

STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL

GAAP CLOSING PROCEDURES MANUAL

LOANS RECEIVABLE CLOSING PACKAGE

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PURPOSE AND OBJECTIVES

The purpose of this closing package is to gather information regarding loans that your agency made to external (non-State government) parties. The Comptroller General's Office will use other means to obtain information about loans your agency made to other State agencies.

Generally Accepted Accounting Principles (GAAP) require the State to report the outstanding balance of loans and notes receivable at June 30 on its balance sheet.

Only the few State agencies authorized to lend money to external parties should complete this closing package. Examples of loans made to external parties include loans to students, employees, local governments, and private enterprises.

AGENCY ACTION REQUIRED

- o If any non-State parties owe your agency money on loans or notes at June 30, complete one or more Loans/Notes Receivable Summary Forms (GAAP Form 3.5a.1).
- o Return the completed form(s) to the Comptroller General's Office no later than August 31. If you can return them earlier, please do so.

KEY TERMS

Allowance for Uncollectible Loans Receivable. GAAP requires that the State record an Allowance for Uncollectible Loans Receivable if applicable. The financial statements show gross Loans Receivable less the Allowance amount. Your agency must estimate the allowance. To do this:

- o Gather historical data on revenue collectibility.
- o Evaluate the collectibility of Loans Receivable at June 30 based on historical data.

Current Loans/Notes Receivable. See the definition of Loans Receivable below.

Loans Receivable. Outstanding principal balances at June 30 on loans that the State made to non-State parties are loans receivable. Loans receivable include balances for which the State holds collateral or security. Also see ACCOUNTING PRINCIPLES AND POLICIES.

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We divide Loans Receivable into two groups for reporting purposes:

- o *Current Loans Receivable* relate to Loans Receivable outstanding at June 30 that the State expects to collect by the next June 30.
- o *Non-Current Loans Receivable* relate to Loans Receivable outstanding at June 30 that the State expects to collect *after* the next June 30 (i.e. principal payments expected to be received beyond one year.)

Non-Current Loans Receivable. See the definition of Loans Receivable above.

Notes Receivable. Notes Receivable are a kind of Loans Receivable. In certain cases, the State may lend money to a non-State party under a note. A note is a written document in which a borrower promises to repay money:

- o To the State or to a party that the State indicates.
- o On demand or at a particular future time.

Principal amounts that borrowers have not yet repaid at June 30 on such notes are Notes Receivable.

Reserve for Non-Current Loans/Notes Receivable. The Reserve for Non-Current Loans/Notes Receivable is a fund balance account. Generally Accepted Accounting Policies require that we use this account to report net non-current loans/notes receivable in Governmental Funds. (Also see the definitions of Current Loans/Notes Receivable and Non-Current Loans/Notes Receivable.) This amount is reserved to indicate that it does not represent available expendable resources at June 30.

ACCOUNTING PRINCIPLES AND POLICIES

Generally Accepted Accounting Principles relating to Loans Receivable appear in:

- o *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 1600.112 and 1800.139.
- o *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 1800.143, and 2200.154 (separate display of reserved and unreserved fund balance).

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- o Page 157, *Governmental Accounting, Auditing, and Financial Reporting* (Government Finance Officers Association, 2001) (reserve of non-current loans and advances).

See the Key Terms section for definitions of Loans Receivable, Notes Receivable, Current Loans/Notes Receivable, Non-Current Loans/Notes Receivable, and Reserve for Non-Current Loans/Notes Receivable.

GAAP requires the State to record:

- o Loans/Notes Receivable outstanding at June 30 in each Fund.
- o A Reserve for Non-Current Loans/Notes Receivable in each Governmental Fund.
- o Both Current Loans/Notes Receivable and Non-Current Loans/Notes Receivable outstanding at June 30 in all Funds.
- o An Allowance for Uncollectible Loans/Notes Receivable in each fund where applicable.
- o Interest Receivable for related interest due on or before June 30 but not yet received as of June 30.

None of this information is available in STARS. In STARS, agencies record expenditures when they lend money. Likewise, agencies record revenues when borrowers repay loans. GAAP does not allow the reporting of expenditures or revenues in these situations. The State, therefore, must reverse the STARS revenue and expenditure amounts before it can properly record the related loan transaction in accordance with GAAP. Agencies that have loans/notes receivable at June 30, therefore, must complete a Loans/Notes Receivable Summary Form to provide the Comptroller General's Office with data needed to record these adjustments.

WORKING PAPERS

All working papers are subject to possible audit. The agency should keep copies of the completed closing package forms. In addition, the agency should keep working papers to support each figure on the forms. For example, agencies should thoroughly document:

- o How you computed each amount.
- o The source(s) of data for each amount.

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- o Methods you used to estimate amounts.

GENERAL INSTRUCTIONS--LOANS/NOTES RECEIVABLE SUMMARY FORM (ALL FUNDS)

- o Complete the Loans/Notes Receivable Summary Form--All Funds (GAAP Form 3.5a.1) for all GAAP Funds:
 - Complete a separate Form for each loan/note program your agency administers within each GAAP Fund (See Appendix A.) Make as many copies as necessary of the blank Form.
 - Exhibit 3.5a (A) shows a sample completed Form. Detailed instructions for completing this Form follow the Exhibit.
- o Report only loans/notes to non-State parties.
- o Round all dollar amounts to the nearest whole dollar.
- o Return the completed Form(s) to the Comptroller General's Office no later than August 31. If you can return them earlier, please do so.
- o The person who completes and signs the Form(s) should keep a copy. The Comptroller General's Office will contact this person if there are any questions.

