level of detail shown in the following two schedules.

Effect of accounting and reporting changes on beginning fund equity/net assets in the fund financial statements:

		Fund #1 [Name]	Fund #2 [Name]	Fund #3 [Name]	Fund #4 [Name]
A	Fund equity or net assets at June 30, 2001, as previously reported in general purpose financial statements..	$	$	$	$
	Increase in capitalization limits, capital assets.............				
B	Effect of adopting one-year availability period..............				
C	Effect of correction of ??? [describe]..........................				
C	Effect of correction of ??? [describe]..........................				
D	Effect of adopting new financial reporting model...........				
	Fund equity or fund net assets at June 30, 2001, as restated in basic financial statements...................	$ —	$ —	$ —	$ —

NOTES TO PREPARERS:

A From published financial statements for the previous fiscal year.

B This adjustment applies only to governmental funds.

C If this row is applicable, please add description of correcting item. Add more rows if needed.

D Aggregate adjustments resulting from implementing GASB 33 through 37 and Interpretation 6.

Effect of accounting and reporting changes on beginning net assets in the government-wide financial statements:*

	Govern-mental Activities	Business-Type Activities	**Discretely Presented Component Units** Component Unit #1 [Name]	Component Unit #2 [Name]	Component Unit #3 [Name]
A Net assets at June 30, 2001 as previously reported.........................	$ —	$ —	$ —	$ —	$ —
B Record fund equity at June 30, 2001, of fund-based activities previously reported in general purpose financial statements...					
Increase capitalization limits, capital assets....................................					
Adopt one-year availability period............					
C Effect of correction of ???.......................					
D Adopt new financial reporting model:					
Record fund activity previously reported in fiduciary funds...............					
E Record higher education activities as business-type activities...............					
F Record/reclassify other fund activity.....					
Record capital assets, net of accumulated depreciation................					
Record long-term liabilities...................					
Report governmental activities on full accrual basis of accounting..........					
G Report/reclassify ???.........................					
G Report/reclassify ???.........................					
H Other adjustments to adopt new model..					
Net assets at June 30, 2001, as restated......................................	**$**	**$**	**$**	**$**	**$**

NOTES TO PREPARERS:

Amounts are not applicable in shaded blocks.

* Business-type activities must complete this schedule for the Comptroller General's Office even if they are not required to present government-wide financial statements at the agency level.

A Zero because government-wide financial statements were not previously presented.

B From published financial statements for the previous fiscal year.

C If this row is applicable, please add description of correcting item. Add more rows if needed.

D These several adjustments are a result of implementing GASB 33 through 37 and Interpretation 6.

E These adjustments apply only to higher education institutions. They include the effects of the adjustment for Perkins loans described in Section 8 of this manual.

F This row applies to non-college situations where, because of GASB 34, funds previously reported as governmental funds were reclassified as enterprise funds, etc.

G Please describe and separately report other material adjustments to implement the new model.

H Amounts on this line generally should be no more than 10% of the net assets at June 30, 2001, as restated.

The adjustments should be presented in the order shown, but any columns or rows that are not applicable to an agency should be omitted.

Further detail regarding certain issues is provided in the following subsections.

Governmental Funds—Change in Policy Regarding Availability Period—A Transition Issue

Before July 1, 2001, the State generally considered revenues to be available if collected during the current fiscal year or within 30 days after fiscal year-end. However, a 45-day availability period applied to unemployment insurance taxes. Effective July 1, 2000, the State adopted a one-year availability period for intergovernmental grant transactions (for more information regarding this change, please see page 75 and Note 21 in the State's CAFR for the fiscal year ended June 30, 2001).

The Office of the Comptroller General has changed the State's availability period to one year for recognizing *all* governmental fund revenues, effective for the fiscal year ending June 30, 2002 (that is, concurrent with the implementation of GASB 34). The OCG believes that the one-year period is preferable because it will provide more consistency between the government-wide and fund financial statements required by GASB 34 and will be less confusing to the users of those statements. That is, the differences between revenues reported in the fund and government-wide statements will be smaller under a one-year availability period than they would be under a shorter availability period.[26]

The above-described changes in the availability period represent changes in accounting principles. Agencies must report the cumulative effects of such a change as a restatement of

[26] Because paragraph 16 of GASB 34 requires the government-wide statements to be prepared on the accrual basis of accounting.

beginning fund balances in governmental funds in the year of transition.[27]

Changes in Capitalization Criteria—A Transition Issue

The capitalization criteria for capital assets changed for most agencies beginning on July 1, 2001 (see CAPITAL ASSETS—CAPITALIZATION CRITERIA beginning on page 56). Such changes constitute changes in accounting principles that are treated as a direct adjustment to beginning equity, essentially in the same manner as a prior-period adjustment.[28]

Agencies that prepare agency financial statements for inclusion in the statewide CAFR must disclose the following in the note to the financial statements that details accounting and reporting changes implemented during the year of transition to GASB 34 and the effects of those changes on beginning (July 1, 2001) balances:

- For each fund, the amount of capital assets (historical cost) written off the books as a result of changes in capitalization limits.

- For each proprietary fund that was, before implementation of GASB 34, classified as a fund type that did not record depreciation, the amount of accumulated depreciation at July 1, 2001, on assets that remained capitalized after the above capitalization changes were implemented. (This category of funds includes higher education funds and the Unemployment Compensation Benefits Fund.)

- For each fund that was classified as a proprietary fund both before and after implementation of GASB 34, the amount of accumulated depreciation written off the books as a

[27] See footnote 13 and paragraph 309 of GASB 34.

[28] See page 241 of *Governmental Accounting, Auditing, and Financial Reporting* published by the Government Finance Officers Association in 2001.

result of the changes in capitalization limits described above.

CASH, DEPOSITS, AND INVESTMENTS DISCLOSURES

GASB 3, GASB 31, and GASB Technical Bulletin No. 94-1 all pertain to deposits and investments.

As part of the audit of the statewide CAFR, the OCG must reconcile cash and investments reported in the CAFR to the cash and investments held by the State Treasurer. Agencies that prepare financial statements incorporated into the statewide CAFR, therefore, must provide an appropriate level of detail within the notes to the financial statements that will allow for this reconciliation. This entails providing certain separate disclosures regarding amounts held by the State Treasurer and amounts *not* held by the State Treasurer.

In reporting cash, deposits, and investments in the footnotes, agencies must use formats that show at least the level of detail shown in the subsections below.

Reconciliation of Cash/Cash Equivalents Reported on the Statement(s) of Position to the Footnote Disclosures on Deposits and Investments

The following schedule reconciles Cash and Investments as reported on the statements of position (balance sheets and/or statements of net assets) to the footnote disclosure provided for deposits and investments. Note that the pair of amounts marked "a" must be the same, as must the pairs of amounts marked "b" and "c."

FUND STATEMENT(S) OF POSITION:	
Primary Government (Incl. Blended Comp. Units):	
Cash and cash equivalents	$
Investments	
Invested securities lending collateral	
Restricted assets:	
Cash and cash equivalents	
Investments	
Subtotal, Primary Government Including Blended Component Units	a
Discretely Presented Component Unit(s):	
Cash and cash equivalents	
Investments	
Invested securities lending collateral	
Restricted assets:	
Cash and cash equivalents	
Investments	
Subtotal, Discretely Presented Component Unit(s)	b
TOTAL FUND STATEMENT(S) OF POSITION	$ c

DISCLOSURE, DEPOSITS AND INVESTMENTS PLUS RECONCILING ITEMS:	
Primary Government (Incl. Blended Comp. Units):	
Carrying value of deposits:	$
Held by State Treasurer*	
Other	
Investments, reported amount	
Held by State Treasurer	
Other	
Cash on hand	
Subtotal, Primary Government Including Blended Component Unit(s)	a
Discretely Presented Component Unit(s):	
Carrying value of deposits	
Investments, reported amount	
Cash on hand	
Subtotal, Discretely Presented Component Unit(s)	b
TOTAL DISCLOSURE, DEPOSITS AND INVESTMENTS PLUS RECONCILING ITEMS	$ c

*Deposits Held by State Treasurer include deposits in STARS subfunds and in State Treasurer "composite reservoir" accounts.

Deposits Disclosure

At a minimum, agencies must present a schedule of total bank balances and carrying amounts not with the State Treasurer at June 30 classified by category of credit risk. The three categories of credit risk to be used are as follows:

- Category A: Insured or collateralized with securities held by the agency or by its agent in the agency's name.
- Category B: Collateralized with securities held by the pledging financial institution's trust department or agent in the agency's name.
- Category C: Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in the agency's name.

For each category of credit risk, the schedule must present both:

- Carrying amount.
- Bank balance.

Schedule of Investments

At a minimum, agencies must present a schedule of investments not with the State Treasurer at June 30, classified by the following types of investments:

- Repurchase agreements.
- U.S. government securities.
- Certificates of deposit.
- Corporate bonds.
- Municipal bonds.

- Equity securities.
- Asset-backed securities.
- Collateralized mortgage obligations.
- Commercial paper.
- Other (describe).

For each type of investment, the schedule must provide amounts for each of the following:

- Reported amount, Risk Category A.
- Reported amount, Risk Category B.
- Reported amount, Risk Category C.
- Total reported amount.
- Fair value.

Note that the reported amount may be a mixture of cost-based and fair-value based measures because certain investments may meet the GASB 31 criteria for reporting at amortized cost.

For purposes of this schedule, the risk categories are defined as follows:

- Risk Category A: Insured or registered in the agency's name, or securities held by the agency or by its agent in the agency's name.
- Risk Category B: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the agency's name.

- Risk Category C: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the agency's name.

GASB 31 Disclosures About Investments

If your agency's investments only include investments held as part of the State Treasurer's investment pool, certificates of deposit, or investments the fair value of which was determined by quoted market price, your footnote disclosure should indicate this fact.

If your agency used methods and assumptions to estimate the fair value of its investments and that value is based on information *other than* quoted market price, that information should be disclosed.

If your agency holds any investment position in an *external* investment pool[29], disclose that information. The State Treasurer's pools are *not* external pools.

Disclose any regulatory oversight of participation in an external investment pool, other than the SEC, and whether the fair value of the position in the pool is the same as the value of the pool shares. Disclose the details of any involuntary participation in an external investment pool. Lastly, if your agency could not obtain information from the pool sponsor to allow determination of fair value of its investment, provide the methods used and significant assumptions made in determining that fair value and the reasons for having made such an estimate.

Disclosures About Investments in Derivatives

Compliance with GASB Technical Bulletin No. 94-1 requires disclosure of the details of any derivatives, mortgage-backed securities, or other structured financial instruments that an

[29] See definition in the Glossary in Paragraph 22 of GASB 31.

agency has used, held, or written (sold) as of June 30 or during the fiscal year (regardless of whether the assets or liabilities resulting from these transactions are reported on the statement of position). In the disclosure, include the nature of the transactions and the reasons for entering into the transactions. The explanation should include a discussion of the exposure to credit risk, market risk and legal risk. If any violations of legal, regulatory, or contractual provisions have occurred by using, holding or writing (selling) certain derivatives during the reporting period or at June 30, that information must also be disclosed within the cash and investments footnote disclosure in the financial statements.

RECEIVABLES FOOTNOTE—MINIMUM LEVEL OF DETAIL

The example below is adapted from the note on page 511 of the 2001 edition of *Governmental Accounting, Auditing, and Financial Reporting* (published by the GFOA). It is intended to illustrate the minimum level of detail that the Office of the Comptroller General must obtain from agencies regarding their receivables.

Receivables

Receivables at June 30, 2002, for individual major funds and nonmajor and internal service funds, including the applicable allowances for uncollectible accounts and discounts are as follows (expressed in thousands):

	Major Fund 1	**Major Fund 2**	**Nonmajor Funds**	**Totals**
Receivables:				
Interest	$ 2,000	$ 3,000	$ 4,000	$ 9,000
Taxes	10,000	9,550	9,750	29,300
Accounts	3,600	4,800	4,200	12,600
Gross Receivables	15,600	17,350	17,950	50,900
Less: Allowance for Uncollectibles	(1,500)	(1,750)	(2,000)	(5,250)
Less: Discounts	(1,000)	(1,100)	(1,250)	(3,350)
Net Total Receivables	$ 13,100	$ 14,500	$ 14,700	$ 42,300

RECEIVABLE AND PAYABLE BALANCES

Paragraph 13 of GASB 38 concerns itself with the fact that balances of receivables and payables reported on the Statement of Net Assets and Balance Sheet may be aggregations of different components, such as balances due to or from taxpayers, other governments, vendors, customers, beneficiaries, and employees.

