BOOKS OF FINAL ENTRY

Books of final entry are the principal accounting records from which financial and management reports are prepared. The books of final entry are composed in a manner that classifies information according to the chart of accounts. The books of original entry (journals/registers) are totaled and summarized monthly. These monthly totals are then posted to the books of final entry (ledgers) and include:

General Ledger

When transactions are recorded in the books of original entry (journals) each item of the transaction is coded with a specific account number. It would be quite cumbersome to post each of these transactions individually to a monthly or annual financial report. The purpose of the journal is to record the individual transactions, summarize each account number into a monthly total and post this total to an account. An account is a form of record used to record the summary of all coded transactions affecting that account number. For example, all cash receipts and cash disbursements affect the "Cash" account. Accounts are set up for the various assets, liabilities, equity, revenues and expenditures related to a specific fund. This group of related accounts is referred to as a "Ledger." The ledger contains the summary of the total of transactions to date that affect that particular group of accounts. Once the ledger has been totally posted and closed out its main purpose is to facilitate the completion of the year-end financial reports.

Within the general ledger there are control accounts (i.e., revenues and expenditures). These accounts contain the summary of all revenues and expenditures against that fund to date. The detail for the revenues is kept in a subsidiary ledger known as the "Revenue Budget Record" and the expenditure detail is kept in a subsidiary ledger known as the "Expenditure Budget Record." At any point in time the control account in the general ledger must equal the total of the detail in these subsidiary ledgers.

A general ledger should be established for each fund.

The subsidiary ledgers to be maintained by counties are as follows:

A sample annual general ledger is shown as Illustration No 9 and a sample monthly general ledger is shown as Illustration No. 10.

Revenue Budget Record

The revenue budget record is to record the summary of each revenue source recognized in the general journal or recorded in the cash receipts journal and the county share of the tax collections from the tax apportionment record. The total of this record should equal the revenue control account in the general ledger.

A revenue budget record should be established for each budgeted fund. This record is constructed from the estimated revenue worksheets which were prepared for the provisional and annual budgets. Each worksheet will provide a basis for each fund's revenue budget record. The revenue budget record will provide a comparison of budgeted revenue with actual revenue and will provide a running total of revenues collected to date and will provide projections for future cash flow. An example of the form to be used is shown **as Illustration No. 11.**

Expenditure Budget Record

The expenditure budget record is to record the summary of each object level expenditure classification from the budget expense journal, general journal or voucher register. The total of this record should equal the expenditure control account in the general ledger. An expenditure budget record should be established for each fund. This record is constructed by taking the departmental budget request (by activity) and providing a separate page(s) in the expenditure budget record for each activity within the fund. The expenditure budget record will serve three purposes. It will show a comparison of budgeted expenditures with actual expenditures and a running total of actual expenditures made to date. The third purpose which this record will serve will be as an appropriation control. An example of the form to be used is shown **as Illustration No. 12.**

Capital Assets

Counties have a substantial investment of tax dollars in the various lands, buildings, equipment and other assets owned by them. The responsibility of stewardship involved in safeguarding such a large investment is of the utmost importance to sound financial administration. The protective custody of these assets can only be accomplished through adequate accounting procedures and records. In addition to stewardship or protective custody of these assets can only be accomplished through adequate accounting procedures and records. In addition to stewardship or protective custody of a governmental unit's property, a good system of **capital asset** accounting permits the fixation of responsibility for custody and proper use of specific **capital assets** on individual public officials.

Initially, the board of county commissioners should develop and prescribe accounting policies governing fixed asset accounting. These policies should address:

(a) the person(s) responsible for maintaining **capital asset** control records;

(b) the minimum values for classes of **capital assets** required to be capitalized as **capital assets**;

(c) estimated useful lives to differentiate between **capital assets** and expendable supply items;

(d) whether an accounting for public domain or "infrastructure" **capital assets** is required; e.g., roads, bridges, sidewalks and similar assets.

From a generally accepted accounting principles (GAAP) standpoint, a **capital asset** is an asset which possesses three attributes:

1. tangible in nature
2. a life longer than the current fiscal year
3. a significant value

Capitalization Policy - A capitalization policy is a policy set by each county to establish a dollar threshold(s) for WHEN to call an item a capital asset. Different dollar amounts may be established in the policy for different classes of capital assets. For example, buildings might be capitalized as capital assets when the amount exceeds $50,000 while items that are smaller in value and more numerous, such as equipment, might be capitalized if the amount exceeds $5,000.

SECTION IV--ACCOUNTING RECORDS

The State of South Dakota, in ARSD 10-02-01-01 has established $5,000 as the lower limit for capital asset recognition for its' assets.

