

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

GAAP CLOSING PROCEDURES MANUAL

CAPITAL ASSETS OVERVIEW CLOSING PACKAGE	REFERENCE	3.8
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PURPOSE AND OBJECTIVES

Generally Accepted Accounting Principles (GAAP) require the State to record capital assets on its financial statements. GAAP also require disclosure of certain information about capital assets in the notes to the financial statements.

This closing package and several others gather information regarding capital assets for the State's financial statements. The purpose of this closing package is to help you:

- o Determine which other capital assets closing packages you must complete.
- o Complete the capital assets closing packages in the proper order.
- o Ensure that all completed capital assets closing package forms are properly reviewed before submission to the Comptroller General's Office.

In this closing package, you will also report your agency's:

- o Amount of construction commitments outstanding (see Key Terms) at June 30.
- o Amount of construction period interest (see Key Terms) incurred during the current fiscal year for capital assets of Enterprise, Internal Service, and Trust funds (if applicable).
- o Non-capitalized collections of works of art and historical treasures (see Key Terms).

The Comptroller General's Office needs this information to prepare the notes to the State's financial statements.

AGENCY ACTION REQUIRED

- o Take a physical count of capital assets on hand at the end of the fiscal year. Do this on some date between April 1 and June 30, but choose a date as close to June 30 as possible. If you choose a date before June 30, prepare a working paper that reconciles the results of the physical count with the capital assets you report on GAAP Form 3.9.1 as being on hand at June 30.

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- o Complete the Accounts Payable Closing Package before you begin working on the capital assets closing packages.
- o Read the Capital Assets Overview Questionnaire (GAAP Form 3.8.1) in this closing package before you begin work on any other capital assets closing package.
- o Complete the Capital Assets Overview Questionnaire (GAAP Form 3.8.1) and return it to the Comptroller General's Office no later than September 30. If you can return it earlier, please do so.
- o Complete the Capital Assets Closing Packages Reviewer Checklist (GAAP Form 3.8.2). Do this after completing all capital assets forms required by Sections 3.8 through 3.11 of this manual but before submitting these forms to the Comptroller General's Office. Retain the Capital Assets Closing Packages Reviewer Checklist (GAAP Form 3.8.2) with your other capital assets working papers. Please do not return the Capital Assets Closing Packages Reviewer Checklist (GAAP Form 3.8.2) to the Comptroller General's Office.

KEY TERMS

Capital Assets. 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 Codification Section 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, the assets must meet the established capitalization criteria (see below). See the Capital Assets and Accumulated Depreciation Closing Package (Section 3.9) for definitions of each category of capital assets reported on the capital assets closing packages.

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.

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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
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 Capital Assets and Accumulated Depreciation Closing Package (Section 3.9) for explanation of requirements.

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

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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 <u>not</u> 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 <u>required</u>

Assets on the books at July 1, 2001, that do not meet the capitalization criteria described above must be removed from the books. See the Accounting Principles and Policies section in the Capital Assets and Accumulated Depreciation Closing Package (Section 3.9) for more information on implementation of a change in capitalization criteria.

Construction Commitments Outstanding. 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. For purposes of this closing package, 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 on the Capital Assets Overview Questionnaire (GAAP Form 3.8.1).

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To compute the amount of commitments outstanding:

- o Use Appendix F-2 to determine your agency's construction projects in progress at June 30.
- o 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.
- o Add together the outstanding amounts for all capital projects in progress at June 30.
- o Add together the outstanding amounts for all repair/maintenance projects in progress at June 30.
- o For Governmental funds, GAAP fund codes x060 represent capital projects and GAAP fund codes x005 represent repair/maintenance projects. For Enterprise, Internal Service, and Trust funds (GAAP fund codes x075-x210), consider the nature of the project when determining whether it is a capital project or a repair/maintenance project. Generally, only new construction and renovations that add square footage, prepare a facility for a new use, and/or significantly extend useful life are classified as capital projects.

Construction Period Interest. The cost of capital assets constructed by Enterprise, Internal Service, and Trust funds (GAAP fund codes x075-x210) 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.