In addition to the GAAP mandated disclosures in connection with receivable and payable balances, the notes to the financial statements should provide details when significant components have been obscured by aggregation. This disclosure is required for fiscal years beginning after June 15, 2002 (the State's fiscal year ending June 30, 2003).

DISCLOSURES ABOUT BALANCES ARISING FROM INTRA-STATE ACTIVITIES

The last sentence of Paragraph 81 of GASB 34 states: "Liabilities arising from interfund activities (see paragraph 112) do not constitute general long-term liabilities and therefore should be reported in governmental funds." This principle applies to *all* liabilities arising from interfund activities.

In addition, paragraph 112a(1) of GASB 34 provides the following *specific* guidance limited to interfund loans: "Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan."

In order for the State to comply with Paragraphs 81 and 112 of GASB 34, some interfund activities for the State (i.e., "intra-State activities") may need to be reported quite differently in the statewide CAFR than they have been reported in separately issued State agency financial statements. If such a difference is material relative to the *agency's* financial statements, the notes to its financial statements must detail the different reporting that would be required in the statewide CAFR, including the presentation of pro forma information to show any differences in account balances.

For example, for a long-term intra-State payable arising from a loan payable to a different State agency, the note disclosure must provide details about: (a) the identity of the lending agency/fund and (b) a schedule of payments on principle that, at a minimum, distinguishes between current and long-term payables. If the liability is payable from a governmental fund and the *agency's* governmental fund financial statements recorded only the current payable, the agency's disclosure must include pro-forma data to show the changes in account balances (including fund equity/net assets) that must occur when the total liability (current and long-term) is recorded in the *State's* governmental fund financial statements as an interfund payable in accordance with paragraph 81 of GASB 34.

DISCLOSURES REGARDING MATERIAL INTRA-STATE BALANCES

Effective for the State's fiscal year ended June 30, 2003, paragraph 14 of GASB 38 will require certain details to be reported in an interfund balances footnote. Some of the information required by this part of GASB 38 is already required for governments that participate in the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program, while some of the data is new.

The Office of the Comptroller General obtains most data regarding intra-State due to/from balances by analyzing STARS balances. However, not all of the newly required data is available in STARS without retrieving individual documents.

In addition to providing the disclosure required by paragraph 14 of GASB 38 for interfund balances reported in the agency's financial statements, the Office of the Comptroller General requires that agency financial statements display the following details regarding *intra-State balances* in a note disclosure:

- The purpose for material intra-State balances.

- Identification of any material intra-State balances that are not expected to be repaid within one year from the date of the financial statements.

(Intra-State balances are those that relate to an agency's financial dealings with other State agencies.)

To be sure that these newly required details will be available for the State's fiscal year ended June 30, 2003, as required, the Office of the Comptroller General asks that agencies *voluntarily* provide these disclosures for the fiscal year ended June 30, 2002.

CAPITAL ASSET AND ACCUMULATED DEPRECIATION BALANCES

Your agency must disclose the following data within each asset category (with depreciable assets reported separately from non-depreciable assets, and assets associated with governmental activities reported separately from those associated with business-type activities)(GASB Cod. Secs. 2300.111 and 2300.112):

- Beginning-of-year and end-of-year balances, with accumulated depreciation presented separately from historical cost.

- Capital acquisitions.

- Sales or other dispositions.

- Current-period depreciation expense (only for depreciable capital asset classes).

These requirements apply to all fund types, including enterprise and internal service funds.

The following exhibit, adapted from the displays on page 245 of GASB 34 and page 136 of the first GASB 34 Implementation Guide, is intended to illustrate the minimum level of detail that the

Office of the Comptroller General must obtain from agencies regarding their capital assets.

	Beginning Balance July 1, 2001	Increases	Decreases	Ending Balance June 30, 2002
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	$ 29,484	$ 2,020	$ (4,358)	$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Works of art and historical treasures	1,213	185	(50)	1,348
Total capital assets not being depreciated	33,612	15,425	(19,254)	29,783
Other capital assets:				
Depreciable land improvements	2,502	345	(124)	2,723
Infrastructure - Road and Bridge Network	102,588	35,897	(15,566)	122,919
Buildings and improvements	40,861	334	(50)	41,145
Machinery and equipment	32,110	1,544	(1,514)	32,140
Vehicles	15,240	4,945	(3,515)	16,670
Depreciable works of art and historical treasures	784	59	(50)	793
Intangibles	514	120	(112)	522
Total other capital assets at historical cost	194,599	43,244	(20,931)	216,912
Less accumulated depreciation for:				
Depreciable land improvements	(423)	(41)	38	(426)
Infrastructure - Road and Bridge Network	(45,366)	(15,289)	12,337	(48,318)
Buildings and improvements	(10,358)	(691)	8	(11,041)
Machinery and equipment	(9,247)	(2,676)	1,040	(10,883)
Vehicles	(4,126)	(895)	2,845	(2,176)
Depreciable works of art and historical treasures	(89)	(10)	5	(94)
Intangibles	(53)	(14)	13	(54)
Total accumulated depreciation	(69,662)	(19,616)	16,286	(72,992)
Other capital assets, net	124,937	23,628	(4,645)	143,920
Capital assets for governmental activities, net	$ 158,549	$ 39,053	$ (23,899)	$ 173,703
Business-type activities:				

GASB 34 requires a separate display, like the one above, for business-type activities (I.e., Enterprise Funds).

OTHER REQUIRED DISCLOSURES FOR CAPITAL ASSETS

Agencies must disclose certain information in the notes to the financial statements regarding construction commitments outstanding, construction period interest, and noncapitalized collections of works of art and historical treasures as explained in the following sections.

Construction Commitments Outstanding

Your agency must disclose any construction commitments outstanding at year-end in the notes to the financial statements (GASB Cod. Sec. 2300.106(k)). Your agency may have projects to construct new capital assets or to repair or maintain existing capital assets. Some such projects may be only partially complete at June 30. If there are signed contracts in existence at June 30 that commit the State to pay amounts in the future for portions of projects that were incomplete at June 30, these amounts are said to represent *construction commitments outstanding* at June 30.

State policy requires agencies to separately report their construction commitments outstanding at June 30 for: (a) capital projects and (b) repair/maintenance projects. Your agency need only report construction commitments that exceed $100,000 per category. For example, if you had commitments of $350,000 for capital projects and commitments of $75,000 for repair/maintenance projects, report only the $350,000 for capital projects in the notes to the financial statements.

To compute the amount of commitments outstanding:

- Determine your agency's construction projects in progress at June 30.

- Compute the outstanding commitment for each project in progress at June 30 as follows:

  - The contract price.

  - Less: Amounts the State has paid contractors from the start of the project through June 30.

  - Less: Amounts relating to the project that your agency has reported as accounts payable and/or retainages payable as of June 30 of the current fiscal year.

- Add together the outstanding amounts for all capital projects in progress at June 30.

- Add together the outstanding amounts for all repair/maintenance projects in progress at June 30.

Construction Period Interest

The cost of capital assets constructed by enterprise and internal service funds must include any associated interest expense incurred during the construction period (except for interest paid on State Capital Improvement Bonds). This associated interest expense is called construction period interest. The cost of capital assets constructed by governmental funds should *not* include construction period interest.

Noncapitalized Collections of Works of Art and Historical Treasures

GAAP do not require capitalization of certain collections (refer to page 53 for the characteristics that a collection must have in order to qualify for this treatment). For collections of works of art and historical treasures not capitalized, your agency must disclose a description of the collection and the reasons these assets are not required to be capitalized.[30]

SHORT-TERM DEBT

Paragraph 12 of GASB 38 requires governments to provide details in the notes to the financial statements about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. Short-term debt results from borrowings characterized by anticipation notes, use of lines of credit, and similar loans. Details should include:

- A schedule of changes in short-term debt, disclosing beginning and end-of-year balances, increases, and decreases.

- The purpose for which the short-term debt was issued.

This disclosure is required by GAAP for the State's fiscal year beginning July 1, 2002.

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[30] GASB Codification Section 2300.113.

Short-term debt for purposes of this disclosure is limited to amounts owed to a lending institution or to another entity outside of State government.

To allow the State to present this disclosure when it is required, agencies with a December 31 year-end must present this disclosure in their stand-alone financial statements for their fiscal years ending December 31, 2002.

LONG-TERM OBLIGATIONS

Paragraph 119 of GASB 34 requires that note disclosure about long-term obligations include:

- Beginning- and end-of-year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements).
- Increases and decreases (separately presented).
- The portions of each item that are due within one year of the statement date.
- Which governmental funds typically have been used to liquidate other long-term obligations (such as compensated absences and pension liabilities) in prior years.

In addition to the GAAP mandated disclosures in connection with long-term obligations, the notes to the financial statements should include all of the following information for individual long-term debt issues that are not reported in the State Treasurer's Office Debt Management System. These are bonds and notes for which the State Treasurer's Office does not make the debt service payments.

- Purpose for which the debt was issued.
- Original amount of the debt.

- Type of debt (revenue bonds or general obligation bonds, for instance).
- Significant debt covenants.
- Amounts of installments.
- Interest rate.
- The terms by which interest rates change for variable rate debt outstanding.
- Range of maturities.
- Applicability of federal arbitrage regulations.

This information is needed to comply with the GFOA Certificate of Achievement for Excellence in Financial Reporting Program.

Long-Term Obligations Disclosures—Level of Detail

The GFOA's Certificate of Achievement Program requires participants to present several statistical tables related to debt, including the following:

- Net General Obligation Bonds and Notes Per Capita.
- Ratio of Annual Debt Service Expenditures for *General Obligation Debt* to Total General Governmental Expenditures.
- *Revenue Bond* Coverage-Enterprise Funds.

The financial amounts presented in these tables, such as liability amounts, must be traceable to the financial section of the statewide CAFR. This means that the State's notes to the financial statements must present general obligation debt and revenue debt in separate accounts and must disclose debt service to maturity separately for general obligation debt and revenue debt.

Note disclosures in agency financial statements must present general obligation debt and revenue debt in separate accounts and must detail debt service to maturity separately for general obligation debt and revenue debt.

Also see CLASSIFICATION OF STATE HIGHWAY BONDS on page 127 and CLASSIFICATION OF STATE INSTITUTION BONDS on page 132.

Changes in Long-Term Obligations

The example below is adapted from the note on page 67 of the second GASB 34 Implementation Guide. It is intended to illustrate the minimum level of detail that the Office of the Comptroller General must obtain from agencies regarding changes in their long-term obligations.

The State's policy is that audited financial statements to be incorporated into the State's basic financial statements must, at a minimum, separately present Bonds Payable, Notes Payable, Certificates of Participation Payable, Loans Payable, Capital Leases Payable, Claims and Judgments Payable, Compensated Absences Payable, etc., on the face of the financial statements. However, Bonds Payable and Notes Payable information must be separated further into General Obligation and Revenue debt for the note disclosures.

Although the sample below is for business-type activities, a similar display also is required for governmental activites.

Changes in long-term obligations

Changes in long-term obligations for the year ended June 30, 2002, were as follows (expressed in thousands):

	Beginning Balance July 1, 2001	Increases	Decreases	Ending Balance June 30, 2002	Due Within One Year
Business-type activities					
Notes payable....................................	$ 1,203	$ —	$ (954)	$ 249	$ 249
General obligation bonds payable.......	32,670	22,205	(22,300)	32,575	6,500
Revenue bonds payable.....................	14,485	15,840	(14,485)	15,840	3,715
Certificates of participation payable.....	12,135	6,299	(4,133)	14,301	2,716
Claims and judgements payable.........	4,230	1,250	(1,000)	4,480	1,112
Capital leases payable........................	7,993	5,200	(1,792)	11,401	2,560
Compensated absences payable........	5,537	2,744	(2,939)	5,342	550
Other..	100	25	(30)	95	95
Business-type activities long-term obligations........................	$ 78,353	$ 53,563	$ (47,633)	$ 84,283	$ 17,497

Debt Service to Maturity

Paragraph 10 of GASB 38 requires governments to disclose the following details of debt service requirements to maturity:

- Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.

