

*STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL*

***REPORTING POLICIES
AND PROCEDURES
MANUAL***

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

REPORTING POLICIES AND PROCEDURES MANUAL

TABLE OF CONTENTS

TABLE OF CONTENTS	2
PART I INTRODUCTION	6
Section 1.0 SUMMARY OF CHANGES	6
<i>Transition to SCEIS</i>	6
<i>Changes to Manual</i>	7
<i>Changes to Forms</i>	7
<i>Implementation of New Accounting Pronouncements</i>	9
Section 1.1 ACCOUNTING STANDARDS	9
<i>Generally Accepted Accounting Principles (GAAP)</i>	9
<i>The Certificate of Achievement for Excellence in Financial Reporting</i>	10
Section 1.2 YEAR-END REPORTING —AN OVERVIEW	10
<i>Responsibilities of the Agency</i>	10
<i>Method of Reporting</i>	11
<i>Your Valuable Input</i>	13
Section 1.4 AGENCY TRAINING.....	13
<i>Objectives of Training and Training Philosophy</i>	13
<i>The Comptroller General’s Office Reporting Package Training Program</i>	14
Section 1.5 REPORTING PACKAGE DUE DATES	16
Section 1.6 AN OVERVIEW OF THE YEAR-END REPORTING PROCESS	17
<i>What Role Does SCEIS play in the Year-End Reporting Process?</i>	17
<i>The Importance of Timeliness in Financial Reporting</i>	17
<i>The Year-End Process—Agencies</i>	18
<i>The Year-end Reporting Process—Comptroller General’s Office</i>	18
<i>Audit of the State’s CAFR</i>	18
<i>The Finished Product</i>	18
Section 1.7 SUMMARY OF AGENCY RESPONSIBILITIES	19
<i>General Responsibilities</i>	19
<i>Objective: Error-Free Reporting Packages</i>	19
<i>Objective: No Late Reporting Packages</i>	21
<i>Objective: Responsive and Efficient Audit Process</i>	21
Section 1.8 SCEIS OVERVIEW	22

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

REPORTING POLICIES AND PROCEDURES MANUAL

<i>Use of Funds</i>	22
<i>Report Fund Categories</i>	22
PART II MASTER REPORTING PACKAGE CHECKLIST.....	23
State’s Financial Reporting Entity	23
Conceptual Discussions	23
Section 2.0 PRELIMINARY EVALUATION	28
Section 2.1 FINAL EVALUATION	29
PART III FINANCIAL STATEMENT ELEMENTS	30
Section _1 Cash and Investments.....	30
Section _2 Tax Revenues	30
<i>Derived Tax Revenue Transactions</i>	31
<i>Imposed Nonexchange Revenue Transactions</i>	31
Section _3 Grant and Contribution Revenues.....	33
<i>Amounts to Report or Disclose</i>	34
<i>Relationship between Reporting Package and Schedule of Expenditures of Federal Awards</i>	36
Section _4 Miscellaneous Revenues	37
<i>GAAP Reporting Policies</i>	37
Section _5 Refunds Receivable.....	39
Section _6 Inventory	42
<i>Types of Inventories</i>	42
<i>Methods for Valuing Inventories</i>	42
<i>Merchandise Inventory</i>	43
<i>Perpetual Inventory Systems</i>	43
Section _7 Prepaid Expenses	44
Section _8 Capital Assets.....	45
<i>Cost Principles</i>	45
<i>Recording Assets</i>	47
<i>Depreciation</i>	48
<i>Reporting of Assets</i>	48
Section _9 Operating Leases.....	52
<i>Accounting for Capital Leases</i>	54
<i>Accounting for Operating Leases</i>	54

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

REPORTING POLICIES AND PROCEDURES MANUAL

<i>Other Lease Related Accounting</i>	55
Section _10 Loans Receivable	56
Section _11 Reserved for Future Use.	57
Section _12 Accounts Payable.....	57
<i>Identification and Recognition of Liabilities</i>	58
Section _13 Litigation.....	60
<i>State Policies</i>	60
Section _14 Grant Disallowances	61
Section _15 Claims	62
<i>State Policies</i>	63
Section _16 Miscellaneous Losses.....	64
<i>Accounting Standards</i>	64
Section _17 Other Payroll Related Liabilities.....	67
<i>Compensated Absence Liability</i>	67
<i>Termination Payments</i>	69
<i>Other Payroll Related Issues</i>	69
Section _18 Interfund Payables.....	70
Section _19 Reserved for Future Use.	70
Section _20 Fund Balance and Net Assets.....	70
<i>Classifications of Net Assets</i>	71
<i>Classifications of Fund Balance</i>	71
<i>Consumption of Revenue Resources with Constraints</i>	71
PART IV GLOSSARY	73
PART V EXHIBITS.....	97
EXHIBIT 3.6(A)	97
EXHIBIT 3.6(B)	100
EXHIBIT 3.6(C)	101
EXHIBIT 3.8(A)	102
EXHIBIT 3.8 (B)	104
EXHIBIT 3.9(A)	106
EXHIBIT 3.12 (A)	107

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

REPORTING POLICIES AND PROCEDURES MANUAL

PART VI EXAMPLES108

 EXAMPLE 3.2(A) Tax Revenue Categorized.....109

 EXAMPLE 3.2(B) Transactions-Tax Revenue113

 EXAMPLE 3.3(A) Transactional - Grants114

 EXAMPLE 3.8(C) Transactional – Assets transferred.....115

PART VII APPENDICES116

 APPENDIX A—SOURCES OF GAAP116

 APPENDIX B— BUSINESS AREA RELATION TO FUNCTIONAL REPORTING118

 APPENDIX C— STATE RISK MANAGEMENT ACTIVITIES.....119

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

REPORTING POLICIES AND PROCEDURES MANUAL

PART I INTRODUCTION

Section 1.0 SUMMARY OF CHANGES

Transition to SCEIS

With the majority of State's agencies live in the South Carolina Enterprise Information System (SCEIS), the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012 will be produced from SCEIS information. This will be the second year of obtaining information based on SCEIS data structure and transactional processes. While a single accounting platform is utilized by the State, the decentralized managerial organization of the State gives rise to differences in the use of the data structures within the information system, therefore additional input fields have been provided in the Reporting Package Forms which require the reporting of balances even if they are accurately recorded in SCEIS. In addition, because some accounting information required to be reported is not accumulated in an accounting system, the agencies will be required to provide amounts as well as descriptions of transactions on the year-end reporting package forms.

Every agency is required to follow the Reporting Policies and Procedures Manual and submit the required reporting packages identified through the completion of the Master Reporting Package Checklist, without exception.

The Comptroller General's Office recognizes that some agencies are continuing to operate on STARS for the fiscal year ended June 30, 2012. Maintaining two versions of the Reporting Policies and Procedures Manual would be inefficient. Agencies that are not live on SCEIS should enter the information by sub-fund with the addition of 4 zeros at the end of the sub-fund number. For example the general fund in STARS is 1001 this would be reported as 10010000 on the Reporting Package Forms. In certain circumstances supplemental forms have been provided as non-live agency forms. These should be utilized only by non-live agencies. Submission by a live agency of information on a prior year reporting package or on a non-live agency reporting form will be rejected. For STARS agencies that need guidance on the reporting required, please contact the Financial Reporting Team within the Comptroller General's Office. Modifications have been made to the reviewer's checklist to aid in the documentation of non-live activities related to SCEIS questions.

Please ensure that all reporting package balances agree to balances within the SCEIS general ledger and subsidiary ledger reports where appropriate. As an example, a reconciliation should be performed between the details in the subsidiary ledger and the general ledger account balance. Any errors identified should be corrected during the extended period 12 processing. If correction of the differences cannot be determined by the agency, the Comptroller General's Office and SCEIS are available as a resource. In addition if errors in the general ledger balances are identified as the reporting packages are completed, entries should be posted to reflect the correct balances. If the error is identified after the extended period 12 processing has been closed or the transaction is not allowed in extended period processing (see Year-End Memo for a list of transactions allowed), please notify the Comptroller General's Office so that we can assist in the correction. It is the responsibility of each agency to ensure all accounting transactions are properly recorded in the State's accounting system and on the required reporting forms.

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

REPORTING POLICIES AND PROCEDURES MANUAL

To assist in the managerial review of account balances, Business Works (BW) reports have been designed to provide balances or activity that are required to be analyzed, evaluated, verified, and reported in the year-end process. These reports have been designed to allow an agency to run the report at any point in time during the year to improve internal controls through periodic managerial review. For ease in identifying the reports the name of all reports begins with “Yearend”. In BW select open queries, click on the binoculars icon, type “Yearend” in the search field, and select search.

If questions arise concerning content or requirements of the reporting packages, please call the appropriate Comptroller General’s Office staff member as indicated on the GAAP Contact Persons list. If you have questions concerning Yearend reports, please submit a help ticket to the SCEIS Service Desk at 896-0001 or SCEISHelpDesk@sceis.sc.gov.

The Comptroller General's Office appreciates your continued cooperation and understanding during this transition period for SCEIS CAFR preparation. ***Please let us know as early as possible if there are any concerns about providing accurate information*** or being able to meet reporting package deadlines. Thanks for your continued assistance in meeting our goal of timely and accurate financial reporting.

Changes to Manual

Sections with the Reporting Policies and Procedures Manual have been renumbered for correlation to the numbering of the Reporting Package Forms.

Changes to the core content of the manual include:

- 1) The addition of summary descriptions for the Master Reporting Checklist and the newly added Subsequent Events Checklist (Section 2.10)
- 2) Additional Internal Control Best Practices have been added.
- 3) Emphasis was added to the procedures required when interim inventory counts are performed.
- 4) More descriptive guidance of the use of the Compensated Absences Report has been added.
- 5) The Glossary was reformatted for alphabetical presentation with reference to the sections in which the terms are used.

Changes to Forms

The following changes have been made to all of the forms:

- The addition of an email address for every contact provided.
- Consistent formatting of the phone number to result in (803) 777-7777.
- Correction of locking of fields where input should be available.
- Addition of N/A as an option for the Reviewer’s Checklist (please take note Best Practice Internal Control would require written explanation attached for audit purposes of any N/A selection).

Major Changes:

- Form 3.1 – Requests information regarding changes in authorized amounts for cash on hand and includes additional fields within the form to report book value and bank value as of year-end reducing the number of reconciliations to be submitted.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- Form 3.2 – Return to the requirement that all funds in which tax revenue is recorded must be reported on all forms.
- Form 3.3 – The Grants Activity Form has been added to report information at the individual grant level. The Grants Receivables and Deferred Revenue Summary Form will derive information from the Grants Activity Form and report the balances by Fund and Grant type. The Contribution Receivables and Deferred Revenue will report balances by type of contribution.
- Form 3.4 – The Fund name is removed but the general ledger asset account used to record the receivable is requested. An additional form is added to report receivables or deferred revenue arising from transactions that are not reported on any other form. This information was previously gathered with the Master Reporting Checklist.
- Form 3.5 – The Refunds Collected and Related Transactions Form collects information previously gathered with the Master Reporting Checklist and determines the additional forms within the package that are required. The Summary Form was modified to remove the fund name and add the general ledger asset account used to record the receivable. The format of the Zero Balance Fund form has been modified to facilitate the reporting of a larger number of funds. Assertions from Management are included for which a true/false is requested by the agency.
- Form 3.6 – Individual copies of the Inventory Summary Form is required for each type of inventory and the accounting fund utilized to record it. The physical inventory balance as of the valuation date is requested as is the general ledger balance for comparison. Instructions are provided based on the amounts entered. The Commodities Form has no major changes.
- Form 3.7 – This is a new reporting package added as a result of the removal of thresholds in the reporting package process. This information was previously submitted as attachments to the Master Reporting Checklist.
- Form 3.8 – The Reporting of Adjustment and Errors Form was redesigned to identify by Asset Number and provide the reported and corrected values for historical cost and accumulated depreciation. A Non-SCEIS Agency form is included to provide information for those who have not loaded assets into SCEIS.
- Form 3.9 – This Reporting Package was moved from 3.19 in the prior year. A reconciliation of the BW Report to the required minimum lease payments under operating lease agreements was added to assist in the evaluation and reporting of errors in the transactions reported by BW. A section for Contingent Rents was added to provide information required for disclosures of this type of lease. The Future Minimum Lease Payment Schedule was renumbered to correlate with 3.9.1. It has been redesigned to correlate information to the Lease Registers more effectively.
- Form 3.10 – This Reporting Package was moved from 3.5a in the prior year.
- Form 3.12 – Added assertion that communicates all of the methods utilized to determine/identify accounts payables at year-end. The instructions for the amounts to be reported on the form were clarified. The format of the Zero Balance Fund form has been modified to facilitate the reporting of a larger number of funds. Assertions from Management are included for which a true/false is requested by the agency.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Form 3.13 – Additional selections were added in Type of Case and Status of Case.

Form 3.16 – Description fields for the situations to be reported have been merged and wrapped to provide allow smoother input through continuous typing. Please attach additional sheets if the information does not fit in the space.

Form 3.17 – The Compensated Absence Package has been expanded to provide information on other payroll liabilities which was previously gathered as attachments to the Master Reporting Package. The reporting of FTE for the employees earning annual leave on the Compensated Absence Reporting Form has been changed from reported by fund to reported in total for the agency.

Form 3.18 – A form has been added to the package to provide for the reporting of the receivables for ease in matching payables and receivables for accurate reporting across reporting funds.

Form 3.19 – Eliminated in the numbering sequence. The information provided in previous years for this form is now provided on Form 3.09.

Form 3.20 – New fund form was expanded to identify the Fund Type including Proprietary and Fiduciary.

Implementation of New Accounting Pronouncements

For the fiscal year ending June 30, 2012 the State is implementing the following:

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53.*

The statement modifies the guidance relating to derivative instrument accounting and reporting. Specifically it expands guidance for differences in accounting between changes allowed by established agreements and events which would constitute termination of the agreement. For entities with derivative instruments, please ensure that the information provided for inclusion in the State's CAFR is in compliance with this guidance. Because agency personnel are the most familiar with the specifics of the underlying agreements they must identify the applicability of this statement. The Statewide Accounting and Financial Reporting Division of the Comptroller General's Office is available to answer any questions or provide additional guidance.

Section 1.1 ACCOUNTING STANDARDS

Generally Accepted Accounting Principles (GAAP)

The sources and hierarchy of Generally Accepted Accounting Principles (GAAP) are defined in Governmental Accounting Standards Board (GASB) Statement No. 55. The sources are comprised of promulgated statements from GASB and the Financial Accounting Standards Board (FASB)¹ other forms

¹ FASB has discontinued the issuance of individual accounting standards. All promulgated changes issued by FASB are amendments and modifications to the FASB Accounting Standards Codification (ASC). While reference to the statements will be made in these manuals, please keep in mind that the authoritative document is the ASC section.

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

REPORTING POLICIES AND PROCEDURES MANUAL

of guidance provided by these organizations, the American Institute of Certified Public Accountants (AICPA), and other professional organizations. A listing of sources of the components of GAAP is included as APPENDIX A.

The State of South Carolina Comptroller General's Office (CGO) is responsible for the publication of GAAP financial statements for the State of South Carolina. Each agency is responsible for the maintenance of GAAP accounting records specific to the agency and its daily operations. This guide and other publications available on the CGO website are provided as guidance for consistent GAAP reporting from all of the agencies of the State of South Carolina.

The Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers' Association (GFOA) encourages governmental entities to adhere to high standards of financial reporting through its widely recognized and prestigious awards programs. The Certificate of Achievement for Excellence in Financial Reporting focuses on the standards for Comprehensive Annual Financial Reports (CAFR).

To apply for the Certificate, a government must issue an audited CAFR no later than six months after the end of its fiscal year. The contents of the CAFR are evaluated based on compliance with GAAP, clarity of the information as well as many other stringent reporting standards.

In August 1989, South Carolina became the thirteenth state government to receive the GFOA Certificate of Achievement for Excellence in Financial Reporting. That award was based on the State's 1988 CAFR. South Carolina has received the award every year since that time.

Many cities, counties, and special districts, including several within South Carolina, also hold the Certificate.

Section 1.2 YEAR-END REPORTING —AN OVERVIEW

Responsibilities of the Agency

The Agency Director with guidance from his/her finance personnel is responsible for establishing policies and procedures for the daily operation of the agency including the capture and recording of all financial transactions in accordance with the statutory budget and GAAP.

Proper internal controls should be established by the Agency to ensure accurate and timely information required for managerial and external agency reporting (which includes the reporting requirements of the CGO). Internal control is a process through which the agency establishes an environment which communicates the level of excellence in performance, evaluates the risks of its operations, designs control procedures to mitigate those risks in order to achieve the level of excellence established, and reinforces the expectation of excellence through monitoring of risks, performance, and control procedures.

Internal controls for system access should be established to reduce or eliminate when possible conflicts in segregation of duties theory. Agency Directors are provided the responsibility for assigning access through individual transactions or roles (established by SCEIS) within the information system. Knowledge of potential conflict between role assignments and between individual transactions is the responsibility of the Agency Director. The SCEIS team can provide guidance on potential conflict. The CGO can provide guidance on segregation of duty theory and other internal control design concepts.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Internal control procedures for managerial and external agency reporting should include evaluation of the results of transaction processing. The results of transaction processing include accounting information typically reviewed in the form of a trial balance. Controls over transaction processing will only produce the results desired if they are operating as intended. A review² of the results of the transactions processing through periodic review of general ledger balances provides a detect control which can be used for timely correction of an error, reduction of loss from fraud due to timely detection, and improvements in processes and procedures through a greater understanding of the operations of the agency.

The policies documented in this manual are statewide accounting and reporting policies for consistent and comprehensive reporting by the State of South Carolina. If internal controls are included in these policies, they should be incorporated with the agency's designed daily operational controls. Consistent controls in certain accounting areas provide consistent reporting across all agencies of the state.

Method of Reporting

With the majority of the agencies utilizing a statewide enterprise resource management system, the South Carolina Enterprise Information System (SCEIS), information is more readily available to the CGO for reporting. To reduce the risk of error through keying of amounts in reporting forms, the CGO has redesigned the year-end reporting process to allow agencies to provide relevant assertions to the CGO relating to the balances and activity recorded in SCEIS. This requires that the Agency accept responsibility for the accuracy, understanding, and completeness of the information in its business area and funds within SCEIS.

Because not all information required for reporting is recorded in SCEIS or any other enterprise information system, the CGO must collect certain information from Agency personnel to prepare an accurate, complete, and comprehensive CAFR. For ease in reporting by the agencies, this information has been divided into complimentary reporting groups for which a reporting package has been developed.

The objective of the design for reporting packages is to stimulate the thought process for year-end to identify the accurate balances in accordance with GAAP, the need for year-end adjustments and for reporting purposes the activity that may not be required to be recorded but is required to be reported. The thought process will include examination and understanding of activity after year-end as well as during the fiscal year.

Reporting package information will be communicated through questionnaires, checklists, financial valuations, and in narrative form.

² The review of the trial balance (general ledger balances) should be to identify unexpected balances, the lack of balances when amounts are expected, larger than expected balances, or smaller than expected balances. Expectations are based on the knowledge of the operations of the agency more than prior year balances or budgetary constraints. All general ledgers and funds at a minimum should be evaluated. Where the agency should focus its attention is determined by the risk assessment for the agency in its design and implementation of controls. The focus should not be the same for all agencies as each business is different. The focus may be at a different level of data element for some agencies.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Based on the information provided by the agency, the CGO determines if the transactions have been properly reflected for financial statement purposes. If adjustments are necessary, the CGO will notify the agency of the need. The Agency is responsible for determining appropriate treatment at the fund level in SCEIS including appropriate treatment for budgetary purposes. Communication between the Agency and the CGO should be open and cooperative throughout the process.

Master Reporting Package Checklist

The Master Reporting Package Checklist is a questionnaire in checklist format to assist the identification of the individual reporting packages applicable to each agency. No agency is expected to complete *all* of the reporting packages. More detailed instructions for the completion of the Master Reporting Package are included in Section 2.0 of this manual.

Completing the Reporting Package Master Checklist will help determine which reporting packages the agency must complete. The completed Master Checklist assists the CGO in identifying the completeness of the information submitted by the agencies.

The Reporting Package Master Checklist consists of Yes/No questions for which a drop-down menu has been provided for ease in completion. Complete the Checklist and return it to the CGO **on or before July 15** each year.

Agency accountants should not underestimate the importance of correctly completing the Reporting Package Master Checklist. In preparing and auditing the statewide financial statements, the Comptroller General's Office and the statewide auditors rely on assertions (representations) that the agencies make when they complete this Reporting Package Master Checklist and other reporting packages.

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

REPORTING POLICIES AND PROCEDURES MANUAL

The Features of Reporting Packages

Important features of reporting packages include the following:

- Agencies complete reporting packages as of and for the year-ending June 30. That is, reporting packages are prepared once annually.
- Agencies complete only the reporting packages that apply to them, not all packages. A Master Reporting Package Checklist (see Section 2.0) assists agencies in determining which packages apply to them.
- The Reporting Packages are similarly numbered to sections within the Reporting Procedures Manual Part III to provide correlation between the policies and guidance and the packages and forms.
- The Reporting Packages are a single workbook with worksheets that include instructions, reporting forms, and reviewer's checklists.

Each reporting package instructions include a purpose and objective statement to briefly describe the area of accounting information to be addressed and reported and instructions for completion of the form which describes features of the form designed for convenience and emphasizes components of information that are not specifically defined on the reporting forms.

The reporting packages are available as an Excel workbook that can be downloaded from the Comptroller General's Office website. The individual forms are presented as a separate worksheet within the workbook. To take advantage of designed conveniences, the forms should be completed in Excel beginning with the first form in the workbook. It is suggested that the agency retain an electronic copy of the completed form on the agency computer or network. A printed copy is required for obtaining original signatures for submission to the Comptroller General's Office. The agency should retain a copy of the signed form for submission to document compliance with the submission requirements. Submissions of the forms may be made in printed form (delivered by inter-office mail or hand delivery), by facsimile transmission, or by email (scanned after all required signatures) to mmcneill@cg.sc.gov.

Your Valuable Input

The Comptroller General's Office has tried to make the reporting packages easy to read and consistent.

To propose additional improvements, please send an email to Margaret McNeill (mmcneill@cg.sc.gov) of the Financial Reporting Division of the Comptroller General's Office.

Section 1.4 AGENCY TRAINING

Objectives of Training and Training Philosophy

The quality of the State's financial statements depends on the quality of the data that agencies submit on reporting package forms. A key component of the Comptroller General's GAAP effort, therefore, is training for agency staff.

Group training seminars in a formal classroom setting are well-suited to providing participants with general accounting education and staff development opportunities. The objective of reporting package training, however, is much more limited; to ensure that reporting packages are complete, accurate, and timely. Accordingly, the Comptroller General's Office has developed a training program to meet this narrow objective.

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

REPORTING POLICIES AND PROCEDURES MANUAL

The training that the Comptroller General's Office provides focuses on providing the necessary practical skills and knowledge required to properly complete reporting packages. It presents a bare minimum of accounting theory. The primary focus is on-the-job training tailored to meet each agency's special needs. The objective of such training is to ensure that all reporting packages are complete, accurate, and timely.

The Comptroller General's Office Reporting Package Training Program

The Comptroller General's Office's reporting package training program includes the following components:

- Written Policies and Procedures: The Comptroller General's Office publishes this manual, which includes the reporting policies and procedures for the State and the GAAP on which it is founded.
- Annual Updates and Summary of Revisions: The Comptroller General's Office staff updates this manual annually to clarify or emphasize areas that have proved especially confusing or difficult to understand and to explain new requirements of GAAP. The update is accompanied by a concise Summary of Revisions to help agency staff members quickly identify exactly what has changed. (See Section 1.0, Summary of Revisions Since Last Year.)
- Individually Tailored Help and Training: Help with matters relating to GAAP or completion of reporting packages is only a telephone call away! If questions arise:
 - First consult the GAAP Contacts listing prominently positioned on the Comptroller General's Office website to determine the appropriate staff person to contact.
 - If the question is complex or detailed, the appropriate staff person can provide an e-mail address or fax number.

If additional help is needed, please schedule a meeting that includes the appropriate Comptroller General's Office staff member and Manager of Financial Reporting. *Please do not hesitate to use these valuable services.*

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

REPORTING POLICIES AND PROCEDURES MANUAL

- Pre-audit Review and Follow-Up of Agency-Submitted Reporting Packages: It is the agency's responsibility to submit error-free reporting packages (see Section 1.7, Summary of Agency Responsibilities). The Comptroller General's Office staff, however, performs a limited review of reporting packages to identify potential errors. The Comptroller General's Office staff will perform review and discuss potential problems with the agency *before* turning the reporting package over to the statewide auditors. This provides agency personnel an additional learning opportunity as well as a second chance to correct errors before the audit phase begins. Reporting packages that arrive after the established due dates, however, must be provided to the auditors immediately upon receipt by the Comptroller General's Office and will receive a very limited review. Agencies are encouraged to submit information timely.
- Personal Follow-Up on Audit Findings Related to Reporting Packages: If the agency's auditors or the statewide auditors find errors in one or more of the reporting packages, you will probably receive one or more follow-up calls from the Comptroller General's Office staff. The objective of these follow-up contacts is to help ensure that agencies learn from the errors and do not repeat them.
- Classroom Training In Exceptional Circumstances: Unfortunately, the Comptroller General's Office does not have sufficient internal resources to provide classroom training to agency accountants on a regular, recurring basis.

In addition, the Comptroller General's Office strongly encourages agency accountants to take advantage of formal classroom training courses that various accounting organizations offer regarding governmental GAAP. The following local organizations periodically provide excellent, low-cost governmental GAAP accounting training courses:

Government Finance Officers Association of South Carolina Post Office Box 8840 Columbia, South Carolina 29202	e-mail: info@gfoasc.org http://www.gfoasc.org/
Association of Government Accountants, Columbia Chapter	http://www.columbiaaga.com/
Institute of Internal Auditors, Palmetto Chapter	http://www.theiia.org/chapters
South Carolina State Internal Auditors Association Post Office Box 11912 Columbia, South Carolina 29211	
South Carolina Association of Certified Public Accountants 570 Chris Drive West Columbia, South Carolina 29169	In-state: (888) 557-4814 Fax: (803) 791-4196 http://www.scacpa.org/

Many of the State's universities, colleges, and technical colleges also offer excellent accounting courses, including governmental accounting courses.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Section 1.5 REPORTING PACKAGE DUE DATES

The due dates for the various reporting packages are shown in chronological order in the table below. The Comptroller General's Office suggests that agencies complete the packages in the order shown.

If the stated due date falls on a weekend, the package is due the Friday before the weekend. Packages received on the following Monday are late. THE COMPTROLLER GENERAL'S OFFICE DOES NOT GRANT EXTENSIONS OF THESE DUE DATES.

Section Ref	Name of Year-End Reporting Package	Due Date
2.0	Master Reporting Package	July 13
2.1	Subsequent Events Package	Nov 9
3.01	Cash and Investments Reporting Package	July 31
3.10	Loan Receivables Reporting Package	July 31
3.13	Litigation Reporting Package	July 31
3.14	Grant Disallowances Reporting Package	July 31
3.17	Other Payroll Liabilities	July 31
3.04	Miscellaneous Revenues Reporting Package	August 15
3.06	Inventory Reporting Package	August 15
3.15	Claims Reporting Package	August 15
3.16	Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments Reporting Package	August 15
3.02	Tax Revenues Reporting Package	August 31
3.05	Refund Receivables Reporting Package	August 31
3.07	Prepaid Expenses	August 31
3.09	Operating Leases Reporting Package	August 31
3.18	Interfund Payables Reporting Package	September 10
3.12	Accounts Payable Reporting Package	September 14
3.03	Grant/Contribution Revenues Reporting Package	September 20
3.08	Capital Assets Reporting Package	September 28

Agencies are encouraged to submit reporting forms and packages *before* the deadlines when it is feasible to do so. This helps the financial reporting staff in the Comptroller General's Office to keep the CAFR preparation process on target.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Section 1.6 AN OVERVIEW OF THE YEAR-END REPORTING PROCESS

What Role Does SCEIS play in the Year-End Reporting Process?