Non-Capitalized Collections of Works of Art and Historical Treasures. GAAP do not require capitalization of certain collections. Refer to the Capital Assets and Accumulated Depreciation Closing Package (Section 3.9) for an explanation of the requirements.

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ACCOUNTING PRINCIPLES AND POLICIES

GASB Codification Section 2300.106(k) requires the State to disclose construction and other significant commitments.

Generally Accepted Accounting Principles (GAAP) also require the State to disclose construction period interest incurred by Enterprise, Internal Service, and Trust funds during the current fiscal year, if material.

For collections of works of art and historical treasures not capitalized, the State must disclose a description of the collection and the reasons these assets are not required to be capitalized (GASB Codification Section 2300.113). The State also must recognize as revenue the dollar amount of assets added to non-capitalized collections (GASB Codification Section 1400.110).

WORKING PAPERS

All working papers may be subject to audit. The agency should keep:

- o A copy of the completed Capital Assets Overview Questionnaire (GAAP Form 3.8.1) and Capital Assets Closing Packages Reviewer Checklist (GAAP Form 3.8.2).
- o Working papers to support the amount of construction commitments outstanding at June 30.
- o Working papers to support the amount of construction period interest incurred during the current fiscal year.
- o Working papers to support the information reported regarding non-capitalized collections of works of art and historical treasures.

GENERAL INSTRUCTIONS--CAPITAL ASSETS OVERVIEW QUESTIONNAIRE (GAAP FORM 3.8.1)

- o Every agency with capital assets should complete the Capital Assets Overview Questionnaire (GAAP Form 3.8.1).
- o Complete the Accounts Payable Closing Package before you complete the Capital Assets Overview Questionnaire (GAAP Form 3.8.1).

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- o Read the Capital Assets Overview Questionnaire (GAAP Form 3.8.1) before you begin work on any other capital assets closing package.
- o Work through the questions and instructions on the Capital Assets Overview Questionnaire (GAAP Form 3.8.1) one at a time, from top to bottom.
- o Return the Questionnaire to the Comptroller General's Office no later than September 30. If you can return it earlier, please do so.
- o The person who completes and signs the Capital Assets Overview Questionnaire (GAAP Form 3.8.1) should keep a copy. The Comptroller General's Office will telephone this person if there are any questions.
- o Exhibit 3.8 (A) shows a sample completed three-page Capital Assets Overview Questionnaire (GAAP Form 3.8.1). Detailed instructions for completing this Questionnaire follow the Exhibit.

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COMPLETING THE CAPITAL ASSETS OVERVIEW QUESTIONNAIRE (GAAP FORM 3.8.1)

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.
	(4) Governmental funds have GAAP fund codes x001-x074 and 3700. (See Appendix A.)
	(5) Enterprise, Internal Service, and Trust funds have GAAP fund codes x075-x210. (See Appendix A.)
	(6) When explaining amounts reported in these columns, be sure to distinguish among the following: (1) correction of errors, (2) reporting of assets for the first time that previously were not reported (such as works of art and historical treasures), and (3) reporting of accumulated depreciation for the first time in governmental funds.

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GENERAL INSTRUCTIONS--CAPITAL ASSETS CLOSING PACKAGES, REVIEWER CHECKLIST (GAAP FORM 3.8.2)

- 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 3.8 (B) shows a sample completed three-page Reviewer Checklist (GAAP Form 3.8.2).

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CAPITAL ASSETS CLOSING PACKAGES
REVIEWER CHECKLIST
FISCAL YEAR 2002

EXHIBIT
3.8 (B)
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Reviewer's Signature: <i>I. M. Senior</i>
Date Last Review Step Was Completed: <i>9/19/02</i>

The following questions apply to all capital assets closing package forms.

REVIEW STEP	YES/NO
Is the reviewer of each capital assets closing package form someone other than the person who prepared the form?	<i>Yes</i>
Did the preparer and reviewer <i>sign</i> each capital assets closing package form (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 capital assets closing package form be traced back to official agency accounting records or to working papers?	<i>Yes</i>
Do the completed capital assets closing package forms 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 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?	<i>Yes</i>

The following question applies to the Capital Assets Overview Questionnaire (GAAP Form 3.8.1).