- The terms by which interest rates change for variable-rate debt.

Agencies must disclose debt service requirements as described above.

The example below, adapted from the note on page 68 of the second GASB 34 Implementation Guide, is intended to illustrate the minimum level of detail that the Office of the Comptroller

General must obtain from agencies regarding their debt service requirements in order to comply with GASB 34 and GASB 38. The total principal amounts in the note must agree to the corresponding debt amounts shown on the Balance Sheet or Statement of Net Assets. This may require insertion of one or more pairs of total columns in the note if general obligation and revenue debt were not segregated in the financial statements.

The State's requirement to segregate general obligation and revenue debt also applies to the schedules that present debt service to maturity.

The illustration below is for governmental activities, but GASB 34 also requires a similar display for business-type activities. (NOTE: This illustration assumes that the State agency reports a single Bonds Payable account in its financial statements.)

Debt service requirements

Debt service requirements on long-term obligations at June 30, 2002, are as follows (expressed in thousands):

	Governmental Activities							
Year Ending	**General Obligation Bonds**		**Revenue Bonds**		**Total Bonds**		**Notes**	
June 30,	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2003	$ 46,715	$ 103,786	$ 8,220	$ 5,012	$ 54,935	$ 108,798	$ 104,651	$ 176,352
2004	64,157	96,381	4,810	4,273	68,967	100,654	91,219	173,677
2005	47,080	88,486	340	3,303	47,420	91,789	86,521	168,497
2006	59,628	80,721	400	3,272	60,028	83,993	84,912	164,375
2007	52,594	72,893	460	3,237	53,054	76,130	120,155	158,413
2008-2012	95,212	199,513	40,025	9,386	135,237	208,899	588,076	989,281
2013-2017	95,212	199,513	292	79	95,504	199,592	588,076	989,281
	$ 460,598	$ 841,292	$ 54,547	$ 28,562	$ 515,145	$ 869,854	$1,663,610	$2,819,876

REFUNDINGS OF DEBT

For current refundings and advance refundings resulting in defeasance of debt reported by proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the Statement of Net Assets, this deferred amount should be reported as a deduction from or an addition to the new debt liability (GASB 23, paragraph 4, as amended by GASB 34 paragraphs 15 and 91).

When applicable, the notes to the financial statements must provide the deferred amount on refundings. For statewide CAFR presentation, the amount is shown at the bottom of the debt service to maturity schedule in order to reconcile the total future principal debt service amount to the outstanding debt liability shown in the financial statements. All disclosures required by GASB 23 for refundings also should be included in the notes.

LEASES

Most disclosure requirements for capital and operating leases come from FASB 13, as amended (FASB Cod. Sec. L10), and GASB Cod. Sec. L20.

Separate Presentation for Leases With Different Types of Parties

For operating leases and for capital leases/installment purchases, agencies must *separately* present the disclosures required by GAAP for transactions with each of the following three groups: (a) other funds, other State agencies, and blended component units, (b) discretely presented component units of the State, and (c) external parties (i.e., those entirely outside the State's financial reporting entity). This includes the disclosures for (a) operating lease expenses, (b) the schedules for future payments under operating leases and capital leases/installment purchases, and (c) the schedule of capital assets under capital leases.

The Office of the Comptroller General requires these details because it must treat leases between funds, State agencies, and State blended component units as internal transactions rather than as debt. Likewise, special rules apply to transactions between the State's primary government and its discretely presented component units. (See GASB Cod. Sec. L20.119 through

L20.124.) Contact the Central State Financial Reporting Division of the Office of the Comptroller General if you have questions. APPENDIX B—THE STATE'S DISCRETELY PRESENTED COMPONENT UNITS and APPENDIX C—AGENCIES BY FUNCTION should help agencies to apply this guidance.

Five-Year Increments After the First Five Subsequent Fiscal Years

Paragraph 11 of GASB 38 requires the State to disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for its obligations under capital and noncancelable operating leases. This requirement is effective for the State's fiscal year ended June 30, 2002.

Schedules of Capital and Operating Leases

Several of the disclosure requirements for capital and operating leases could be satisfied by presenting a schedule for capital leases and a schedule for operating leases with the following rows and columns:

Rows for each of the following:

- Each of the next five years.*
- Separate five-year increments thereafter.*
- Total minimum payments,* *excluding* contingent rentals.
- Less: Interest and executory costs.
- Present value of net minimum lease payments.

Columns for each of the following:

- Leases with other State agencies and blended component units.*
- Leases with discretely presented component units.*

- Leases with external parties.*

*These rows and columns pertain to both capital and operating lease schedules.

The following additional schedule could be presented to satisfy additional requirements for *operating* leases:

Rows for each of the following:

- Total current-year minimum rental payments.
- Plus total current-year contingent rental payments.
- Less: total current-year sublease rental payments.

Columns for each of the following:

- Operating leases with other State agencies and blended component units.
- Operating leases with discretely presented component units.
- Operating leases with external parties.

Carrying Value of Assets Under Capital Leases

FASB 13, as amended, requires the disclosure of the carrying value of assets recorded under capital leases. The leased assets must be reported in the capital asset categories described in CAPITAL ASSETS—CATEGORIES FOR FINANCIAL REPORTING on page 49.

This requirement could be satisfied by presenting a schedule with the following rows and columns:

Rows for each of the following:

- Each asset category having capital-leased assets.

- Total assets acquired under capital leases (before accumulated amortization).

- Less: Accumulated amortization.

- Total assets acquired under capital leases, net.

Columns for each of the following:

- Capital leases with other State agencies and blended component units.

- Capital leases with discretely presented component units.

- Capital leases with external parties.

Facilities Leased to Others

The total cost of property leased to others under operating leases must be disclosed. This requirement could be satisfied by presenting a schedule with the following rows and columns:

Rows for each of the following:

- Each category of capital assets as described in CAPITAL ASSETS—CATEGORIES FOR FINANCIAL REPORTING on page 49.

- Less: Depreciation.

- Total carrying value.

Columns for each of the following:

- Leased to other State agencies and blended component units under operating leases.

- Leased to discretely presented component units under operating leases.

- Leased to external parties under operating leases.

In addition, the future minimum payments to be received from others under operating leases must be disclosed. This requirement could be satisfied by presenting a schedule with the following rows and columns:

Rows for each of the following:

- Each of the next five years.
- Separate five-year increments thereafter.
- Total future minimum payments to be received.

Columns for each of the following:

- Leased to other State agencies and blended component units under operating leases.
- Leased to discretely presented component units under operating leases.
- Leased to external parties under operating leases.

Contingent Rentals Associated with Capital Leases

Contingent rentals must be excluded from total minimum *capital* lease payments, and a narrative disclosure should call attention to the fact that the total minimum payments on capital leases *do not* include contingent rentals (if there were any contingent rentals).

In addition, the following must be disclosed in this situation:

- Contingent rentals paid during the current year to other State agencies and blended component units under capital leases.
- Contingent rentals paid during the current year to discretely presented component units.

- Contingent rentals paid during the current year to external parties.

DETAIL OF STATE APPROPRIATIONS RECORDED AS REVENUE

The Office of the Comptroller General must reclassify State General Fund appropriations used by other GAAP funds to present them as *transfers* from the General Fund to other GAAP funds in the statewide CAFR. Transfers into the other funds must equal transfers out of the General Fund. Accordingly, the Office of the Comptroller General must reconcile appropriations recorded as revenue on agency fund financial statements with the corresponding amounts recorded in the General Fund in STARS.

Agencies are required to present a detailed schedule of State General Fund appropriations, either in the notes to their financial statements or following the basic financial statements (i.e., as supplementary information). State appropriations that your agency receives from another agency, such as the Commission on Higher Education, should be listed separately. Proprietary funds must separately report the details of State non-capital appropriations (recorded as non-operating revenues) and capital appropriations. The schedule should display all of the following details that are applicable:

<u>NON-CAPITAL APPROPRIATIONS</u>

Current year's appropriations:	
Original appropriations per Annual Appropriations Act...	$
Supplemental appropriations (Act #____).....................	
Supplemental appropriations (Act #____).....................	
From Commission on Higher Education:	
Performance Funding..	
Academic Endowment..	
Other (describe)..	
From SC Education Lottery Fund................................	
Other (describe)..	
Less: Prior year's appropriations recorded as current year revenue..	
Plus: Next year's appropriations recorded as current year revenue..	
Other adjustments (describe)..	
Total non-capital appropriations recorded as current year revenue...	**$** [a]

<u>CAPITAL APPROPRIATIONS</u>

Current year's appropriations:	
Original appropriations per Annual Appropriations Act...	$
Supplemental Appropriations (Act #____)...................	
Supplemental Appropriations (Act #____)...................	
From Commission on Higher Education.......................	
From SC Education Lottery Fund................................	
Other (describe)..	
Less: Prior year's appropriations recorded as current year revenue..	
Plus: Next year's appropriations recorded as current year revenue..	
Other adjustments (describe)..	
Total capital appropriations recorded as current year revenue...	**$** [b]

[a]Must match non-capital State appropriations recorded as revenue in fund financial statements.

[b]Must match State capital appropriations recorded as revenue in fund financial statements.

Please show appropriation reduction amounts separately—either on the schedule as an adjustment to the relevant type of appropriation, as an "other adjustment" on the schedule, or in a note or narrative associated with the schedule.

GASB Cod. Sec. 1800.112 requires that governmental entities report both governmental and proprietary fund revenues by major source. The above schedule provides readers of agency financial statements with pertinent information regarding the sources of the agency's appropriations recorded as revenue as well as providing data to the Office of the Comptroller that is needed for preparation of the statewide CAFR.

REQUIRED DISCLOSURE OF UNRECOGNIZED PLEDGES DEEMED NOT MEASURABLE

The State generally is required to recognize receivables and revenues for pledges (see REQUIRED RECOGNITION OF PLEDGES AS RECEIVABLES AND REVENUES on page 77 for more details). In addition, Generally Accepted Accounting Principles require disclosure of "transactions that are not recognizable because they are not measurable."[31] Accordingly, a disclosure is necessary if certain pledges are not recognizable because they are not measurable.

As a matter of policy, the State has adopted the following standards relative to the disclosure of pledges that were not recognized as receivables and revenues because they were deemed to be "not measurable" (i.e., not capable of estimation).

- The disclosure must describe the particular unrecognized pledges in such a way that the reader can distinguish those pledges from the majority of other pledges to State agencies that *are* measurable and/or *are* recognized as revenue.

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[31] Paragraph 11 of GASB 33; GASB Cod. Sec. N50.108 (2001-2002 GASB 34 Edition).

- The disclosure must include *specific reasons* why the particular pledges under discussion are not considered measurable. It is not sufficient to say that the amount of the pledges could not be estimated because that is merely providing a generic synonym for “not measurable.”

- If the specific reason for deeming a pledge as “not measurable” relates in some way to the pledge being deemed “not verifiable,” “not probable of collection,” or to the existence of currently unmet eligibility requirements, the disclosure should explain *specifically* how these additional deficiencies relate to the lack of measurability.

- If your agency wishes to disclose *measurable* pledges that were not recognized as revenue during the current fiscal year for valid reasons other than lack of measurability (for example, eligibility requirements were not yet met, or the pledge was deemed “not verifiable” or “not probable of collection”), please clearly distinguish these measurable pledges from the unmeasurable ones.

INTERNAL SERVICE FUNDS—REVENUE FROM INTERNAL CUSTOMERS

For internal service funds, the notes to the financial statements must include a breakdown of revenue derived from internal customers. For governmental payor funds, revenue must be reported by function (see APPENDIX C—AGENCIES BY FUNCTION). For proprietary payor funds, revenue must be reported by activity. For more information, please see Section 5, FINANCIAL STATEMENT COMPONENTS.