The accounting transactions and balances that agencies record in SCEIS form the foundation for South Carolina's year-end reporting process. In preparing the State's CAFR, the Comptroller General's Office will utilize as much information from SCEIS as is possible. Verification of balances reported in SCEIS will be requested of agency personnel because the greatest source of knowledge for evaluating completeness and accuracy are those who work with the activity daily. Certain accounting information is not recorded in the book of original entry or an entity's accounting information system. This information is obtained in the year-end reporting packages completed by agency personnel. (See Section 1.3, Year-end Reporting—Overview.)

The information obtained from SCEIS as adjusted based on information obtained from the year-end reporting packages is combined with separately audited agency financial statements to publish the statewide CAFR.

The Importance of Timeliness in Financial Reporting

In 1987, the Governmental Accounting Standards Board (GASB) issued Concepts Statement No. 1 entitled *Objectives of Financial Reporting*. Paragraph 66 states:

If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had. In some instances, timeliness may be so essential that it may require sacrificing a certain amount of precision or detail. Sometimes a timely estimate is more useful than precise information that takes a long time to produce.

Timeliness is essential because:

- The State's three bond rating agencies have made it clear that they expect to receive South Carolina's audited financial statements within six months after the end of the fiscal year.
- The Certificate of Achievement for Excellence in Financial Reporting Program sponsored by the Government Finance Officers Association likewise emphasizes timeliness. Applications for the Certificate must be postmarked no later than six months after the end of the fiscal year. A copy of the government's published audited CAFR must accompany the application.

The State of South Carolina has established a target publication date of November 20. In the past the audited CAFR has been published around December 15. For publication by November 20, the final draft must be available for final review by the auditors by November 6. **Consequently, the Comptroller General's Office staff cannot (and does not) grant "extensions" of the established reporting package deadlines.**

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

REPORTING POLICIES AND PROCEDURES MANUAL

The Year-End Process—Agencies

The annual year-end reporting process begins June 30 with the end of the fiscal year. The Comptroller General's Office publishes the updated Reporting Policies and Procedures Manual and the Reporting Packages on its website prior to that time. Agencies can begin completing some of the reporting package information soon after June 30. They may not be able to complete others until September.

Each agency should complete only the forms that apply to it. The Master Reporting Package Checklist will help your agency's chief financial officer determine which of the packages to complete. (See Part II, Master Reporting Package.)

The Year-end Reporting Process—Comptroller General's Office

The Comptroller General's Office will use SCEIS functionality to compile the statewide financial statements. Master Data elements and Business Works Reports assign classification of agency, fund, and account number balances to financial statements and the line item presentation. Beginning in July, staff members of the Financial Reporting Division of the Comptroller General's Office prepare the financial statements and the related notes. Specifically, they will:

- Evaluate the completeness of SCEIS:
 - Amounts included in reporting packages. Analysis is performed to identify if amounts reported on reporting packages are recorded in SCEIS and what should be reported in the CAFR. Assistance from agency personnel will be required to ensure accurate communication of these amounts to the Comptroller General's Office staff.
 - Agency financial statement amounts (for universities, colleges, and certain other agencies).
 - Other activity of agencies not currently live in SCEIS (an analysis of STARS transactions).
- Identify and Post entries necessary for GAAP compliance in SCEIS.
- Identify and post eliminating entries for possible duplication in the consolidation of accounting funds to reporting funds.
- Draft notes to the financial statements, management's discussion and analysis, and other required narrative for the CAFR.
- Update CAFR statistical tables with current-year data.
- Prepare the CAFR for printing.

Audit of the State's CAFR

Meanwhile, the audit of the CAFR is in process. The auditors of the State's CAFR perform some of their work based on a review of data and procedures within the Comptroller General's Office. They also review reporting packages and the supporting working papers that State agencies prepare. Agencies are responsible for maintaining working papers to support data on reporting package forms. (Also see Section 1.7, Summary of Agency Responsibilities, and Section 1.8, Working Papers.)

The Finished Product

To meet established deadlines, the final audited CAFR must be published by November 30. The Office of the Comptroller General publishes the final audited CAFR on its website, <http://www.cg.sc.gov> to later than December 31.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Section 1.7 SUMMARY OF AGENCY RESPONSIBILITIES

General Responsibilities

Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual.

Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are:

- Accurate and prepared in accordance with instructions.
- Complete.
- Timely.

The approved line on each reporting package should be signed by the agency's Finance Director or Executive Director to provide communication of the assertion from the Agency that the information is accurate and complete. The person signing a reporting package form's approved line must be someone different from the person who prepared the form. Auditors will expect these to be signatures (not rubber stamped or typewritten).

Objective: Error-Free Reporting Packages

The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors casts doubt on the ability of the State's internal controls to detect and correct errors.

All errors are avoidable. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that *your agency* detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved.

Taking the time to initially prepare accurate and complete reporting packages also can yield other direct benefits to you. For example, it can save you from the extra time needed to:

- Prepare and submit corrected reporting packages.
- Promptly respond to inquiries and requests for information by the auditors.
- Respond to auditor management letter comments.

The following are some practical suggestions for minimizing reporting package errors:

- Assign the right people to prepare and review reporting packages and give them everything they need to do a good job. Agency employees assigned to complete reporting packages should:
 - Be thoroughly familiar with the agency transactions, activity, and balances required to be reported on the reporting package.
 - Have Internet access and instructions on how to locate the current-year versions of the forms and instructions.
 - Have access to copies of the completed packages from previous years and any other data or materials from the agency's accounting systems that will be needed to complete the packages.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- Take full advantage of the Comptroller General's reporting package training program (see Section 1.4, Agency Training).
- Completely understand their assignments.
- Be given adequate time to properly complete their assignments.
- o Perform an effective review of each completed reporting package and the underlying working papers. A supervisory employee should perform a review that includes the following steps:
 - Gain a thorough understanding of the concepts and policies relating to the reporting package in the appropriate section of this manual.
 - Complete the reviewer's checklist in accordance with the instructions provided.
 - Thoroughly review the methodology used in compiling reporting package data. For example, the reviewer should answer the following questions:
 - * Has the reporting package data been derived from the best available agency source?
 - * Has every appropriate amount been reported? (Is the reporting package form complete?)
 - * Has any amount been reported inappropriately?
 - * Is the methodology based on any assumptions? If so, are the assumptions necessary and reasonable and fully documented?
 - * Do the working papers adequately explain how the information was compiled? (Could a knowledgeable accountant or auditor reconstruct the reporting package data without verbal explanations if given access to agency accounting records, working papers, and the reporting package instructions?) Preparation and maintenance of working papers is a primary responsibility of each agency. (Also see Section 1.8, Working Papers.)
 - Examine the prior year package amounts in comparison with amounts reported for the current year to gain and understanding of any significant variances. Determine whether there are logical reasons for these variances. Document the evaluation of the variances.
 - Verify that key relationships between reporting packages are maintained. For example, if certain equipment purchases represent accounts payable at June 30, does your capital assets reporting package properly report the related capital assets? (This is especially important in large agencies where several agency staff members prepare different reporting packages.)
 - Trace all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the reporting package itself.
 - Repeat arithmetic computations in working papers and on the reporting package itself to identify any arithmetic errors.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- The person who performs the review and signs the reporting package's Reviewer Checklist must be someone different from the person who prepared the form(s) under review. The reviewer may be the person who signed on the form's approved line, or it may be a person whose signature does not appear on the form(s) under review.
- Learn from your errors. When you (or someone else within your agency) discover errors, ask yourself whether the discovery was accidental or the result of good internal controls. If accidental, ask yourself what additional internal controls you could implement to help prevent similar errors in the future. Then implement these controls.
- Take auditor recommendations seriously. Reporting packages are only as accurate as the agency accounting systems from which the source information is derived. It is important, therefore, for agencies to implement auditor suggestions for improving these systems.

Objective: No Late Reporting Packages

Section 1.5 of this manual includes a list of reporting package due dates. If an emergency will prevent your agency from submitting data by the required date, please call the Financial Reporting Division of the Comptroller General's Office as soon as possible. The Comptroller General's Office staff, however, cannot grant "extensions" of these deadlines. Requests for an extension including a reason for the delay must be submitted in writing.

In accordance with guidelines published by national bond-rating organizations and the Government Finance Officers' Association, the State's policy is to issue its Comprehensive Annual Financial Report (CAFR) to the public no later than six months after the end of the fiscal year. Such timely publication of the CAFR cannot be assured if some packages are not received by the stated deadlines.

Objective: Responsive and Efficient Audit Process

The Statewide audit is performed on transactions initiated by the agencies; therefore the agencies are under audit at the same time that the CGO is under audit. Agency balances and transactions are available for selection in testing and will be subjected to testing in the Statewide audit. If an agency is contacted by the Statewide audit team, a prompt response is required. Delaying response to the auditors reduces the efficiency of the audit process, negates any time savings from prompt reporting package submissions, and places the State at risk for not meeting the deadlines established by the GFOA, bond-rating agencies, and other users of the CAFR and its content.

If an agency does not understand the information requested by the auditors or needs clarification of the circumstances giving rise to these inquiries, please contact the Statewide Accounting and Financial Reporting Division of the Comptroller General's Office.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Section 1.8 SCEIS OVERVIEW

SCEIS is an enterprise resource management system capable of double entry accrual accounting across a multitude of unique operational organizational units.

The Business Area identifies each organizational unit with funds, cost centers, functional areas, and funded programs utilized to segregate operational activities. Additional segregations are available through the Grants Management and Projects Management functions of the system.

General Ledger Accounts provide the classification for managerial evaluation of the daily operations of the organization. The design sequencing of the General Ledger Accounts provides general guidance in the financial statement reporting. Additional mapping and hierarchy for financial reporting is performed in the design of Business Works Reports.

Within the master data elements of SCEIS the funds have been assigned to reporting groups representing GAAP funds and codes similar to those previously used in the CAFR process under STARS. Cost centers, functional areas, and funded programs are utilized primarily for managerial reporting and budgetary reporting.

Use of Funds

Generally Accepted Accounting Principles (GAAP) require governments to use funds for accounting and reporting. Each fund is a self-balancing set of accounts.

Funds exist primarily for *legal* accounting and reporting purposes.

Report Fund Categories

The State's basic financial statements summarize the GAAP funds into various groupings. In accordance with GAAP, the State categorizes its funds into the following groupings:

- Governmental Funds
 - General Fund
 - Special Revenue Funds
 - Capital Projects Funds
 - Debt Service Funds
 - Permanent Funds
- Enterprise Funds
- Internal Service Funds
- Trust Funds
 - Private-Purpose Trust Funds
 - Pension and Other Employee Benefit Trust Funds
 - Investment Trust Funds
- Agency Funds

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

REPORTING POLICIES AND PROCEDURES MANUAL

PART II MASTER REPORTING PACKAGE CHECKLIST

State's Financial Reporting Entity

The State's financial reporting entity includes all State agencies and other entities for which the State of South Carolina has financial responsibility or control of its governing body. The other entities within the reporting entity include:

- Children's Trust Fund
- Connector 2000 Association, Inc.
- Department of Commerce, Division of Public Railways.
- Department of Commerce, Division of Savannah Valley Development.
- Education Assistance Authority.
- Jobs-Economic Development Authority.
- Lottery Commission.
- Ports Authority.
- Public Service Authority (Santee-Cooper).
- Teacher Loan Program of the South Carolina Student Loan Corporation.

Conceptual Discussions

More detailed Reporting Principles and Policies are included in the Topical Part III. This section is included to provide an overview for completion of the Master Reporting Package Checklist. Please refer to the related section if this summary is insufficient.

Capital Assets

Examples of asset classifications include 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. The funding source for the purchase of the asset does not preclude its qualification as a capital asset.

Cash

Information relating to the cash balances held with the State Treasurer's Office (STO) will be obtained from the STO and should not be included in the amounts reported on the year-end reporting packages.

Cash Conduit

According to paragraph 5 of GASB Statement 24, administrative or direct financial involvement includes (a) monitoring secondary recipients for compliance with program-specific requirements, (b) determining eligible secondary recipients or projects, even if using grantor-established criteria, (c) having the ability to exercise discretion in how the funds are allocated, (d) financing some direct program costs because of a grantor-imposed matching requirement, or (e) being liable for disallowed costs. If your agency serves as a cash conduit in passing through grant or contribution funds to a non-State entity, the activity should be accounted for in an Agency Fund Type. It is unusual for the State to serve as a cash conduit in passing through grants or contributions.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Claim Paying Program

Claim-paying programs do one of the following:

- o Contract with a third party administrator to process claims for payment.
- o Process and pay claims directly.

The State Unemployment Compensation Program and the Victims' Compensation Fund are not claim-paying programs for reporting package purposes.

Commitments

Commitments arise from contracts and other irrevocable promises to pay money or provide goods and services to a party outside State government. A commitment becomes a liability only when the contract is performed. *Miscellaneous* commitments (see Section 3.16) do not include construction and software development commitments as defined in Section 3.8. Agencies should report only miscellaneous commitments for which contracts were signed or promises were made on or before June 30 for which services were unperformed.

Composite Reservoir Bank Accounts

In a composite reservoir account, an agency writes checks against a pooled balance. The bank keeps available balances sufficient to honor the checks being written. Because of the transactions processed through the account, composite reservoir accounts may carry negative balances.

Disallowance

Grantors routinely review and audit programs to be sure that recipients have followed all program rules. The review or audit may question certain costs. The questioned costs are negotiated between the Grantor and recipient to determine settlement terms which identify the disallowances. Questioned costs become disallowances only when the State agrees to do one or both of the following:

- o Make current or future payments to the grantor.
 - The payments may be direct or indirect. For example, the State may pay indirectly by reducing future grant expenditure reports to offset earlier disallowed costs.
 - The payments may equal the amount of disallowed costs or include penalty amounts.
- o Accept current or future reductions in grant funds already awarded to the State.

Only the "end recipient" of grant funds within State government should report related disallowances. That is:

- o Do not report disallowances related to grants "passed through" to other State agencies.
- o Report disallowances related to grants that are either:
 - Directly expended for salaries, supplies, equipment, etc.
 - "Passed through" to a non-State organization.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Fraud and Misstatements

Two types of misstatements that could affect the preparation of the Comprehensive Annual Financial Report (CAFR) are:

- o Misstatements arising from *fraudulent financial reporting* due to intentional misstatements or omissions of amounts in the accounting records designed to deceive the user. Examples of fraudulent financial reporting include the manipulation, falsification, or alteration of accounting records and supporting documentation (invoices, purchase orders, checks, etc), omissions of transactions, and misapplication of accounting principles.
- o Misstatements arising from *misappropriation of assets* involve the theft of the Agency's assets through embezzlement of cash receipts, theft of supplies and equipment, and the payment for goods and services never received.

All State agencies are responsible for designing and implementing programs and controls to prevent and detect fraud.

Grants

Grant agreements can be complex in terminology and format because it constitutes a legal agreement. For guidance on proper identification of an agreement as a grant or vendor service contract please refer to OMB Circular A-133 Subpart B Section .210.

Grants and Contribution Revenue are received from grantors. Generally, the *end recipient* within the State should report amounts in the Grants and Contribution Revenues Reporting package. For reporting package purposes:

- o Amounts expended directly for goods or services under a grant or under a fee-for-service contract (subcontract) are not pass-through grants. In these cases, your agency is considered the end recipient of the grant funds.
- o Grant Revenue includes amounts received to pay indirect costs.
- o Amounts other than indirect cost that are passed through to other State accounting funds or agencies are **not** Grant Revenue.

Examples of grantors who provide funds to State agencies include the Federal Government, the Corporation for Public Broadcasting, and The Duke Endowment.

Inventory

Inventory includes all materials, supplies, and other goods held for future use or sale. Agencies normally use or sell inventory items within one year. Land, buildings, construction in progress, equipment, and livestock held for breeding purposes are capital assets and not inventory. Breeding livestock valued at \$5,000 or more should be reported in the Capital Assets Reporting packages. The distinction between capital assets and inventories is not always clear-cut. Each agency must establish criteria for deciding whether it will treat specific items as capital assets or inventory. Report the following types of inventories:

- o Materials and supplies your agency plans to issue to other sections within your agency.
- o Merchandise for sale to the public, other agencies, or other governments.
- o Manufacturing inventories of raw materials, work in progress, and finished goods.
- o Harvested crops and livestock to be slaughtered within one year.
- o United States Department of Agriculture food supplies (commodities).

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

REPORTING POLICIES AND PROCEDURES MANUAL

Investments

The Investments held and managed by the State Treasurer's Office should not be included in the reporting packages received from the agencies as STO will directly convey the information required to the CGO. Investments owned but managed and controlled by the agency may include marketable securities, savings accounts, certificates of deposit, money market certificates, or other financial instruments. Insurance policies or other documents which are not negotiable instruments and therefore do not represent assets of the State should not be included. Report your agency's investments as well as any investments your agency holds as a trustee or agent for others.

Legally Separate Entities

Legally separate entities which are included in the reporting entity for the statewide CAFR includes the following State component units: Connector 2000 Association, Inc.; South Carolina Children's Trust Fund; South Carolina Lottery Commission; the South Carolina State Ports Authority; and South Carolina Public Service Authority. (State supported universities and area technical colleges are *not* legally separate.)

Litigation

For reporting package purposes focus should be on:

- o Litigation matters that at June 30 will or may result in claims against the State's current or future resources. This includes lawsuits that at June 30 are:
 - Settled but not yet paid.
 - In-progress.
 - Appealed or expected to be appealed.
 - Threatened.
- o Settled and in-progress lawsuits of the State against others at June 30 that probably will result in a gain to the State.
- o Major changes in lawsuit status that occur in the six months after June 30 (July 1 through December 31).

Loss Contingencies

Loss contingencies may result from litigation, grant audit disallowances, and uncollectible receivables. Other reporting packages, however, cover these situations. An example of a miscellaneous loss contingency is the potential loss resulting from guarantees of others' debts (loan guarantee programs).

Loss Liabilities

Examples of miscellaneous loss liabilities include known losses resulting from insurance deductibles or from guarantees of others' debts.

Pass-Through Grants

Distribution of grant funds by a State agency grant subrecipients (either State agencies or non-State organizations such as municipalities and counties) creates a pass-through grant. See OMB A-133 subpart A section .105 Definitions and subpart B section .210 for further guidance on identification of a pass-through grant. Grant funds used to pay State or non-State organizations under fee-for-service contracts (subcontracts) are **not** pass-through grants.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Prepaid Expenses

Prepaid expenses include expenditures for goods and services whose usage period extends beyond June 30 of the current fiscal year and were paid for in the current fiscal year. Common types of prepaid expenses include rent, subscriptions, maintenance contracts, software support contracts, professional association memberships, and postage.

Revenue

For purposes of this reporting package, the following items are not revenue:

- o State Appropriations.
- o Amounts received from other accounting funds or agencies within State government except for grant revenues passed through to your agency.
- o Bond or note proceeds.

(Also see Tax Revenue, Grants and Contribution Revenue, and Miscellaneous Revenue).

Risk Management

Organizations are subject to risks of loss arising from events such as:

- o Damages to or destruction of assets from causes such as fire, natural disasters, theft, vandalism, etc.
- o Injuries to employees.
- o Torts (wrongful acts, injuries, or damage, not involving a breach of contract, for which civil actions can be brought).

Refer to Appendix C for a list of the State's risk management activities of which the Comptroller General's Office is currently aware. (The Comptroller General's Office has determined that the Victims' Compensation Fund, the SUPERB Fund, the SUPERB Financial Responsibility Fund, and the Department of Agriculture's Warehouse Receipts Guarantee Fund and the Grain Producers' Guarantee Fund are State benefit programs as opposed to risk management activities.)

Self-Insurance

An agency may *intentionally* self-insure all or some of its risks or *unintentionally* self-insure by under-insuring a risk of loss. Self-insurance is sometimes accompanied by the setting aside of assets to pay the costs of losses when they arise. In reality, self-insurance is no insurance.

Special Termination Benefits

For purposes of this reporting package, special termination benefits do not include routine State benefits such as retirement and other post-employment benefits.

Tax Revenue

Some examples of tax revenues include:

- o Alcoholic liquors, beer, and wine taxes.
- o Business license taxes.
- o Gasoline and motor vehicle taxes.
- o Individual and corporate income taxes.
- o Insurance taxes.
- o Sales and use taxes.

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

REPORTING POLICIES AND PROCEDURES MANUAL

For purposes of this reporting package, the following are not tax revenues to your agency:

- o Taxes that another State agency transfers to your agency. These are interfund transactions.
Example: The Department of Revenue collects the 1% Sales Tax for the Education Improvement Act. It then transfers this revenue to the Department of Education. The Department of Revenue reports its collections as tax revenues. The Department of Education will not report any tax revenues.
- o Sales taxes the agency collects on the sale of goods and remits to the South Carolina Department of Revenue. The Comptroller General's Office obtains all reporting information for sales taxes from the Department of Revenue.

Section 2.0 PRELIMINARY EVALUATION

The Master Reporting Package Checklist is designed to assist Management of the agency in the evaluation of operational transactions and activity throughout the year and at year-end which require reporting. The year-end reporting process begins prior to the year-end closing process with the evaluation of the financial information available from operations throughout the year. This evaluation is performed to determine the procedures necessary to capture, record, and report the transactions appropriately in compliance with laws, regulations, terms and conditions, and policies of the agency and the State of South Carolina. Based on the evaluation a plan should be developed to identify the additional procedures needed during year-end close which will clean up the books and records in compliance with policy for a clean and accurate start of the new year while capturing the information necessary for reporting.

Use of the Trial Balance as a control:

A trial balance provides a summary of the results of the transaction processing for the period through which the report is generated. The objective of internal control is the prevention of and detection within a timely period of errors, omissions, and irregularities in the recording and reporting of transactions. A review of the results of the process in a timely manner is essential to achieve the objective of internal control.

- A. Overview of Operations - The trial balance should be run at a minimum at the agency level to identify any obvious errors in the results of recording and reporting transactions.
- B. Evaluation for Financial Reporting - For Year-End Reporting Packages and other annual reporting an evaluation at the accounting fund (the level at which information will be reported) is required to identify errors, omissions, irregularities, or areas where additional analysis is required. It should be used by supervisors to refresh the knowledge of the accounting affect of operational transactions for which oversight of details was delegated during the period of review. This evaluation can also provide identification of information required and requested by the users of your annual reporting.
- C. Managerial Decisions - For managerial purposes the evaluation and review should be performed at minimum to the level of detail that management has identified risks. Risk assessment is an essential part of internal control and provides direction as to the areas where resources should be expended to increase control procedures and emphasis for processing should be focused. Overtime management may be able to focus the managerial review to specific general ledger accounts or cost centers or funded programs.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- D. Other Reporting Requirements – For other reporting requirements such as grants reporting, a review of the balances and activity in the general ledgers by grant awards would provide internal control procedures for timely identification of errors and omissions.

Section 2.1 FINAL EVALUATION

A second evaluation should be performed by Management of the agency at the end of the year-end close process. This evaluation determines if the plan for year-end close-out identified all of the circumstances that require additional analysis, entry, and treatment for compliance with laws, regulations, terms and conditions, and policies of the agency and the State of South Carolina. The Subsequent Event Reporting Package is designed to assist Management of the agency in this final evaluation. It identifies information that must be provided to the Comptroller General's Office for achievement of accuracy and completeness in financial reporting.

Subsequent Events are situations and transactions identified that affect the financial statements but occur subsequent to year-end. If knowledge of the event is obtained before the financial statements are issued the information must be evaluated for appropriate treatment. Recognized events³ require adjustments to the financial statements while Nonrecognized events⁴ may require disclosure in the notes to the financial statements⁵.

Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time.⁶ Examples of nonrecognized events that require disclosure in the notes to the financial statements but should not result in adjustment include the issuance of bonds, the creation of a new component unit, or the loss of a government facility as a result of a tornado, fire, or flood.

In addition, a discussion is required in management's discussion and analysis (MD&A) of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or results of operations.

Information relating to subsequent events at the agencies is important for adequate and complete information in the statements, disclosures, and MD&A.

³ See Glossary for definition of this key term.

⁴ See Glossary for definition of this key term.

⁵ GASB Statement No. 56, ¶8

⁶ Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions.

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

REPORTING POLICIES AND PROCEDURES MANUAL

PART III FINANCIAL STATEMENT ELEMENTS

Section .1 Cash and Investments

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

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

The Treasurer's Office will provide data to the Comptroller General's Office regarding balances under State Treasurer's Office control. Agencies will provide data regarding cash and investments not under direct State Treasurer's Office control as identified above.

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

- o On hand.
- o On deposit in financial institutions.
- o Held in trust by a financial institution or other party for the agency or State.

The State's policy is to present its financial statements in accordance with GAAP. GAAP standards relating to the accounting and reporting of investments⁷ include Governmental Accounting Standards Board (GASB) Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." In accordance with GASB Statement 31, the State values its securities and other instruments held for investment purposes at fair value. GASB Statement 52, "Land and Other Real Estate Held as Investments by Endowments," requires land and other real estate held as investments by endowments to be reported at fair value.

If the fair value of any investment reported is based on other than quoted market prices, the agency must provide (as an attachment to Form 3.1.1) the method and significant assumptions used to estimate the fair value.

Section .2 Tax Revenues

GAAP relating to tax revenues appear in:

- o Governmental Accounting Standards Board Statement No. 33, (GASB 33) *Accounting and Financial Reporting for Nonexchange Transactions*.
- o *Codification of Governmental Accounting and Financial Reporting Standards*, Section N50.
- o *Codification of Governmental Accounting and Financial Reporting Standards*, Section P70.

⁷ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

South Carolina's tax revenues are reported within its Governmental funds. GAAP require that these funds report revenues on the modified accrual basis⁸ of accounting in the fund financial statements.

GAAP categorizes tax revenues as nonexchange transactions. In a nonexchange transaction, one party gives value (benefit) to another party without directly receiving equal value in exchange. GASB 33 defined the classes of tax revenues, derived and imposed non-exchange revenue, as discussed above.

GAAP provide specific recognition criteria that define when to recognize assets, liabilities, revenues, and expenditures in the financial statements. Application of the provisions of this standard requires analysis of the substance of a nonexchange transaction, rather than attention only to its general ledger account label.

Derived Tax Revenue Transactions

GAAP require that the State recognize *assets* from derived tax revenue transactions in the fiscal year when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. *Revenues* are to be recognized, net of estimated refunds and estimated uncollectible amounts, in the same fiscal year as the assets, provided that the underlying exchange transaction has occurred. Derived tax revenues received in advance are to be reported as deferred revenues (a liability) until the period of exchange.

Examples of derived tax revenue transactions include:

- Individual and corporate income taxes.
- Sales and use taxes.
- Tobacco products tax.
- Gasoline taxes.
- Alcoholic liquors tax.
- Beer and wine taxes.
- Insurance taxes.
- Various other taxes where the State imposes a tax on an exchange transaction.

