

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE

REFERENCE	3.20
ISSUE DATE	6-30-2002
PAGE	1

PURPOSE AND OBJECTIVES

This closing package focuses on operating leases in which a State agency leases State-owned assets to non-State parties and consequently receives lease payments from such non-State parties. That is, this package deals with situations where the State is the lessor or "vendor"--not the lessee.

This closing package does not concern itself with:

- o Leases where the State makes lease payments as the lessee (Section 3.19 of this manual instructs you on reporting these leases).
- o Capital leases (if your agency is involved in any capital leases--whether the State is the lessor or lessee--you must report them to the State Treasurer's Office).

The State prepares its financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Under GAAP for governments, the State must present certain note disclosures regarding operating leases for which the State is the lessor.

Your agency already should be reporting to the Building and Property Services Division of the Budget and Control Board certain information regarding assets it leases to non-State parties. The Operating Lease Lessor Summary Form (GAAP Form 3.20.1) gathers additional information the Comptroller General's Office needs to properly report these leases in the State's financial statements if they are operating leases.

AGENCY ACTION REQUIRED

- o Determine if your agency receives lease payments from any *non-State party* under one or more *operating* leases for use of State-owned assets. If so, you must complete the Operating Lease Lessor Summary Form (GAAP Form 3.20.1).
- o Someone other than the preparer of the Operating Lease Lessor Summary Form (GAAP Form 3.20.1) should review the preparer's work and complete the reviewer checklist (GAAP Form 3.20.2).
- o Return the completed Operating Lease Lessor Summary Form (GAAP Form 3.20.1) to the Comptroller General's Office no later than August 31. If you can return it earlier, please do so.

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE	REFERENCE	3.20
	ISSUE DATE	6-30-2002
	PAGE	2

- o Retain the completed reviewer checklist (GAAP Form 3.20.2) at your agency; do not return it to the Comptroller General's Office.

Related responsibilities include the following:

- o Your agency is responsible for determining whether each lease is a capital lease or an operating lease. Report information to the State Treasurer's Office for all capital leases, including those for which the State is lessor.
- o If your agency is a lessor, it is responsible for reporting all required information to the Building and Property Services Division of the Budget and Control Board. The Operating Lease--Lessor Closing Package provides the Comptroller General's Office with *additional* information regarding lessor operating leases needed to properly prepare the State's financial statements.

KEY TERMS

See Key Terms in Section 3.19 of this manual.

ACCOUNTING PRINCIPLES AND POLICIES

Financial Accounting Standards Board Statement No. 13 (FASB 13), *Accounting for Leases*, establishes generally accepted accounting principles for governments with respect to leases in which the government serves as lessor.

Each State agency must review each lease agreement for which it is the lessor to determine whether the lease is a capital (direct financing) lease or an operating lease. Lessor agencies should report capital (direct financing) leases to the State Treasurer's Office and operating leases to the Comptroller General's Office.

Under a *capital (direct financing)* lease, the State essentially sells an asset to a non-State purchaser and extends financing to that purchaser. A lease is a capital (direct financing) lease if it meets all of the following criteria:

- o Under the agreement, the non-State lessee meets at least one of the four capitalization criteria used to define a capital lease. (See the State Treasurer's Lease Reporting Package and/or

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE	REFERENCE	3.20
	ISSUE DATE	6-30-2002
	PAGE	3

Section 11 on the Lease Register, GAAP Form 3.19.2, for more information on these criteria.)

- o Collectibility of the minimum lease payments by the State is reasonably predictable.
- o No important uncertainties surround the amount of the unreimbursable costs yet to be incurred by the State under the lease.

A lessor agency should classify any lease that fails to meet one or more of the above criteria as an *operating lease* and should report it on the Operating Lease Lessor Summary Form (GAAP Form 3.20.1).

FASB 13 requires the State to disclose in its financial statements the following items for operating leases in which it acts as lessor:

- o The cost and carrying amount, if different, of property on lease or held for leasing organized by major classes of property according to nature or function and the amount of accumulated depreciation.
- o Minimum future rental payments to be received on noncancelable leases in effect as of the date of the latest balance sheet presented, for each of the five succeeding fiscal years and in five year increments thereafter.

WORKING PAPERS

All working papers may be subject to audit. Your agency should keep detailed records of all property it leases to non-State parties. The Operating Lease Lessor Summary Form (GAAP Form 3.20.1) gathers only *summary* information for operating leases in which your agency serves as lessor. You will be responsible for providing *detailed* information and supporting working papers on a lease-by-lease basis for audit purposes.