SEGMENT REPORTING

Paragraph 122 of GASB 34 as amended by paragraph 17 of GASB 37[32] states that governments reporting enterprise funds or using enterprise fund accounting to report their activities are

[32] Alternatively, see GASB Cod. Secs. 2500.101 through .102 and the nonauthoritative discussion at GASB Cod. Sec. 2500.901.

required to present segment information for those activities in the notes to the financial statements. For purposes of this disclosure, a segment is an identifiable activity (or grouping of activities), as discussed in paragraph 39b, footnote c, reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds or other debt instruments (such as certificates of participation) outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required *by an external party*[33] to be accounted for separately. For example, accounting and reporting requirements commonly are set forth in bond indentures. Also see Questions 115 and 127 in the second GASB 34 Implementation Guide.

Generally Accepted Accounting Principles do not require segment reporting when an individual fund both is a segment and is reported as a major fund.[34] In some cases, however, an agency's major fund may constitute only a *part* of one of the State's major funds. In this situation, GAAP would require that the statewide CAFR present segment disclosure for the agency's major fund.

An agency must identify, by name, within the notes to its financial statements, any of its major funds that are segments.

RELATED ORGANIZATIONS AND RELATED PARTY TRANSACTIONS

Professional literature[35] requires disclosures about material transactions with related parties outside the State's financial reporting entity as defined by GASB Statement 14. In accordance

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[33] Paragraph 17 of GASB 37; footnote g to paragraph 17 of GASB 37.

[34] Footnote 48, GASB 34 (also Footnote 1, GASB Cod. Sec. 2500.101).

[35] See pages 202-203 of the 2001 edition of *Governmental Accounting, Auditing and Financial Reporting* published by GFOA. Also see ARB 43, Chapter 1A and FASB 57.

with this guidance, the State's policy[36] is to present the following disclosures regarding related parties, including so-called affiliated organizations and fund-raising entities:

- Name of the organization if its total assets exceed $2 million.

- A description of the transactions between the State and such organization, including dollar amounts and such other information as is deemed necessary for an understanding of the effects of the transactions on the State's financial statements. Such transactions and amounts disclosed for each organization with assets in excess of $2 million shall include each of the following, if applicable:

  - Receivables from the related organization recorded by the State at June 30.

  - Payables to the related organization recorded by the State at June 30.

  - Donations of cash and other assets from the organization to the State.

  - State expenditures/expenses paid to the organization.

  - Reimbursements to the State for expenditures/expenses the State incurred on behalf of the organization.

- Data regarding any other related party transactions having a significant effect on the statewide financial statements.

At a minimum, agency financial statements incorporated into the statewide CAFR shall include the above disclosures regarding related organizations and related party transactions. Agencies are encouraged to use a tabular format if there are two or more related organizations.

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[36] Adapted from Section R36.102, *FASB Accounting Standards as of June 1, 2001*.

If the agency's footnotes disclose information regarding organizations with assets of *$2 million or less*, they should indicate (either in the footnotes or in a separate communication addressed to the Central State Financial Reporting Division of the Office of the Comptroller General) which of the disclosed organizations do not meet the State's $2 million threshold. This supplementary information is necessary to allow the State's disclosure to focus on *significant* organizations and their transactions with the State.

REQUIRED INFORMATION ON BUSINESS-TYPE ACTIVITIES FOR THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Enterprise funds, if not required by GAAP to present government-wide financial statements, must provide information needed on business-type activities for the State's government-wide Statement of Activities within the notes to the agency's financial statements.

The following information must be included in the footnote:

- Charges for services (revenues).
- Operating grants and contributions (revenues).
- Capital grants and contributions (revenues).
- Expenses.
- Earnings on investments.
- Special and extraordinary items.
- Contributions to term and permanent endowments.
- State appropriations.
- Other transfers in from other State agencies/funds.
- Transfers out to other State agencies/funds.

The example below is intended to illustrate the minimum level of detail that the Office of the Comptroller General must obtain from agency financial statements. The notes to an agency's financial statements must present this information separately for:

- Any portion of its operations that is incorporated into one of the State's major enterprise funds (see APPENDIX D—THE STATE'S MAJOR ENTERPRISE FUNDS).
- Each different identifiable activity accounted for within the State's non-major enterprise funds
- Each discretely presented business-type component unit.

Charges for services	$ 10,000
Operating grants and contributions	6,500
Capital grants and contributions	5,000
Less: expenses	(18,000)
Net program revenue (expense)	3,500
General revenues:	
Earnings on investments	1,000
Other general revenues (describe)	575
Special/extraordinary items (describe)	250
Contributions to permanent & term endowments	500
Transfers:	
State appropriation	1,500
Other transfers in from state agencies/ funds	1,000
Less: transfers out to state agencies/funds	(2,500)
Total general revenue and transfers	2,325
Change in net assets	5,825
Net assets-beginning	50,000
Net assets-ending	$ 55,825

NET ASSETS CATEGORIZED DIFFERENTLY IN STATEWIDE CAFR THAN IN AGENCY FINANCIAL STATEMENTS

In some cases, net assets may be categorized in a particular manner within the agency's audited financial statements but should be categorized differently within the statewide CAFR. For example, suppose that an economic development agency presents a portion of its net assets as *unrestricted* in its agency's financial statements because the corresponding net assets may be used for any legitimate agency purpose (and/or for any purpose within the State's economic development function). These net assets, however, should be presented as *restricted* in the statewide CAFR because they may not be used by different functions within State government (e.g., transportation, social services, etc.).

> Agency financial statements must disclose (either within the Notes to the Financial Statements or within supplementary information) any situations where net assets in the agency's financial statements should be classified differently within the statewide CAFR. The disclosure should provide full explanations/reasons for the difference in presentation.

SECTION 7—DEPARTMENT OF TRANSPORTATION

This section of the policy manual applies only to the Department of Transportation (DOT). *DOT should follow the policies and guidance in this section along with the policies and guidance in sections 1 through 6.*

INFRASTRUCTURE

The Office of the Comptroller General will limit the reported "infrastructure" category of capital assets within the State's primary government to the Department of Transportation's (DOT's) roads and bridges. The DOT will report the roads and bridges owned by the State. Also, in the absence of clear title to a particular roadway or bridge, the DOT should report the asset if the State is responsible for future maintenance.[37]

The Department of Transportation's roads and bridges meet the definition of general infrastructure assets.

The term ***general infrastructure assets*** refers to those infrastructure assets that are associated with, and generally arise from, governmental activities. In determining the roads and bridges that DOT needs to report under GASB 34, you must consider two different groups:

- Roads and bridges acquired on or before June 30, 2001, and
- Roads and bridges acquired on or after July 1, 2001.

Reporting Roads and Bridges Acquired on or Before June 30, 2001

The State of South Carolina is required to report major general infrastructure assets acquired on or before June 30, 2001.[38] Only major general infrastructure assets acquired or

[37] See Question 286 of the first GASB 34 Implementation Guide (2001).

[38] See Paragraph 148 of GASB 34.

significantly improved in fiscal years ending after June 30, 1980, are required to be reported. The determination of ***major general infrastructure assets*** is made at the network or subsystem level.

A *network* is comprised of all assets that provide a particular type of service for our government, and a *subsystem* consists of all assets that make up a portion or segment of a network. For example, DOT could define the State's transportation system as a network and the roads and bridges as two subsystems of the network. DOT could also consider the roads and bridges to be two networks, with interstate highways, State highways, and rural roads as subsystems of the road network.

A network or subsystem of South Carolina's roads and bridges is a ***major general infrastructure asset*** if either of the following is true:

- The cost or estimated cost of the network is expected to be at least $240,681,900.[39]
- The cost or estimated cost of the subsystem is expected to be at least $120,340,950.[40]

DOT must report roads and bridges acquired on or before June 30, 2001, only if the cost of the network or subsystem as defined by DOT exceeds the above dollar amounts. GASB 34 encourages but does not require reporting of non-major networks. Generally, these rules will require that a state's network(s) of

[39] Amount equals 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, which for the State of South Carolina was $2,406,819,000 as reported in its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. See Paragraph 156 of GASB 34.

[40] Amount equals 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, which for the State of South Carolina was $2,406,819,000 as reported in its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. See Paragraph 156 of GASB 34.

roads and bridges be reported as major general infrastructure assets.

If the DOT is unable to properly apply the State's $500,000 capitalization limit to infrastructure assets acquired on or before June 30, 2001, then the DOT should fully disclose its policy of capitalizing all projects that were initiated on or before June 30, 2001, regardless of cost. This disclosure should include the total dollar amount of capitalized infrastructure acquired on or before June 30, 2001, until such time as this amount is deemed too immaterial to disclose.

Transition Period for Reporting Roads and Bridges Acquired on or Before June 30, 2001

GASB 34 includes a provision that allows governments to postpone the required reporting of major general infrastructure assets acquired on or before June 30, 2001. The State may postpone reporting these major general infrastructure assets acquired on or before June 30, 2001, until the fiscal year ending June 30, 2006;[41] however, this postponement is discouraged by both GASB 34 and the Office of the Comptroller General. A similar provision does not exist for reporting the debt associated with constructed infrastructure assets. Therefore, the Office of the Comptroller General would prefer to record infrastructure assets on the State's financial statements to offset the related debt that will be reported. The State will be required to describe in the notes to the financial statements those infrastructure assets that are not being reported if the State chooses to delay the reporting of major general infrastructure assets past the fiscal year ending June 30, 2002.[42]

Reporting Roads and Bridges Acquired on or After July 1, 2001

All infrastructure assets acquired by governmental funds on or after July 1, 2001, must be reported in the separate

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[41] See Paragraph 148 of GASB 34.

[42] See Paragraph 151 of GASB 34.

infrastructure category of depreciable capital assets if the cost of the asset exceeds the $500,000 capitalization limit for infrastructure.

Depreciation of Roads and Bridges

The State's roads and bridges should be depreciated using the straight-line method over a 75-year useful life for roads and a 50-year useful life for bridges. The Office of the Comptroller General recommends that the DOT take a full year of depreciation in the year of acquisition and take no depreciation in the year of disposition. However, the DOT may use a different straight-line convention (such as the mid-month convention) if it has a valid reason to do so.

Maintenance of Infrastructure Records

The Department of Transportation is required to maintain complete auditable records of all infrastructure assets in a level of detail that allows for accurate reporting of these assets. Infrastructure records should include such information as acquisition date, historical or estimated historical cost, a policy for distinguishing between capitalizable costs and repair/maintenance costs, and an estimated useful life for costs determined to be capitalizable.

CAPITAL OUTLAY

The term *capital outlay* refers to the exchange of one asset (cash) for another asset (capital asset). Therefore, expenditures in the Capital Outlay category reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds, must include only those expenditures that are *capitalized* in the government-wide Statement of Net Assets. Capital outlay expenditures for infrastructure include only those expenditures that increase capacity (for example, construction of a new bridge, widening of an existing road, or the addition of interstate entrance and exit ramps). Capital outlay expenditures do not include resurfacing or other repair and maintenance costs.

CLASSIFICATION OF STATE HIGHWAY BONDS

State Highway Bonds should be classified as *general obligation* bonds.

REQUIRED SUPPLEMENTARY INFORMATION—BUDGETARY COMPARISON

The Department of Transportation (DOT) is the only entity incorporated into the statewide CAFR from audited financial statements that includes an entire major special revenue fund of the State: the DOT Special Revenue Fund. If the State General Assembly prepares a separate budget for this fund, the State's CAFR must include a budgetary comparison schedule (as Required Supplementary Information) in conformity with paragraph 130 of GASB 34.

The Office of the Comptroller General will incorporate into the statewide CAFR any required budgetary comparison information for the DOT Special Revenue Fund from the DOT's separately issued audited financial statements.

SECTION 8—COLLEGES AND UNIVERSITIES

In November of 1999, GASB 35 was issued. This Statement established accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB 34. This section of the policy manual provides additional policies and guidance in financial accounting and reporting areas unique to South Carolina's State-supported colleges and universities.