(Example 3.2(A) lists of tax revenue general ledger accounts and the GAAP class of taxes.)
(Example 3.2(B) provides an example to outline the State's reporting requirements for derived tax revenue transactions.)

Imposed Nonexchange Revenue Transactions

GAAP require the State to recognize *assets* from imposed nonexchange revenue transactions in the fiscal year when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. For property (ad valorem) taxes, the date when an enforceable claim to taxable property arises generally is specified in the enabling legislation (usually referred to as the lien or assessment date). The State is required to recognize *revenues* for property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are assessed, provided they are *available* at June 30. (Exception: Property taxes are deemed available to the State if collected either within the current fiscal year or within 60 days after June 30.)

⁸ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Examples of imposed nonexchange revenue transactions applicable to tax revenues include:

- o Aircraft tax.
- o Private car lines tax.
- o Motor carrier property tax.

(See Example 3.2(A) for a list of tax revenue general ledger account numbers with the GAAP tax class identified.)

Under the modified accrual basis the State reports:

- o Taxes Receivable (Gross Taxes Receivable) at June 30 for certain taxes that meet both of the following:
 - They are measurable at June 30.
 - At June 30, the State has not yet collected the related cash.
- o Deferred Revenue for taxes that:
 - Are collected in advance of the fiscal year to which the taxes apply.
 - Are measurable but not available at June 30.

GAAP relating to financial statement presentation require the assets and liabilities be presented as current⁹ and non-current¹⁰.

Allowance for Uncollectible Taxes

GAAP require that the State report an Allowance for Uncollectible Taxes, if applicable. The financial statements need to report the Gross Taxes Receivable less the allowance amount. The collecting agency is responsible for estimating the amount of the allowance as follows:

- o Gather historical data on revenue collectability.
- o Project the historical data to the activity for the current year.
- o Evaluate the reasonableness of the projection as it relates to current year collections to determine and evaluate the collectability of Taxes Receivable¹¹ at June 30.

Deferred Revenue

GAAP require that Deferred Revenue (rather than Revenue) be recorded if at June 30 either:

- o A material amount of the taxes have been collected before the due date (or if no stated due date the normal time of receipt). Agencies will report these amounts on the Deferred Tax Revenues Summary Form (Form 3.2.3).
- o The Tax Receivables are measurable but not available¹² at June 30. Agencies will report these amounts on the Taxes Receivable Summary Form (Form 3.2.1).

⁹ See Glossary for definition of this key term.

¹⁰ See Glossary for definition of this key term.

¹¹ See Glossary for definition of this key term.

¹² See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Section 3 Grant and Contribution Revenues

Generally Accepted Accounting Principles (GAAP) relating to recognition of Grants and Contribution Revenue appear in:

- o *Codification of Governmental Accounting and Financial Reporting Standards, Section N50.*
- o *Codification of Governmental Accounting and Financial Reporting Standards, Sections 1600.103 through 1600.115.*
- o *Codification of Governmental Accounting and Financial Reporting Standards, Sections 2200.138, 2200.139, and 2200.166.*
- o *AICPA's Audits of State and Local Governmental Units.*

The requirements of GAAP for recognizing Grants and Contribution Revenue, Receivables, and Deferred Revenues differ for different Fund Types:

- o *PROPRIETARY (Enterprise, Internal Service, and Trust funds)*
 - Recognize Grants and Contribution Revenue when all applicable eligibility requirements have been met.
 - Record Grants and Contribution Receivables at June 30 if, at that date:
 - * The revenue recognition criteria above have been met.
 - * Payment from the grantor has not been received.

Current¹³ Grants and Contribution Receivables must be reported separately from Non-Current¹⁴ Grants and Contribution Receivables for each accounting fund or grant within each accounting fund. These amounts are required to be segregated on the face of the financial statements.

- Record Deferred Revenue at June 30 if, at that date:
 - * Cash was received from the grantor.
 - * All applicable eligibility requirements have **not** been met.

The Deferred Revenue should be segregated by grant purpose on the Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.3.1).

- o *GOVERNMENTAL*
 - Recognize Grants and Contribution Revenue when:
 - * All applicable eligibility requirements have been met.
 - * The grant funds or contributions are available¹⁵ at June 30.
 - Record Grants and Contribution Receivables at June 30 if, at that date:
 - * The revenue recognition criteria above have been met.
 - * The related cash has **not** been received from the grantor.

Current and Non-current portions of receivables are required to be reported on the Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.3.1)

¹³ See Glossary for definition of this key term.

¹⁴ See Glossary for definition of this key term.

¹⁵ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- Record Deferred Revenue at June 30 if **either** of the following is true:
 - * Cash has been received on or before June 30 but all applicable eligibility requirements have **not** been met.
 - * All applicable eligibility requirements have been met but the grant funds or contributions are not yet available¹⁶. This situation results in a DR to Non-Current Receivables and a CR to Deferred Revenue.

Deferred Revenue should be segregated by grant purpose on the Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.3.1).

o **AGENCY**

Record Grants and Contribution Receivables (and equal liabilities) at June 30 if, at that date:

- All applicable eligibility requirements have been met.
- The related cash has **not** been received from the grantor.

Policies of the Comptroller General's Office require that agencies account for certain Grant Revenues in certain funds. Specifically:

- o Use Capital Projects, Enterprise, Internal Service or Trust Funds to account for capital grants¹⁷.
- o Use Agency Funds to account for certain grant funds that agencies receive and then pass through to non-State agencies only where the State acts as a cash conduit. (This is unusual.)

Amounts to Report or Disclose

Based on discussions with staff of the Governmental Accounting Standards Board, the Comptroller General's Office has determined that **all Federal grants include eligibility requirements** unless there is an indefinite time period during which the funds may be spent. If you have a Federal grant with an indefinite time period, please contact the Central State Financial Reporting Division of the Comptroller General's Office prior to submission of your agency's reporting package.

Thus, for all Federal grants, an expenditure must occur before revenue is recognized or a receivable is recorded.

Do not report Grants Receivable for payroll expenditures incurred in June but paid in July. The Comptroller General's Office will prepare an adjusting entry to record receivables applicable to grant payroll accruals. If funds have been drawn before June 30 for the July 1 payroll, include these amounts as receipts on the Grants Analysis Worksheet to determine if deferred revenue should be reported.

Eligibility requirements fall into four categories:

- o *Required Recipient Characteristics.* The recipient must possess the characteristics specified by the award or program.
- o *Time Requirements.* The time period specified by enabling legislation, the grantor, or the external contributor.
- o *Reimbursements.* Allowable costs as defined in the award or program specifications must be incurred prior to the receipt of resources.
- o *Required Actions.* The grant or contribution recipient must perform certain actions prior to qualifying for funds.

¹⁶ See Glossary for definition of this key term.

¹⁷ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

A grant or contribution may possess one or all four types of the above eligibility requirements.

Grant Resources Passed Through to Other State Agencies

Some State agencies pass through grant resources to other State agencies. For example:

- o the Grant program requires pass-through to satisfy grantor program requirements.
- o Block grants or entitlements are provided to a designated agency for distribution to other State agencies (grant subrecipients).

Amounts that an agency pays State or non-State entities under fee-for-service contracts are not considered pass-through grants.

Grant Resources Passed Through to Non-State Parties

Some State agencies receive grant resources that they pass through to non-State grant subrecipients. For some such programs, the State must pass through all of the money to non-State parties. In other cases, the State may choose to use some of the funds and pass through some to non-State parties.

In addition, the State's responsibilities vary by program. Depending on the program, the State may either retain or pass through to non-State parties part or all of its:

- o Accountability and legal responsibilities.
- o Risk of refund to the grantor in case of disallowances.

Section N50.128 of the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* provides guidance regarding what GAAP fund to use in accounting for such programs. Specifically, this paragraph states:

As a general rule, cash pass-through grants should be recognized as revenue and expenditures or expenses in the funds of the primary government and in the government-wide financial statements. In those infrequent cases in which a recipient government serves only as a cash conduit, the grant should be reported in an agency fund. A recipient government serves only as a cash conduit¹⁸ if it merely transmits grantor-supplied moneys without having administrative or direct financial involvement in the program.

The State **has** administrative or direct financial involvement if it (a) monitors secondary recipients for compliance with program-specific requirements, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, (c) may exercise discretion in how the funds are allocated, (d) finances some direct program costs because of a grantor-imposed matching requirement, or (e) is liable for disallowed costs.

If your agency serves as a cash conduit in passing through¹⁹ grant funds to a non-State entity, this activity should be accounted for in an Agency Fund. (This activity is rare for the State of South Carolina).

Accordingly, the Comptroller General's Office has established the following policies.

- o Use an Agency Fund to account for grant funds passed through to non-State parties if it merely serves as a cash conduit²⁰, but keep in mind that this situation occurs infrequently.
- o Otherwise, use a governmental fund or proprietary fund to account for grant funds passed through to non-State parties.

¹⁸ See Glossary for definition of this key term.

¹⁹ See Glossary for definition of this key term.

²⁰ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Reportable Grant Receivables

Only *end recipients* of grant funds within State government should report receivable amounts on the Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.3.1).

Accordingly:

- o Report Grants and Contribution Receivables only for funds that:
 - Are used directly for supplies, to pay for contracted services, etc., or to pay the State General Fund for indirect cost.
 - Are Passed through to parties outside State government.
- o Do **not** report Grants and Contribution Receivables for resources that have been passed through²¹ to other State accounting funds or agencies.

Medicaid Receivables or Payables

Report Medicaid receivables in this reporting package only if they represent revenue receivable directly from **the Federal government**. If Medicaid reimbursements are expected to be received from the South Carolina Department of Health and Human Services, any Medicaid reimbursement receivables at June 30 are not Grants and Contribution Receivables. Medicaid reimbursements are payments for contracted services, not Grant Revenue to your agency.

Settlements resulting in Medicaid Receivables or Payables should be reported as follows:

- o Report Medicaid amounts receivable from or payable to other State agency service providers in the Master Reporting Package Checklist. (Please provide the counter-party to the transaction (i.e. the agency to whom or from whom payment is expected.))
- o Report Medicaid amounts receivable from non-State service providers in the Refund Receivables Year-End Reporting Package. (See Section 3.5.)
- o Report Medicaid amounts payable to non-State service providers in the Accounts Payable Year-End Reporting Package. (See Section 3.12.)

Pledges

Pledges must be included in receivables at June 30 if the promise is verifiable and the resources are measurable and probable of collection at that date. Probable of collection includes evaluation of compliance with all applicable eligibility requirements. If you have any outstanding pledges that were **not** recorded as revenue because they were not measurable at June 30, Section N50.108 of *Governmental Accounting and Financial Reporting Standards* requires disclosure of such situations. Accordingly, you are asked to attach a description of any such situations to your Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.3.1).

Relationship between Reporting Package and Schedule of Expenditures of Federal Awards²²

The final reporting package amounts should reconcile to your Schedule of Expenditures of Federal Awards plus or minus accounts payable and other accruals and including non-Federal grants and contributions. The BW Report by the same name (Technical Name

²¹ See Glossary for definition of this key term.

²² This is the required schedule prepared by a recipient of federal awards in accordance with OMB A-133 §_.310(b).

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

REPORTING POLICIES AND PROCEDURES MANUAL

ZFI_ZGM_O01_Q020²³) will be used as the report provided by the Comptroller General's Office as a tool for agencies to calculate the balances to report in this package.

Payments to Grant Recipients/Subrecipients

In addition to Revenues, Receivables, and Deferred Revenues, GAAP also establish recognition criteria for Expenditures, Expenses, and Accounts Payable related to amounts due to grant recipients and subrecipients. Evaluate amounts due to grant recipients and subrecipients against the recognition guidelines noted in the Accounts Payable Year-End Reporting Package in Section 3.12 of this manual (if payable to a non-State entity) and report amounts on that package as appropriate.

GAAP do not require or allow the State to record revenues when volunteers contribute or donate their services.

Section _4 Miscellaneous Revenues

GAAP relating to these revenue appear in:

- *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 1600.101 through 1600.115 relating to basis of accounting.
- Paragraph 13 of Governmental Accounting Standards Board (GASB) Statement 38, *Certain Financial Statement Note Disclosures*.
- Applicable pronouncements and interpretations of the Financial Accounting Standards Board (FASB), including *FASB Concepts Statement 5*, Paragraph 83b²⁴.

Licenses, Fees, and Permits or from Fines, Forfeits, and Penalties are excluded from consideration in the accruals for other revenue based on GAAP guidance²⁵.

GAAP Reporting Policies

The State of South Carolina prepares its Comprehensive Annual Financial Report (CAFR) in accordance with GAAP and the requirements of the Award for Excellence in Financial Reporting of the Government Finance Officers Association (GFOA). These reporting requirements include using modified accrual and accrual bases of accounting. Prior to implementation of SCEIS, some state agencies maintained their official accounting record on cash basis of accounting. This required manual adjustments for proper reporting under GAAP. The following provides some of the requirements for Statewide reporting in the CAFR as it relates to Miscellaneous Revenues and this reporting package.

Charges for Services and Commodities

²³ The Schedule of Expenditures of Federal Awards (SEFA) ZFI_ZGM_O01_Q020 corrected errors in the beginning balance reported on the Schedule of Federal Financial Assistance ZFI_ZGM_O02_Q001. Please direct questions regarding the differences between these reports to the SCEIS Team.

²⁴ FASB Concept Statements with Account Standards have been combined as the FASB Accounting Standards Codification (ASC). The ASC should be referenced for further guidance.

²⁵ Section 1600.110 of the *Codification of Governmental Accounting and Financial Reporting Standards* provides guidance that these should not result in an accrual based on the transactional properties.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Charges for Services and Commodities are identified by GAAP as exchange transactions²⁶. Revenue from exchange transactions are to be reported in the fiscal year in which the exchange takes place, regardless of when cash is received.

Therefore, for GAAP reporting purposes, the State's policy is to:

- Report Accounts Receivable at June 30 if, at that date, both:
 - The goods or services had been provided **AND**
 - Payment for goods or services had not yet been collected.
- Estimate and report an Allowance for Uncollectible Accounts²⁷ at June 30, if appropriate. The financial statement must report Gross Accounts Receivable less the Allowance. The resulting balance represents the amount expected to be collected at June 30 (also known as Net Accounts Receivable). The Allowance should be estimated based on available historical data as outlined:
 - Gather historical data on the timing and value of amounts collected for similar transactions in prior periods. Common practice would be a ratio of total amount owed (receivable at the valuation date) or a ratio of the activity for the period ending (sold during the period ended on the valuation date).
 - Use the ratios determined from historical data to calculate an estimate of the amount expected to be collected based on the criteria for the current period (balance owed at June 30 or sales for the period).
 - The Allowance for Uncollectible Receivables should be the difference between what is expected to be collected and the amount actually owed.
 - Evaluate the completeness of the allowance by review of the parties from whom the receivables are owed and specific information related to those parties. If additional allowance is necessary make the appropriate modification to the calculation.
- Report the Current²⁸ Accounts Receivable segregating the amounts considered to be available²⁹ at year-end.
- Report the Non-Current³⁰ Accounts Receivable.
- Report Deferred Revenue³¹ if at June 30 cash has been collected but revenue cannot yet be recognized.

²⁶ See Glossary for definition of this key term.

²⁷ See Glossary for definition of this key term.

²⁸ See Glossary for definition of this key term.

²⁹ The definition of available differs by type of revenue. Please refer to the definition in the glossary identified by the specific section for the appropriate definition.

³⁰ See Glossary for definition of this key term.

³¹ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

GAAP require the State to disaggregate significant components of receivables based on liquidity characteristics for financial reporting purposes. This reporting package obtains receivable balances for the following components: patient, student, and other accounts receivable. Agencies need to determine which category of receivable best describes the underlying transactions and provide an explanation of the amounts included in the other accounts receivable balance.

Recording Deferred Revenue

Deferred Revenue should be reported for Charges for Services and/or Commodities collected in advance of the earnings process.

If the determined amount of Deferred Revenue is not recorded in the general ledger (SCEIS), an entry should be generated and posted prior to the end of the extended period 12.

For budgetary accounting reasons, receipts applicable to the State's Budgetary General Fund should *not* be reported as Deferred Revenue. In these instances, please contact the Statewide Financial Reporting Division of the Comptroller General's Office to discuss alternative procedures for reporting Deferred Revenue for inclusion in the CAFR.

Writing Off Accounts Receivable Determined to be Uncollectible

When accounts receivable are determined to be permanently uncollectible, both the Accounts Receivable and Allowance account balances should be reduced by an equal amount. If a provision for the full amount of the Accounts Receivable was not included in the Allowance account balance, an expense should be recognized. The management at each State agency is responsible for establishing its own internal policies and procedures for identifying Accounts Receivable deemed uncollectible and removing the value from the reported Accounts Receivable and Allowance balances. In some cases, State or Federal laws and other regulations may specify requirements for removing accounts receivable from the agency's books. However, for GAAP reporting purposes, agencies must review and adjust year-end receivable balances for accounts for which ultimate collection is remote³². This determination should be made independently of laws or regulations. The accounting process of reducing both the gross Accounts Receivable and the related Allowance for Uncollectible Accounts Receivable that the agency reports on its reporting package forms has no effect on the validity of the debt owed to the State or on the agency's continuing collection efforts.

Section _5 Refunds Receivable

In accordance with GAAP, the State's policy is to report receivables from non-State parties in its financial statements. In addition, the State's policy requires the evaluation of the collectability of the receivable with amounts for which collection is questionable reported as an allowance against the gross receivable amounts

Refund Receivables arise from vendor, direct pay, or grant distribution transactions with non-State parties where the amount remitted by the State at the time of payment exceeded the amount owed by the state. Therefore the counterparty owes the State for the excess remittance. Proper internal controls should identify the error either within the State Agency or within the controls of the counterparty in a short

³² See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

period of time (timely identification of an error is the primary purpose of detect controls). However a delay in the identification of the overpayment to beyond a fiscal year does not release the counterparty from its obligation to return the excess remittance.

Refund Receivables include amounts:

- o For which a bill or statement has been issued showing payments due.
- o Amounts that can be reasonably estimated³³.

GAAP require different reporting requirements by fund type. Governmental funds report using the modified accrual basis of accounting³⁴. Under the modified accrual basis of accounting, an asset is not recognized unless it is measurable and available³⁵. Proprietary funds report using the accrual basis of accounting³⁶. Under the accrual basis of accounting, an asset is recognized when the transaction giving rise to it occurs. For Refund Receivables that should be the date on which overpayment was made. If identified subsequent to the fiscal year in which overpayment was made, the materiality of the transaction will determine the fiscal year for recognition. If considered material or questionably material, please contact the Comptroller General's Office for guidance regarding the period in which to record the asset.

Governmental fund reporting results in reporting of expenditures. Proprietary fund reporting results in the reporting of expenses. Expenditures are reported is different presentation categories than expenses. For proper recognition and reporting of the Refund Receivables, the classification of the offset must be understood by the preparer of the financial statements.

Grant related refunds can be the result of:

- Cost disallowances resulting from audits or reviews.
- Failure to spend State grant amounts within the grant period.

Medicaid Refund Receivables

Section 16.24 of *Audits of State and Local Governmental Units* (May 1996, American Institute of Certified Public Accountants) stated:

Medicaid services may be administered by state or through local governments on behalf of the states. In either case, health care providers (for example hospitals, physicians, nursing homes, pharmacies) are required to follow guidelines established by the state. Various methods and formulas are used to reimburse providers ... for services rendered, including the following.

- * Hospitals and nursing homes may be reimbursed for the costs of rendering the services, with costs based on retrospective cost reports filed by the provider.
- * Hospitals and other providers may be paid a predetermined (prospective) amount for each service rendered, based on the nature and/or the complexity of the services.

³³ See Glossary for definition of this key term.

³⁴ See Glossary for definition of this key term.

³⁵ See Glossary for definition of this key term.

³⁶ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- * Non-hospital providers may be reimbursed based on the cost of the service (for example, physician office visit, prescription) up to a maximum cost per service.

At times, the state may make payments during the year to providers, particularly hospitals, based on interim reports. Settlements may be made at year-end, based on audited cost reports. Those settlements can be either receivables from or payables to the providers.

Amounts that represent payables to providers should be reported in the Accounts Payable Reporting Package. (See Section 3.12 of this manual.) Amounts that represent receivables from non-State providers should be reported in this reporting package.

Estimating Allowance for Uncollectible Amounts

GAAP requires the reporting of an allowance for uncollectible amounts³⁷.

Accounting practice is the use of historical data and current specific information on the counterparty to estimate the amount of receivable balances that are questionable of collection or not expected to be collected.

The use of historical data requires the collection of information regarding the collections as related to the population. Identifying the appropriate population on which to evaluate collections is based on the characteristics of the underlying transactions giving rise to the receivable balances. Populations may be prior balances reported for the same receivable, activity levels for the underlying transactions (refunds as percent of expenditures by type or counterparty or expenditures with the counterparty as a percent of total expenditures within the classification). After the calculation of a historical experience ratio, a projection of future experience is calculated based on the ratio and the population for the period being evaluated. (i.e. The historical ratio of collections subsequent to the recognition of a receivable is multiplied by the receivable balance as of June 30. Alternatively, the historic ratio of the refunds received from a particular counterparty to the expenditures paid to that counterparty is multiplied by the expenditures paid to that counterparty for the year ended June 30).

An evaluation of current specific information on the counterparty, such as operating solvency, cash flow problems, or other indicators of non-payment provide evidence that the probability of collection is not assured. This information should impact the allowance recognized and reported for the receivable.

Reporting Refund Receivables Determined to be Uncollectible.

When refund receivables are determined to be permanently uncollectible, both the Gross Refund Receivable and Allowance general ledger account balances should be reduced by an equal amount. Management at each State agency is responsible for establishing its own internal policies and procedures for identifying Refund Receivables deemed uncollectible and for removing the balances from the reported Refund Receivable and Allowance balances. In some cases, State or Federal laws and other regulations may specify requirements for removing accounts receivable from your agency's books. However, for GAAP reporting purposes, agencies must review and adjust the year-end receivable balances for accounts whose ultimate collection is remote. Agencies should make this determination independently of laws or regulations. The accounting process of reducing both the gross Refunds Receivable and the related

³⁷ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Allowance for Uncollectible Refunds Receivable has no effect on the validity of the debt owed to the State or on your agency's continuing collection efforts.

Section 6 Inventory

Generally Accepted Accounting Principles (GAAP) relating to inventory is defined by:

- o Governmental Accounting Standards Board (GASB) Codification Section 1600.127.
- o *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

GAAP require the State to report in its financial statements the value of inventories on hand at June 30. In addition, it is the State's policy to report the value of non-cash activities associated with the United States Department of Agriculture food supplies (commodities) program.

State policy requires the performance of at least an annual physical count of inventory to be taken between April 1 and the end of the fiscal year for accuracy of the year-end valuation. If an interim date is selected for the physical count, see Methods for Valuing Inventories for important directions on valuation reporting. If further guidance regarding controls over the physical count procedures is needed, please contact the Comptroller General's Office Financial Reporting Unit.

Types of Inventories

Inventories³⁸ are short-lived assets. Agencies normally use or sell inventory items within one year.

Report the following types of inventories:

- o Materials and supplies the agency plans to issue to other sections within the agency.
- o Merchandise for sale to the public, other agencies, or other governments.
- o Manufacturing inventories of raw materials, work in progress, and finished goods.
- o Harvested crops and livestock to be slaughtered within one year.
- o United States Department of Agriculture food supplies (commodities).

The distinction between capital assets and inventories is not always clear. Each agency must establish criteria for deciding whether it will treat specific items as capital assets or inventory. Land, buildings, construction in progress, equipment, and livestock held for breeding purposes are capital assets, not inventory. Breeding livestock valued at \$5,000 or more should be reported in the Capital Assets Reporting packages.

Methods for Valuing Inventories

All inventories must be valued as of the end of the fiscal year (June 30). The results of the physical count should be used for valuation of the inventory. If the physical count was performed prior to the end of the fiscal year, a reconciliation of the physical count on the date of the count to the inventory records on the date of the valuation is required.

The State of South Carolina's accounting and reporting policies restrict the valuation methods used for inventory to the last invoice price method, specific identification, average cost (moving-average or

³⁸ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

weighted average), and FIFO. An agency is not restricted to using the same valuation method for all types of inventories held. The method used should consider characteristics inherent in the inventory items.

Donated items and those costing nominal amounts should be valued at fair value on the date received. This is the price the State would have to pay if it purchased similar items from regular sources. United States Department of Agriculture food supplies are in this category.

Identify obsolete and damaged inventory items. Value these items at \$0 or otherwise mark them down appropriately.

Call the Comptroller General's Central State Financial Reporting Division if you have questions about appropriate methods for valuing manufacturing and other particular inventories.

Average Cost Valuation Method

To use the average cost valuation method, items on hand are valued at the average cost of similar items purchased during the fiscal year. There are two methods for computing average cost:

- (1) Moving-Average – typically used with perpetual inventory systems. A simple average is calculated and adjusted for each purchase of the inventory item.
- (2) Weighted-Average – typically used with periodic inventory systems. The price per unit is maintained for each item in inventory. The calculation multiplies the unit costs by the number remaining in inventory summing these values for all of the items in quantity on hand for the item to determine the weighted-average.

Merchandise Inventory

An alternative method for valuation of merchandise inventory is calculation by gross margin percentage. This method may be used if a standard gross margin is management's method for determining the retail price of merchandise inventory for sale. Under this method:

1. Value the merchandise multiplying the retail of each item by the physical count.
2. Apply management's target "gross margin percentage" to reduce the retail value to cost.
3. If categories are utilized in management's method of setting gross margin percentages, organize the inventory accordingly and apply the accurate gross margin to each category.
4. Marked-down merchandise should be valued at the lower of cost or selling price.

Perpetual Inventory Systems

A perpetual inventory system utilizes programming within a computer software program to modify the quantity on hand in real time allowing inquiry at any point in time that should report an accurate inventory count (assuming effective control over access, acceptance, and issuance of inventory items). However reality shows that all inventories experience shrinkage during normal operations. Therefore a physical count is essential as a control and valuation tool. The physical count can:

- o Identify systematic programming errors in the software.
- o Identify weaknesses in controls over access, acceptance, and issuance.
- o Identify the susceptibility of the inventory to spoilage and obsolescence.
- o Provide an opportunity to correct the perpetual records for any errors discovered.

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

REPORTING POLICIES AND PROCEDURES MANUAL

When using a perpetual inventory system:

- o Obtain a printout of all inventory items on hand at the date of the physical count. Do not show this printout to counters, checkers, or others involved in the physical count.
- o If the physical count reveals errors in the perpetual inventory system, adjust the perpetual records as soon as possible.

Allocation of Inventory Values Among Funds

With the implementation of the South Carolina Enterprise Information System (SCEIS), each agency has the ability to record and report the inventory value in the SCEIS general ledger. If inventories are funded by multiple accounting funds, management should determine if separate inventories should be maintained or if a central inventory may be utilized. In the latter, the agency should consult with the Accounting Division within the Comptroller General's Office to help determine if an Internal Service Fund is required for the agency's inventory accounting. If separate inventories are maintained, a separate physical count, valuation, and reporting should be performed.

Section .7 Prepaid Expenses

GAAP allows the recognition of prepaid expenses under the purchases method or the consumption method. The State of South Carolina has elected the consumption method recognizing that the prepayment of expenses allows a government to avoid a near-term outlay of financial resource thus creating a financial resource.

Prepaid expenses should be identified and reported by State agencies in accordance with the State's election and policy.