GENERAL INSTRUCTIONS--OPERATING LEASE LESSOR SUMMARY FORM (GAAP FORM 3.20.1)

- o Determine what property to report in Part A of the Operating Lease Lessor Summary Form (GAAP Form 3.20.1). Reportable property

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE

REFERENCE	3.20
ISSUE DATE	6-30-2002
PAGE	4

includes that owned by your agency that meets *all* of the following characteristics:

- Your agency receives lease payments from a lessee for the property (or your agency holds the property specifically for the purpose of leasing it to others even if it presently is not leased to others).
 - The present (or intended) *lessee* (see Key Terms in Section 3.19) is not a State agency.
 - The present (or intended) lease involving the property is not a capital (direct financing) lease (i.e., it is an *operating lease*). (See criteria in the Accounting Principles and Policies section above.)
- o Determine the original cost and depreciation for the reportable property and complete the lines in Part A.
 - o For each current lease on property reported in Part A, determine if the lease is *noncancelable* (see Key Terms in Section 3.19) and whether it was in effect at the end of the fiscal year for which this Form is prepared. If so, determine the future minimum rental payments to be received and report these amounts in Part B. Minimum future rental payments include minimum payments that lessees must pay to the State but exclude any contingent rental costs (see Key Terms in Section 3.19.)
 - o Read this closing package and the Key Terms in Section 3.19 carefully before attempting to complete the Operating Lease Lessor Summary Form (GAAP Form 3.20.1).
 - o Complete the Operating Lease Lessor Summary Form (GAAP Form 3.20.1).
 - Round all dollar amounts on the Form to the nearest whole dollar.
 - Complete only one Form covering all Governmental fund types (but you may enter data on multiple copies of the Form if you must report leases for three or more other GAAP Fund Codes).
 - o Return the completed Form to the Comptroller General's Office no later than August 31. If you can return the Form earlier, please do so.

**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE

REFERENCE	3.20
ISSUE DATE	6-30-2002
PAGE	5

- o Do not attach copies of lease agreements or other working papers to the Form that you send to the Comptroller General's Office. Instead, retain these working papers at your agency.
- o The person who prepares the detailed lease documentation and the Operating Lease Lessor Summary Form (GAAP Form 3.20.1) should keep a copy. The Comptroller General's Office will call this person if there are questions.
- o Exhibit 3.20 (A) shows a sample completed Operating Lease Lessor Summary Form (GAAP Form 3.20.1). Detailed instructions for completing the form follow the exhibit.

**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE

REFERENCE	3.20
ISSUE DATE	6-30-2002
PAGE	6

**STATE OF SOUTH CAROLINA
OPERATING LEASE LESSOR SUMMARY FORM
For the Fiscal Year Ended June 30, 2002 (1)**

**2002
EXHIBIT
3.20 (A)**

Agency: (2) A99 Sample Agency
Code Name

Prepared: (3) 08/16/02 By: I.M. Preparer Title: Senior Accountant Phone: 734-1234
Date Employee Name

Reviewed: (3) 08/16/02 By: I.M. Reviewer Title: Financial Manager Phone: 734-2345
Date Employee Name

PART A. TOTAL COST OF PROPERTY LEASED TO OTHERS UNDER OPERATING LEASES:

Please list the total cost of the property your agency leases to non-state parties (or holds for leasing) under operating leases by the following categories (fill in GAAP Fund Code if the fund is not governmental):

		GOVERNMENTAL FUNDS		OTHER FUND TYPES	
				<u>2103</u> (GAAP Fund Code)	(GAAP Fund Code)
Land	(4)	\$	<u>0</u>	\$	<u>0</u>
Buildings	(4)		<u>165,000</u>		<u>100,000</u>
Equipment	(4)		<u>0</u>		<u>0</u>
Less: Depreciation	(5)		<u>95,000</u>		<u>75,000</u>
Total Carrying Amount		\$	<u><u>70,000</u></u>	\$	<u><u>25,000</u></u>

PART B. FUTURE RENTAL PAYMENTS TO BE RECEIVED:

Minimum future rental payments to be received by your agency on property leased to non-State parties under operating leases that were noncancelable and in effect as of June 30:

Year Ending June 30		GOVERNMENTAL FUNDS		OTHER FUND TYPES	
				<u>2103</u> (GAAP Fund Code)	(GAAP Fund Code)
(6) <u>2003</u>	(7)	\$	<u>20,000</u>	(7) \$	<u>10,000</u>
<u>2004</u>			<u>20,000</u>		<u>10,000</u>
<u>2005</u>			<u>20,000</u>		
<u>2006</u>			<u>20,000</u>		
<u>2007</u>			<u>20,000</u>		
<u>2008-2012</u>			<u>40,000</u>		
<u>2013-2017</u>					
<u>2018-2022</u>					
Total minimum future rentals		\$	<u><u>140,000</u></u>	\$	<u><u>20,000</u></u>

**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE	REFERENCE	3.20
	ISSUE DATE	6-30-2002
	PAGE	7

COMPLETING THE OPERATING LEASE LESSOR SUMMARY FORM (GAAP FORM 3.20.1)

REF	EXPLANATION
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- (1) Enter the fiscal year for which this Form applies.
- (2) Enter the agency name and three-character STARS agency code.
- (3) Complete all information regarding preparation of this Form. Someone other than the preparer should review and approve the Form before sending it to the Comptroller General's Office (also see GAAP Form 3.20.2, the reviewer's checklist).

PART A--TOTAL COST OF PROPERTY LEASED TO OTHERS UNDER OPERATING LEASES:

- (4) Combine the total cost of assets that your agency leases to non-state parties (or holds for leasing) under operating leases by the categories listed. The "total cost" is the amount the State paid to purchase or construct the asset. Add the amounts for all governmental funds into the *Governmental Funds* column.