The policies and guidance included in Sections 1 through 6 of this manual also are applicable to the State's colleges and universities. These sections of the manual should be reviewed carefully to ensure that all applicable policies and guidance are incorporated in the institution's separately issued financial statements.

This section of the manual and Appendix E together replace Section 5.0, *College/University Closing Package*, of the *GAAP Closing Procedures Manual*. Accordingly, the financial statement spreadsheets included in the June 30, 2001, edition of the *GAAP Closing Procedures Manual* have been revised and are included within this policy manual (see APPENDIX E—FINANCIAL STATEMENT SPREADSHEETS AND FORMS, COLLEGES AND UNIVERSITIES). The notes portion of the closing package has been discontinued and replaced by the policies set forth in this manual. The Office of the Comptroller General plans to obtain all necessary footnote information for colleges and universities from their audited financial statements.

FINANCIAL STATEMENT PRESENTATION—GENERAL

GASB 35 permits public colleges and universities, in separately issued financial statements, to use the guidance for special-purpose governments included in paragraphs 134 through 138 of GASB 34. The South Carolina College and University Controller's Group, as approved by the Office of the Comptroller General, has chosen to report as business-type activities (BTA).

The State requires that all colleges and universities report as business-type activities.

The colleges and universities should present the basic financial statements and required supplementary information (RSI) required by paragraph 138 of GASB 34. Paragraph 138 requires that governments engaged only in BTAs should present basic financial statements and RSI that consist of the following:

- MD&A (paragraphs 8 through 11, as appropriate).
- Enterprise fund financial statements (paragraphs 91 through 105), consisting of:
  - Statement of Net Assets or Balance Sheet.
  - Statement of Revenues, Expenses, and Changes in Fund Net Assets.
  - Statement of Cash Flows.
  - Notes to the Financial Statements (paragraphs 113 through 123).
  - Required Supplementary Information (RSI) other than MD&A, if applicable (paragraphs 132 through 133).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Paragraph 100 of GASB 34 defines the manner in which revenues and expenses should be reported in the Statement of Revenues, Expenses, and Changes in Net Assets, Enterprise Funds. Revenues are required to be reported by major source and to identify separately any revenues used as security for revenue bonds. Paragraph 123 of GASB 34 has been interpreted as allowing colleges and universities to choose between reporting operating expenses by natural or functional classification. The South Carolina College and University Controller's Group, as approved by the Office of the Comptroller General, has chosen to report expenses in the Statement of Revenues, Expenses, and Changes in Net Assets using the natural expense classification.

The State requires that all colleges and universities report operating expenses in their separately issued financial statements using the natural expense classification.

FINANCIAL STATEMENT PRESENTATION—COLUMNS

Question 125 in the second GASB 34 Implementation Guide, indicates that an institution may present its core activities in a single column or in multiple columns (i.e., separately reporting auxiliary enterprises or healthcare facilities, for example) in its basic financial statements. Exercise of this flexibility, however, would not allow for a consistent manner of incorporating higher education institutions into the statewide CAFR, because Question 128 of the second Implementation Guide states that internal transactions between the institution and its auxiliary enterprises must be eliminated in the consolidation process if a single column presentation is selected.

The State plans to present a single consolidated enterprise fund, the Higher Education Fund, to report all activities of its colleges/universities, except for component units. Accordingly, each of South Carolina's colleges/universities must present a single consolidated enterprise fund column for its core activities, including auxiliary enterprises and healthcare facilities. Internal transactions (such as those between the university and its auxiliary enterprises) must be eliminated. In addition, as discussed in Section 4, COMPONENT UNITS, component units must be presented in separate columns.

FINANCIAL SPREADSHEETS

The colleges and universities will be included in the State's basic financial statements as enterprise funds. To allow for consistency of reporting among the twenty-six institutions included in the State's Higher Education Fund, the Office of the Comptroller General has developed the financial statement spreadsheets and related instructions included in Appendix E of this manual.[43]

Colleges and universities must complete electronic worksheet files and must submit them to the Office of the Comptroller General for each of the following statements:

- Statement of Net Assets.
- Statement of Revenues, Expenses, and Changes in Net Assets.
- Statement of Cash Flows.
- Due To/From and Transfer To/From Worksheet.

Additionally, consistent with prior years, audited financial statements of each institution will be required to be submitted to the Office of the Comptroller General.

The Office of the Comptroller General must have this closing package data in order to:

- Provide data that may not appear in the college and Universities' separate financial statements but must appear in the State's basic financial statements.
- Eliminate or reclassify data appearing in college and universities' separate financial statements that is not appropriate for statewide financial reporting.

For specific requirements related to college and university actions required and due dates for submission of the requested information to the Office of the Comptroller General, refer to APPENDIX E—FINANCIAL STATEMENT SPREADSHEETS AND FORMS, COLLEGES AND UNIVERSITIES of this manual.

[43] Previous (now obsolete) versions of this material appeared in Section 5.0 of the *GAAP Closing Procedures Manual* in years before 2002.

CLASSIFICATION OF STATE INSTITUTION BONDS

State Institution Bonds should be identified as *general obligation bonds* in college and university financial statements.

APPROPRIATIONS VS. GRANTS

Colleges and universities should provide a clear distinction between appropriations and grants in the Statement of Revenues, Expenses, and Changes in Net Assets.

This will provide the Office of the Comptroller General with the information necessary to record certain reclassifications of appropriations to enterprise funds from the General Fund properly in the State's basic financial statements.

To provide for consistency, all institutions should classify money they receive from the Commission on Higher Education as appropriations or grants in accordance with guidance provided by the Office of the Comptroller General (see APPENDIX F—CLASSIFICATION OF AMOUNTS RECEIVED BY COLLEGES AND UNIVERSITIES FROM THE COMMISSION ON HIGHER EDUCATION of this manual). Any questions regarding this guidance or its rationale should be directed to the Central State Financial Reporting Division of the Office of the Comptroller General.

Paragraph 52 of GASB 35 discusses the GASB's deliberations regarding the reporting of appropriations. Question 126 of the second GASB 34 Implementation Guide also provides guidance on appropriations.

The State's policy is to distinguish appropriations from grants, operating grants, and capital grants based on definitions and descriptions of these terms provided in GASB Cod. Secs. 1700.113 and .114, Question 126 in the second GASB 34 Implementation Guide, and paragraph 50 of GASB 34.

PRESENTATION OF STATE GRANTS

The State requires colleges and universities to report all State grants and contracts separately from other grants and contracts in their separately issued financial statements because the receipts must be reclassified as "internal" when incorporated in the statewide CAFR.

SCHOLARSHIP ALLOWANCES

Footnote 41 of paragraph 100 of GASB 34, requires that revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the basic financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount.

A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is billed to the student and/or third parties making payments on behalf of the student. The reduction of student fees below the published rate either by governmental mandate or a separately negotiated contract rate is *not* considered a scholarship allowance.

In agreement with the colleges and universities, the State's policy is to allow colleges and universities to use the NACUBO AR 2000-05 Alternate Method to determine that portion of the applicable financial aid support to be applied as scholarship allowances and student aid expenses.

Data needed to determine the portion of applicable financial aid support to be applied as scholarship allowances and student aid expenses using the Alternate Method include, but are not limited to, the following:

- Financial aid not recognized as revenue of the institution
- Institutional resources provided as financial aid

- Third-party payments
- Total payments by students
- Total refunds made to students
- Total non-monetary institutional waivers (discounts) applied to students' accounts.

FEDERAL PELL GRANT ACTIVITY

GASB 35 superseded GASB 19, which required federal Pell grants to be reported as restricted current fund revenues. Additionally, GASB 24 includes guidance that recipient governments report pass-through grants as revenues and expenses in their financial statements if there is any administrative or direct financial involvement in the program, including grantor-established criteria. Because colleges and universities determine eligible secondary recipients of Pell Grant funds, Pell Grants meet the administrative requirement.

Colleges and universities should report Pell Grant receipts as other operating revenues in their financial statements and should record any amounts applied to student receivable accounts as scholarship discounts and allowances (see also Question 132 of the second GASB 34 Implementation Guide).

FEDERAL PERKINS LOAN PROGRAM ACTIVITY

The federal Perkins loan program is a revolving student loan program that initially was capitalized by a combination of federal and State monies. Common practice under the AICPA's accounting model for higher education institutions resulted in inclusion of the federal capitalization payments in the Fund Balance account. Further, assets and liabilities associated with the program were not necessarily reported as restricted.

Beginning July 1, 2001, concurrent with its implementation of GASB 34/35, the State's policy is to record balances associated with the federal Perkins loan program at June 30 as follows:

- Record the entire balance of Perkins loans receivable as *Non-Current Restricted Assets, Student Loans Receivable*.

- Record any cash on hand associated with the program as *Current Restricted Assets, Cash*.

- Record any outstanding administrative expenses associated with the program as *Liabilities Payable from Current Restricted Assets*.

- Record a liability, *Perkins Loan Program—Federal Liability*, to reflect the amount of "federal capital contributions" and any other amounts that ultimately are refundable to the federal government. This total must be *at least* as large as the amount shown in Part III, Section A, Line 19 (*federal capital contributions*) on the institution's *Fiscal Operations Report and Application to Participate (FISAP)* that has been (or will be) submitted to the United States Department of Education for the period ending June 30.

Colleges and universities must report balances associated with the Perkins loan program in their agency financial statements as described above. For the fiscal year ended June 30, 2002, colleges and universities should report a corresponding adjustment to beginning net assets. (Typically, this adjustment will require a debit to *Prior Period Adjustments of Net Assets* and a credit to the *Perkins Loan Program—Federal Liability* account.) These policies have resulted from ongoing discussions between the Office of the Comptroller General and the statewide auditors.[44]

[44] Please contact the Central State Financial Reporting Division, Office of the Comptroller General, for more detailed reasons underlying these policies.

FOOTNOTE DISCLOSURE FOR DEBT SERVICE LIMITATION ON STATE INSTITUTION BONDS

South Carolina Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on State Institution Bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. As stated in Section 59-107-30, the term "tuition fees" includes fees charged for tuition, matriculation, and registration. The term "tuition fees" does not include fees charged for enrolling in courses or classes offered at any summer school term or in any special seminar.

The statewide CAFR includes certain disclosure information related to this maximum debt service calculation in order to meet the GFOA requirement to disclose any legal debt limits. Consistent with prior years, the Office of the Comptroller General must require each of the colleges and universities to provide certain information for disclosure purposes.

Each college and university must include, as a footnote disclosure in its separately issued financial statements, the amount of the institution's tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year.

FOOTNOTE DISCLOSURE FOR DONOR-RESTRICTED ENDOWMENTS

Paragraph 121 of GASB 34 requires the following separate note disclosure about donor-restricted endowments:

- The amounts of net appreciation (depreciation) on investments or donor-restricted endowments that are available for authorization for expenditure by the government board, and how those amounts are reported in net assets.

- The State law regarding the ability to spend net appreciation.

- The policy for authorizing and spending investment income, such as a spending-rate or total-return policy.

Accordingly, colleges and universities must include this footnote disclosure for any donor-restricted endowments in their separately issued financial statements.

FOOTNOTE DISCLOSURE—OPERATING VS. NONOPERATING REVENUES AND EXPENSES

In addition to the disclosure required for all enterprise funds regarding the definition of operating revenues and expenses (described in Section 6, FOOTNOTE DISCLOSURES, as a subsection within SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES), each higher education institution also shall include a description of the institution's principal operating revenues.

The language that each institution uses must be consistent with the corresponding disclosure in the statewide CAFR. It is anticipated that the statewide disclosure will indicate that principal operating revenues of the State's Higher Education Fund generally are limited to the following:

- Tuition and fees received in exchange for providing educational services, housing, and other services to students;
- Fees received by university hospitals in exchange for providing health-related services;
- Receipts for scholarships (including Pell Grants) where the provider has identified the student recipients;
- Grants reportable as operating revenues as described above [i.e., in accordance with the description included in Section 6, FOOTNOTE DISCLOSURES, under SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES]; and
- Fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the fund.