The consumption method for expenditures recognizes the expenditure over the period benefited by the outlay of cash. Because the recognition is triggered by an outlay of cash, a prepaid expense should only be recognized after payment is made to the vendor. Identification of potential prepaid expenses includes the evaluation of the period of benefit provided by the transaction. In many cases this period of benefit is defined by the terms of the transaction for example a maintenance contract³⁹ may be effective from September 1 to August 31. This would be the period of benefit. Since this period of benefit crosses the fiscal year end, a prepaid expense would arise from the transaction.

Alternative methods may be utilized by the agency to identify and accumulate information from prepaid transactions such as:

- Transactions may be identified in the payment process with terms and conditions gathered in a centralized location (manually copies of invoices/contracts may be retained, a centralized shared spreadsheet may be maintained electronically, or copies of the invoices/contracts may be scanned and retained electronically in a central location). The prepaid amount may be calculated, updated, and maintained throughout the year.

³⁹ Other examples of potential transactions which may give rise to prepaid expenses are included in PART II.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- Review by members of management to identify vendors and transactions from which future benefit may arise. At year-end obtain transactional support to analyze the potential future benefit. The fields on the form may provide some guidance in this regard. Based on the terms of the transaction, determine the valuation of the portion to be recognized in future periods.
- Review expenditures recorded and identify vendors and transactions from which future benefit may arise. At year-end obtain from the transactional support to analyze the potential future benefit. Based on the terms of the transaction, determine the valuation of the portion to be recognized in future periods.

Information should be obtained, analyzed and determination be made of the current portion (the portion of the future benefit to be realized within the next fiscal year) and the non-current portion (the portion of the future benefit to be realized beyond the next fiscal year) of the asset for proper reporting. Non-current prepaid expenses are not considered financial resources and would not be reported in Governmental Funds.

Section .8 Capital Assets

Generally Accepted Accounting Principles (GAAP) for capital assets and depreciation of capital assets are defined in:

- o GASB Codification Sections 1400.101 through .143, 1100.105 through .107, 2300.106a(7), 2300.106k, 2300.106l, and 2300.111 through 2300.113.
- o Financial Accounting Standards Board (FASB) Statement 13 on Capital Leases (as updated and interpreted)⁴⁰.

Accordingly, the State has adopted the following policies and procedures for recording capital assets on the State's financial statements.

Cost Principles

Historical Cost vs. Estimates

Use actual historical cost records to establish book values for capital assets. If actual cost records are not available, agencies should estimate the cost at the date of acquisition. If the agency estimates the cost, it should fully document its estimate and the estimation methods it used.

⁴⁰ FASB Statements were replaced by the FASB Accounting Standards Codification. Capital Leases are covered by ASC Section 840 Leases.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Historical Cost of Purchased or Constructed Capital Assets

The historical cost of a purchased or constructed capital asset includes:

- o The invoice or contract price.
- o Sales taxes.
- o Delivery and installation costs.
- o Site preparation costs.
- o Professional fees (legal fees, title costs, surveying fees, engineering fees, architectural fees, etc.).
- o Component equipment costs.
- o Insurance premiums paid during construction.
- o Interest paid on construction debt (except as noted below) during construction.

Historical cost does not include:

- o Financing costs (such as interest on capital leases or installment purchases).
- o Ordinary repair costs to keep capital assets in operating condition.
- o Interest paid during construction on assets of Governmental funds or on assets financed through Capital Improvement Bonds.

Book Value of Assets Acquired by Forfeiture or Condemnation

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

- o The asset's fair value.
- o 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 Assets Received from a Non-State Donor

The book value at acquisition of an asset given to a State agency by a non-State party is the asset's fair value at the date of receipt. Record depreciation for a depreciable donated asset using its estimated remaining useful life at the date of donation.

Book Value of Assets Received Through Intra-State Transfers

An agency may receive capital assets through an intra-State transfer from another agency or fund. The receiving agency should record the capital asset and accumulated depreciation at the same amount the transferring agency or fund removes from its books. See the Intra-State Transfers Section below for additional information.

Book Value of Assets Acquired Through Trade-in

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

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

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

REPORTING POLICIES AND PROCEDURES MANUAL

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

Recording Assets

Capital Asset Additions

The State adds the book value of a purchased or donated capital asset to its financial statements in the fiscal year the State receives it. Except for capital lease and installment purchase situations, this usually is the year when the agency records the expenditure for the asset in SCEIS.

The State adds the cost of constructed capital assets, including contract retentions⁴¹ (also known as retainage payable), to Construction in Progress during construction. When construction is substantially complete, the State:

- o Subtracts all project costs from Construction in Progress.
- o Adds all project costs to the appropriate capital asset category.

This reclassification of Construction in Progress is reported in a separate column in the SCEIS Asset History Report.

Capital Asset Retirements

The State reports the removal of the book value and accumulated depreciation of a capital asset from its financial statements in the fiscal year of the retirement.

Capitalization Criteria and Implementation of a Change in Threshold or Minimum Useful Life

Each State agency must follow the capitalization criteria outlined in Exhibit 3.8(A)

Capital Assets Acquired by Capital Leases

Assets acquired by capital leases are capital assets of the State, even if the State does not legally own them. Agencies should include these assets in the official book of record (SCEIS) for inclusion in the State's financial statements. A capital lease transfers substantially all the benefits and risks of asset ownership to the State. Determining whether a lease is a capital lease requires judgment. See Section .9 for the criteria required for classification of a lease as a capital lease and other additional guidance.

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

- o The fair value of the leased asset on the date the lease is executed.
- o The present value of the required future minimum lease payments.

Depreciation of capital leased assets depends on which of the four criteria (see Section .9) was used to determine that the lease is capital. If the lease was determined to be a capital lease because title automatically transfers or the lease term is over 75% of the useful life, the asset should be depreciated over the asset's useful life. If the lease was determined to be a capital lease by another criteria, the asset should be depreciated over the lease term.

⁴¹ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Depreciation

Straight-Line Method of Depreciation

The State will record depreciation for its depreciable capital assets using the straight-line method⁴² over the asset's useful life. Agencies must use straight-line depreciation. 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 chosen should fall within the range provided in Exhibit 3.8(B) for the particular type of asset and should be expressed in a whole number of years. If an asset's useful life identified by the agency does not fall within the range of useful lives for an asset category as listed on the useful lives schedule, please contact the Comptroller General's Office to request approval for an exception.

If a type of asset is owned that is 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. Assistance from the Comptroller General's Office is available to identify the broad category and similar assets. **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, documentation and justification should be prepared and retained as part of the permanent accounting records.

Re-Evaluation of Asset's Useful Life

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. A change in useful life may be due to underestimation of daily use, excessive repair occurrences, 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 to adjust them as needed 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 change should be reported as depreciation expense in the period identified unless the circumstances meet the definition of impairment⁴³. Please contact the Comptroller General's Office to assist in making the change in useful life.

Reporting of Assets

Classifications of Capital and Related Assets

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 financial statements. Therefore, other agencies are not expected to report a balance in the Infrastructure category. If an asset appears to meet the definition of infrastructure⁴⁴, it should be reported as Depreciable Land Improvements or as

⁴² See Glossary for definition of this key term.

⁴³ See Glossary for definition of this key term.

⁴⁴ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Buildings and Improvements. 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.

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.

Breeding livestock should be reported as Machinery and Equipment.

The State's policy is to report its Vehicles separately from other types of Machinery and Equipment.

Low Value Assets⁴⁵ should not be included in the State's Financial Statements but should be tracked for control purposes. The tracking of these assets should be performed through system functionality within SCEIS. Moveable Low Value Assets are items costing between \$1,000 and \$5,000 that are susceptible to loss, misuse, and theft and should be tagged and included in the annual physical count. Buildings and improvements below \$100,000 (not moveable) do not have to be tagged but should be tracked in SCEIS.

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. The following outlines the State's policies for meeting the GAAP requirements:

- Individual works of art or historical treasures must be capitalized if the acquisition value exceeds \$5,000. Agencies must record depreciation on exhaustible individual works or treasures (as defined above).
- Additions to capitalized collections of works of art or historical treasures acquired prior to June 30, 1999 should meet the individual item threshold of \$5,000.
- A collection should be evaluated as a whole for capitalization only if the individual cost of collection items cannot be easily determined. The \$5,000 threshold would apply if it is evaluated as a whole.
- A collection not capitalized as of June 30, 1999, is not required to be capitalized if it meets all three of the following conditions:
 - o The collection is held for public exhibition, education, or research in furtherance of public service, rather than for financial gain.
 - o The collection is protected, kept unencumbered, cared for, and preserved.
 - o 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.

⁴⁵ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Tagging of Capital Assets

Agencies should firmly attach a property tag to each piece of movable machinery and equipment. Number the tags consecutively.

Tags help:

- o Agencies to control their assets.
- o Agencies assess the completeness of accounting and financial records.
- o Auditors to locate assets during an audit.

Internal Control Best Practices recommends performing a physical inventory of the capital and movable assets owned by the Agency at least annually. SCEIS functionality provides for location and property tag tracking capabilities.

Capitalization of Intangible Assets

State agencies are required to capitalize purchased software, websites, and internally-generated software which is developed in-house by agency personnel or by a third party contractor. The following criteria should be used to determine which internally-generated software costs should be capitalized:

- Preliminary Project Stage – **Expense costs as incurred**
 - o Conceptual formulation and evaluation of alternatives
 - o Determination of existence of needed technology
 - o Final selection of alternatives
- Application Development Stage – **Capitalize once criteria have been met; cease capitalization when software is operational**
 - o Design of the chosen path
 - o Coding
 - o Installation to hardware
 - o Testing and parallel processing
- Post-Implementation/Operation Stage – **Expense costs as incurred**
 - o Application user training
 - o Software maintenance

Other considerations for Software Capitalization:

- o Data conversion costs should be considered an activity of the application development stage (and capitalized) only to the extent it is determined to be necessary to make the computer software operational; otherwise, data conversion should be considered an activity of the post-implementation/operation stage (and expensed).
- o 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.)
- o 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 OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

REPORTING POLICIES AND PROCEDURES MANUAL

- 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.

Other Capital Asset Related Transactions

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

State policy requires agencies to separately report construction commitments outstanding for: (a) capital projects and (b) repair/maintenance projects.

To compute the amount of construction 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 retainage payables 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.
- Consider the nature of the project to determine 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.

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).

Intra-Fund Transfers of Capital Assets

Question 7.74.4 of the GASB's publication, *Comprehensive Implementation Guides* (2011-2012 updated through June 30, 2011) 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.

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

REPORTING POLICIES AND PROCEDURES MANUAL

It is important that:

- o The State records each intra-State transfer in the receiving and donating agencies/funds during the same fiscal year.
- o Both agencies/funds follow uniform policies for recording historical cost and accumulated depreciation of transferred assets.
- o A transfer should **not be reflected** as a retirement or a purchase by the agencies involved.

It is the State's policy to prepare a reconciliation of intra-State transfers each fiscal year. This reconciliation will not appear in the State's financial statements. The Comptroller General's Office, however, will use the data to ensure that the financial statements properly reflect intra-State transfers.

Agencies that are not live in SCEIS should not record depreciation on a capital asset during the month if transferred out to another agency or fund. Depreciation should be recorded during the current month for capital assets transferred in from another agency or fund during that month. For Agencies utilizing SCEIS, the system will reflect the depreciation based on the date of the transfer.

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.

Example scenarios have been included for reference as Example 3.8(C).

Section .9 Operating Leases

Guidance from GAAP regarding operating leases appears in:

- o Governmental Accounting Standards Board (GASB) Codification Sections 2300.106, L20.103 through L20.108, and L20.125.
- o Governmental Accounting Standards Board (GASB) Statement 13, "Accounting for Operating Leases with Scheduled Rent Increases."
- o Governmental Accounting Standards Board (GASB) Statement 38, "Certain Financial Statement Note Disclosures," paragraph 10.
- o Financial Accounting Standards Board (FASB) Statement 13⁴⁶, "Accounting for Leases" as revised and interpreted.

Accounting and Finance personnel within the agency must examine and analyze the terms of each lease agreement to determine whether the lease is a capital lease or an operating lease. Capital leases should be reported to the State Treasurer's Office. Operating leases should be reported to the Comptroller General's Office. A Lease Register is available⁴⁷ to assist the agency in the analysis and reporting of the terms of the lease agreement. Information related to leases as lessor⁴⁸ (landlord or provider of the asset) with

⁴⁶ FASB Statements have been superseded and replaced with the FASB ASC. Section 840 relates to leases.

⁴⁷ The Lease Register is available as an Example Document on the Comptroller General's Office website. If you have difficulty with the web form, please contact the Financial Reporting Unit within the Comptroller General's Office.

⁴⁸ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

non-State parties should be reported to the Building and Property Services Division of the Budget and Control Board.

Capital leases consist of direct financing and other capital leases. Direct financing capital leases are essentially installment purchase agreements and require transfer of the ownership automatically at the end of the lease term. Other capital leases provide assets for use by external parties over the majority of the asset's useful life. A lease is a capital lease if it meets one of the following criteria:

- (1) Title (ownership) transfers automatically at the end of the lease term.
- (2) The lease term equals or exceeds 75% of the useful life of the asset.
- (3) The present value of the future minimum lease payments equals or exceeds 95% of the fair value of the asset at the date the lease is executed.
- (4) The lease contains a bargain purchase option⁴⁹.

All other leases are considered to be operating leases.

Determining the Lease Term

The term of a noncancelable lease is the stated period in the agreement plus any of the following:

- o all periods covered by bargain renewal options.
- o all periods, for which failure to renew leases imposes a penalty on the lessee in such amount that a renewal appears to be reasonably assured.
- o all periods covered by ordinary renewal options during which a guarantee by the lessee of the lessor's debt directly or indirectly related to the leased property is expected to be in effect or a loan from the lessee to the lessor directly or indirectly related to the leased property is expected to be outstanding.
- o all periods covered by ordinary renewal options preceding the date as of which a bargain purchase option is exercisable.
- o all periods representing renewals or extensions of the lease at the lessor's option.

However in no case shall the lease term extend beyond the date a bargain purchase option becomes exercisable.

A fiscal funding clause (i.e. reductions in appropriations) in the terms of a lease should be evaluated annually to determine whether the uncertainty of possible lease cancellation is a remote⁵⁰ contingency. A lease which is cancelable only upon occurrence of a remote contingency is by definition noncancelable. In other words unless the possibility of cancellation is less than remote, the lease is noncancelable.

However, an option to exit the agreement without consideration to the lessor provides a cancellation provision.

⁴⁹ See Glossary for definition of this key term.

⁵⁰ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Accounting for Capital Leases

*As Lessee*⁵¹

Capital assets acquired under capital leases are required to be recorded by the lessee at the fair value of the asset acquired. A capital lease obligation is required to be recorded and reported.

Disclosures required include:

- o A description of the terms of the lease.
- o The book value and related accumulated depreciation of asset held under capital leases with the amount of amortization added to the accumulated depreciation during the year.
- o The required future minimum lease payments less executory costs to report the outstanding capital lease obligation at year-end.
- o The capital lease obligation also must be included in the debt schedule which reports the increases and decreases in the liability balance in gross amounts and the amount due in the next fiscal year.

As Lessor

Under State policy a capital lease is reported if it meets all of the following criteria:

- o Under the agreement, the **lessee** outside of the State's Reporting Entity meets at least one of the four capitalization criteria used to define a capital lease.
- o Collectability 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.

Accounting for Operating Leases

As Lessee

The following reporting policies apply to operating leases:

- o Disclose in its Notes to the financial statements the future "minimum lease payments⁵²" at June 30 for all noncancelable⁵³ operating leases. The future minimum lease payments required for disclosure are presented for each of the next five years and in five year increments thereafter.
- o Disclose in its Notes to the financial statements the total rent expenditure recorded for the current fiscal year. The State's policy is to obtain this figure directly from SCEIS. Appropriate and effective internal control should include reconciling the expenditures recorded in SCEIS to the required minimum lease payments.
- o Disclose in its Notes to the financial statements the amount expended for contingent rentals for the current fiscal year. The State's policy is to obtain this figure directly from SCEIS. Appropriate and effective internal control should include evaluation and analysis of the expenditures recorded in SCEIS to determine appropriate reporting.

⁵¹ See Glossary for definition of this key term.

⁵² See Glossary for definition of this key term.

⁵³ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- o Record Accounts Payable at June 30 associated with operating leases if lease payments due during one fiscal year are not paid until the next fiscal year (see Section .12, Accounts Payable).

As Lessor

The State discloses in the notes to its financial statements the following items for operating leases in which it acts as lessor:

- o The cost and carrying amount, if different, of leased property or property 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 end of the fiscal year, for each of the five succeeding fiscal years and in five year increments thereafter.

Other Lease Related Accounting

The following includes other GAAP requirements relating to lease agreements and transactions:

- o Rent Holidays. Operating lease transactions with rent holidays should be measured using either of the following methods:
 - On a straight-line basis over the lease term.
 - Based on the estimated "fair value of the rental"⁵⁴.

The Comptroller General's Office has elected the fair value of rent approach and will compute an implicit interest rate⁵⁵ to recognize the rent holiday.

- o Part of a Building. If the fair value of the leased property is not objectively determinable, use only the economic life criterion. That is, if you are leasing a part of a building for less than 75% of the estimated economic life of the entire building and cannot objectively determine the fair value of the leased property, classify the lease as operating. If you are leasing the building for longer than 75% of the estimated economic life of the building, classify the lease as capital.
- o Scheduled Rent Increases. Operating leases with scheduled rent increases⁵⁶ will be measured based on the provisions of the lease agreement if all of the following conditions are met:
 - The lease agreement specifies scheduled rent increases over the lease term.
 - These increases are intended to cover the anticipated effects of property value appreciation or increases in costs due to factors such as inflation.
 - The lease payments, including scheduled rent increases, are reasonably associated with the present and anticipated "fair value of the rental"⁵⁷.

That is, expenditures on leases with scheduled rent increases will be recorded in the year when due rather than on a straight-line basis.

⁵⁴ See Glossary for definition of this key term.

⁵⁵ The implicit rate is the rate at which the present values of the lessee's payment stream and the lessor's fair value lease revenue stream are equal.

⁵⁶ See Glossary for definition of this key term.

⁵⁷ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Measurement of scheduled rent increases also will be based on provisions of the lease agreement if the lease payments are required to be made on a systematic and rational basis representative of the time pattern in which the leased asset is available for lessee use.

Section .10 Loans Receivable

Generally Accepted Accounting Principles (GAAP) relating to Loans Receivable appear in:

- o *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 1600.112 and 1800.139.
- o Page 157, *Governmental Accounting, Auditing, and Financial Reporting* (Government Finance Officers Association, 2001) (reserve of non-current loans and advances).
- o GASB Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

The guidance provided by GAAP requires the State to report:

- o Loan Receivables outstanding at June 30 in each fund.
- o An Allowance for Uncollectible Loan Receivables in each fund where applicable. (No allowance is a rare circumstance and extensive documentation of the factors considered in the evaluation and estimation of collectability would be required to be retained if no allowance is reported).
- o A Current and Non-Current portion of the Loan Receivables outstanding at June 30 in each fund.
- o Interest Receivable for interest due on or before June 30 but not received as of June 30.
- o In each Governmental Fund, Non-spendable fund balance for the balances reported as Non-Current Loan Receivables.

Agencies that have loan receivables at June 30 or any transactions related to loan receivables during the fiscal year ended June 30 must complete a Loan and Note Receivables Summary Form to provide the Comptroller General's Office with information to properly report the balances. With the implementation of the South Carolina Enterprise Information System (SCEIS) the agencies have the capability of reflecting the transactions within the book of accounting records. SCEIS balances should be examined in conjunction with the completion of the forms.

Loan or Note Receivables

Loan receivables include balances for which the State holds collateral or security.

Note receivables include balances for 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.

Allowance for Uncollectible Accounts

GAAP require the State report an Allowance for Uncollectible Loan and Note Receivables. The financial statements report gross balances less the allowance amount. An allowance is estimated using a systematic evaluation of the balances and activity of loans and notes:

- o Identify similarities within loans to group the loans in portfolios for evaluation. Similarities may be repayment period, payment frequency, purpose, or other of the terms of the loan agreement.
- o Gather historical data on collections within each portfolio.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- o Using the historical data calculate ratios that can be projected to future experience.
- o Estimate the future uncollectability of the portfolio using the historical ratios based on the principal balance outstanding at June 30.
- o Evaluate the completeness of the allowance by review of the parties from whom the loans are owed and specific information related to those parties. If additional allowance is necessary make the appropriate modification to the calculation.

Non-Spendable Fund Balance

GAAP require that an amount be reported equal to the net non-current loans receivable in Governmental Funds. This amount indicates that it does not represent available expendable resources at June 30. See Section 3.20 Fund Balance for additional guidance.

Section .11 Reserved for Future Use.

Section .12 Accounts Payable

GAAP for governmental entities require the reporting of liabilities (unpaid obligations) of the government as of the end of the year (June 30). This reporting package focuses on Accounts Payable, Accrued Expenses (not payroll related), and Contract Payables (including contractual retentions).

Liabilities arise from:

- Goods delivered on or before year-end.
- Services received on or before year-end.
- Contractual obligations outstanding to a vendor. (These typically are not invoiced but are recurring monthly obligations or accumulating retentions.) (Additional payments due on these may constitute a future commitment to be reported in the miscellaneous liabilities package.)
- Other Contractual obligations outstanding of the government. (These typically relate to grant awards). Payables to Grant recipients or subrecipients are determined by the terms of the grant agreement. Similarly to a contractual payable, the amount and timing of the payable recognition relies on the compliance with eligibility requirements⁵⁸. When the eligibility requirements are met, an expenditure and related liability should be recognized.⁵⁹

⁵⁸ Refer to the Grants and Contribution Revenues in Section .3 of Part III of this manual for definitions of eligibility requirements.

⁵⁹ The Comptroller General's Office has determined that all Federal grants and all State grants to other entities include the eligibility requirement. That is, for purposes of state financial reporting, in order to report an Accounts Payable to a grantee or grant subrecipient, the grantee or subrecipient must have met the eligibility requirements as of June 30.

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

REPORTING POLICIES AND PROCEDURES MANUAL

The following specific types of current liabilities are reported under separate reporting packages and should be ***excluded*** from this package. These may appear as reconciling items in the documentation retained by the agency. They include:

- o Amounts payable to other State agencies within the State's financial reporting entity and to other funds within your agency⁶⁰.
- o Payroll and fringe benefits payable paid on Payroll or IDT Document Types.
- o Debt service payable.
- o Those claims payable that are required to be reported on the Claims Reporting Package. Report all *other* claims payable (not included in the Claims Reporting Package) in the Accounts Payable Reporting Package.

In addition, GAAP recognizes that differences in the evaluation of these transactions arise from differences in the operations giving rise to them. Governmental Fund Types report expenditures while funds with charges for service report expenses⁶¹. The accounting entries to record payables affect expenditures or expenses. Therefore proper identification of the funds and fund types in which the transactions should properly be reflected is an important part of the identification of the transaction and its reporting.

Due to the complexity in rules for expenditure recognition⁶² agencies must carefully document the date when they receive goods or services. Invoices do not always indicate delivery dates. Agencies should complete a "Receiving Report" or otherwise document the date goods or services are received. SCEIS functionality provides a location for this.

An encumbrance is an obligation for payment to a vendor upon delivery. When delivery occurs the encumbrance becomes a liability. Agencies are not required to record encumbrances during the year. GAAP states: "Encumbrances outstanding at year-end do not constitute expenditures or liabilities."⁶³ Encumbrances should NOT be reported in the reporting package. Encumbrances should be reviewed at year-end to ensure budget encumbered is appropriate.

Identification and Recognition of Liabilities

Agency Directors and finance personnel are responsible for designing daily operational processes and procedures for the recording transactions in the agency's accounting system. Transactions in accordance with GAAP are required to be reported to the Comptroller General's Office annually by the reporting deadlines established. This reporting package is provided to assist the Comptroller General's Office collect and report information required to publish the statewide CAFR.

Agency finance personnel who deal with the daily transactions of the operation are in the best position to identify all known and anticipated liabilities as of year-end. As a best practice and to support effective

⁶⁰ If the agency made any payments to other State agencies or other funds within its agency, please see Interfund Payables in Section _18 of Part III of this manual.

⁶¹ GASB Codification Sections 1800.116-1800.125.

⁶² GASB Codification Sections 1600.116-1600.127 outline the rules for expenditure recognition.

⁶³ GASB Codification Sections 1600.128 and 1800.139.

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

REPORTING POLICIES AND PROCEDURES MANUAL

internal controls, a person who supervises the person identifying the liabilities should review the information for completeness and accuracy.

The following are suggested methods for accumulating and monitoring the transactions and amounts identified. It is recommended that more than one of the following suggested methods be utilized for effective internal controls of the Agency designed process:

- As invoices are processed for payment during July and August, examine each invoice to identify if a liability has been incurred. Record the details of the transaction (in sufficient detail for independent review and audit) and the amount of the liability on a spreadsheet. A shared spreadsheet may be maintained for agencies with several individuals processing transactions.
- Utilize the SCEIS processing instructions for including “PRIOR YEAR PAYABLE” in the Header Text of the transaction when processed through SCEIS. Please note that with this option modification of the beginning of the phrase will result in inaccurate results. Additional details may be added to the end of the phrase. In addition, the results of this process should be evaluated and analyzed to determine that all liabilities to be reported are identified and liabilities were not overlooked in processing by Accounts Payable staff.
- Obtain a listing of the paid transactions from SCEIS for an appropriate period (longer than one month) after year-end examining supporting documentation of the transactions retroactively to determine and identify the liabilities required for reporting. Agency personnel familiar with any lag in processing, the volume, and the dollar significance of transactions should determine the appropriate length of the period. Additional review may be necessary if unusual activity is noticed in any given year. This can be assessed by fluctuation analysis.
- Discuss and document the discussion with all individuals with decision making authority to identify any contracts for services and construction contracts which were not fully paid as of year-end. Obtain a listing of paid transactions as of June 30 to the vendor for the contract. Compare the contract amount, percent of completion, and amounts paid to determine any amounts outstanding for recognition of a payable. Coordinate this analysis with the identification of outstanding commitments reported with other miscellaneous liabilities.
- Estimate amounts owed to vendors for which invoices have not been received. An estimate may be necessary for contractual services that expire soon after year-end for which services are not renewed for the subsequent year. Information utilized to perform the estimate should be retained and should be based on realistic expectations.
- Examine the activity for recurring monthly charges to determine if twelve months of activity is reflected. The use of an estimate for the missing months may be necessary.

The Decision tree in Exhibit 3.12(A) has been provided to assist in determining the appropriate Reporting Package Form on which to include different types of liabilities.

After the liabilities have been identified and a valuation has been determined, a review of these liabilities should be made to identify any that will not be paid within the subsequent fiscal year period (within a twelve month period). These will primarily be related with contractual obligations. The amounts to be paid after a twelve month period should be recorded and reported as long-term payables.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Information obtained from the preparation of this reporting package can affect the information reported in the Capital Assets reporting package. This package should be completed prior to submission of the Capital Asset reporting package.

Any transaction identified through procedures after the submission of the reporting package **MUST** be communicated to the Comptroller General's Office for evaluation of the need for inclusion in the CAFR.

Section .13 Litigation

Settled lawsuits that require the State to make future payments or suffer other future losses are liabilities. GAAP requires the State to show liabilities existing at June 30 on its financial statements.

Lawsuits that at June 30 are in progress, appealed, expected to be appealed, and threatened are contingent losses or contingent gains. The following references define Generally Accepted Accounting Principles (GAAP) for contingencies:

- o Governmental Accounting Standards Board (GASB) Codification Sections 1500.114. Sections C50.101 through 148 apply to torts.
- o Financial Accounting Standards Board (FASB) Statement 5, "Accounting For Contingencies" as revised and interpreted⁶⁴.