If your agency leases (or holds for leasing) any property within a subfund that is not classified as a governmental fund (see Appendix A), enter the appropriate GAAP Fund Code(s) under one or both of the "Other Fund Types" columns. Use more forms if there are more than two such funds. Use Appendix A to determine the GAAP Fund Code(s).

- (5) Enter the accumulated depreciation for each column.

PART B--FUTURE RENTAL PAYMENTS TO BE RECEIVED:

- (6) Enter amounts for each of the succeeding five fiscal years. Begin with the fiscal year immediately following the fiscal year for which this closing package is prepared. For example, if the closing package is for the fiscal year ended June 30, 2002, then begin with **2003**. Then enter five year increments thereafter for the remainder of the lease term.

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE

REFERENCE	3.20
ISSUE DATE	6-30-2002
PAGE	8

REF

EXPLANATION

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- (7) Enter the future minimum lease payments (see Key Terms in Section 3.19) to be received. Consider only noncancelable leases that were in effect at the end of the fiscal year for which this Form is prepared. Consider only future minimum lease payments to be received from non-State parties. Minimum future rentals include minimum payments that lessees must pay the State but exclude any contingent rental costs. (See Key Terms in Section 3.19.)

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE

REFERENCE 3.20

ISSUE DATE 6-30-2002

PAGE 9

GENERAL INSTRUCTIONS, OPERATING LEASES--LESSOR CLOSING PACKAGE,
REVIEWER CHECKLIST (GAAP FORM 3.20.2)

- o The purpose of the Reviewer Checklist is to help your agency perform an effective review of the completed closing package forms **before** you submit them to the Comptroller General's Office. An effective review is essential to minimizing closing package errors. As such, it is an important internal control. **Completion of this Checklist is required.**
- o Retain the completed checklist for audit along with your other working papers; **do not** return it to the Comptroller General's Office.
- o Your agency's Finance Director, Executive Director, or another reviewer should complete the Reviewer Checklist. The reviewer **must** be someone other than the preparer.
- o Each question on the Reviewer Checklist is designed so that a "No" answer indicates a potential problem. Generally, when the reviewer responds "No," he/she should return the closing package form to the preparer to be corrected and resubmitted. If you believe that a "No" answer to a particular question is unavoidable or acceptable in your unique situation, however, attach an explanation to the completed checklist and retain it with the completed checklist.
- o This checklist is not all-inclusive. It is designed only to detect the most frequent types of errors. It may not identify all possible errors.
- o Exhibit 3.20 (B) shows a sample completed Reviewer Checklist (GAAP Form 3.20.2).

**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

GAAP CLOSING PROCEDURES MANUAL

OPERATING LEASES--LESSOR CLOSING PACKAGE	REFERENCE	3.20
	ISSUE DATE	6-30-2002
	PAGE	10

STATE OF SOUTH CAROLINA 2002
 OPERATING LEASE LESSOR CLOSING PACKAGE EXHIBIT
 REVIEWER CHECKLIST 3.20 (B)
 FISCAL YEAR 2002 Page 1 of 1

Reviewer's Signature: <i>I. M. Reviewer</i>
Date Last Review Step Was Completed: <i>August 17, 2002</i>

REVIEW STEP	YES/NO
Is the reviewer of the Operating Lease Lessor Summary Form (GAAP Form 3.20.1) someone other than the person who prepared it?	YES
Did the preparer and reviewer <i>sign</i> the Operating Lease Lessor Summary Form (GAAP Form 3.20.1)--not just typewrite or rubber-stamp the names?	YES
Did the preparer and reviewer show their titles and telephone numbers?	YES
Can all amounts reported on the Operating Lease Lessor Summary Form (GAAP Form 3.20.1) be traced to official agency accounting records (by means of working papers if necessary)?	YES
Do the completed closing package forms reflect implementation of all changes in closing package instructions for this year, if any, that apply to your agency?	YES
Are differences between the closing package amounts reported in the current-year and those reported last year either (1) small or (2) explained (as to reasons) in working papers retained for audit purposes?	YES
If you reported any amounts in Other Fund Types, did you fill in the correct GAAP fund code(s) in Parts A and B?	YES
Did you report in Part A (a) all State-owned property for which your agency receives lease payments from non-State parties under operating leases and (b) all State-owned property your agency holds specifically for leasing under operating leases to non-State parties, even though not currently leased?	YES
Did you restrict your use of the <i>Other Fund Types</i> columns in Parts A and B to fund types other than governmental (for example, for enterprise, internal service or trust funds)?	YES
Did you exclude from Part B all cancelable leases, all leases not in effect as of June 30 and all contingent rental fees to be paid to you by lessees?	YES
Did you recalculate the amounts reported in Parts A and B of the Operating Lease Lessor Summary Form (GAAP Form 3.20.1)? (Make sure you have <i>subtracted</i> depreciation amounts in Part A and that any supporting working papers can be traced to the amounts reported on the summary form.)	YES