For infrastructure, such as roads and bridges, a capitalization policy will help draw a line that decides when an expenditure goes beyond "maintenance" and should be capitalized (added to the capital asset listings). A capitalization policy for a road might be a dollar amount, such as $50,000, or it might be a measurement, such as projects greater than one-half mile in length.

How high should the equipment capitalization policy be? Federal regulations have established a maximum of $5,000, so it is recommended not to exceed that level. The focus for setting your capitalization policy should be less on accountability (a deterrent to theft) and more on financial statement presentation.

Financial statement presentation is impacted by the use of depreciation to feather the cost of an asset over its useful life. A higher capitalization threshold results in more expenses being absorbed in the current year.

As a deterrent to theft, high risk assets such as computers, guns and tools may be tracked through the use of alternative listings. These listings may be much simpler in design then a standard capital asset listing since it would be focused on description and location instead of cost, useful life or depreciation expense.

It is advisable to consult with your insurance carrier to determine the extent of documentation needed in case of a disaster. The results of this consultation will then affect the extent and detail of the capital asset records maintained. A backup copy of all inventory listings should be stored offsite.

Personal Property Listings - SDCL 5-24 requires all county departments to file a property inventory with the finance officer by January 10th of each year. By law this list should include all items over $5,000 in original cost but may include smaller items to coincide with your capitalization policy or the needs of your insurance carrier. It is a good chance to verify or update your capital asset listings when the personal property listings are filed once a year from the various departments.

Why keep track of capital assets at all??? Following are a few of the reasons why:

Accountability - Tracking capital assets is a surefire deterrent to theft. Without records, capital assets could be taken and not detected.

Grants - Certain grant programs require the maintenance of capital asset records.

Decision Making - When a governing board is adopting their budget they may ask for lists of similar assets to get a feel for quantity or age of an item.

Full Costing - Are your water rates high enough? How about sewer, or liquor? One of the larger expenses on an enterprise fund's operating statement is depreciation. Therefor, the first step in providing an accurate financial statement is a completed capital asset record.

SECTION IV--ACCOUNTING RECORDS

The general fixed assets, representing the assets of general government, are reported in their own separate set of self-balancing accounts. Under GASB 34, general fixed assets will be called general capital assets. Also, reference to the "general fixed asset account group" will be phased out under GASB 34, but counties are still encouraged to maintain this account group on your accounting system to act as a central place to aggregate values for reporting purposes.

Capital assets of enterprise funds are reported within each enterprise fund. For example, the Solid Waste Fund capital assets are reported in the Solid Waste Fund.

Because of the separate funds, there may be two accounts established for "Land". Land that is a general capital asset and land that is for the Solid Waste Fund.

How are values established for capital assets and secondly how do I document these values? Accounting principles indicate that capital assets should be recorded at **original cost** or an estimate thereof. Estimated costs should be recorded when it is not feasible to locate the original cost of a capital asset. Donated capital assets should be recorded using the fair market value at the time of acquisition. The following comments will give you ideas in researching capital asset costs:

Land - Try locating deeds in safety deposit boxes, vaults, etc... As a last resort you may go to the register of deeds office at the court house to obtain copies of deeds. Document the legal description (lot, block and subdivision) to facilitate referencing specific properties.

Buildings – Try to approximate the year the building or addition was built by talking with officials or looking at the cornerstone or plaque to obtain the year the building was built. Then go to the minutes of that year to secure the bid amounts. **Maintenance** vs. **capitalizing.** Capitalize only when the useful life is extended and/or dollar amount is significant. Painting, tuckpointing, carpeting and minor repairs are all considered maintenance and do NOT increase the capital asset value.

Improvements Other Than Buildings - The largest values in this account and the hardest to ascertain will be the roads and bridges. Start with a map to determine quantity. Possibly the easiest approach to valuing these assets would be the CPI approach as discussed later. Also, the "composite method" of tracking these assets as a group is also recommended.

Equipment/Vehicles - Go back several years securing the original costs of equipment and vehicles. Document these costs obtained by making copies of the purchase invoices. You may go back even further in the minutes to obtain bids of larger vehicles. Photocopy the page of the minutes to document the cost. Estimate the smaller/older items using a committee or other approach. For Highway assets, consider contacting the highway bookkeeper who may have listings and support for values in their files.

Researching these values is a lot of work, but if it is done right, it only needs to be done once. Document, document, document. If you find the original cost in the minutes or locate the voucher make a photocopy of it. Place these copies into a file folder or three ring binder. Provide page numbers for these copies. Then when the capital asset listing is created on the computer, a column can be established that references back to the page number of the supporting documentation.

Costs such as freight, installation, architect fees and engineering costs are referred to as ancillary costs and should be added to the capital asset values that are recorded.