Major liabilities and contingencies that arise after June 30 but before the State issues its financial statements are subsequent events. GAAP relating to subsequent events includes:

- o Governmental Accounting Standards Board (GASB) Codification Section 2300.106 and C50.148.
- o GASB 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* incorporated guidance previously issued as Statements on Auditing Standards (SAS's) and related interpretations as authoritative GASB pronouncements.

Standards for professional relationships between auditors and attorneys appear in:

- o Statements on Auditing Standards (Section AU 337) issued by the American Institute of Certified Public Accountants.
- o American Bar Association Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (approved by the American Bar Association's Board of Governors in December 1975).

State Policies

Based on the above GAAP, the following amounts should be recorded and reported in an agency's book of record to allow completeness of the State CAFR:

- o A liability at June 30 in the amount of future payments due for settled lawsuits requiring future payments or other outflow of resources by the State.

⁶⁴ FASB Accounting Standards Codification (ASC) Section 450.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- o A liability in the amount of the estimated loss for lawsuits that at June 30 are in progress, appealed, expected to be appealed, and threatened if, in the attorney's opinion:
 - A loss to the State is probable⁶⁵.
 - It is practical to estimate the loss amount.

In addition, information relating to the following should be disclosed in the notes of the State CAFR:

- o Data on lawsuits that at June 30 are in progress, appealed, expected to be appealed, and threatened for which a loss to the State is reasonably possible.
- o Data on settled and in progress lawsuits at June 30 where a gain to the State is probable.
- o Major changes in litigation that occur during the subsequent period.

The State will not:

- o Disclose or record liabilities for lawsuits where the chance of loss to the State is remote.
- o Record revenue in gain situations before the State actually receives the gain.

The following liabilities should be recorded:

- o Current liabilities related to litigation in the appropriate fund. (The State's policy is to report as current liabilities at June 30 those liabilities an agency expects to pay during the next fiscal year.)
- o Long-term liabilities at June 30 (i.e., those that the agency expects to pay beyond the next fiscal year).

Section .14 Grant Disallowances

The State must report a year-end liability for obligations resulting from violations of program rules that occur before year-end. This liability has two components:

- o A loss liability component. The State has a loss liability if it agreed before year-end to make payments or accept reduced revenues after year-end. This component should be recorded in the general ledger.
- o A loss contingency component. The State may have failed to follow program rules on or before June 30. Later audits or reviews may discover these violations. If so, the State and the grantor may negotiate a settlement that will represent a future loss to the State. This component is included in note disclosures.

The State will disclose major loss contingencies that arise during the subsequent period.

Only the "end recipient" of grant funds within State government should report disallowances.

- o Your agency should not report disallowances related to grants it "passed through" to other State agencies.

⁶⁵ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- o Your agency should report disallowances related to grant funds that your agency:
 - Directly expended for salaries, supplies, equipment, etc.
 - "Passed through" to a non-State organization.

Section .15 Claims

Settled claims that require the State to make future payments or suffer other future losses are liabilities. GAAP require the State to report material liabilities existing at June 30 on its financial statements. These should be recorded in the general ledger.

Other GAAP requirements relating to claims appear in:

- o *Governmental Accounting Standards Board (GASB) Codification* Sections 1500.101 through .108, 1600.129, and C50.101 through .149.
- o AICPA's *Accounting and Audit Guide Audits of State and Local Government Units*.
- o Financial Accounting Standards Board (FASB) Statement 5, *Accounting For Contingencies* as revised and interpreted.⁶⁶
- o GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* as amended by GASB Statement No. 34.
- o GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis—for State and Local Governments*.

Governmental Accounting Standards Board (GASB) Codification Section 2200.116 requires that liabilities of Governmental, Enterprise, and Internal Service Funds with maturities greater than one year be reported in two components in the government-wide financial statements—“the amount due within one year and the amount due in more than one year.” Enterprise, Internal Service, and Trust Funds are reported in a similar manner within the fund financial statements.

The reporting of Governmental funds in the fund financial statements, however, is governed by Codification Section 1600.129, which defines Governmental fund current liabilities as “the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources.” Long-term liabilities of Governmental Funds are recorded only in the government-wide financial statements, not in the fund financial statements.

Liabilities of Trust and Agency Funds are recorded only in the fund financial statements, not in the government-wide financial statements.

GAAP require that the State record liabilities for the estimated future costs of insured events that occurred on or before June 30 if it is probable that an asset has been impaired or a liability has been incurred as of that date and the loss amount can be reasonably estimated. GAAP further requires the State to report two components of this estimated cost:

- o Cost of claims known but not paid at June 30.
- o Estimate of claims incurred but not reported at June 30.

⁶⁶ FASB Accounting Standards Codification (ASC) Section 450.

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

REPORTING POLICIES AND PROCEDURES MANUAL

GASB Codification Section C50.114 states:

Expenditures/expenses and liabilities may be estimated through a case-by-case review of all claims, the application of historical experience to the outstanding claims, or a combination of these methods. Estimates of IBNR losses should be based on historical experience. When historical experience is used, the outstanding claims should be stratified by amount and type of claim, and the strata should be sufficiently refined to ensure that the estimation is reasonable.

Events that will materially change future claims costs may occur after June 30 but before the State issues its financial statements. Such events are reviewed for subsequent events reporting. GAAP for subsequent events appears in:

- o GASB Codification Sections 2300.106 and C50.145.
- o GASB 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* incorporated guidance previously issued as Statements on Auditing Standards (SAS's) and related interpretations as authoritative GASB pronouncements.

State Policies

General

It is the State's policy to report claims liabilities on its financial statements if it is probable that an asset has been impaired or a liability has been incurred as of June 30 and the loss amount can be reasonably estimated. These liabilities will include the estimated future costs of all covered events that occurred on or before June 30. The State's claims liabilities include:

- o Claims known but not paid.
- o Incurred but not reported.

These liabilities are estimates. Agencies may estimate liabilities through:

- o A case-by-case review of all claims.
- o The application of historical experience to the outstanding claims.
- o A combination of these methods.

When agencies use historical experience, they should stratify the outstanding claims by amount and type of claim. Agencies should refine these strata enough to ensure that the estimation is reasonable.

The State will disclose events occurring during the subsequent period that will materially affect future claims costs.

Claims Known But Not Paid

The amount for Claims Known But Not Paid includes both:

- o Known amounts the State must pay in future years for claims settled on or before June 30.
- o An estimate of amounts the State will pay in future years for claims in process (if any) at June 30.

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

REPORTING POLICIES AND PROCEDURES MANUAL

There are many ways to estimate the amount the State will pay in future years for claims in process at June 30. For example, the agency might compute:

- o Total cost resulting from claims filed during some previous fiscal year.
- o Divided by the number of claims filed during that year.
- o Times the total number of claims in process at June 30 this year.

Or the agency may compute:

- o Average cost per valid claim over a recent period of time.
- o Times the number of claims in process at June 30 this year estimated to be valid.

The exact computation will depend on data available to the agency when it completes the Claims Summary Form (Form 3.15.1).

Incurred But Not Reported (IBNR)

Agencies should report IBNR only if it is probable that claims will be asserted and the loss can be reasonably estimated. The exact computation of IBNR will depend on data available. Computation of IBNR can be complex. The Comptroller General's Office prefers to use estimates of IBNR that independent consulting actuaries have prepared. If this is not practical, the agency's staff should estimate IBNR.

Current and Long-Term Claims Liabilities

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 *Governmental Accounting Standards Board (GASB) Codification* Section 2200.116 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."

Components of long-term liabilities include:

- o Claims known but not paid that the agency expects to pay from future financial resources.
- o Claims incurred but not reported.

Section .16 Miscellaneous Losses

Accounting Standards

Recording and Reporting of Liabilities

Loss situations that represent known liabilities at June 30 are loss liabilities. Potential loss situations that depend on the occurrence of other events are loss contingencies. Under GAAP the State must report all material liabilities existing at June 30 in its financial statements.

Possible losses result from:

- o Adverse litigation rulings (to be reported in Form 3.13.*)
- o Grant audit disallowances (to be reported in Form 3.14.*)
- o Uncollectible accounts receivable (to be reported in Form 3.04.*)
- o Insured losses covered by self-insurance (to be reported in Form 3.15.*)

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

REPORTING POLICIES AND PROCEDURES MANUAL

- Insurance related losses not covered by policies (including any deductible required) should be reported in Form 3.16.*.
- Guarantees of others' debts should be reported in Form 3.16.*.

Organizations are subject to risks of loss arising from events such as:

- Damages to or destruction of assets from causes such as fire, natural disasters, theft, vandalism, etc.
- Injuries to employees.
- Torts (wrongful acts, injuries, or damage, not involving a breach of contract, for which civil actions can be brought).

Governmental Accounting Standards Board (GASB) Codification Section 2200.116 requires that liabilities of Governmental, Enterprise, and Internal Service Funds with maturities greater than one year be reported in two components in the government-wide financial statements—"the amount due within one year and the amount due in more than one year." Enterprise, Internal Service, and Trust Funds are reported in a similar manner within the fund financial statements.

The reporting of Governmental funds in the fund financial statements, however, is governed by Codification Section 1600.129, which defines Governmental fund current liabilities as "the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources." Long-term liabilities of Governmental Funds are recorded only in the government-wide financial statements, not in the fund financial statements.

Liabilities of Trust and Agency Funds are recorded only in the fund financial statements, not in the government-wide financial statements.

State Policies require a liability to be reported for losses known as of June 30.

Loss Contingencies and Subsequent Events

GAAP for loss contingencies appear in:

- Governmental Accounting Standards Board (GASB) Codification Sections 1500.114 and C50.101 through 149.
- Financial Accounting Standards Board (FASB) Statement 5, "Accounting For Contingencies" as revised and interpreted⁶⁷.

Major loss contingencies that arise after June 30 but before the State issues its financial statements are subsequent events. Requirements for recording and reporting subsequent events are defined in:

- Governmental Accounting Standards Board (GASB) Codification Section 2300.106f and C50.148.
- GASB Statement 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* incorporated guidance previously issued as Statements on Auditing Standards (SAS's) and related interpretations (issued by the American Institute of Certified Public Accountants, AICPA) as authoritative GASB pronouncements.

⁶⁷ FASB Statements have been consolidated into the FASB Accounting Standards Codification (ASC). Contingencies appear in section 450

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

REPORTING POLICIES AND PROCEDURES MANUAL

GAAP requirements for risk management and insurance issues are defined in GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

Within risk management, management identifies risks of operations, determines the level of risk that its operations can absorb and identifies options for financing the risks.

Some risk financing options that are available to organizations are to:

- o Insure risk by paying premiums to an insurance company or to a State claim-paying program (such as the Insurance Reserve Fund) which accepts the risk and agrees to pay the premium-paying organization in the event of a covered loss.
- o "Self-insure" risk which requires the entity to assume responsibility for the full financial loss.

State policy requires loss contingencies (potential not known) to be reported if the loss is probable⁶⁸ and it is practical to estimate the amount of the loss as of June 30.

Significant Commitments

Commitments arise from contracts and other irrevocable promises to contribute money or provide goods and services to a party outside State government.

GASB Codification Section 2300.106k requires the State to disclose significant commitments existing at June 30.

Miscellaneous commitments do not include construction and software development commitments⁶⁹. Examples of miscellaneous commitments are as follows⁷⁰:

- o An agency has committed in writing to provide grant monies to a county government to fund certain not-yet-constructed infrastructure assets.
- o An agency passes federal grant funds through to local governments, and the state agency has administrative or direct financial involvement in the program.
- o Unsettled sale contracts containing a provision for payment to others.
- o Other contracts containing minimum service level guarantees such as:
 - Contracts for operations of facilities.
 - Contracts with various providers for services to be rendered.
 - Contracts with vendors for test and assessment services and computerized instruction.
 - Commitments to participate in advertising pools.

Agencies should report only miscellaneous commitments for which contracts were signed or promises were made on or before June 30 of the current fiscal year and the unperformed amounts existed for the agency at June 30.

For the State to report in accordance with the liquidity segregations of GAAP, the State has established an availability period (see GASB Codification Section 1600.129) of one-year for purposes of reporting these

⁶⁸ See Glossary for definition of this key term.

⁶⁹ See Glossary for definition of this key term.

⁷⁰ This listing is intended to provide examples and does not represent all instances that may result in a miscellaneous commitment.

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

REPORTING POLICIES AND PROCEDURES MANUAL

transactions in its Governmental funds. Accordingly, current is available and non-current is unavailable for presentation purposes in the governmental fund statements. Thus effectively, the definitions of current and long-term liabilities contained in *Governmental Accounting Standards Board (GASB) Codification* Section 2200.116 are consistent 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.”

The State has adopted the following policy for compliance with GAAP with respect to loss contingencies:

- o Disclose loss contingencies which are at least reasonably possible at June 30.
- o Disclose major loss situations that arise during the subsequent period (all significant transactions subsequent to year-end are required to be disclosed).
- o Disclose commitments existing at June 30.

The State will neither disclose the potential nor report liabilities for situations where the chance of loss to the State is remote. However, guarantee of the debt of others is a required disclosure and will be disclosed by the State in all instances, even if the probability of loss is remote.

Section .17 Other Payroll Related Liabilities

Accumulated employee balances of annual leave, sick leave, compensatory time, and holiday compensatory time are called compensated absences⁷¹. GAAP requires that the State report a liability in its financial statements as of June 30 for the value of certain compensated absences. Disclosures required include the increases and decreases in the liability gross for the reporting year along with the amount to be paid in the next fiscal year.

Compensated Absence Liability

GAAP relating to compensated absences are provided in:

- o GASB Statement 16, *Accounting for Compensated Absences*.
- o GASB Codification Sections C60.101 through C60.111.

Leave Balances

Based on GAAP, the State has identified the following leave balances which qualify for recognition and reporting of compensated absences:

- o Accumulated unused annual leave earned by employees.
- o Accumulated unused holiday compensatory time.
- o Accumulated unused overtime compensatory time.

The accumulated unused annual leave earned by employees at June 30 is the actual annual leave balance in the agency’s records for each employee, even if that employee’s balance exceeds the 337.5 hours for which they could be paid upon termination.

⁷¹ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Employees who work on legal holidays must receive regular hourly pay for the time worked or compensatory time off. The compensated absences liability at June 30 will include accumulated unused compensatory time for **all** employees (i.e., regardless of their status under the Fair Labor Standards Act).

State agency policies vary regarding overtime work. Some agencies pay employees for overtime worked; others give compensatory time off. The compensated absences liability at June 30 will include accumulated unused compensatory time for **all** employees (i.e., regardless of their status under the Fair Labor Standards Act and regardless of whether the agency intends to provide overtime pay or paid time off work).

It is the State's policy not to record a liability for the value of:

- o Annual leave transferred to employees from a pool leave account under the State Employee Leave-Transfer Program⁷²
- o Accumulated leave in the State Employee Leave-Transfer Program pool leave account.
- o Accumulated unused sick leave.

Pay Rate in Effect at June 30.

The compensated absence liability for an employee is based on the daily or hourly pay rate (dollars and cents) that is in effect at June 30. Because of the State's "payroll lag," the pay rate in effect at June 30 includes the following pay increases:

- o General pay increases (such as cost-of-living increases) entered with June effective dates because the General Assembly authorizes it to be paid on July 1.
- o Individual employee pay increases (such as merit or promotional increases) with June effective dates to be paid in July or later in the new fiscal year.

You may compute the pay rate in effect at June 30 by dividing the employee's annual salary on June 30 by the total hours (or days) worked per year. The total hours (or days) worked per year equals the hours (or days) worked per week times 52 weeks (e.g., 37.5 hours/week x 52 weeks/year = 1,950 hours/year or 5 days/week x 52 weeks/year = 260 days/year).

The pay rate in effect at June 30 does not include one-time lump sum bonuses which do not increase the employee's base salary.

Teacher and Employee Retention Incentive (TERI) Program.

Employees entering the TERI Program are paid up to 45 days of unused annual leave. Any annual leave in excess of those 45 days should remain in the employee's leave balance. The compensated absences liability at June 30 is the total leave balance at that date for the employee.

Compensated Absence Report

With payroll processed in SCEIS by all agencies, information regarding the leave balances is available centrally. A Compensated Absence Report will be generated centrally with each agency's information distributed for review and identification of omissions and errors. The Compensated Absence Report can only be generated at a particular point in time to generate accurate information. Because SCEIS is a real-time information system, the records are modified after the snap-shot at the designated point in time

⁷² See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

which will result in differing information is regenerated after that point in time. Information provided to the Agency for review and confirmation of accuracy for reporting purposes will include only the value of the wages associated with compensated absences.

The design of the report provides a separate line for each funding source utilized to pay the employee's salary. Therefore a single position held by an employee may be reported several times. The Liability column of the report utilizes the percentage funding to eliminate and duplication of amount by funding source.

For example: Jane Smith is employed in position 60003555 which is funded by Fund 10010000 50%, 30350000 25%, and 50550000 25%. Jane Smith has a balance in hours of 40 with a wage rate of \$25.00 resulting in an amount reported of \$1,000. Jane Smith will appear in the report 3 times with the \$1,000 in the amount column. The Liability column will report \$500 in 10010000, \$250 in 30350000, and \$250 in 50550000 totaling \$1,000 to properly report the liability amount.

Discrepancies in the liability amount resulting from funding sources, percentages, wage rates, or balance of hours should be reported along with omissions of employees on the Compensated Absences Summary Form (Form 3.17.1). The Comptroller General's Office will use the information from the report and the forms to report the compensated absence liabilities in the appropriate fund for the government-wide financial statements. A computation of the current liability portion will also be performed for appropriate classification reporting. The Comptroller General's Office will compute and record an additional amount for fringe benefits associated with those wages.

Agencies should identify and exclude from the year-end reporting, Compensated Absences Summary Form (Form 3.17.1), any amounts associated with personnel who terminated their State employment during June, including June retirees. Inclusion of these employees in compensated absence would result in an overstatement of liabilities as the accrued payroll liabilities include amounts for terminated employees, including June retirees.

Termination Payments

Section 8-11-620 of the South Carolina Code of Laws and Section 19-709.05 of the State Human Resources Regulations limit the amount of leave and lump-sum payment permitted upon termination of employment. **The liability computations described in the reporting manual do not modify this (or any other) requirement of State law.** Conversely, the State's compensated absence liability under GASB Statement 16 is unaffected by the existence of this or any other legal limitation.

Other Payroll Related Issues

From time to time an agency may utilize the employee of another entity (for example a County or local municipality) for services provided by the agency. If this individual is paid directly and payment is not provided to the individual's employer or if other compensation is provided (through payments to benefit providers) but not to the employer, this constitutes payments on behalf of and is required to be disclosed. Likewise in the agency's employees are provided to another entity for which compensation is paid directly to the employee or a benefits provider, the transaction needs to be disclosed. The questions related to these situations have been moved from the Master Reporting Package to Form 3.17.2.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Section .18 Interfund Payables

GAAP and State budgetary accounting practices require the State record revenues, expenditures, and interfund receivables with the offsetting payables in the fiscal year in which the agency received goods or services from, or owes a refund of revenue to, another State agency or another accounting fund within the same agency. Information is gathered from SCEIS for analysis and compared with agency performed information gathering to determine if the amounts reported in SCEIS are complete and in balance (all interfund receivables have a corresponding payable at another agency or in another fund at the same agency. Incomplete or erroneous information can lead to misstatement in the financial statements.

Unless indicated by management's intent, communicated to the Comptroller General's Office, the State will report Interfund Payables and Interfund Receivables as current liabilities and current assets, respectively, in the appropriate accounting funds. Please notify the Comptroller General's Office if any non-current liabilities are identified in the preparation analysis.

An Interfund Payable should be reported at June 30 only if it meets both of the following criteria:

- o At June 30, one of the agency's funds owed an amount to either:
 - A different agency within the State's financial reporting entity.
 - A different fund within the same agency.
- o The agency paid the amount in the new fiscal year using either:
 - An Interdepartmental Transfer (IDT).
 - A Disbursement Voucher.

The liability for Interfund Payables can arise from:

- o A payment in the new fiscal year to a different agency within the State's financial reporting entity or to a different fund within the same agency for goods or services received on or before June 30.
- o A refund of revenue paid in the new fiscal year to a different agency within the State's financial reporting entity or to a different fund within the same agency that was payable on or before June 30.

For this reporting package, Interfund Payables do not include Medicaid reimbursements the Department of Health and Human Services owes to other State agencies. Interfund Payables also do not include loan payments to another State agency or between funds within the same agency.

Section .19 Reserved for Future Use.

Section .20 Fund Balance and Net Assets

GAAP relating to fund balance and net asset reporting are established in the following Governmental Accounting Standards Board (GASB) Statements:

- o Number 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*
- o Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

GASB 34 modified the presentation and reporting for governmental entities providing fund prospective in addition to government-wide prospective. It required that activity reported in Proprietary Funds

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

REPORTING POLICIES AND PROCEDURES MANUAL

(Enterprise, Internal Service, and some Trust Funds) result in the reporting of net asset balances. The net asset balances are required to be reported as unrestricted or restricted. The definition of restriction⁷³ set a precedent for identifying and reporting restricted resources for all government activities.

GASB 54 modified the definition of restricted in relationship to governmental activities (reported in Governmental Funds) and created additional levels of constraint for the reporting of fund balance⁷⁴.

The GASB determined that the term net assets is more identifiable by users of the financial statements in operations where revenue is charged to cover the expenses incurred to generate the revenue. It is more reflective of the business type activities and economic resource measurement accounted for in Proprietary Fund. Fund balance is more reflective of the financial resources measurement focus in the Governmental Funds.

Classifications of Net Assets

- Investment in capital assets, net of related debt⁷⁵ – the resources of the fund which are not available for operations because of the form of the asset (fixed assets).
- Restricted – the net residual of revenue resources for which constraint is established by external parties, constitution, or state statute.
- Unrestricted⁷⁶ - the remaining balance of assets less liabilities.

Classifications of Fund Balance

- Restricted – the net residual of revenue resources for which constraint is established by external parties or by constitution or state statute AND the revenue source was established as unique and specific within the Act that constrains its use.
- Committed – the net residual of revenue resources for which constraint is established by constitution or state statute.
- Assigned – the net residual of revenue resources for which constraint on use is budgetary in nature or established by regulatory or agency policy.
- Non-spendable – the portion of fund balance which cannot be easily liquidated or available⁷⁷ for expenditure.
- Unassigned – the net residual of revenue resources for which no constraint of use exists.

Consumption of Revenue Resources with Constraints

Paragraph 115 of GASB 34 and Paragraph 23 of GASB 54 require 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 to the State's financial statements. It is the policy of the State of South Carolina to apply expenses or expenditures against the restricted resources first.

⁷³ See Glossary for definition of this key term.

⁷⁴ See Glossary for definition of this key term.

⁷⁵ See Glossary for definition of this key term.

⁷⁶ See Glossary for definition of this key term.

⁷⁷ See Glossary for definition of this key term.

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

REPORTING POLICIES AND PROCEDURES MANUAL

For governmental funds, paragraph 23 of GASB 54 requires determining whether to first apply committed, assigned, or unassigned resources when an expenditure is incurred for purposes for which any of these unrestricted fund balances are available. The policy for the determination is required to be disclosed in the notes to the State's financial statements. It is the policy of the State of South Carolina to first apply expenditures against any committed resources available, followed by assigned resources, with unassigned as the final application.

The constraints on use of the revenue resources must be disclosed in the notes to the financial statements. Due to the decentralized nature of the State of South Carolina's operations, the Comptroller General's Office must rely on the Agency to communicate the purpose of the use of the accounting funds and if multiple revenue resources with constraints are accounted for in a single fund to communicate each purpose within the accounting fund. This information must be evaluated and updated regularly. If a change in use of a fund or expansion of the revenue sources recorded in a fund occurs during the year, the Agency should complete a Fund Use and Reporting Fund Types Form (Form 3.20.2) to communicate this change to the Comptroller General's Office for accurate financial reporting.

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

REPORTING POLICIES AND PROCEDURES MANUAL

PART IV GLOSSARY

The following definitions are alphabetically arranged with reference to the sections in which the terms are utilized. Please be cognizant that definitions may differ slightly for the sections. These differences have been included in the Terms Column of the following presentation. If further guidance is required please remember, the Financial Reporting Division of the Comptroller General's Office is just a phone call away.