This guidance is consistent with the fact that *the education of students* constitutes the "principal ongoing operations" (as that phrase is used in footnote 42 of GASB 34) of the State's Higher Education Fund.

APPENDIX A—OPERATING VS. NONOPERATING REVENUES, GRANTS PRACTICE AID

State of South Carolina
GASB 34 Questionnaire for Proprietary Funds
Financial Reporting Classification of Grant Activity

Description of Resources/Provider Organization/CFDA #:____
Completed By:____ Date:____________________________

	DEFINITIVE FACTORS—If the answer to A, B, or C is "yes," classify the resources as described. Skip all remaining questions; they do not apply.	**YES**	**NO**	**N/A or Unknown**
A	Does the resource provider restrict the recipient's use of the resources to <u>capital</u> acquisitions? *[If "yes," report the resources as a "capital contribution" on the Statement of Revenues, Expenses, and Changes in Net Assets and within "capital and related financing activities" on the Cash Flows Statement.]*			
B	If the resources consist of payments from Federal government sources, have such resources been <u>excluded</u> from the State of South Carolina's *Schedule of Expenditures of Federal Awards* for the reason that they are deemed to represent (in accordance with specific guidance such as that included in Circular A-133) compensation for goods or services provided <u>as a vendor</u>? *[If "yes," report the resources as "operating revenue" on the Statement of Revenues, Expenses, and Changes in Net Assets and within "operating activities" on the Cash Flows Statement.]*			
C	Does the substance of the agreement appear to be such that the resource provider will receive no significant benefit or financial value as a condition for providing the resources to the recipient? *[If "yes," report the activity as "nonoperating revenue" on the Statement of Revenues, Expenses, and Changes in Net Assets and as "noncapital financing activities" on the Cash Flows Statement.]*			

	OTHER FACTORS—If there were *no* "yes" answers to A through C above, complete Questions D, E, and F below.	**YES**	**NO**	**N/A or Unknown**
D	Is the substance of the agreement between provider and recipient essentially the same as a contract for services (i.e., an exchange transaction)? *[Answer "yes" if you have answered "yes" to <u>three or more</u> of Questions 1 through 6 below; then continue to Questions E and F. Otherwise, answer "no" to Questions D and F (and skip Question E).]*			
1	Did the primary initiative for the project come from the resource provider rather than from the recipient? *[For example, generally answer "yes" if the provider issued a Request For Proposals and "no" if the recipient submitted an Application for Federal Assistance or similar application.]*			
2	Did the resource provider specify the primary program objectives rather than simply approve objectives proposed by the resource recipient?			
3	Is the resource recipient required to produce and deliver to the resource provider deliverables that have current or potential future economic value?			
4	Is the resource provider (rather than the recipient or the general public) the *primary* party that will own, control, and/or have the right to benefit financially from any deliverables resulting from the recipient's performance?			
5	Is it fair to say that the resource provider *will not* derive an income tax advantage from the agreement beyond that it would derive from a purchase of goods or services? (N/A if resource provider is a government)			
6	If the resource recipient fails to provide deliverables in accordance with the agreement, must the recipient pay the resource provider an amount in excess of currently uncommitted provider resources on hand?			

State of South Carolina
GASB 34 Questionnaire for Proprietary Funds
Financial Reporting Classification of Grant Activity

OTHER FACTORS—CONTINUED		**YES**	**NO**	**N/A or Unknown**
E	Do the resources finance a program that the resource recipient would not otherwise undertake (i.e., the activity is inherently part of the operations of the resource *provider*)? *[Answer "yes" if you have answered "yes" to <u>two or more</u> of Questions 1 through 3 below. Otherwise, answer "no."]*			
1	Do the resources finance a program that the recipient would not otherwise undertake (for example, a senior citizens' transportation service)?			
2	Would it be fair to say that the resources *do not* subsidize any of the recipient's existing programs?			
3	Do the resources reimburse the costs of a *new* program for the recipient, the activity of which is inherently part of the operations of the resource <u>provider</u>? *[Answer "yes" if the resources provide goods or services to the resource provider's programs.]*			
F	Did you answer "yes" to <u>both</u> Questions D and E above? *[If "yes," report the resources as "operating revenue" on the Statement of Revenues, Expenses, and Changes in Net Assets and within "operating activities" on the Cash Flows Statement. If "no," report the activity as "nonoperating revenue" on the Statement of Revenues, Expenses, and Changes in Net Assets and as "noncapital financing activities" on the Cash Flows Statement.]*			

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TERMINOLOGY AND FORMAT

In this questionnaire, the term *grant* is used loosely to mean an agreement between a *resource provider* or *grantor* and a *resource recipient* or *grantee* (rather than in the narrower sense defined in GASB Statement 24). Such agreements sometimes restrict the grantee's use of the resources or *grant proceeds* in certain respects and/or require the grantee to perform certain work or to produce certain end results or *deliverables*.

Key responses are shaded; inappropriate responses are cross-hatched.

PURPOSE OF QUESTIONNAIRE

In accordance with Paragraph 102 of GASB 34, the State of South Carolina has established the following policy, which shall be disclosed in the notes to the financial statements of (a) the statewide CAFR and (b) each proprietary fund incorporated into the statewide CAFR from audited financial statements:

> Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues generally result from exchange transactions to provide goods or services related to a proprietary fund's principal ongoing operations. Operating expenses result from producing and delivering those goods and services. Grants are reportable as operating revenues only if they (a) are essentially the same as contracts for services (i.e., exchange transactions) and (b) finance programs that the proprietary fund would not otherwise undertake (i.e., the activity of the grant is inherently part of the operations of the grantor).

The purpose of this questionnaire is to evaluate proprietary fund grants to determine their proper classification (a) on the Statement of Revenues, Expenses, and Changes in Net Assets in accordance with the above policy and (b) on the Cash Flows Statement in accordance with Paragraphs 17a, 17c, 21b, and 24b of GASB 9 and Question 63 of the GASB 9 Implementation Guide.

APPENDIX B—THE STATE'S DISCRETELY PRESENTED COMPONENT UNITS

The following entities are presented in the State's CAFR as discretely presented component units:

- First Steps to School Readiness Board of Trustees
- Public Service Authority (Santee-Cooper)
- State Ports Authority
- Connector 2000 Association, Inc.
- Savannah Lakes Regional Loan Fund
- South Carolina Lottery Commission
- South Carolina Children's Trust Fund

APPENDIX C—AGENCIES BY FUNCTION

STATE OF SOUTH CAROLINA
AGENCIES BY FUNCTION

Agy Code	Agency Name	Function
A01	Leg Dept-The Senate	General Governmental
A05	Leg Dept-House Of Repre	General Governmental
A15	Leg Dept-Cde Laws Leg Cncl	General Governmental
A17	Leg Dept-Leg Printing & Info Tech Res	General Governmental
A20	Leg Dept-Leg Audit Council	General Governmental
A25	Leg Dept-Leg Info Systems	General Governmental
A85	Education Oversight Committee	General Governmental
B04	Judicial Department	Administration of Justice
B06	Sentencing Guidelines Commission	Administration of Justice
C05	Administrative Law Judges	General Governmental
D05	Governors Off-E C Of S	General Governmental
D10	Governors Off-SLED	General Governmental
D17	Governors Off-O E P P	General Governmental
D20	Governors Off-Mansion & Grounds	General Governmental
E04	Lieutenant Governor	General Governmental
E08	Secretary Of State	General Governmental
E12	Comptroller General	General Governmental
E16	State Treasurer's Office	General Governmental
E17	Tobacco Settlement Rev Management Auth	General Governmental
E20	Attorney General	General Governmental
E21	S C Comm On Prosecution Coordination	General Governmental
E22	Commission On Appellate Defense	General Governmental
E23	Commission On Indigent Defense	General Governmental
E24	Adjutant General	General Governmental
E28	Election Commission	General Governmental

Agy Code	Agency Name	Function
F01	Budget And Control Board	General Governmental
F05	B&C Bd-Div Of Exec Director	General Governmental
F07	B&C Bd-Div Of Operations	General Governmental
F09	B&C Bd-Div Of Budget & Analyses	General Governmental
F11	B&C Bd-Div Of Regional Development	General Governmental
F27	B&C Bd-State Auditor	General Governmental
F29	B&C Bd-Retirement	General Governmental
F30	B&C Bd-Employee Benefits	General Governmental
F31	B&C Bd-Capital Expenditure Fund	General Governmental
H03	Higher Education Commission	Education
H06	Higher Ed Tuition Grant Commission	Education
H09	The Citadel	Higher Education
H12	Clemson University	Higher Education
H15	College Of Charleston	Higher Education
H17	Coastal Carolina University	Higher Education
H18	Francis Marion University	Higher Education
H21	Lander University	Higher Education
H24	South Carolina State University	Higher Education
H26	University Of South Carolina	Higher Education
H27	USC-Columbia Campus	Higher Education
H29	USC-Aiken Campus	Higher Education
H34	USC-Spartanburg Campus	Higher Education
H36	USC-Beaufort Campus	Higher Education
H37	USC-Lancaster Campus	Higher Education
H38	USC-Salkehatchie Campus	Higher Education

STATE OF SOUTH CAROLINA
AGENCIES BY FUNCTION

Agy Code	Agency Name	Function
H39	USC-Sumter Campus	Higher Education
H40	USC-Union Campus	Higher Education
H47	Winthrop University	Higher Education
H51	Medical Univ Of S C	Higher Education
H52	Medical Univ Of S C-Hospital	Higher Education
H53	M U S C -Consortium Of Comm Teach Hosp	Higher Education
H54	Charleston Higher Educ Consortium	Education
H59	Tech & Comp Education Board	Education
H63	Education Department	Education
H67	Educational Television Commission	Education
H71	Wil Lou Gray Opportunity School	Education
H73	Vocational Rehabilitation	Education
H75	Deaf & Blind School	Education
H79	Archives & History Department	Education
H80	African-American Hist Monument Comm	Education
H87	State Library	Education
H91	Arts Commission	Education
H95	Museum Commission	Education
J02	Dept Of Health & Human Services	Health and Environment
J04	Health & Environmental Control Department	Health and Environment
J12	Mental Health Department	Health and Environment
J16	Dept Of Disabilities & Special Needs	Health and Environment
J20	Dept Of Alcohol & Other Drug Abuse Service	Health and Environment
K05	Department Of Public Safety	Administration of Justice
L04	Social Services Department	Social Services

Agy Code	Agency Name	Function
L12	John De La Howe School	Social Services
L24	Blind Commission	Social Services
L32	Housing Authority	Housing Authority
L36	Human Affairs Commission	Social Services
L46	State Commission For Minority Affairs	Social Services
N04	Corrections Department	Administration of Justice
N08	Probation Parole & Pardon Services	Administration of Justice
N12	Dept Of Juvenile Justice	Administration of Justice
P12	Forestry Commission	Resources & Econ. Develop
P16	Agriculture Department	Resources & Econ. Develop
P20	Clemson Univ Pub Serv Act	Higher Education
P21	SCSC Public Service Act	Higher Education
P24	Dept Of Natural Resources	Resources & Econ. Develop
P26	Sea Grant Consortium	Resources & Econ. Develop
P28	Parks Recreation & Tourism	Resources & Econ. Develop
P32	Department Of Commerce	Resources & Econ. Develop
P34	S C Jobs Econ Development Authority	Other Business Type
P36	Patriots Point Development Authority	Other Business Type
P48	Old Exchange Building Comm	Resources & Econ. Develop
R04	Public Service Commission	General Governmental
R08	S C Workers' Compensation Commission	General Governmental
R12	State Accident Fund	General Governmental
R14	Patients Compensation Fund	Other Business Type
R16	Second Injury Fund	Other Business Type
R20	Insurance Department	General Governmental

STATE OF SOUTH CAROLINA
AGENCIES BY FUNCTION

Agy Code	Agency Name	Function
R23	Board Of Financial Institutions	General Governmental
R28	Consumer Affairs Commission	General Governmental
R36	Dept Of Labor, Licensing, & Regulation	General Governmental
R44	Department Of Revenue	General Governmental
R52	State Ethics Commission	General Governmental
R60	Employment Security Commission	General Governmental

Agy Code	Agency Name	Function
R70	State Bar	General Governmental
S60	Procurement Review Panel	General Governmental
U12	Department Of Transportation	Transportation
U15	S C Transportation Infrastructure Bank	Transportation
Y08	Public Railways Commission	Other Business Type

APPENDIX D—THE STATE'S MAJOR ENTERPRISE FUNDS

The State expects to report the following as its major enterprise funds for the fiscal year ended June 30, 2002:

- Higher Education Fund (including activity of all colleges and universities).
- Unemployment Compensation Benefits Fund.
- State Housing Authority's Enterprise Fund.
- State Education Assistance Authority.