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COMPLETING THE LOANS/NOTES RECEIVABLE SUMMARY FORM--ALL FUNDS (GAAP FORM 3.5a.1)

REF	EXPLANATION
(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. The Finance Director or Executive Director should approve the Form before sending it to the Comptroller General's Office. Keep a copy of the Form.
(4)	Enter the four-digit GAAP fund code. (See Appendix A.)
(5)	Enter the name of the GAAP fund. (See Appendix A.)
(6)	Enter a brief description of the loan or note program.
(7)	Enter the start-of-year (July 1) balance of Loans/Notes Receivable for this GAAP fund. This amount must be the same as the Ending Balance (June 30) on last year's Form.
(8)	Enter the total amount of additional money you lent to non-State parties under this particular loan or note program during Fiscal Months 01 through 13 of the completed fiscal year.
(9)	Enter the appropriate four-digit GAAP expenditure object code. First, determine the STARS expenditure object code you used during the fiscal year when you disbursed loan/note proceeds to borrowers. Then use either Appendix C-1 for Governmental Funds (GAAP fund codes x001-x074) or Appendix D-1 for Proprietary or Internal Service Funds (GAAP fund codes x075-x154) to determine the corresponding GAAP expenditure code. (Appendix C-1 may refer you to Appendix B.)
(10)	If applicable, enter the amount of any other transactions that increased loan/note principal during the completed fiscal year. Briefly describe the transaction(s) in the space provided on the Account Description line. Contact the Comptroller General's Office to determine the proper GAAP Account Code to report on the Form.

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(11)	Enter the total increase in loan/note principal during the completed fiscal year.
(12)	Enter the total loan/note principal repayments that you deposited during Fiscal Months 01 through 13 of the completed fiscal year.
(13)	Enter the appropriate GAAP revenue code. First, determine the STARS revenue object code you used during the fiscal year to deposit loan/note principal repayments. Then use Appendix E-1 to determine the corresponding GAAP revenue code.
(14)	If applicable, enter the amount of any other transactions that decreased loan/note principal during the completed fiscal year. Briefly describe the transaction(s) in the space provided on the Account Description line. Contact the Comptroller General's Office to determine the proper GAAP Account Code to report on the Form.
(15)	Add items (12) and (14) and enter the result. This is the total decrease in loan/note principal during the completed fiscal year.
(16)	Enter the result of item (7) plus item (11) minus item (15). This is the principal amount outstanding at the end of the fiscal year (June 30).
(17)	Enter the total Allowance for Uncollectible Loans/Notes Receivable at the end of the fiscal year (June 30).
(18)	Enter the appropriate four-digit GAAP expenditure object code. For Governmental Funds, enter the same expenditure code that you used in item (9). For Proprietary or Internal Service Funds, leave this field blank. The Comptroller General's Office will assign the proper expenditure object code.
(19)	Enter the result of subtracting item (17) from item (16). This represents loans/notes receivable net of allowance for uncollectible amounts.
(20)	Enter the Current portion of item (14) that the State expects to receive with one year.

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EXPLANATION

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- (21) Enter the Non-Current portion of item (14). This is the portion of item (14) that you expect to receive beyond one year.
- (22) Enter the amount of loan/note interest earned on or before June 30 of the completed fiscal year but not yet received as of June 30.

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GENERAL INSTRUCTIONS—LOANS RECEIVABLE CLOSING PACKAGE, REVIEWER
CHECKLIST (GAAP FORM 3.5a.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 3.5a (B) shows a sample completed Reviewer Checklist (GAAP Form 3.5a.2).

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REVIEWERS CHECKLIST
At June 30, 2002 (1)

EXHIBIT
3.5a (B)

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Reviewer's Signature:	<i>I. M. Senior</i>
Date Last Step Was Completed:	<i>8/15/02</i>

REVIEW STEP	YES/NO
Is the reviewer of each form someone other than the person who prepared it?	<i>YES</i>
Did the preparer and reviewer sign the form(s) (not just type or rubber-stamp their names)?	<i>YES</i>
Did the preparer and reviewer show their titles and telephone numbers?	<i>YES</i>
Can all amounts reported on each form be traced back to official agency accounting records or to working papers?	<i>YES</i>
Do the completed form(s) reflect implementation of all changes in closing package instructions for this year, if any, that apply to your agency?	<i>YES</i>
Are differences between the amounts reported on the form(s) in the current-year and those reported last year either (1) small or (2) explained (as to reason) in working papers retained for audit purposes?	<i>YES</i>
Does the beginning balance on each form agree to the ending balance reported on last year's form?	<i>YES</i>
Do any decreases in Loan/Note Receivables for loan/note principal repayments agree to amounts recorded on STARS during the fiscal year? (NOTE: See Appendix E-2 of the <i>GAAP Procedures Manual</i> for STARS loan/note principal repayment revenue object codes corresponding to GAAP Revenue Code 0920.)	<i>YES</i>
Did you report an estimated Allowance for Uncollectible Loan/Note Receivables if applicable?	<i>YES</i>
Did you report both the Current and Non-Current portions of your Net Loan/Note Receivables if applicable?	<i>YES</i>
Did you report an amount for loan/note receivables interest earned on or before June 30, but not received at June 30?	<i>YES</i>