Terms	Section
<u>Accounting Records.</u> The documentation retained to provide evidence of transaction, issues, evaluations, and decisions related to financial information used by management and provided to external parties. Accounting records include, but are not limited to, electronic records maintained in an accounting information system, source documents, memos and descriptions, policies and procedures, analysis and working papers, and published documents. Agency directors establish through policy what are the accounting records of the agency, and in what form they are to be retained. Statewide policies exist for the length of retention. Laws, regulations, and best practices should be considered when establishing policy.	General
<u>Accounts Payable.</u> Amounts known in amount and timing owed to identifiable vendors.	Section .12
<u>Accounts Receivable.</u> The valuation of goods or services provided prior to June 30 for which payment has not been received at June 30. This could include amounts already invoiced to customers (service recipients) or amounts for which invoices have not been generated.	Section .4
<u>Accrual Basis.</u> This basis of accounting (see definition provided in this glossary) requires recognition of the effects of transactions or events when those transactions or events take place (rather than when cash is received or paid).	Section .4 Section .5
<u>Accrued Expenses.</u> Calculations and estimates of amounts and timing of transactions owed to parties outside of the State's reporting entity.	Section .12
<u>Accumulated Depreciation.</u> The sum of the recognized depreciation to date.	Section .8
<u>Acquisition value.</u> The value of an asset at the time of acquisition. Historical cost (see definition provided in this glossary) if the asset was purchased or fair value (see definition provided in this glossary) at the date of the donation, if the asset was donated.	Section .8

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<p><u>Allowance for Uncollectible Receivables.</u> An estimate of amounts reported as receivables for which collection is not expected, questionable, or the probability of collection is uncertain. The estimate should be developed through a systematic evaluation that is well document and systematic.</p>	<p>Section _.2 Section _.4 Section _.5 Section _.10</p>
<p><u>Annual Leave Earned by Employees.</u> The amount of annual leave credited to an employee during the reporting period.</p>	<p>Section _.17</p>
<p><u>Annual Leave.</u> The leave awarded to employees based on years of service with the State of South Carolina. It does not include amounts transferred to employees under the State Employee Leave-Transfer Program (see definition provided in this glossary).</p>	<p>Section _.17</p>
<p><u>Assigned fund balance.</u> The fund balance classification for which constraints on the use of revenue resources are established through budgetary action, regulatory guidance, or agency policy. Proviso guidance is a temporary law subject to change annually which results in a lower level of constraint than those created by permanent Code of Law sections. Constraints created by Proviso result in Assigned Fund Balance.</p>	<p>Section _.20</p>
<p><u>Authorized Balance.</u> Upon establishment of a petty cash fund (either cash on hand or deposit account) the agency requested an amount which was authorized by the State Auditor’s Office. This amount at which the account should be maintained is the authorized balance. Because petty cash balances should be maintained at the authorized balance to provide timely and accurate reporting of the related expenses, the CGO will report these balances at the authorized balance unless information is provided that indicates a substantial decline in the balance without timely replenishment. When reviewing the SCEIS reports for confirmation of balance, the account balance should be the authorized balance.</p>	<p>Section _.1</p>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<p><u>Availability Period.</u> The period used in reporting principles to determine the earnings process as reported in Governmental Fund Types. It is identified through the establishment of reporting policy by the reporting entity. For the State of South Carolina the following policies are established:</p> <p>Sec .2 Taxes Receivable – tax revenue collected or expected to be collected any time before the <i>next</i> June 30th.</p> <p>Sec. .3 Grants Receivable – grant or contributions collected or expected to be collected any time before the <i>next</i> June 30th.</p> <p>Sec. .4 Accounts and Other Receivable – charges for services and other revenue collected or expected to be collected one month after year-end (from July 1 to July 31).</p> <p>Sec .5 Refunds Receivable - expenditure or expense transactions incurred before the next June 30th (i.e. one year).</p> <p>Sec. .20 Fund Balance – fund balance classifications as collected or expected to be collected within one month after year-end (from July 1 to July 31).</p>	<p>Section .2 Section .3 Section .4 Section .5 Section .20</p>
<p><u>Available.</u> Resources received or expected to be received soon enough after year-end to pay liabilities of the current fiscal year. See Availability Period for the State’s policy for “soon enough after”.</p>	<p>Section .2 Section .3 Section .4 Section .5 Section .20</p>
<p><u>Average Cost.</u> An inventory valuation method utilizing a mathematical average of unit costs over the period of acquisition of the inventory items held on the valuation date. Types acceptable include moving-average and weighted-average. This is an acceptable method of valuing inventory items that some computerized inventory systems use.</p>	<p>Section .6</p>
<p><u>Bargain Purchase Option.</u> A lease agreement provision allowing the lessee, at his option, to purchase the leased property for a price that is significantly lower (approximates nothing) than the expected fair value of the property at the date the option becomes exercisable that exercise of the option appears to be reasonably assured.</p>	<p>Section .9</p>
<p><u>Bargain Renewal Option.</u> A lease agreement provision allowing the lessee, at his option, to renew the lease for a rent sufficiently lower than the fair rental of the property at the date the option becomes exercisable that exercise of the option appears to be reasonably assured.</p>	<p>Section .9</p>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Basis of Accounting.</u> Determination of when the effects of transactions or events are recognized (i.e., recorded in the accounts and reported in financial reports).	Section <u>.4</u> Section <u>.5</u>
<u>Book Balance.</u> The book balance of a bank account is the balance on your accounting records or in your checkbook on June 30. Your agency should reconcile the book balance with the statement the bank provides. For composite reservoir bank accounts, the composite bank balance per the State Treasurer is a bank balance, not a book balance.	Section <u>.1</u>
<u>Book Value.</u> Book value equals the historical cost of the asset purchased or constructed or the fair value at the date of donation if donated. <i>Net</i> book value is book value less accumulated depreciation.	Section <u>.8</u>
<u>Breach of Contract.</u> The breaking of a legally binding contract. A contract may be either oral or written but must include the following elements: competent parties, consideration, and offer and acceptance.	Section <u>.13</u>
<u>Building Improvements.</u> Include additions or renovations to existing buildings after the acquisition of the building. Qualification of transactions requires any <i>one</i> of the following three criteria: <ul style="list-style-type: none"> • Adds square footage to the existing building. • Prepares an existing building for a new use through renovation. • Extends the useful life of the existing building. <p>Ordinary repairs and maintenance, such as a roof replacement, are not building improvements, even though they could cost a significant amount. Extending the useful life of an existing building requires specific improvements in response to a change in the use or contents of the building. Completing a renovation required by deferred maintenance does not constitute an extension of the useful life.</p> <p>When a building is improved, the improvement should be capitalized as a separate asset from the original building. An appropriate useful life for depreciation purposes should be assigned to the building improvement based on an evaluation independent of the evaluation for the original building asset. The building improvement useful life may or may not be the same as the original building's useful life.</p>	Section <u>.8</u>
<u>Buildings.</u> Permanent structures housing persons or personal property.	Section <u>.8</u>
<u>Cancelable Lease.</u> A lease agreement which includes specific language permitting the lessee to cancel the agreement for virtually any reason after providing the lessor adequate notice. Refer to the definition of Noncancelable Lease in this glossary for specific restrictive clauses which qualifies the lease as noncancelable.	Section <u>.9</u>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<p><u>Capital Assets.</u> Assets that meet the definition of the asset classifications, the capitalization policy dollar threshold, and the capitalization policy useful life. Capital assets are classified as land, improvements to land, 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 2 reporting years (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 definition provided in this glossary, criteria included as Exhibit 3.8(A)).</p>	<p>General Section <u>.8</u></p>
<p><u>Capital Contribution.</u> A contribution for which the <i>contributor</i> restricts the use of the contribution to capital purposes (see definition provided in this glossary).</p>	<p>Section <u>.3</u></p>
<p><u>Capital Grant.</u> A grant agreement or award that restricts the use of the grant resources to capital purposes (see definition provided in this glossary).</p>	<p>Section <u>.3</u></p>
<p><u>Capital Lease.</u> A capital lease is a lease that transfers substantially all the benefits and risks of asset ownership to the State. Agencies should report capital leased assets as capital assets. Refer to Section <u>.9</u> for capital lease criteria. See Section <u>.8</u> for more information on capitalization and depreciation of capital leased assets.</p>	<p>Section <u>.8</u></p>
<p><u>Capital Purposes.</u> The acquisition, construction, or renovation of assets which meet the definition of an asset class. If the capitalization criteria (See Section <u>.8</u>) are not met, the purpose of the grant is unaffected. If the restriction does not specify capital purposes, it is considered to be classified as operating even if it is used for capital purposes.</p>	<p>Section <u>.3</u></p>
<p><u>Capitalization Criteria.</u> The policies established by the State regarding the minimum useful life and minimum dollar value of capital assets (Exhibit 3.8(A)). The policy is needed so that short-lived assets and those costing small amounts are <u>not</u> recognized and reported as capital assets.</p>	<p>Section <u>.8</u></p>
<p><u>Cash Conduit.</u> An organization or facility through which resources (in the form of cash payments) flows to another organization without administrative or direct financial involvement in the program being funded.</p>	<p>General Section <u>.3</u></p>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<p>Cash. For reporting purposes, cash includes cash on hand (petty cash and change funds), cash on deposit with financial institutions, and highly liquid investments with an original maturity from date of purchase of 90 days or less.</p> <p>For purposes of the Cash reporting package (Section 3.1), Cash <u>includes</u>:</p> <ul style="list-style-type: none"> -- Cash on hand (petty cash, for example). -- Deposits with financial institutions (checking accounts, composite reservoir account balances (See also the definition of Composite Reservoir Bank Accounts.), savings accounts, and certificates of deposit, for example) -- Cash or deposits your agency holds in a trustee capacity or as an agent for others. 	<p>General Section <u>.1</u></p>
<p>Claim. An application for payment of damages or a policy benefit resulting from the occurrence of an event, such as the destruction of, or damage to, an asset.</p>	<p>General Section <u>.15</u></p>
<p>Claim-Paying Program. A program that accepts risk instead of paying insurance companies to cover those risks (through the purchase of an insurance policy). Claim-paying programs do one or both of the following:</p> <ul style="list-style-type: none"> o Contract with private insurance carriers to process and/or pay claims. (Known as Third Party Administrated Claim-Paying Programs) o Pay claims directly. (also known as State Claim-Paying Programs) <p>The State Unemployment Compensation Program and the Victims' Compensation Fund, however, are not claim-paying programs for the purposes of this reporting package.</p>	<p>General Section <u>.15</u> Section <u>.16</u></p>
<p>Claims Known But Not Paid. Claims that satisfy both of the following conditions:</p> <ul style="list-style-type: none"> o The State is aware that a covered event occurred on or before June 30. Example: a covered party filed a claim on or before June 30. o As of June 30, your agency either has made no payment or only partial payment on the claim. <p>The amount for claims known but not paid includes both:</p> <ul style="list-style-type: none"> o The <u>known</u> amount that the State must pay in the future for claims settled on or before June 30. o An <u>estimate</u> of amounts the State will pay in the future for claims in process (if any) at June 30. 	<p>Section <u>.15</u></p>
<p>Commitment. The amount of the unperformed portion of a contract or promise as of the fiscal year end (June 30th). (A commitment becomes a liability when the contracted services are performed.)</p>	<p>General Section <u>.16</u></p>

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

REPORTING POLICIES AND PROCEDURES MANUAL

<u>Terms</u>	<u>Section</u>
<u>Committed fund balance.</u> The fund balance classification for which constraints on the use of revenue resources are established by constitution or the State Code of Laws. A Proviso is a temporary law subject to change annually. Due to this temporary status, constraints established by Proviso <i>do not</i> constitute committed under the established State reporting policies.	Section <u>.20</u>
<u>Compensated Absence.</u> Accumulated employee balances of annual leave, sick leave, compensatory time, and holiday compensatory time.	Section <u>.17</u>
<u>Composite Reservoir Bank Accounts.</u> Individual bank accounts established with the authorization of the STO for use by the agency to meet specific operational needs of the agency. The agency is responsible for the controls relating to processing transactions within the account and the periodic reconciliation of its balance with third party information. Because of the nature of some of the accounts composite reservoir accounts may carry negative balances.	General Section <u>.1</u>
<u>Construction Commitments Outstanding.</u> These commitments arise from executed (signed) contracts for construction or development of new capital assets or to repair or maintain existing capital assets. If the work required by the contract is not complete, a remaining commitment or outstanding commitment exists for the contract.	Section <u>.8</u>
<u>Construction in Progress.</u> The balance reported in Construction in Progress represents 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 of the capital asset is substantially complete and the asset is ready to be occupied or placed into service, a reclassification from Construction in Progress to the appropriate capital asset categories is made. The physical occupation or availability for use of the asset should guide the timing of this transaction.	Section <u>.8</u>
<u>Construction Period Interest.</u> The cost of capital assets constructed with funding by identifiable debt issuances 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 amount of capitalized interest is equal to the interest paid less any interest earned on cash balances remaining from the debt proceeds.	Section <u>.8</u>
<u>Contingent Rental.</u> Rent charges which change during the lease term based on factors other than the passage of time (for example usage, machine hours, or sales volume).	Section <u>.9</u>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<p><u>Contract Retentions.</u> As a contract requirements for some construction project contracts (or other long-term project contracts, such as systems projects), a portion of the contract price is withheld (retained or “held back”) from payment to the contractor until the project is complete. The withheld amount is retained for timely completion, correction of defects, and compliance with other requirements of the contract. Therefore the retained amounts are known as contract retentions. The liability is known as retainage payable.</p>	<p>Section .8 Section .12</p>
<p><u>Contributions.</u> Revenue resources provided by private individuals or corporations. Communication is typically less formal than grant awards or grant agreements. In addition the number of recipients for the same program is typically more limited.</p>	<p>Section .3</p>
<p><u>Counterparties.</u> Entities with which the agency transacts business including customers, constituents, vendors, contractual parties, etc.</p>	<p>General</p>
<p><u>Criminal.</u> Violations of laws or statutes other than those concerning breaches of contract and torts.</p>	<p>Section .13</p>
<p><u>Current.</u> A financial statement reporting classification indicating expectation of collection, use, or settlement within the <i>next</i> fiscal year (before the next June 30th).</p>	<p>General Section .3 Section .5 Section .7 Section .10</p>
<p><u>Current Liability.</u> Liabilities (or the portion of a liability) that an agency incurred prior to June 30 of the current year and expects to pay before June 30 of the <i>next</i> fiscal year.</p>	<p>Section .12 Section .13 Section .15 Section .16</p>
<p><u>Current Receivables.</u> That portion of Net Receivable (Taxes, Accounts, Grants, Contributions, or Other) at June 30 that is expected to be collected within one year (by June 30 of the <i>next</i> fiscal year).</p>	<p>Section .2 Section .4</p>
<p><u>Deferred Revenue.</u> A liability representing an amount received as payment in advance of the period required or other limitations on the use of the resources generated in a revenue transaction, such as its availability to pay other liabilities. Includes resources for which the exchange goods or services have not been completely delivered.</p>	<p>Section .2 Section .3 Section .4</p>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Depreciable Land Improvements.</u> Land improvements that are considered part of a structure or that deteriorate with use or with the passage of time. Examples include fencing, landscaping, lighting, parking lots, paving, and signs.	Section .8
<u>Depreciation.</u> The estimation of the consumption of the use of an asset during the course of daily operation of the agency. Depreciation recognizes that assets deteriorate and lose usefulness overtime through regular use.	Section .8
<u>Disallowance.</u> Amounts for which the Grantor has determined a violation of program compliance requirements, terms of the grant award, or other program specifications and rules and determined that resources must be returned to the grantor. Negotiation is required after the identification of questioned cost to determine the existence of an amount of a disallowance.	General Section .14
<u>Disbursement Vouchers.</u> A request for payment through cash disbursement in the form of a check.	Section .18
<u>Easements.</u> 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 the 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. Agencies should report easements as part of the Non-Depreciable Intangible Assets category.	Section .8
<u>Eligibility Requirement.</u> A condition, established either by enabling legislation or by a grantor or contributor, which must be met in order to qualify for revenue recognition (and in certain cases receipt of resources).	Section .3
<u>Employees Earning Annual Leave.</u> Includes all employees who earn annual leave, regardless of funding source (temporary grant employees) and regardless of whether these employees are full-time or part-time workers. The number should be expressed in full-time equivalents (FTE's) as calculated based on estimated hours per week worked not based on budgetary positions.	Section .17
<u>End Recipient.</u> The party that directly expends program funds for items such as goods, service, and contracts, including indirect costs remitted to the General Fund. See opposing concept in Pass-through Entities.	Section .3

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Estimated Economic Life of Leased Property.</u> The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease.	Section .9
<u>Exchange Transactions.</u> A transaction entered by two willing parties in which one party gives up value in exchange for the receipt of goods or services of similar value.	Section .4
<u>Executory Costs.</u> Costs included in the required minimum lease payments under a capital lease in excess of the reduction in the capital lease obligation. Executory costs include finance charges, insurance, maintenance, taxes, or other administrative charges.	Section .9
<u>Exhaustible Work of Art or Historical Treasure.</u> 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.	Section .8
<u>External Sources.</u> Parties external to State government providing financial resources to an agency of the State of South Carolina. See Section 2.0 for entities included in the State Reporting Entity.	Section .4 Section .20
<u>Fair Value of Rental.</u> The rental payment stream that would be agreed upon between a willing lessor and a willing lessee where both have knowledge of all relevant facts.	Section .9
<u>Fair Value.</u> The price at which an asset would be exchanged if both buyer and seller: <ul style="list-style-type: none"> ○ Are willing parties (this excludes a forced or liquidation sale). ○ Have knowledge of all related facts. Information helpful in determining fair value includes: <ul style="list-style-type: none"> ● Readily Determinable Market quotations (for investments published sales prices on the valuation date). ● Independent appraisals. ● Data regarding actual sales of similar assets in an appropriate time frame. An asset received through donation should be recorded at its fair value on the date of donation.	Section .1 Section .8 Section .9
<u>First-In, First-Out (FIFO).</u> An inventory valuation method in which the assumption for valuation is that as inventory is pulled the oldest items are issued first. This approximates the last invoice method when inventory is controlled effectively.	Section .6

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Fiscal Funding Clause.</u> A lease agreement provision which provides that the State may cancel the lease if the General Assembly fails to appropriate adequate funds. If it exists in the lease agreement the agreement is noncancelable.	Section .9
<u>Fraud.</u> An intentional act that results in a material misstatement of accounting records due to deception and for unlawful gain.	General
<u>Future Benefit.</u> An advantage received from an exchange transaction which will not be recognized until after the financial exchange of the transaction. Advantages may include managerial timing of the use of resources or the receipt from the counterparty (goods or services) at a later date.	Section .7
<u>Gain Contingency.</u> Situations involving uncertainty as to possible gain that will be resolved when certain events occur or fail to occur.	Section .13
<u>Grant and Contribution Revenue.</u> The classification of revenue in which the inflow of resources provided under grant agreements or contributions are reported.	General
<u>Grant Award.</u> An agreement between entities for the provision of resources (financial or tangible assets also known as financial assistance) from the one entity (the grantor) to another (the grantee). Grant agreements may be for the purpose of sharing program costs, subsidizing another entity's programs, or reallocating resources. The award agreement outlines the use of resources by the grantee to accomplish established program objectives of the grantor or for sustenance of the State's programs. If the purpose is designed by the grantor, the revenue is restricted. A more formal relationship is established with a grantor than a contributor (donor).	General Section .3 Section .12 Section .14
<u>Grantor.</u> An organization that provides resources (grant funding) for the programs of others. Examples of grantors who provide funds to State agencies include the Federal government, the Corporation for Public Broadcasting, and The Duke Endowment.	General Section .3 Section .14
<u>Grants Payable.</u> Amounts for which a grantee has qualified through compliance requirements to receive resources as of year-end but for which disbursement was not made until after year-end.	Section .12
<u>Historical Cost.</u> 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. If actual cost records are not available, agencies should <i>estimate</i> 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.	Section .8

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Holiday Compensatory Time</u> . An amount of leave time earned by working during a holiday.	Section _.17
<u>Impairment</u> . When a capital asset undergoes an event or change in circumstance that causes a <i>significant, unexpected</i> decline in its service utility and the event or change in circumstance is outside of its normal life cycle. Generally, impairment should be considered permanent.	Section _.8
<u>Implicit Interest Rate</u> . The rate at which the present value of the minimum required lease payments is equal to the fair value of the leased property to the lessor at the inception of the lease. If the lessee can determine the implicit rate used by the lessor and if the implicit rate is lower than the lessee's incremental borrowing rate, the lessee should use the implicit rate for the present value calculation. Otherwise, the lessee should use its incremental borrowing rate.	Section _.9
<u>Incremental Borrowing Rate</u> . A rate that, at the inception of the lease, the lessee would have incurred to borrow over a similar term the money necessary to purchase the leased property.	Section _.9
<u>Incurred But Not Reported (IBNR)</u> . A claim for which the event occurred prior to year-end but was not reported as of year-end or in the subsequent period. Valuing of the IBNR requires estimation because all of the facts are not available.	Section _.15
<u>Infrastructure</u> . GASB Codification Section 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.	Section _.8
<u>Intangible Assets</u> . Intangible assets generally lack a physical existence. This category includes such items as computer software, easements, land use rights (water and timber), trademarks, copyrights, and patents. Most intangible assets are depreciable, including purchased and internally-generated software, but an intangible asset may be non-depreciable if it is considered to have an infinite useful life. Easements typically have an infinite useful life and are therefore non-depreciable.	Section _.8
<u>Interdepartmental Transfer (IDT)</u> . An exchange of resources from one agency to another or between accounting funds within the agency processed through pooled cash held by the State Treasurer's Office.	Section _.18

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

REPORTING POLICIES AND PROCEDURES MANUAL

<u>Terms</u>	<u>Section</u>
<u>Interest Expense.</u> The cost of borrowing resources. Repayment is required periodically based on the terms of the debt agreement.	Section _.12
<u>Interest Payable.</u> The amount of interest owed but unpaid as of year-end.	Section _.12
<u>Interfund Payable.</u> A liability (amount payable) owed from one accounting fund to another accounting fund at June 30. Within the State's reporting entity this would also result from one accounting fund of a particular agency to another accounting fund (with or without the same number) of another agency.	General Section _.18
<u>Intergovernmental Payable.</u> Amounts owed to other governmental entities outside the State's financial reporting entity. This would include the Federal government, counties, special purpose districts, or municipalities.	Section _.12
<u>Intra-State Transfers of Capital Assets.</u> An occurrence when an agency donates capital assets to another fund within its agency or to another agency within State government. Intra-State transfers do <u>not</u> include; transfers to the Surplus Property Section of General Services for resale or sales to, or purchases from, other State agencies or funds, which should be reported as capital asset retirements and additions.	Section _.8
<u>Inventory.</u> An asset representing a stores of specific types of non-liquid resources expected to be consumed or sold within an operating period (fiscal year). All materials, supplies, and other goods held for future use in operations or manufacturing or for sale are reported as inventory.	General Section _.6
<u>Investment in Capital Assets, net of related debt.</u> A residual balance reported in the net asset section of Proprietary Funds representing non-spendable balances tied up in fixed assets and the debt utilized to finance the acquisition of the assets.	Section _.20
<u>Investment.</u> Negotiable instruments held for earnings potential. Examples include marketable securities (equity, debt, or mutual funds), cash on deposits with withdrawal restrictions from original date of purchase in excess of 90 days, money market certificates, other financial instruments, or land and other real estate held as investments by endowments. Investments your agency <i>holds</i> as a trustee or agent for others should be included. Securities pledged to an agency in accordance with contractual, regulatory, or legal requirements do not constitute owned or controlled investments. Investments to be reported by agencies should exclude any held in the custody of the State Treasurer's Office. Also excluded are insurance policies and other non-negotiable instruments.	General Section _.1

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Land</u> . All parcels of real estate, including rights-of-way that are owned by an agency of the State.	Section _.8
<u>Last Invoice Price Method</u> . An inventory valuation method that ignores fluctuations in pricing during the holding period of the inventory by utilizing only the last price paid for an inventory item in the valuation calculation. It approximates FIFO.	Section _.6
<u>Lease Agreement</u> . A legal document in which a lessor gives property rights to a lessee for a specific period of time.	Section _.9
<u>Lease Term</u> . The period covered by a lease agreement. It is also the time period between the date of execution and the expiration date.	Section _.9
<u>Leasehold Improvements</u> . 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 lesser will pay to the lessee at the end of the lease term.	Section _.8
<u>Legally Separate Entities</u> . Entities established independent of the State government.	General
<u>Lessee</u> . The "consuming" party in a leasing arrangement.	Section _.9
<u>Lessor</u> . The "vending" party in a leasing arrangement.	Section _.9
<u>Liability</u> . An obligation resulting from past transactions (or events) that will (or is likely to) result in future payments and/or reductions in future revenues (or collections).	General Section _.2 Section _.4 Section _.12 Section _.13 Section _.14 Section _.15 Section _.16 Section _.17

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

REPORTING POLICIES AND PROCEDURES MANUAL

<u>Terms</u>	<u>Section</u>
<u>Litigation.</u> Disputes or legal contests carried out and resolved through the judicial process.	General Section .13
<u>Loan Agreement.</u> An agreement between two parties involving the providing of resources by the lender with an agreement from the borrower that repayment will occur in the future. Typically the agreement specifies the terms of the agreement for periodic repayment, final maturity, interest rate, method of calculating the interest, and the collateral required by the lender to execute the agreement. Synonym for Note Agreement.	Section .10
<u>Loans Receivable.</u> Outstanding principal balances at June 30 on loan agreements that the State made to non-State parties.	Section .10
<u>Long-term.</u> A reporting classification for assets and liabilities identifying assets not expected to be liquidated within one fiscal year (until after the next June 30) and liabilities not expected to be paid within one fiscal year.	General
<u>Long-Term Liability.</u> A liability at June 30 th that is <i>not</i> expected to be paid during the next fiscal year but in periods beyond the next fiscal year.	Section .13 Section .15 Section .16
<u>Loss Contingency.</u> A situation involving uncertainty as to possible loss. The uncertainty will be resolved when certain events occur or fail to occur.	General Section .13 Section .14 Section .16
<u>Loss Liability.</u> A liability arising from an event which results in a loss. Known losses at June 30 for which the State has an obligation to make future payments.	General Section .14 Section .16
<u>Low Value Assets (LVA).</u> All assets purchased that have a useful life within the capitalization criteria (in excess of 2 years, as detailed in Exhibit 3.8(A)) but do not meet the capitalization threshold criteria (\$5,000 for moveable assets or \$100,000 for all other assets, as detailed Exhibit 3.8(A)).	Section .8
<u>Machinery and Equipment.</u> Any movable tangible assets used for operations that do not meet the definition of vehicles (see definition provided in this glossary). Examples include furniture and fixtures, office equipment, and other miscellaneous movable equipment.	Section .8

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Measurable.</u> The amount of the transaction is known or sufficient information is available to reasonably estimate the amount to be received. A reasonable estimate of value is available.	General Section _.2 Section _.3 Section _.4 Section _.5
<u>Merchandise Inventory.</u> Inventory items purchased for resale at a retail price to external parties.	Section _.6
<u>Minimum Lease Payment.</u> The amount required to be paid by the lessee to the lessor under the lease agreement. The frequency of the payments is stated in the lease agreement.	Section _.9
<u>Miscellaneous Revenues.</u> Exchange transactions between a state agency and a non-State government entity performed within the purpose of existence for the agency. Any revenue that are not tax revenue or grant revenue.	General Section _.4
<u>Modified Accrual Basis.</u> A basis of accounting limiting the recognition of assets and liabilities based on a current financial resources measurement focus. Revenues are reported under the modified accrual basis in the fiscal year in which they are both measurable and available.	Section _.2 Section _.3 Section _.4 Section _.5
<u>Moving-Average Method.</u> An inventory valuation method utilizing a mathematical average of unit costs which adjusts the cost of the inventory item by item not by each unit on hand.	Section _.6
<u>Net Book Value.</u> The acquisition value at the acquisition date less accumulated depreciation. Book Value less accumulated depreciation. (Also see Book Value.)	Section _.8
<u>Net Lease Payment Per Period.</u> The net lease payment per period is the annual net minimum lease payment amount divided by the number of payments required to be made per year.	Section _.9
<u>Net Minimum Lease Payment.</u> The minimum lease payment net of any executory costs . The net minimum lease payment is used only for the present value calculation for determining whether a lease is capital or operating.	Section _.9

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<p><u>Noncancelable Lease.</u> A lease that is not a cancelable lease. This includes leases with restricted cancellation clauses such as the following:</p> <ul style="list-style-type: none"> - Only upon the occurrence of some remote contingency. - Only if the General Assembly fails to appropriate adequate funds (this is often called a "fiscal funding clause"). - Only with the permission of the lessor. - Only if the lessee enters into a new lease with the same lessor. - Only upon payment by the lessee of a penalty in an amount such that continuation of the lease appears reasonably assured. 	Section .9
<p><u>Non-Capitalized Collections of Works of Art and Historical Treasures.</u> Collections that do not meet the criteria as outlined in the Works of Art and Historical Treasures definition below.</p>	Section .8
<p><u>Non-Current Receivable.</u> The portion of Net Receivable (Accounts, Taxes, Grants, Contributions, or Other) at June 30 that are expected to be collected beyond one year (after June 30 of the <i>next</i> fiscal year).</p>	Section .2 Section .4
<p><u>Non-Current Liability</u> That portion of a liability that is not expected to be paid within the next twelve months or prior to the <i>next</i> June 30.</p>	Section .12
<p><u>Non-Current.</u> A reporting classification for assets and liabilities identifying assets not expected to be liquidated within one fiscal year (after the next June 30) and liabilities not expected to be paid within one fiscal year. Synonym for long-term.</p>	General Section .3 Section .5 Section .7 Section .10
<p><u>Non-Depreciable Capital Assets.</u> Assets for which depreciation is not recognized because the useful life is considered to be infinite.</p>	Section .8
<p><u>Non-Depreciable Land Improvements.</u> Improvements that produce <i>permanent</i> benefits, primarily related to preparing land for its intended use. Examples include filling and grading costs.</p>	Section .8
<p><u>Nonrecognized events.</u> Events occurring after year-end that provide evidence with respect to conditions that did not exist at year-end but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure is essential to a user's understanding of the financial statements.</p>	General