APPENDIX E—FINANCIAL STATEMENT SPREADSHEETS AND FORMS, COLLEGES AND UNIVERSITIES

INTRODUCTION

Generally Accepted Accounting Principles require that the State incorporate public, State-supported colleges/universities within its financial statements. Because South Carolina has twenty-six such public institutions, it is important that the Office of the Comptroller General receive financial statement data from these entities in a consistent manner. The Office of the Comptroller General achieves consistency by requiring that institutions submit four spreadsheets that are packaged together in a single Excel workbook.

Financial statement spreadheets for colleges/universities were previously included in Section 5.0 of the *Closing Procedures Manual*. Beginning with the 2001-2002 fiscal year, Section 5.0 has been deleted from the Closing Procedures Manual, and instructions for completing the revised spreadsheets are located here.

Consistent with prior years, the Office of the Comptroller General requires the following from each of the public colleges and universities:

- The completed forms and Excel spreadsheets described in this appendix:
    - An Excel workbook (.xls) file with separate sheets for the three basic financial statements and for a Schedule of Interfund Balances and Activity.
    - Completed paper forms as described.
    - Additional information in detailed written explanations, as applicable (e.g., explanations of any special/extraordinary items, if not described in detail in the audited financial statements).

- Your institution's audited financial statements.

The Office of the Comptroller General needs this financial data:

- To allow reconciliation between your institution's balances and records maintained elsewhere within State government. (The auditors of the State's financial statements will need these reconciliations.)

- To provide data that does not appear in your institution's separately-issued financial statements but must appear in the State's financial statements.

- To eliminate data appearing in your institution's separate financial statements that is not appropriate for statewide financial reporting.

AGENCY ACTION REQUIRED

- Obtain a copy of your institution's audited financial statements. Use the published statements if available. Otherwise, use draft financial statements that your auditors have prepared.

- Download the Excel workbook file and read-only Acrobat forms from the Office of the Comptroller General's Internet website. Rename the Excel workbook **xxx-Higher Ed.xls** where xxx is the STARS agency code for your institution.

- Input the required amounts into the following four Excel spreadsheets:

  - Statement of Net Assets.

  - Statement of Revenues, Expenses, and Changes in Net Assets.

  - Statement of Cash Flows.

    - Schedule of Interfund Balances and Activity (if applicable).

- Make a copy of the completed workbook for your records.

- Complete the College/University Checklist.

- On or before the due dates specified below, return to the Office of the Comptroller General:

    - A copy of your institution's audited financial statements.

    - The completed Excel workbook file on a diskette reflecting data shown on your audited financial statements.

    - Printouts of the three financial statement spreadsheets and the Interfund sheet, if applicable.

    - The additional paper forms completed based on your audited financial statements along with any additional explanations, as appropriate.

DUE DATES

Timeliness is extremely important. The Office of the Comptroller General's goal is to publish the State's audited financial statements no later than December 31. The audit contracts for various State higher education institutions specify different draft and/or final report availability dates. Accordingly, the due date for the forms and spreadsheets described in this Appendix depends on when audited financial statements become available to you.

To meet our goals, the Office of the Comptroller General must receive your draft and final audited financial statements <u>no later than the date(s) specified in the audit contract</u>. The Office of the Comptroller General recognizes that timely issuance of these audited financial statements is not entirely within your control. To expedite the audit, however, you can:

- Close your agency's books on time.
- Give the auditors everything they need to begin the audit on time and to perform their work in the specified time.
- Make key staff members available to answer auditor questions.

If your final audited financial statements are available on or before October 1, send to the Office of the Comptroller General:

- Your final audited financial statements immediately upon release by your auditors.
- The completed Excel workbook and paper forms corresponding to these final statements no more than one week later.

If your final audited financial statements are NOT available on or before October 1, send to the Office of the Comptroller General (OCG):

- Your draft audited financial statements as soon as your auditors make them available to you. The OCG must have draft or final financial statements for your institution no later than October 15. If no audited draft is available by that date, please send the OCG *unaudited* draft financial statements.
- The completed Excel workbook and paper forms corresponding to the above draft statements no more than one week later.
- The final audited financial statements immediately upon release by your auditors.
- The updated Excel spreadsheets and revised paper forms corresponding to the final financial statements no more than one week later. Clearly identify any changes between the draft and the final audit report.

WORKING PAPERS

The Office of the Comptroller General's staff and/or the statewide joint audit team may ask questions of your institution that require reference to working papers used in preparing the materials discussed in this appendix. Accordingly, each college/university should keep:

- A copy of the completed Excel workbook file.

- Copies of the completed forms.

- A copy of the audited financial statements used to complete the spreadsheets and forms. (These statements may be either published or draft statements.)

- Working papers that support each figure in the completed package.

GENERAL INSTRUCTIONS—GENERAL INFORMATION FORM

- The General Information Form, a paper form, documents certain general information that applies to all paper forms and electronic files that your institution submits to the Office of the Comptroller General.

- Please enter signatures on this form—not typed or stamped names.

- Complete and return the form to the Office of the Comptroller General with your other forms and and the Excel workbook file.

- The contact person should keep a copy of all completed forms and the Excel workbook file. The Office of the Comptroller General will call this person if there are questions.

- The General Information Form is not reproduced in this manual. Please download the blank form from the Internet and complete it in accordance with the instructions provided here and below.

SPECIFIC INSTRUCTIONS—THE GENERAL INFORMATION FORM

- Enter the fiscal year for which this form applies.

- Enter the institution's name and the three-character STARS agency code.

- Include signature and job title for any person completing any of the other forms/spreadsheets.

- The person responsible for overall review of all forms should complete this information. Include signature, job title, and completion date of the review.

- Decide who should answer any questions the Office of the Comptroller General may have regarding any of the completed forms. Enter the name, job title, and telephone number of this person.

GENERAL INSTRUCTIONS—STATEMENT OF NET ASSETS SPREADSHEET

- In the downloaded Excel workbook, click the tab for the sheet named **SONA**.

- Input financial data for your institution's primary operations into the column entitled *Primary Institution*. This should include educational activities as well as auxiliary enterprises. This column also includes all related capital asset and debt balances.

- Input financial data of each blended or discretely presented component unit into the *Component Units* columns numbered 1 through 4. Enter each component unit into a *separate* column, and replace the number (1 through 4) in the column heading area with the name of the related component unit.

- Ignore the numeric codes that appear to the left of the account code titles. These are for the Office of the Comptroller General's use only.

- Round all dollar amounts to the nearest whole dollar. Key a minus sign in front of each negative figure. Excel will print negative numbers in parentheses.

- If certain accounts do not apply to your institution, you need not enter zeros—just leave blanks.

- Amounts on this sheet should come from your audited financial statements or the notes to the financial statements.

- Print out the completed sheet and return it to the Office of the Comptroller General along with the other required materials on or before the specified due date (see DUE DATES subsection above).

- The contact person should keep a copy of the completed Excel spreadsheet file and the printout. The Office of the

Comptroller General will call this person if there are questions.

- The Statement of Net Assets spreadsheet is not reproduced in this manual. Please download the blank spreadsheet from the Internet and complete it in accordance with the instructions provided here and below.

SPECIFIC INSTRUCTIONS—STATEMENT OF NET ASSETS SPREADSHEET

- **Header**: Enter the institution's name and the three-character STARS agency code.

- **Classified Format**: All assets must be segregated between current and non-current balances; all liabilities must be segregated between current and long-term balances. Current assets and liabilities are those expected to generate or use cash within *twelve months* of June 30 (i.e., on or before *next* June 30). Likewise, non-current assets and long-term liabilities include amounts expected to be generated or used in the period *after next June 30*.

- **Cash & Cash Equivalents—Non-STARS**: Segregate cash and cash equivalents not held by the State Treasurer's Office in Account Code 1101, Cash & Cash Equivalents—Non-STARS.

- **Receivables**: Show all receivables accounts on this spreadsheet net of any allowance for uncollectible accounts. Include footnote disclosure in your financial statements that details the gross receivable balance of each account, reduction for allowances for uncollectible accounts (at least in total for all receivables), and the net receivable balance (which must agree to the total of balances included in receivables accounts included in this spreadsheet). For additional details, see RECEIVABLES FOOTNOTE—MINIMUM LEVEL OF DETAIL in Section 6 (FOOTNOTE DISCLOSURES) of this manual.

- **Accounts Receivable (Miscellaneous)**: Use Account Code 1150, *Accounts Receivable (Miscellaneous),* to record any receivable accounts included in your financial statements that are not separately identified in this spreadsheet. (Also see information below on Capital Improvement Bond Proceeds Receivable.)

- **Capital Improvement Bond Proceeds Receivable**: Record any Capital Improvement Bond (CIB) Proceeds Receivable in Account Code 1150, Accounts Receivable (Miscellaneous). For additional information, see CAPITAL IMPROVEMENT BOND RECEIVABLES/REVENUE in Section 5 (FINANCIAL STATEMENT COMPONENTS) of this policy manual.

- **Due From Federal Government**: Account Code 1180, *Due From Federal Government*, should include all amounts receivable from federal government sources.

- **Due From/To Other Funds in These Financial Statements**: Account Codes 19XX and 29XX, *Due From/To Other Funds in These Financial Statements*, should include any short-term interfund activity between the primary institution and any blended component units shown in separate columns in this spreadsheet. If you report balances on these lines, you must complete the **Interfund** sheet in the downloaded Excel workbook.

- **Restricted Assets—Current**: Use Account Codes 1440 through 1443 for the current portion of any restricted assets (for example, restricted due to bond covenants, restricted for federal Perkins loan program, etc.).

- **Advances To/From Other Funds in These Financial Statements**: Account Codes 1240 and 2120, *Advances To/From Other Funds in These Financial Statements*, should include long-term interfund activity between the primary institution and any *blended* component units shown in separate columns in this statement. If you report balances on these lines, you must complete the **Interfund** sheet in the downloaded Excel workbook.

- **Liabilities Payable from Restricted Assets**: Account Code 2175, Liabilities Payable from Restricted Assets, should include any liabilities associated with administrative expenses of Perkins loan program activities.

- **Bonds Payable**: Limit the *Bonds Payable* accounts, current and non-current, to bonds payable. These amounts must agree to your institution's footnote disclosure for long-term debt. Use Account Codes 2160 through 2171 to record other similar current and long-term liabilities.

- **Notes Payable To (or Advances From) Other State Agencies**: If your institution has notes payable to (or advances from) other State agencies, please report the payable amounts as part of Account Codes 2170 (Loans and Notes Payable, Current) or 2171 (Loans and Notes Payable, Long-Term).

GENERAL INSTRUCTIONS—STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS SPREADSHEET

- In the downloaded Excel workbook, click the tab for the sheet named **SORECNA**.

- Input financial data for your institution's primary operations in the column entitled *Primary Institution*. This should include educational activities as well as auxiliary enterprises.

- Input financial data for each blended or discretely presented component unit into the *Component Units* columns numbered 1 through 4. Enter each component unit into a *separate* column, and replace the number (1 through 4) in the column heading area with the name of the related component unit.

- Ignore the numeric codes that appear to the left of the account code titles. These are for the Office of the Comptroller General's use only.

- Round all dollar amounts to the nearest whole dollar. Key a minus sign in front of each negative figure. Excel will print negative numbers in parentheses.

- If certain accounts do not apply to your institution, you need not enter zeros—just leave blanks.

- Amounts on this file should come from your audited financial statements or the notes to the financial statements.