REVIEW STEP	YES/NO
Has each question been answered completely?	<i>Yes</i>

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REVIEWER CHECKLIST
FISCAL YEAR 2002

EXHIBIT
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The following questions apply to the Capital Assets Summary Form (GAAP Form 3.9.1) and the Accumulated Depreciation Summary Form (GAAP Form 3.9.2).

REVIEW STEP	YES/NO
Has the agency prepared a single form for all Governmental funds combined and a separate form for each Enterprise, Internal Service, and Trust GAAP Fund that has capital assets?	<i>Yes</i>
For each form completed for an Enterprise, Internal Service, or Trust fund, does the GAAP Fund Code agree with Appendix A-1?	<i>Yes</i>
For each form, are all start-of-year balances in the first column the same as last year's end-of-year balances?	<i>Yes</i>
Are amounts related to assets and accumulated depreciation (if any) being removed due to capitalization criteria changes reported in the second column of each form?	<i>Yes</i>
Did you use the third column of each form to reclassify asset and accumulated depreciation balances to the new categories required by GASB Codification Sections 2300.112, 1400.112, and 1400.103?	<i>Yes</i>
If there are any amounts in the Net Other Corrections to Beginning Balances column of each form, are these amounts explained in the space provided in Question #2 on the Capital Assets Overview Questionnaire (GAAP Form 3.8.1)?	<i>Yes</i>
For each Capital Assets Summary Form (GAAP Form 3.9.1), is the total of the Additions column equal to the total additions reported on the last line of the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1)?	<i>Yes</i>
For each Capital Assets Summary Form (GAAP Form 3.9.1), does the total for the Net Reclassifications of CIP column equal zero, and was the column used <u>only</u> to report a reclassification from CIP to other asset categories?	<i>Yes</i>
Can amounts being reported in the Net Intra-State Transfers column of the Capital Assets Summary Form (GAAP Form 3.9.1) and the Net Accumulated Depreciation on Intra-State Transfers column of the Accumulated Depreciation Summary Form (GAAP Form 3.9.2) be traced to the Capital Assets Intra-State Transfers Reconciliation Form (GAAP Form 3.11.1)?	<i>Yes</i>
Has the reviewer recomputed all totals (both down and across) on each form?	<i>Yes</i>

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FISCAL YEAR 2002

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The following questions apply to the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1).

REVIEW STEP	YES/NO
Is the amount on Line A equal to the corresponding amount shown on the CSA614 report your agency received from the Comptroller General's Office?	<i>Yes</i>
Are all accounts payable amounts on the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1) also reported on the appropriate Accounts Payable Closing Package Summary Forms (GAAP Forms 3.12.1 through 3.12.3)? Likewise, have all accounts payable pertaining to capital assets that you reported on GAAP Forms 3.12.1 through 3.12.3 also been reported on GAAP Form 3.10.1?	<i>Yes</i>
Have capital lease additions reported on the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1) also been reported as a capital lease addition to the State Treasurer's Office?	<i>Yes</i>
If your agency has Enterprise, Internal Service, or Trust funds with capital assets, does each GAAP Fund Code agree with Appendix A-1?	<i>Yes</i>
Is each amount on the Total Computed Capital Asset Additions line (on the last page of GAAP Form 3.10.1) equal to the additions amount shown on the appropriate Capital Assets Summary Form (GAAP Form 3.9.1)?	<i>Yes</i>
Has the reviewer recomputed all totals (both down and across) on each form?	<i>Yes</i>

The following questions apply to the Capital Assets Intra-State Transfers Reconciliation Form (GAAP Form 3.11.1).

REVIEW STEP	YES/NO
If any of the transferred capital assets are associated with Enterprise, Internal Service, or Trust funds, does each GAAP Fund Code agree with Appendix A-1?	<i>Yes</i>
Does each total in the Net Intra-State Transfers columns equal the corresponding amounts on the appropriate Capital Asset Summary Form (GAAP Form 3.9.1) or the appropriate Accumulated Depreciation Summary Form (GAAP Form 3.9.2)?	<i>Yes</i>
Has the reviewer recomputed all totals (both down and across) on each form?	<i>Yes</i>