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

REPORTING POLICIES AND PROCEDURES MANUAL

<u>Terms</u>	<u>Section</u>
<u>Non-Spendable.</u> A residual balance reported in the fund balance section of Governmental Funds representing balances tied up in assets and not available (see definition provided in this glossary) to pay liabilities owed at year-end.	Section _.20
<u>Note Agreement.</u> Synonym for Loan Agreement.	Section _.10
<u>Notes Receivable.</u> Outstanding principal balances at June 30 on note agreements that the State made to non-State parties.	Section _.10
<u>Operating Lease.</u> A lease agreement that does not meet the criteria required for a capital lease.	Section _.9
<u>Operating Purposes.</u> Resources to be utilized to pay for programmatic operational costs.	Section _.3
<u>Overtime Compensatory Time.</u> An amount of leave time earned by working beyond the established work schedule for the employee's position.	Section _.17
<u>"Passed Through" Funds.</u> Funds received as a grant that are provided to another entity (known as the "pass-through entity", a State agency or non-State organization) to accomplish the objective of the grant purpose. (Additional guidance on pass-through entities is available in OMB-A133).	Section _.14
<u>Pass-Through Entities.</u> An entity which receives resources through grants for distribution to others who execute the program in accordance with the grant agreement.	General
<u>Pass-Through Grant Award.</u> Resources received under a grant award agreement from a grantor which are provided to another entity for whom the original recipient of the resources is responsible for administrative or direct financial responsibility. See OMB A-133 Subpart B Section _.210 for additional guidance on determination of Pass-through compared to vendor relationship.	Section _.3
<u>Pay rate.</u> The hourly or daily rate at which an employee's compensation is based.	Section _.17
<u>Period of Benefit.</u> The time over which the government realizes benefit from a particular transaction. This may be indicated by an effective date and an expiration date.	Section _.7
<u>Periodic Inventory System.</u> An inventory system which does not modify the quantity on hand for each item in real-time. Periodic adjustments are made to the quantity on hand.	Section _.6

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Perpetual Inventory System.</u> An inventory system which utilizes real-time processing to provide more accurate and timely control of inventory items. The quantity on hand adjusts when items are issued or received with modifications to the cost per unit at each acquisition.	Section _.6
<u>Physical Count.</u> A control over inventory for detection of errors and loss utilizing a systematic item by item accounting of the quantity on hand.	Section _.6
<u>Pledge.</u> Promised donations or contributions of cash or other assets that nongovernmental entities, including individuals, voluntarily make to governments.	General Section _.3
<u>Pollution Remediation Obligation.</u> An obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. For example, obligations to clean up spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos are pollution remediation obligations.	General
<u>Pollution.</u> The U.S. Environmental Protection Agency provides the following discussion of the term pollution on its website: "Generally, the presence of a substance in the environment that because of its chemical composition or quantity prevents the functioning of natural processes and produces undesirable environmental and health effects. Under the Clean Water Act, for example the term has been defined as the man-made or man-induced alteration of the physical, biological, chemical, and radiological integrity of water and other media."	General
<u>Potentially Responsible Party.</u> An individual or entity - including owners, operators, transporters, or generators - that is held potentially responsible for pollution at a site. As used in this GASB Statement 49, the term refers to a party that is held by law as potentially responsible for pollution at any site. It is not limited to parties associated with Superfund sites.	General
<u>Prepaid Expenses.</u> Costs paid in advance of the fiscal period in which benefit is recognized.	General
<u>Probable.</u> A future event is probable if the event is likely to occur.	Section _.13 Section _.14 Section _.15 Section _.16

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Reasonably Estimate.</u> A systematic process to estimate a value utilizing reliable information available at the time of the calculation. The information utilized in the estimate is reliable if more information is measured than that which is assumed. If the majority of the calculation is based on assumptions, the information utilized in the estimate is not reliable.	Section _.5
<u>Reasonably Possible.</u> The chance of occurrence is greater than remote but less than probable.	Section _.13 Section _.16
<u>Receivable.</u> An amount owed to the State from a counterparty in a transaction. For Section _.3 Grants and Contributions, this would include pledges. For Section _.5 Refunds Receivable, the counterparty must be a non-State party.	Section _.3 Section _.5
<u>Reclassifications of Capital Assets.</u> Should occur only between Construction in Progress and other capital asset categories. Balances previously reported as Construction in Progress should be moved to other capital asset categories upon completion and use of the asset.	Section _.8
<u>Recognized events.</u> Events occurring after year-end that provide additional evidence with respect to conditions that existed at year-end and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.	General
<u>Remote.</u> A future event is remote if the event has only a slight chance of occurring.	Section _.4 Section _.13 Section _.16
<u>Rent Holiday.</u> A period of rent reduction in the first few months or years of the lease. A rent holiday usually is designed to ease the lessee's short-term cash flow requirements or to otherwise provide financing for the lessee. A reduced payment at the end of a lease term is not a rent holiday.	Section _.9
<u>Restricted.</u> A constraint of the use of a revenue source enacted by an external source or enabling legislation. For governmental funds, the enabling legislation (constitutional or state statute) must create a unique and specific revenue and constrain the use of that revenue.	Section _.20

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

REPORTING POLICIES AND PROCEDURES MANUAL

<u>Terms</u>	<u>Section</u>
<u>Revenue.</u> Increases in fund balance or net assets.	General Section <u>.3</u> Section <u>.20</u>
<u>Rights-of-Way.</u> 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. State agencies should report rights-of-way within the Land category.	Section <u>.8</u>
<u>Risk Financing.</u> An element of risk management that involves implementation of plans for paying the costs of losses when they occur. Some risk financing options available to organizations include: <ul style="list-style-type: none"> ○ Insure risk by paying premiums to an insurance company or to a State claim-paying programs (see definition above), such as the Insurance Reserve Fund, which accepts the risk and agrees to pay the premium-paying organization in the event of a covered loss. ○ "Self-insure" risk (see definition of Self-Insurance). 	Section <u>.15</u> Section <u>.16</u>
<u>Risk Management.</u> The process of managing an organization's activities to minimize the adverse effects of certain losses. Organizations are subject to risks of loss arising from events such as: <ul style="list-style-type: none"> ● Damages to, or destruction of, assets from causes such as fire, natural disasters, theft, vandalism, etc. ● Injuries to employees. ● Torts (wrongful acts, injuries, or damage, not involving a breach of contract, for which civil actions can be brought). 	General Section <u>.15</u> Section <u>.16</u>
<u>Salvage Value.</u> The estimated fair value at the end of the asset's useful life. The State's policy is that salvage value should not be considered in the calculation of depreciation unless it is substantial.	Section <u>.8</u>
<u>Scheduled Rent Increases.</u> Increases that are fixed in the lease agreement, take place with the passage of time, and are not contingent on future uncertain events.	Section <u>.9</u>
<u>Self-Insurance.</u> The retention of risk of loss by an entity rather than transferring that risk to a third party through the purchase of an insurance policy. Self-insurance is sometimes accompanied by the setting aside of assets to pay the costs of losses when they arise. In reality, self-insurance is no insurance.	General Section <u>.15</u> Section <u>.16</u>
<u>Significant:</u> An amount that could have an adverse affect on the financial flexibility of an agency's daily operation or on the interpretation of financial information provided by the agency.	Section <u>.16</u>

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Software Development Project Commitments Outstanding.</u> Incomplete services to be received after June 30 under a contractual agreement arising from consulting or service contracts for the development of software. The contract total less amount paid to the contractor is the software <i>development project commitments outstanding</i> at June 30.	Section <u>.8</u>
<u>Source Documents.</u> Documentation received from counterparties of transactions. Source documents should not be internal documents unless the transaction is purely internal.	General
<u>Special Termination Benefits.</u> Benefits provided by the agency to employees as an incentive for voluntary early termination or as a severance package for involuntary early termination.	General
<u>Specific Identification.</u> An inventory valuation method matching specific units of inventory with specific purchase invoices. Typically used for low inventory volume with high inventory item value.	Section <u>.6</u>
<u>State Employee Leave-Transfer Program.</u> Sections 8-11-700 through 8-11-770 of the South Carolina Code of Laws established a leave transfer program under which employees of an agency who have a personal emergency and have used all of their annual and sick leave may use annual or sick leave transferred to a "pool leave account" by other employees of that agency.	Section <u>.17</u>
<u>Straight-Line Depreciation Method.</u> A method of allocating the consumption of the value of an asset evenly over the estimated useful life. Steps to calculate: <ol style="list-style-type: none"> 1. Determine the asset's estimated useful life in years. (See Exhibit 3.8(B) for useful lives of various types of capital assets.) 2. Determine the difference between: The asset's book value at acquisition. The asset's expected salvage value (only if substantial) at the end of its useful life. 3. Divide this difference by the years of estimated useful life. Record this amount of depreciation during each fiscal year of the asset's estimated useful life. 	Section <u>.8</u>
<u>Subsequent Event.</u> Events or transactions that both: <ul style="list-style-type: none"> o Occur after June 30 but before the State issues its financial statements. o Have a material effect on the statements and/or the auditor's report. 	General Section <u>.13</u> Section <u>.14</u> Section <u>.15</u> Section <u>.16</u>

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

REPORTING POLICIES AND PROCEDURES MANUAL

<u>Terms</u>	<u>Section</u>
<u>Subsequent Period.</u> The time after June 30 but before the State issues its financial statements. The State plans to issue its financial statements by November 15. For practical purposes, therefore, the subsequent period is between July 1 and November 15. Governments must disclose on their financial statements any material events that occur during the subsequent period.	Section _.13 Section _.14 Section _.15 Section _.16
<u>Supply Inventory.</u> Inventory items purchased for use during operations of the organization.	Section _.6
<u>Tax Refunds Payable.</u> A liability (see definition provided in this glossary) representing amounts collected in excess of taxes owed by the taxpayer. Disbursement of the refund is expected to be processed after June 30.	Section _.2
<u>Tax Revenues.</u> Amounts assessed on certain transactions entered by non-State parties or assets owned by non-State parties.	General Section _.2
<u>Taxes Receivable.</u> Tax payments that parties outside State government owe the State at June 30. Recognition of the receivable is discussed in detail in the Accounting Policies and Procedures above.	Section _.2
<u>Test Count.</u> A monitoring control requiring the observation and testing of inventory physical count by an independent entity.	Section _.6
<u>Tort.</u> Wrongful acts, injuries or damages—not involving breach of contract—for which a civil action can be brought.	Section _.13
<u>Unassigned fund balance.</u> No constraints have been placed on the use of the revenue resources.	Section _.20
<u>Unrestricted Purposes.</u> Use of resources for no particular or specified program.	Section _.3
<u>Unrestricted net assets.</u> No restrictions have been placed on the use of the revenue resources.	Section _.20
<u>Vehicles.</u> Includes all automobiles, trucks, vans, buses, aircraft, boats, trailers, and other vehicles used for operations. If it is designed to carry a person from one location to another it is a vehicle. If it can be attached to a vehicle it qualifies for inclusion. If the main purpose is not transportation on ground, air, water (liquid or frozen), it is equipment.	Section _.8

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

REPORTING POLICIES AND PROCEDURES MANUAL

Terms	Section
<u>Weighted-Average Method.</u> An inventory valuation method utilizing a mathematical average of unit costs distribution by weight based on the number of units on hand from each invoice for purchase.	Section _.6
<u>Working papers.</u> Documentation of analysis, theory, consideration, and conclusions for accounting and reporting decisions. The documentation should be sufficient to communicate the issue, evidence gathered and evaluated, and the conclusions reached to an individual unfamiliar with the daily operations of the agency.	General
<u>Works of Art and Historical Treasures.</u> Individual items or collections of items deemed to be of educational, cultural, or historical value. The useful life of which may be undeterminable because interest in the objects are expected to continue to be off value to society as a whole.	Section _.8
<u>Year-end.</u> The State of South Carolina has established a fiscal year-end of June 30.	Section _.12

PART V EXHIBITS

EXHIBIT 3.6(A)

Taking a Physical Count

Each agency should use systematic procedures for taking a physical count of inventory on hand at the end of the fiscal year to ensure that it counts:

- o All applicable items.
- o Only applicable items.
- o Items only once.

Agencies should prepare written instructions for taking the count. Written instructions help to minimize misunderstandings and make sure that those who help with the count receive complete and consistent instructions. If your agency's finance or internal audit department did not prepare the written instructions, at least one of these departments should review the instructions. This will help you to be sure that the procedures meet audit requirements.

The sample instructions below are suggestions for agencies that do not already have written procedures for taking a physical count. (Additional guidelines for merchandise inventory and perpetual inventory systems appear in separate sections below.) If your agency has different written instructions and auditors have expressed satisfaction with those procedures, continue to use them.

Sample Instructions

Before the count begins:

- o For several days before and after the count, the receiving department should label all items received as "before count" or "after count." Staff should also label the related receiving documents and invoices as "before count" or "after count." (During the count, you will count items labeled "before count" because these items were on hand. You will not count items labeled "after count," however. You received those items after the cut-off for the physical count.)
- o Separate and identify each separate location within each warehouse or storage area by numbered tags. Arrange inventory items within each location in an orderly fashion.
- o Determine a way for teams to mark or tag counted items. The goal is to enable everyone to distinguish counted items from uncounted items at any time.
- o Duplicate and prenumber Inventory Sheets. These are blank forms with columns for location, description, and quantity. See Exhibit 3.6 (B).
- o Determine the person to be in charge of the physical count. This person will also maintain the Inventory Sheet Assignment Log. See Exhibit 3.6 (C).
- o Determine if your agency has any inventory items stored off-site with other State agencies or with non-State parties. (You will send count teams to these locations or arrange to have the other parties report these inventories to your agency. Include these items in your count.)
- o Assign counters to work in teams of two.

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

REPORTING POLICIES AND PROCEDURES MANUAL

- o Assign some persons to be checkers (to check the accuracy of the count).
- o Just before the count begins, all counting teams and checkers should report to the inventory control area. The person in charge of the physical count should:
 - Issue final instructions to everyone.
 - Assign teams and checkers to specific warehouse or storage areas.
 - Issue blank prenumbered Inventory Sheets to the counting teams.

During the count:

- o To the extent possible, shut down operations in each location until the count for that location is complete. If you must issue items during the count, be sure that someone has counted and recorded the items before you issue them.
- o Mark "issued" on the count sheet next to these items. This will help prevent discrepancies between counters and checkers.
- o Counters work in teams of two, one as the caller and the other as marker. The caller counts the quantity of an item and calls out the information to the marker. The marker writes the information on the Inventory Sheet. Specifically:
 - Location: The warehouse name and number from the appropriate area tag.
 - Item Description: Use written descriptions. Include size, model number, etc., if applicable. Also include identifying item codes if the agency uses such codes.
 - Quantity: Indicate units of measure (each, dozen, gallons, etc.) where applicable.Use separate Inventory Sheets for separate locations. Each line on an Inventory Sheet represents a specific type of item in a specific location. The same item will appear on two or more Inventory Sheets if two or more locations have that item.
- o After calling and marking a particular item, the team should tag or mark the physical item. This will enable all to see that the count of that item is complete.
- o If the agency receives items while the count is in progress, put them aside and label them as "after count." Do not count these items.
- o Do not count any inventories on hand that belong to other agencies or non-State parties. Tag or mark these items clearly so counters and checkers will not count them.
- o Send teams to count off-site inventories or arrange to have other parties count and report these inventories to your agency. Include these items in your count.
- o During the physical count, several checkers should check the work of the counting teams. Checkers should document which items they have checked. A checker who finds an error should:
 - Identify the appropriate team and call the error to their attention.
 - Ask the team to count the item again and record the result on a new line.
 - Mark through the original line on the Inventory Sheet and cross-reference it to the corrected line.
- o Teams should completely count each major warehouse location or storage area before proceeding to another location.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Upon completion of the counting and checking in a particular location, the team should:

- o Sign the Inventory Sheet(s) for that location.
- o Return the sheets to the person in charge of the count. Return all Inventory Sheet, including all void and unused sheets. Do not discard any forms for any reason.

At the conclusion of the count:

- o The person in charge of the count maintains the Inventory Sheet Control Log to account for all Inventory Sheets issued. This person must determine that all Inventory Sheets are present.
- o After the teams complete all tasks and return all forms, the person in charge will release the teams. No one may leave until that time.

After the count:

- o If the agency's data processing department will input and process the inventory data:
 - The person responsible for the count should submit all Inventory Sheets to the data processing department.
 - The data processing department will then:
 - * Input information from the Inventory Sheets into the data processing system.
 - * Produce a printout showing item description, location, and quantity for all items on hand. This printout will include appropriate totals.
 - * Deliver the printout to the person in charge of the physical count.
 - In some agencies, the data processing department enters unit values as well as data from Inventory Sheets. Then the resulting printout will include unit values, item values (count times unit value), and grand total value.
- o Adjust the preceding procedures accordingly if the agency's data processing department will not input and process the inventory data.

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXHIBIT 3.6(C)

STATE OF SOUTH CAROLINA
SAMPLE AGENCY
INVENTORY SHEET CONTROL LOG

Names of Team Members	Storage or Warehouse Area	Inventory Sheets					
		Issued		Used		Not Used	
		To (1)	Nos. (2)	By (3)	Nos. (4)	By (5)	Nos. (6)

(1) Initials of the team member issued and responsible for the forms.

(2) Form numbers of forms issued to the team.

(3) Initials of the team member returning the used forms.

(4) Form numbers of forms used to record inventory on hand by the team.

(5) Initials of the team member returning the unused forms.

(6) Form numbers of all unused forms returned at the conclusion of the count.

NOTE: Each team must account for all forms issued to it. If any forms are missing, the team must give an explanation.

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXHIBIT 3.8(A)

Page 1 of 2

CAPITALIZATION POLICY CRITERIA

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

Dollar Thresholds:

ASSET CATEGORY	ITEMS TO CAPITALIZE
Land (including rights-of-way)	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 (except easements)	Any costing more than \$100,000
Easements	All, regardless of cost

* 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 in Key Terms for explanation of requirements.

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.

Minimum Useful Life:

Assets with useful lives of greater than 2 years are ***required*** to be capitalized.

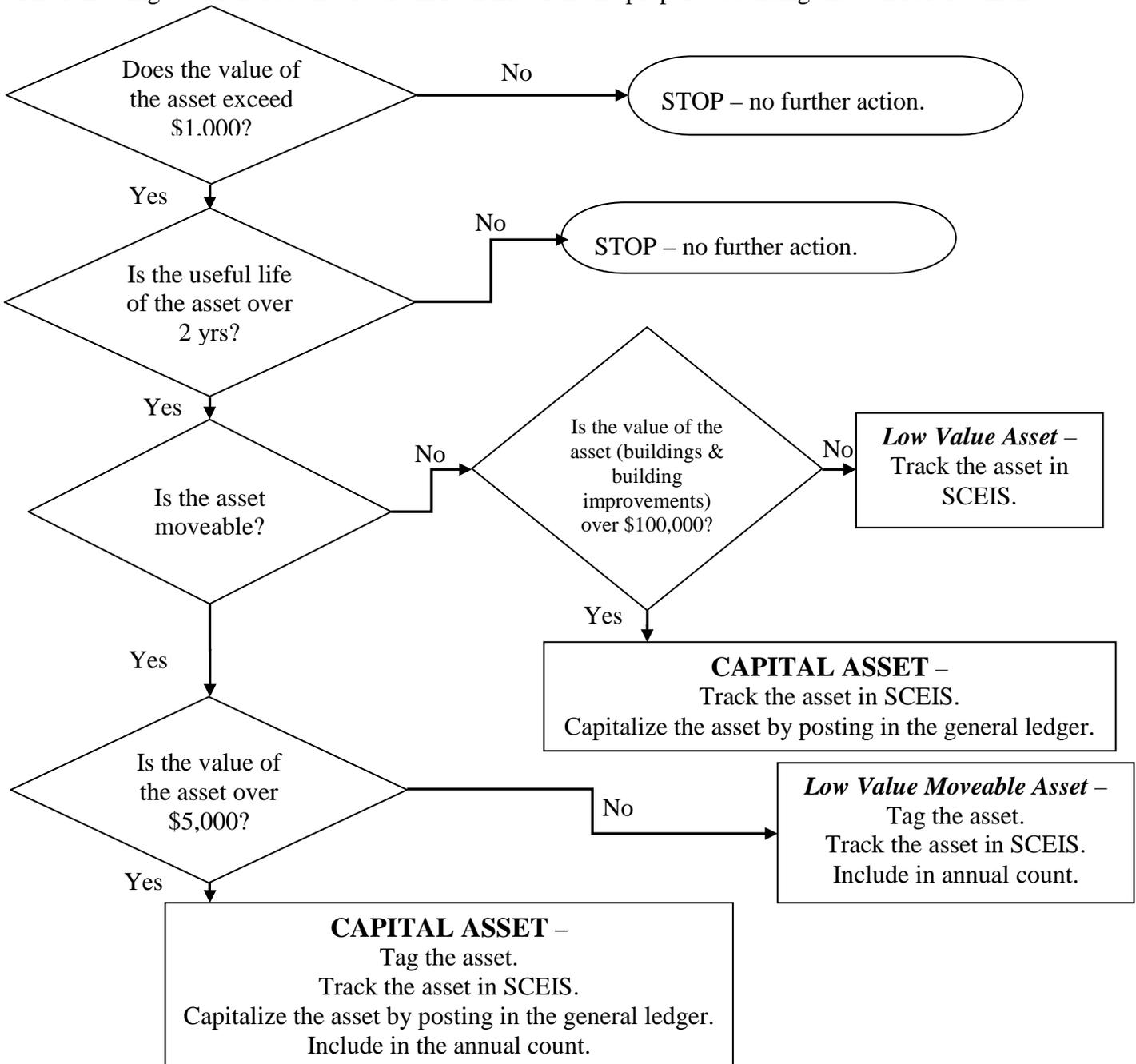
**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

REPORTING POLICIES AND PROCEDURES MANUAL

DETERMINING CAPITALIZATION vs. LOW VALUE ASSET

Low value assets have been defined as all assets purchased with a value in excess of \$1,000 that have a useful life within the capitalization criteria (in excess of 2 years) but do not meet the capitalization dollar threshold criteria (\$5,000 for moveable assets or \$100,000 for all other assets). SCEIS functionality must be used to track low value assets.

The following decision tree should aid in identification and proper accounting and control treatment:



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

REPORTING POLICIES AND PROCEDURES MANUAL

EXHIBIT 3.8 (B)

USEFUL LIVES FOR DEPRECIATION OF CAPITAL ASSETS⁷⁸

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/sewer systems, power lines, etc.)	3-60 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
Hydro-Electric Utility Plants	55 years
Other Utility Plants	22-37 years

Building Improvements:

See Buildings and Improvements under Key Terms for definition of capitalizable building improvements. Useful life is to be determined individually.

⁷⁸ Sources for useful lives include the American Hospital Association's *Estimated Useful Lives of Depreciable Hospital Assets, Revised 1998 Edition*; the Internal Revenue Service's *Publication 946, How to Depreciate Property*; and professional judgment.

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

REPORTING POLICIES AND PROCEDURES MANUAL

Intangible Assets:

Computer Software:

Externally Acquired	3 years
Internally Generated	3 years

Other intangible assets to be determined individually based on type of intangible asset or life of related contract.

Works of Art and Historical Treasures:

To be determined individually if required to be capitalized and depreciated.

Patriots Point Naval Museum Exhibits	10-25 years
---	--------------------

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 Storage of Petroleum Products	10-20 years
Assets Used in Manufacture of Fabricated	
Metal Products	5-15 years
Assets Used in Manufacture or Repair of	
Furniture	5-15 years
Assets Used in Printing Activities	5-15 years
Nurseries, Greenhouses, Related Equipment	10-15 years

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXHIBIT 3.9(A)

LEASE REGISTER USE

Lease Register forms for all leases, except straight contingent rent leases, are required to be reported in accordance with the State Treasurer's Lease Reporting Policies. **Note that for audit purposes, a completed Lease Register (included responses to the lease determination criteria) should be retained for each lease executed.** The State Treasurer requires that a Lease Register be completed at the beginning of the lease term, before making the first lease payment. This helps to ensure proper classification of each lease as a capital lease or an operating lease in accordance with generally accepted accounting principles. Consult the State Treasurer's Office staff if questions arise regarding lease classification.

Using the State Treasurer's Lease Register, determine which of the leases and rental agreements are operating leases. The determination should be based on the answers to Item 11 on the Lease Register.

Choose Method A, B, or C to report detailed data to the Comptroller General's Office regarding noncancelable operating leases:

- Method A: Make photocopies of Lease Register pages (prepared in accordance with the State Treasurer's Lease Reporting Policies) that include noncancelable operating leases in effect at June 30 with a remaining term at June 30 exceeding one year. Leases in effect at June 30 include lease agreements *signed* on or before June 30. The date of execution of the agreement is the date both parties have signed the lease agreement, whether the lease payments begin before or after June 30.
- Method B: Complete a separate Lease Register for the Comptroller General's Office that includes only the items other than Item 11 for each noncancelable operating lease in effect at June 30 with a remaining term at June 30 exceeding one year. Leases in effect at June 30 include lease agreements *signed* on or before June 30. The date of execution of the agreement is the date both parties have signed the lease agreement, whether the lease payments begin before or after June 30.
- Method C: Use a computer printout or other alternative format in place of Methods A or B to document details of all noncancelable operating leases in effect at June 30 with a remaining term at June 30 exceeding one year. Leases in effect at June 30 include lease agreements *signed* on or before June 30. The date of execution of the agreement is the date both parties have signed the lease agreement, whether the lease payments begin before or after June 30. If this option is selected, all items except Item 11 shown on the Lease Register must be included.

Regardless of whether you used Method A, B, or C, please observe the following:

- Show the agency's SCEIS business area on each page of documentation.
- Do not include any leases where the lessor is a State agency.