- Print out the completed sheet and return it to the Office of the Comptroller General along with the other required materials on or before the specified due date (see DUE DATES subsection above).

- The contact person should keep a copy of the completed Excel spreadsheet file and the printout. The Office of the

Comptroller General will call this person if there are questions.

- The Statement of Revenues, Expenses, and Changes in Net Assets is not reproduced in this manual. Please download the blank spreadsheet from the Internet and complete it in accordance with the instructions provided here and below.

SPECIFIC INSTRUCTIONS—STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS SPREADSHEET

- **Header**: Enter the institution's name and the three-character STARS agency code.

- **Charges for Services, Net**: Account Code 0200, *Charges for Services, Net*, should include all student-related fees, patient-related fees, and other amounts you receive for services provided.

- **Operating Revenues Pledged for Revenue Bonds, Net**: Account Code 0231, *Operating Revenues Pledged for Revenue Bonds, Net*, must include all revenues pledged as security for revenue bonds. If your institution had revenue bonds outstanding at June 30 and all of its charges for services included in account code 0200 (as defined above) were pledged against revenue bonds, enter the amount into the spreadsheet as Account Code 0231, *Operating Revenues Pledged for Revenue Bonds, Net*, even if your audited statements do not separately display *Operating Revenues Pledged for Revenue Bonds*.

- **Grants**: Accounts for grants appear in both the Operating Revenues and Nonoperating Revenues (Expenses) sections. For example *Federal Grants and Contracts* (Account Code 0145) appears in the Operating Revenues section whereas *Federal Grants* (Account Code 0150) appears in the Nonoperating Revenues (Expenses). Although *grants* received for operating purposes generally represent *non-operating revenue* for enterprise funds, some higher education institutions may receive certain grants that meet the narrow requirements for being classified within the Operating Revenues section. For more information, see APPENDIX A—OPERATING VS. NONOPERATING REVENUES, GRANTS PRACTICE AID and GRANT/CONTRIBUTION REVENUES IN PROPRIETARY FUNDS—OPERATING OR NON-OPERATING on page 75. In addition to classifying grants within the Operating Revenues section or Non-Operating Revenues section, *capital grants* must be reported separately from other grants. For example, the *Federal Capital Grants and Contracts* account (Account Code 0770) appears below the Non-Operating Revenues (Expenses) section.

- **Other Operating Revenues, Net**: Account Code 0205, *Other Operating Revenues, Net*, should include all other operating revenues for your institution. This would include interest collected on student loans, sales and services of auxiliary enterprises, etc.

- **General Operations and Administration**: Use Expense Account Code 2000, *General Operations and Administration*, for all other general operations and administrative expenses (i.e., salaries, benefits, supplies, materials, rent, utilities, etc.) not included in a separate category on this spreadsheet (i.e., depreciation, amortization, and scholarships and fellowships).

- **Other Operating Expenses**: You should report most operating expenses in one of the four specific accounts listed. If you find it necessary to use Expense Account Code 2039, *Other Operating Expenses*, please include a separate sheet explaining what is included in this account when you submit your spreadsheets and forms to the Office of the Comptroller General.

- **State Appropriations**: Enter appropriate amounts into the two rows, *State Appropriations* and *State Capital Appropriations* rows. [The Account Code is 48XX for both rows because the Office of the Comptroller General must reclassify these as Transfers In.] The amounts for each of these two categories must match the corresponding amounts identified on the Appropriation Reconciliation schedule (see DETAIL OF STATE APPROPRIATIONS RECORDED AS REVENUE on page 114).

- **Contributions (Excluding Capital)**: Report contributions revenue in the Non-Operating Revenues section, even if the contributions may be used "for operating purposes." That is, report all contributions (except those restricted by the contributor for capital purposes) in Account Code 0400, *Contributions (Excluding Capital)*. Report unrestricted capital contributions in Account Code 0774, *Local/Private Capital Grants and Contracts*. For more information, see GRANT/CONTRIBUTION REVENUES IN PROPRIETARY FUNDS—OPERATING OR NON-OPERATING on page 75.

- **Net Investment Income**: Account Code 0549, *Net Investment Income*, must include all investment-related income, including changes in the fair value of investments. Show this balance net of any related investment expenses.

- **Interest Expense**: Use Account Code 2075, *Interest Expense*, to record all interest expense reported by your institution.

- **Federal Grant Funds Received from State Board for Technical and Comprehensive Education**: Account Code 0150, *Federal Grants* (in the Non-Operating Revenue section), should include any federal funds that a technical college received from the State Board for Technical and Comprehensive Education during the fiscal year.

- **Special and Extraordinary Items**: Use Account Code XXXX, *Special and Extraordinary Items*, to report items that meet the definitions included in paragraphs 86, 89, and 100 of GASB 34. Report such items in a single line on this spreadsheet, but include a detailed description of each item and a breakdown of amounts in a written explanation submitted along with this spreadsheet.

- **Transfers In From/Out To Other Funds in These Financial Statements**: Account Codes 48XX and 58XX, *Transfers In From/Out To Other Funds in These Financial Statements*, should include any transfers between the primary institution and any *blended* component units shown in separate columns in this statement. If you report balances on these lines, you must complete the **Interfund** sheet in the downloaded Excel workbook.

- **Beginning Net Assets—TRANSITION ISSUE**: For the fiscal year ended June 30, 2002, you must input the beginning net assets balance in this spreadsheet based on adjustments made for the adoption of the new financial reporting model and corrections of errors of prior years. Notes to the Financial Statements must describe these adjustments. For details, see EFFECTS OF ACCOUNTING AND REPORTING CHANGES ON BEGINNING FUND EQUITY/NET ASSETS in Section 6 (FOOTNOTE DISCLOSURES) of this manual. In prior years, the Office of the Comptroller General input this balance for you.

GENERAL INSTRUCTIONS—STATEMENT OF CASH FLOWS SPREADSHEET

- In the downloaded Excel workbook, click the tab for the sheet named **SCF**.
- Round all dollar amounts to the nearest whole dollar. Key a minus sign in front of each negative figure. Excel will print negative numbers in parentheses.
- If certain accounts are not applicable to your institution, you need not enter zeros—just leave blanks.
- Amounts on this file should come from your audited financial statements or Notes to the Financial Statements.
- Print out the completed sheet and return it to the Office of the Comptroller General along with the other required materials on or before the specified due date (see DUE DATES subsection above).
- The contact person should keep a copy of the spreadsheet file and the printout. The Office of the Comptroller General will call this person if there are questions.
- The Statement of Cash Flows spreadsheet is not reproduced in this manual. Please download the blank spreadsheet from the Internet and complete it in accordance with the instructions provided here and below.

SPECIFIC INSTRUCTIONS—STATEMENT OF CASH FLOWS SPREADSHEET

- **Header**: Enter the institution's name and the three-character STARS agency code.
- **Cash and Cash Equivalents**: Cash and Cash Equivalents must include all cash and investments with original maturities of three months or less and all amounts in the State Treasurer's Office internal investment pool.

- **Net Cash Provided By/Used In Operating Activities**: The balance of Net Cash Provided By/Used In Operating Activities (first section) must equal the amount of the same caption in the reconciliation section.

- **Other Lines**: Each of the five sections of the Statement of Cash Flows spreadsheet has an "other" line item. Use the "other" line to record the transaction amount(s) of any cash flow transactions for your institution that do not belong on the standard lines included in each section of the statement. If you use the "other" line in any section, attach a separate schedule identifying both the item and the specific section to which the item pertains.

- **Non-Cash Items**: Include a separate detailed narrative or schedule that describes each non-cash item in considerable detail.

GENERAL INSTRUCTIONS—SCHEDULE OF INTERFUND BALANCES AND ACTIVITIES SPREADSHEET

- Complete this spreadsheet only if your institution has one or more component units and you have entered one or more amounts on the lines for Due From/To Other Funds in These Financial Statements (Account Codes 19XX and 29XX), Advances To/From Other Funds in These Financial Statements (Account Codes 1240 and 2120), or Transfers In From/Out To Other Funds in These Financial Statements (Account Codes 48XX and 58XX).

- If you need to complete this spreadsheet, click the tab for the sheet named **INTERFUND** in the downloaded Excel workbook.

- Round all dollar amounts to the nearest whole dollar.

- If certain accounts are not applicable to your institution, do not enter zeros—just leave blanks.

- Most amounts on this spreadsheet should come from the financial statements or accounting records.

- Print out the completed sheet and return it to the Office of the Comptroller General along with the other required materials on or before the specified due date (see DUE DATES subsection above).

- The contact person should keep a copy of the completed spreadsheet. The Office of the Comptroller General will call this person if there are questions.

- The Schedule of Interfund Balances and Activities spreadsheet is not reproduced in this manual. Please download the blank spreadsheet from the Internet and complete it in accordance with the instructions provided here and below.

SPECIFIC INSTRUCTIONS—SCHEDULE OF INTERFUND BALANCES AND ACTIVITIES SPREADSHEET

- **Header**: Enter the institution's name and the three-character STARS agency code.

GENERAL INSTRUCTIONS—COLLEGE/UNIVERSITY CHECKLIST

- The purpose of this checklist is to help ensure that the information on your forms and spreadsheets is reliable. Your completion of these steps should reduce the need for telephone calls from the Office of the Comptroller General and resulting delays in incorporating your financial statement data into the statewide CAFR. The Office of the Comptroller General also will show this checklist to auditors of the statewide financial statements.

- Complete this form only after you have completed all other forms and spreadsheets in this appendix.

- Sign and date each review step as you complete it.

- Complete and return the form to the Office of the Comptroller General no later than the specified due date(s).

- The contact person should keep a copy of the completed form. The Office of the Comptroller General will call this person if there are questions.

- The College/University Checklist is not reproduced in this manual. Please download the blank form from the Internet and complete it in accordance with the instructions provided here and below.

SPECIFIC INSTRUCTIONS—/UNIVERSITY CHECKLIST

- Enter the fiscal year for which this form applies.

- Enter the institution's name and the three-character STARS agency code.

APPENDIX F—CLASSIFICATION OF AMOUNTS RECEIVED BY COLLEGES AND UNIVERSITIES FROM THE COMMISSION ON HIGHER EDUCATION (CHE)

Program*	GASB 34 Classification [2]	STARS [1]	Basis for Classification
Access and Equity	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
Life Scholarship	Grants, Operating Revenue	IDT	Institution receives scholarships on behalf of students for tuition.
STARS Scholarship	Grants, Operating Revenue	IDT	Institution receives scholarships on behalf of students for tuition.
Palmetto Fellows	Grants, Operating Revenue	IDT	Institution receives scholarships on behalf of students for tuition.
Educational Endowment	Grants, Operating Revenue	IDT	Institution receives scholarships on behalf of students for tuition.
Need Based Grants	Grants, Operating Revenue	IDT	Institution receives grants on behalf of students for tuition.
Centers of Excellence	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
Teacher Recruitment	Grants, Operating Revenue/ Appropriations--Nonoperating Revenue (see Basis for Classification column)	IDT	Scholarships are awarded from the grant, and the CHE establishes the guidelines to identify the students who are awarded the scholarships. Per review of Section 1A.29 of the Provisos the CHE is instructed to distribute a specific amount to a specific ins
Partnership Assistance	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
DDE Math and Science	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
Performance Funding	Appropriations--Nonoperating Revenue	Appropriation Transfer	Truly an appropriation
Higher Education Awareness Program	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
SC Manufacturing Extension Partnership	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
SC Alliance for Minority Participation	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
SC Experimental Program to Stimulate Competitive Research	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
Academic Endowment	Appropriations--Nonoperating Revenue	Appropriation Transfer	5% match on institutions' fund-raising.
Research Initiative Grants	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.
Instructional Technology Grants	Grants, Nonoperating Revenue	IDT	The resource recipient is not required to produce and deliver to the resource provider deliverables that have current or potential future economic value.

[1] The Office of the Comptroller General has requested that the CHE use this document type when moving monies to public institutions and/or to the Technical Education Board.

[2] The Office of the Comptroller General's staff reached these conclusions after discussions with representatives of the CHE in June 2002 and after completing Grant the Grants Practice Aid included as Appendix A of this manual for each program.