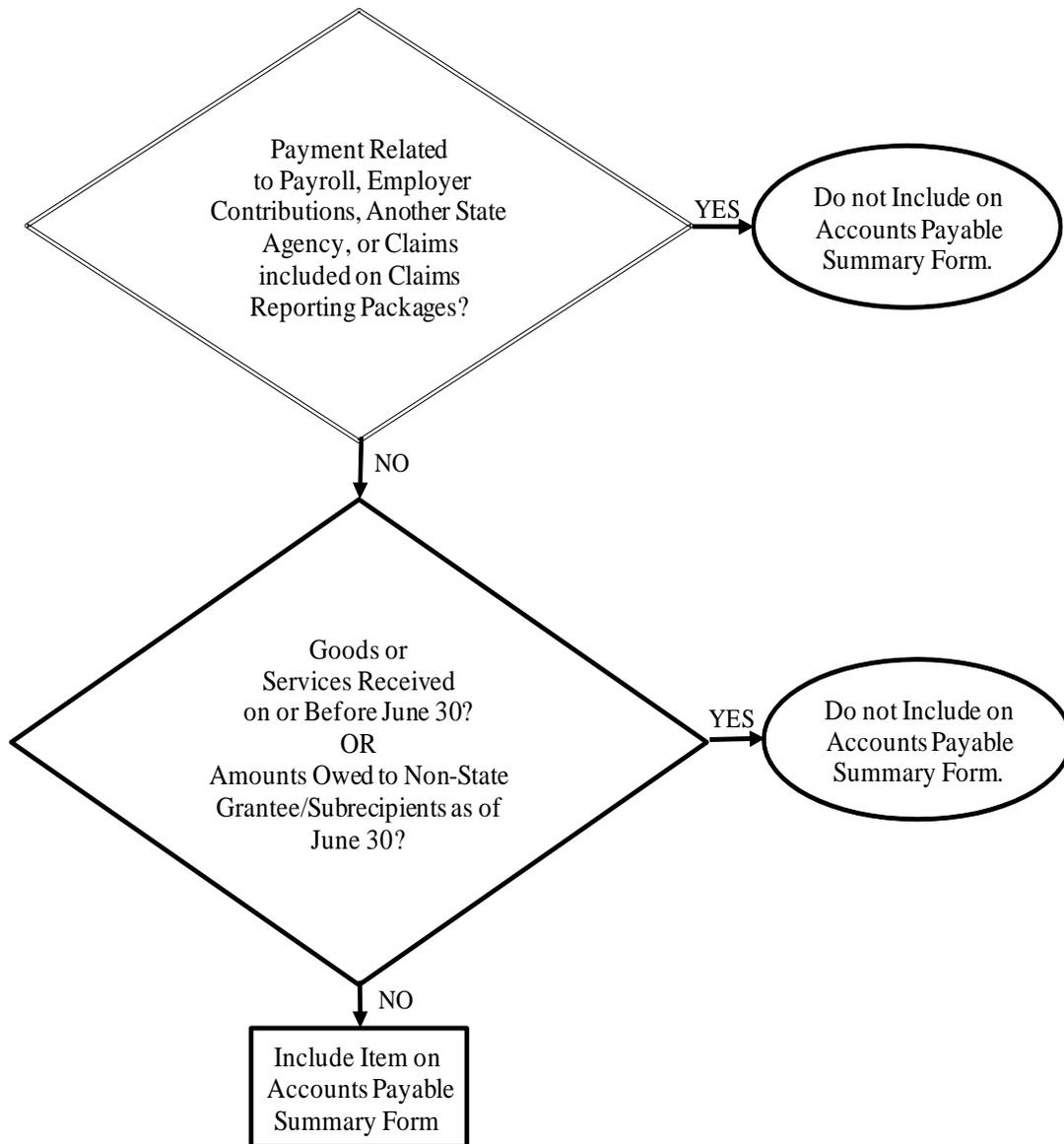
**STATE OF SOUTH CAROLINA
OFFICE OF THE COMPTROLLER GENERAL**

REPORTING POLICIES AND PROCEDURES MANUAL

EXHIBIT 3.12 (A)

**STATE OF SOUTH CAROLINA
ACCOUNTS PAYABLE DECISION TREE**

NOTE: The logic in this decision tree should be applied to new year vouchers (FM 01 and FM 02) and other items which will be paid later in the new year. This decision tree will assist you in determining if each item represents an accounts payable at June 30 and should be included on one of the Accounts Payable Summary Forms.



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

REPORTING POLICIES AND PROCEDURES MANUAL

PART VI EXAMPLES

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXAMPLE 3.2(A) Tax Revenue Categorized

Page 1 of 4

DERIVED TAX AND IMPOSED NONEXCHANGE REVENUES
TAX REVENUE GENERAL LEDGER ACCOUNTS WITH TAX REVENUE CATEGORY NAME

General Ledger Account	STARS OBJECT TITLE	TAX REVENUE CATEGORY*
4010010000	INDIVIDUAL INCOME TAX	Derived Tax Revenue
4010010002	INDIVIDUAL INCOME-DECLARATION	Derived Tax Revenue
4010010003	INDIVIDUAL INCOME TAX-TAX RELIEF TRUST	Derived Tax Revenue
4010010004	INDIVIDUAL INCOME-FIDUCIARY	Derived Tax Revenue
4010010005	INDIVIDUAL INCOME-FIDUCIARY DECLARATION	Derived Tax Revenue
4010020000	EMPLOYER WITHHOLDING INC TAX	Derived Tax Revenue
4010020001	EMPLOYER WITHHOLDING INC TAX - EMPLOYEE W/H	Derived Tax Revenue
4010020002	EMPLOYER WITHHOLDING INC TAX - PREPAID	Derived Tax Revenue
4010020003	EMPLOYER WITHHOLDING INC TAX-PENALTY & INT	Derived Tax Revenue
4010020004	EMPLOYER WITHHOLDING INC TAX - NON-RESIDENT	Derived Tax Revenue
4020010000	SALES AND USE TAX	Derived Tax Revenue
4020010001	SALES AND USE TAX - 4%	Derived Tax Revenue
4020010002	SALES AND USE TAX - AUTO TAX	Derived Tax Revenue
4020010003	SALES AND USE TAX - 6% AVIATION FUEL	Derived Tax Revenue
4020010004	SALES AND USE TAX - SWM-OIL	Derived Tax Revenue
4020010005	SALES AND USE TAX - SWM-BATTERIES	Derived Tax Revenue
4020010006	SALES AND USE TAX - SWM-TIRES	Derived Tax Revenue
4020010007	SALES AND USE TAX - SWM-WHITE GOODS	Derived Tax Revenue
4020010008	SALES AND USE TAX - 10% PHONE SALES	Derived Tax Revenue
4020010009	SALES AND USE TAX - CAP PROJ SALES TAX	Derived Tax Revenue
4020010010	SALES AND USE TAX - TRANS SALES TAX	Derived Tax Revenue
4020010011	SALES / USE TAX - SCHOOL DIST SALES TX	Derived Tax Revenue
4020010012	SALES AND USE TAX - SALES TAX 5%	Derived Tax Revenue
4020010013	SALES AND USE TAX - USE TAX 5%	Derived Tax Revenue
4020010014	SALES AND USE TAX - AUTO TAX	Derived Tax Revenue
4020010015	SALES AND USE TAX - FOOD SALES TAX	Derived Tax Revenue
4020010016	SALES AND USE TAX - 6% SALES TAX	Derived Tax Revenue
4020010017	SALES AND USE TAX - 3% FOOD TAX	Derived Tax Revenue
4020010018	SALES AND USE TAX - 6% USE TAX	Derived Tax Revenue
4020010019	SALES/USE TAX - SPECIAL TRIBAL SALES TAX	Derived Tax Revenue
4020010020	SALES/USE TX - EIA HOLD HARMLESS FOOD TX	Derived Tax Revenue
4020010021	SALES/USE TAX - 5 1/2% SALES TAX ON DME	Derived Tax Revenue
4020010022	SALES/USE TAX - ALT FUEL & EFF INCENTIVE	Derived Tax Revenue
4020010023	11% PHONE TAX	Derived Tax Revenue
4020020000	SALES TAX-ED IMPROVE ACT	Derived Tax Revenue

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

REPORTING POLICIES AND PROCEDURES MANUAL

Page 2 of 4

DERIVED TAX AND IMPOSED NONEXCHANGE REVENUES
TAX REVENUE GENERAL LEDGER ACCOUNTS WITH TAX REVENUE CATEGORY NAME

General Ledger Account	Long Text Description	TAX REVENUE CATEGORY*
4020030000	SALES TAX-RETAIL	Derived Tax Revenue
4020040000	EXCISE TAX-CASUAL SALE	Derived Tax Revenue
4020040001	EXCISE TAX-CASUAL SALE DURABLE MED EQ	Derived Tax Revenue
4020050000	SURCHARGE ON RENTAL CARS	Derived Tax Revenue
4020050001	SURCHARGE ON HEAVY EQUIP RENTAL	Derived Tax Revenue
4020060000	SPECIAL TRIBAL SALES TAX	Derived Tax Revenue
4020070000	SALES TAX-HOMESTEAD EXEMPTION	Derived Tax Revenue
4030010000	TOBACCO PRODUCTS PLAYING CARDS TAX	Derived Tax Revenue
4030010001	TOBACCO PROD PLAY CARD TX CIGARETTE STMP	Derived Tax Revenue
4030010002	TOBACCO PROD PLAY CARD TX - TOBACCO PROD	Derived Tax Revenue
4030020000	GASOLINE TAX	Derived Tax Revenue
4030030000	SPECIAL FUEL TAX	Derived Tax Revenue
4030030001	SPEC FUEL TAX - BIODIESEL MFG	Derived Tax Revenue
4030030002	ALTERNATIVE FUEL INCENTIVE PMTS	Derived Tax Revenue
4030030003	BIODIESEL INCENTIVE PAYMENTS	Derived Tax Revenue
4030040000	HIGHWAY USE TAX	Derived Tax Revenue
4030050000	GAS TAX-COUNTY WATERCRAFT	Derived Tax Revenue
4030060000	PETROLEUM INSPECTION TAX	Derived Tax Revenue
4030070000	GASOLINE TAX-ECONOMIC DEVELOPMENT	Derived Tax Revenue
4030080000	ALCHOLIC LIQUORS TAX	Derived Tax Revenue
4030080001	ALCOHOLIC LIQUORS TAX-STAMP	Derived Tax Revenue
4030080002	ALCOHOLIC LIQUORS TAX-PENALTY & INTEREST	Derived Tax Revenue
4030080003	ALCOHOLIC LIQUORS TAX-CASE-WHOLESALE	Derived Tax Revenue
4030080004	ALCOHOLIC LIQUORS TAX-CASE-RETAIL	Derived Tax Revenue
4030080005	ALCOHOLIC LIQUORS TAX-WHOLESALE ADDL TAX	Derived Tax Revenue
4030080006	ALCOHOLIC LIQUORS TAX-SUP TAX	Derived Tax Revenue
4030080007	LIQUOR BY THE DRINK EXCISE TAX	Derived Tax Revenue
4030090000	BEER AND WINE TAX	Derived Tax Revenue
4030090001	BEER AND WINE TAX - BEER WHOLESALE RPT	Derived Tax Revenue
4030090002	BEER AND WINE TAX - WHOLESALE PEN/INT	Derived Tax Revenue
4030090003	BEER AND WINE TAX- SPECIAL REPORT	Derived Tax Revenue
4030090004	BEER AND WINE TAX- WHOLESALE REPORT	Derived Tax Revenue
4030090005	BEER AND WINE TAX-WHOLESALE PENALTY/INT	Derived Tax Revenue
4030090006	BEER AND WINE TAX-CERT OF REG	Derived Tax Revenue
4030100000	IFTA REVENUE	Derived Tax Revenue

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

REPORTING POLICIES AND PROCEDURES MANUAL

Page 3 of 4

DERIVED TAX AND IMPOSED NONEXCHANGE REVENUES
TAX REVENUE GENERAL LEDGER ACCOUNTS WITH TAX REVENUE CATEGORY NAME

General Ledger Account	Long Text Description	TAX REVENUE CATEGORY*
4030100001	IFTA REVENUE - BASE CARRIER	Derived Tax Revenue
4030100002	IFTA REVENUE - BASE TO OTHER STATES	Derived Tax Revenue
4030100003	IFTA REVENUE - OUT OF STATE	Derived Tax Revenue
4030100004	IFTA REVENUE - TRIP PERMITS	Derived Tax Revenue
4040010000	CORPORATION INCOME TAX	Derived Tax Revenue
4040010002	CORPORATION INCOME TAX - DECLARATION	Derived Tax Revenue
4040010003	CORPORATION INCOME TAX - TX RELIEF TRUST	Derived Tax Revenue
4040010004	CORPORATION INCOME TAX - CORP W/H	Derived Tax Revenue
4040010005	CORPORATION INCOME TAX - PARTN W/H	Derived Tax Revenue
4040020000	CORPORATION INCOME TAX - TEXTILES	Derived Tax Revenue
4050010000	DOMESTIC CORP LIC TAX	Derived Tax Revenue
4050020000	BANK TAX	Derived Tax Revenue
4050020001	BANK TAX - BANK DECLARATIONS	Derived Tax Revenue
4050030000	SAVINGS & LOAN ASSOC TAX	Derived Tax Revenue
4050030001	SAVINGS & LOAN ASSOC TAX - DECLARATIONS	Derived Tax Revenue
4050040000	ELECTRIC POWER TAX	Derived Tax Revenue
4050050000	FOREIGN CORP LIC TAX	Derived Tax Revenue
4050060000	UTILITIES TAX	Derived Tax Revenue
4060010000	COMMERCIAL NUCLEAR WASTE TAX	Derived Tax Revenue
4060010001	COMMERCIAL NUCLEAR WASTE LICENSE	Derived Tax Revenue
4060020000	ADMISSION TAX	Derived Tax Revenue
4060030000	ADMISSION TAX-WMRD	Derived Tax Revenue
4060040000	DOCUMENTARY STAMP TAX	Derived Tax Revenue
4060060000	GIFT TAX	Imposed Nonexchange Revenue
4060070000	SOFT DRINKS TAX	Derived Tax Revenue
4060080000	ESTATE TAX	Imposed Nonexchange Revenue
4060090000	ADMISSION TAX-BINGO	Derived Tax Revenue
4060090001	ADMISSION TAX-BINGO-PAPER REV	Derived Tax Revenue
4060090002	ADMISSION TAX-BINGO-VIOLATIONS	Derived Tax Revenue
4060090003	ADMISSION TAX-BINGO-FAIRS	Derived Tax Revenue
4060100000	RETAILER LICENSE TAX	Derived Tax Revenue
4060100001	RETAILERS LICENSE TAX-NEW LICENSE	Derived Tax Revenue
4060110000	TRIBAL BINGO TAX	Derived Tax Revenue
4060130000	PUB SERV CO ASSESS TAX	Derived Tax Revenue
4060150000	CONTROLLED SUBSTANCE TAX	Derived Tax Revenue

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

REPORTING POLICIES AND PROCEDURES MANUAL

Page 4 of 4

DERIVED TAX AND IMPOSED NONEXCHANGE REVENUES
TAX REVENUE GENERAL LEDGER ACCOUNTS WITH TAX REVENUE CATEGORY NAME

General Ledger Account	Long Text Description	TAX REVENUE CATEGORY*
4060200000	HOSPITAL TAX	Derived Tax Revenue
4070010000	AIRCRAFT TAX	Imposed Nonexchange Revenue
4070020000	PRIVATE CAR LINES TAX	Imposed Nonexchange Revenue
4070030000	MOTOR CARRIER PROPERTY TAX	Imposed Nonexchange Revenue
4080010000	ANNUAL INSURANCE TAX	Derived Tax Revenue
4080020000	BROKERS PREMIUM TAX	Derived Tax Revenue
4080030000	FIRE INS INSPECT TAX	Derived Tax Revenue
4080040000	WORKERS COMP INS TAX	Derived Tax Revenue
4080050000	FIRE DEPT PREM TAX	Derived Tax Revenue
4080060000	W COMP INS TAX-WC INSOLV FD	Derived Tax Revenue
4080070000	FIRE ACADEMY BOND TAX	Derived Tax Revenue
4080080000	INSURANCE PREMIUM TAX	Derived Tax Revenue
4080080001	LIFE & HEALTH GUARANTY ASSN CREDIT	Derived Tax Revenue
4080080002	HEALTH INSURANCE POOL CREDIT	Derived Tax Revenue
4080080003	JOBS TAX CREDIT	Derived Tax Revenue
4080080004	INSURANCE PREMIUM TAX OTHER CREDITS	Derived Tax Revenue
4080100000	WORKERS COMP SELF INS TAX	Derived Tax Revenue
4080120000	W COMP SELF INS TAX-WC INSOLV FD	Derived Tax Revenue
4110010000	INSURANCE FEE	Derived Tax Revenue
4110010001	INS RETALIATORY FEE	Derived Tax Revenue
4110010002	INS EXAMINING FEE	Derived Tax Revenue
4110010003	INS LIQUIDATION FEE	Derived Tax Revenue
4110010004	INS PROCESSING FEE	Derived Tax Revenue
4140290000	NURSING HOME FEE	Derived Tax Revenue

* The Tax Revenue Category determines the revenue accounting principles that the State will use. See Accounting Principles and Policies subsection.

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXAMPLE 3.2(B) Transactions-Tax Revenue

EXAMPLE DERIVED TAX REVENUE GENERATION, RECORDING, AND REPORTING

Individual Income Taxes:

The State imposes a 7 percent tax on personal income earned. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant non-salary income, such as investment income, are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the State by April 15 of the year following the calendar tax year and must pay the remaining tax owed or claim a refund.

Under GAAP, the State must recognize individual income tax revenues in the fiscal year in which the taxpayer earned the income, net of estimated refunds and estimated uncollectible amounts, provided the amounts are measurable and available at June 30.

- o *Taxes Receivable.* Report Taxes Receivable for taxpayer earnings through June 30 including:
 - Payroll taxes withheld by employers on earnings through June 30 that employers remit to the State after June 30.
 - Individual tax declarations (estimated tax payments) due June 15, but not received by the State until after June 30.
 - Estimated amounts underpaid by taxpayers on earnings of the first six months of the calendar year that will be settled in the subsequent State fiscal year (that is, by April 15 of the next calendar year). The estimate should be based on historical data relating to amounts paid with final tax returns. Estimate the percentage of total collections that received with final returns. Then apply this percentage to the collections for the six-month period January through June. Finally, adjust this estimated receivable for any significant known changes in the State's tax laws and/or withholding tables.
 - Amounts taxpayers owe the State at June 30 as a result of delinquent filings, audits of returns, and other billings relating to either prior-year or current-year returns.

In its fund financial statements, the State will report the following for its Governmental funds:

- Current Taxes Receivable and Revenue for these amounts that are available at June 30.
 - Non-Current Taxes Receivable and Deferred Revenue for these amounts that are not available at June 30.
- o *Allowance for Uncollectible Taxes.* Estimate and report an appropriate amount for an Allowance for Uncollectible Taxes. Base the estimate on past experience.
 - o *Tax Refunds Payable.* Estimate amounts overpaid by taxpayers on earnings of the first six months of the calendar year that will be settled in the subsequent State fiscal year (that is, by April 15 of the next calendar year.) Base the estimate on historical data relating to refunds. Estimate the percentage of withholdings that you refund. Then apply the percentage to the withholdings for the six-month period January through June. Tax Refunds Payable also should include any adjustments for changes in the State's tax laws or to the withholding tables. Also, there may be tax refunds in process at June 30 that relate to previous years' returns. The State's policy is to report Tax Refunds Payable for these amounts as well.

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXAMPLE 3.3(A) Transactional - Grants

Grant Receivable Illustrative Example

The South Carolina Department of Commerce has been awarded a \$5,000,000 grant to promote economic development in rural counties. The grant terms specify that, in order to qualify for funding, grant recipients: (1) must be State governments, and (2) must first incur allowable costs. The grant award is for the period October 1, 20X0, through September 30, 20X1.

As of June 30, 20X1, Commerce has incurred costs of \$3,500,000 and has received \$2,500,000 in reimbursements. Commerce anticipates receiving all remaining reimbursements within the next fiscal year. Commerce records this grant in a Governmental fund.

Step 1: Identify and evaluate grant eligibility requirements.

In this case three eligibility requirements exist:

Required characteristic of the recipient. The grant regulations require that recipients are State governments. The South Carolina Department of Commerce is a State government agency and, therefore, has met this requirement.

Time requirements. The grant award specifies that the grant funds are available for expenditures from October 1, 20X0, through September 30, 20X1. We are computing the Grant Receivable or Deferred Revenue as of June 30, 20X1; therefore, we are within the specified period. This eligibility requirement has been met.

Reimbursements. The grant terms specify that recipients must first incur allowable costs to qualify for funding (i.e., reimbursement-basis grant). As of June 30, 20X1, the agency has incurred costs of \$3,500,000. This is the maximum amount of revenue that may be recognized for this grant from the grant award date through June 30, 20X1. Because this grant is recorded in Governmental funds, we must analyze the availability of resources to determine the revenue for recognition in the fiscal year ending June 30, 20X1.

Step 2: Calculate the Grant Receivable.

Because this is a reimbursement-basis grant, the level of costs incurred during the grant period through June 30, 20X1, limits our Grant Receivable. (Note: Incurred costs include Accounts Payable at June 30.) For this example, our maximum revenue for recognition through June 30, 20X1 is \$3,500,000 (this equals the level of allowable costs incurred through June 30). The receipts from the grantor through June 30 are subtracted from this maximum to determine the Grant Receivable as of June 30. In our example, this results in the following calculation:

$$\$3,500,000 - \$2,500,000 = \$1,000,000$$

Thus, on the Grants and Contribution Receivables and Deferred Revenue Summary Form (Form 3.3.1), a Gross Grant Receivable of \$1,000,000 for this grant should be reported. If the evaluation of collectability including collection experience subsequent to June 30 indicates that all of the amount is collectible and expected to be received by the *next* June 30 no allowance for uncollectible should be reported and the Current Grant Receivable amount should be equal to the Gross Grant Receivable amount. The calculation for the Non-Current Grant Receivable should result in zero reported.

As noted above, when calculating the Grant Receivable for a reimbursement-basis grant, the calculation should include relevant accounts payable information.

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

REPORTING POLICIES AND PROCEDURES MANUAL

EXAMPLE 3.8(C) Transactional – Assets transferred

INTRA-STATE TRANSFER EXAMPLES

Capital Assets Received from Another Agency

Situation: One of your agency's Governmental, Enterprise, Internal Service, or Trust funds receives donated capital assets from another agency.

Procedure: Add to your capital assets ledger the historical cost and accumulated depreciation the transferring agency had recorded for the asset. Depreciation should be recognized from the date of the transfer.

Capital Assets Donated to Another Agency

Situation: One of your agency's Governmental, Enterprise, Internal Service, or Trust funds donates capital assets to another agency.

Procedure: Subtract the asset's historical cost and accumulated depreciation from your capital assets ledger. Depreciation expense should be recognized to the date of transfer.

Capital Assets Transferred Between Funds Within Your Agency

Situation 1: Your agency's Governmental funds receive donated capital assets from one of your agency's Enterprise, Internal Service, or Trust funds.

Situation 2: One of your agency's Enterprise, Internal Service, or Trust funds receives donated capital assets from your agency's Governmental funds.

Situation 3: One of your agency's Enterprise, Internal Service, or Trust funds receives donated capital assets from another of your agency's Enterprise, Internal Service, or Trust funds.

Procedure: Remove the asset's historical cost and accumulated depreciation from the transferring fund's capital assets ledger and add the asset's historical cost and accumulated depreciation to the fund to which the asset is being transferred. The transferring fund will have depreciation expense on the asset through the date of the transfer, with the fund to which the asset is being transferred recognizing the depreciation expense for the remainder of the year. Remember that the capital assets of your agency's Governmental funds are combined together and reported on a single note.

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

REPORTING POLICIES AND PROCEDURES MANUAL

PART VII APPENDICES

APPENDIX A—SOURCES OF GAAP

Sources of Generally Accepted Accounting Principles

Many of the accounting and financial reporting standards that apply to governments appear in:

- *Codification of Governmental Accounting and Financial Reporting Standards*, Governmental Accounting Standards Board (GASB), 2010-2011, updated through June 30, 2010. A book of original GASB pronouncements is also available. To obtain a copy of the Codification, Original Pronouncements, or any GASB statement, implementation guide (including the *Comprehensive Implementation Guide*), interpretation, or technical bulletin, and/or related cost information, telephone the GASB at 1-800-748-0659, fax them at 1-203-847-6045 (*Attention: GASB Publications*), or visit them on the Internet at <http://www.gasb.org>. Send orders to:

- By check:

Order Department
Governmental Accounting Standards
Board
P.O. Box 30784
Hartford, CT 06150

- By VISA, MasterCard, or American
Express

Order Department
Governmental Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

- *State and Local Governments – Audit and Accounting Guide*, American Institute of Certified Public Accountants, updated as of March 1, 2011 (or latest date available). To obtain a copy of this or any other AICPA publication and/or related cost information, telephone the AICPA at 1-888-777-7077, fax them at 1-800-362-5066, visit them on the Internet at <http://www.aicpa.org>, or write to them at the following address:

AICPA Order Department
CPA2Biz
Post Office Box 2209
Jersey City, NJ 07303-2209

- *Certificate of Achievement Checklist*, Government Financial Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting (revised annually). The checklist for the current fiscal year is available on the Internet at <http://www.gfoa.org/forms/>. The GFOA also issues a hardcover publication, *Governmental Accounting, Auditing, and Financial Reporting* (also known as the *GAAFR* or the *Blue Book*) (revision 2005 is last update). To purchase any GFOA publication, telephone them at 1-312-977-9700, fax them at 1-312-977-4806, visit them on the Internet at <http://www.gfoa.org>, or write to them at the following address:

Government Finance Officers Association
203 North LaSalle Street, Suite 2700
Chicago, IL 60601-1210

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

REPORTING POLICIES AND PROCEDURES MANUAL

A number of the financial reporting standards issued by the Financial Accounting Standards Board (FASB) apply to the government-wide financial statements of governmental organizations. The FASB Accounting Standard's Codification is available at <http://www.asc.fasb.org> the basic view is a free access after a brief registration. Extended research capabilities are available for a fee. Bound copies of the Codification are available through the FASB Store at <http://www.fasb.org>, by telephone them at 1-800-748-0659, or by mail to the following address:

Order Department
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

Payments by VISA, MasterCard, or American Express are accepted.

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

REPORTING POLICIES AND PROCEDURES MANUAL

APPENDIX B— BUSINESS AREA RELATION TO FUNCTIONAL REPORTING

FIRST LETTER OF AGENCY CODE	GAAP AGENCY FUNCTION CODE	DESCRIPTION
A	1010	General Governmental
B	1040	Administration of Justice
C	1010	General Governmental
D	1010	General Governmental
E	1010	General Governmental
F	1010	General Governmental
H	1020	Education
J	1025	Health and Environment
K	1040	Administration of Justice
L	1035	Social Services
N	1040	Administration of Justice
P	1050	Resources and Economic Development
R	1010	General Governmental
S	1010	General Governmental
U	1060	Transportation
W	1010	General Governmental
X	1110	Intergovernmental

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

REPORTING POLICIES AND PROCEDURES MANUAL

APPENDIX C— STATE RISK MANAGEMENT ACTIVITIES

GENERAL INFORMATION

Listed below are all risk management activities of which the Comptroller General's Office is currently aware. If your agency participates in or sponsors a risk management activity not listed below, please identify and describe this activity as requested in the Master Reporting Package Checklist (Form 2.0.1).

- o Property and casualty losses managed by the Insurance Reserve Fund within the Budget and Control Board
- o Health and Dental Benefits managed by the Employee Insurance Programs within the Budget and Control Board
- o Long-term disability and life plans administered by the Budget and Control Board
- o Workers' compensation for State employees administered by the State Accident Fund
- o Unemployment compensation for State employees
- o Patients' Compensation Fund
- o Medical Malpractice Joint Underwriting Association
- o Workers' Compensation Uninsured Employers' Fund administered by the Second Injury Fund
- o South Carolina Health Access Plan administered by Health and Human Services Finance Commission
- o Employee Honesty/Fidelity/Surety Bonds (commercial insurers)
- o Floater Registered Mail (commercial insurer)
- o State Treasurer's Bond (commercial insurer)
- o Student Accident Insurance for "Special Schools Trainees" (commercial insurer)
- o Media Special Perils Policy--Multimedia Coverage (commercial insurer)
- o Accident Policy for Volunteers (commercial insurer)
- o Campers' Medical Accident & Illness Insurance on Campers at Camp Burnt Gin (commercial insurer)
- o Foster family or DSS employee claims for damages by foster children (self-insured by Department of Social Services; \$500 maximum compensation for foster family and \$250 maximum compensation for DSS employee for each occurrence with a \$50 deductible per occurrence)
- o Food Stamp Mail Loss (commercial insurer)
- o State Constable Bonds (commercial insurers)
- o Medical Liability for Work-related Injuries to Inmates (Self-insured by Department of Corrections)
- o Hazard Insurance on Stored Commodities in State Warehouses (commercial insurer)
- o Liquor Bonds (commercial insurer)
- o Commercial Crime Coverage (commercial insurer)
- o Bond Pistol Permit (commercial insurer)
- o Vending Stand Facilities (self-insured by the South Carolina Commission for the Blind)
- o Collision and/or comprehensive losses on vehicles (self-insured by various agencies)