Estimating Costs – Estimates of the original cost of smaller assets may be determined by researching old catalogues or consulting with individuals that have worked in that field for a number of years. Larger assets may be estimated by using a CPI (consumer price index) approach. The CPI approach is initiated by first establishing the current cost of the item. Then CPI charts are obtained to provide the "deflation" percent per year. The current cost is then deflated to arrive at the estimated original cost.

For example, the CPI tables (found on the legislative audit WEB site) have a factor of 177 for the year 2000 and 112.3 for the year 1990. So if a sewer line currently costs $10,000 per block in 2000, then a new line built in 1990 would be estimated to cost $6,345 per block. ($10,000 divided by the current factor of 177 and that result taken times the 1990 factor of 112.3)

Documentation of the process is critical of all items that are estimated. Who was consulted? Where was the current cost obtained? What CPI deflation factors were used?

Groupings - Groups of common assets may be viewed individually or as a group. For example, if a county had 400 chairs at $20 each in a meeting room, I would probably lean towards recording them as a group because they were probably all purchased at the same time AND they will always be in that particular location. Individual chairs in various offices would not need to be grouped together and therefor probably would not be recorded. (They would be individually under the capitalization policy)

A computer workstation could include a printer, computer, keyboard, and monitor. If they are always going to be in the same grouping, a finance officer could list them together as one item. If your county has many computers and swaps pieces back and forth constantly, then you may want to track individual items or consider them separately when comparing to your capitalization policy.

Subsystem – Subsystems are assets that provide a similar service and are accounted for as a group. The subsystem method of accounting for capital assets focuses on the forest and not on the specific trees. Examples of subsystems could be county paved roads, county gravel roads and secondary gravel roads. Since the subsystem is made up of general infrastructure, it should be recorded/reported within the account "Improvement other than buildings" as a general capital asset..

In using the composite method of valuing and depreciating the subsystem, no gain or loss is recorded upon the retirement of assets with the group. Accordingly, an average cost is removed from the asset account and charged to the accumulated depreciation account when an asset is removed. The asset record of a water subsystem could appear as follows:

PAVED ROAD SURFACES:

Year	Cost	Useful Life	Depr Expense	Accum Depr	Length
1997	500,000	20	25,000	125,000	10
1995	600,000	20	30,000	210,000	12
1993	400,000	20	20,000	180,000	8
	1,500,000		75,000	515,000	30

Given the preceding data, the average cost of a paved road surface is $50,000 (1,500,000/30 miles). If five miles of road surface were replaced then the average cost could be used to reduce the capital asset account and also reduce accumulated depreciation.

Once the system is initially established, the only entries to the above record would be for new road surfaces put in place and a deduction for the old road surfaces that are reconstructed.

Depreciation - Depreciation is only required to be applied to enterprise capital assets. Under GASB 34, the General Capital Assets will also be depreciated so it would be wise to set up those capital asset listings in a manner to allow them to be depreciated. The simple approach is suggested which is to apply depreciation using the straight line method. Suggested useful lives of various capital assets are listed in this section of the County Accounting Manual as Illustration No. 23. Caution should be exercised, in that assets should not be depreciated beyond their useful life.

Capital Asset Listings – Older capital asset listings were on recipe cards, three ring binders and even columnar pads. Current capital asset listing could be set up on an excel spreadsheet. You may even purchase special software from vendors to create capital asset listings.

The capital asset listing should contain fields for date purchased, description, useful life, cost, depreciation expense, accumulated depreciation and an optional column for a serial number. Another column should be utilized to assign a code to the asset that relates to the department that is using the asset and could originate from the expenditure function chart of accounts taken from the County Accounting Manual. By having fields by department, counties will be able to compute depreciation by department. A final field should also be included that would reference back to the page number of the supporting documentation.

Record – The column headings of a capital asset record should be laid out as follows:

ITEM # - This column would serve as a reference from the capital asset record to the support for the value of each item listed. It could also be used to list the tag numbers if tagging is used.

G/L ACCOUNT NUMBER – This column would identify the general ledger account number for each item. For example, 160 land or 166 equipment. It will be convenient to sort this column for financial statement reporting.

FUNCTION/DEPARTMENT – This column will enable a county to sort by function or department. Sorting by department assists in providing the location. GASB 34 requires that depreciation expense be reported at the functional level. For example, total

depreciation expense for "general government" or "public works". The data entered into this column may be in words "general government – auditor's office" or it may be by expenditure account number "141".

YEAR ACQUIRED – This information is essential for calculating depreciation.

ESTIMATE USEFUL LIFE – These estimates may be obtained from the useful life tables on the legislative audit WEB site or it may be obtained from other sources.

DESCRIPTION – A good description coupled with the function column may save having a column for location. Also, it is optional whether to list the serial number here or in a separate column.

COST – This should include the original cost or an estimate thereof.

ACCUMULATED DEPRECIATION – This column should reflect the depreciation accumulated from the date of purchase through the current date. The amounts in this column should support the general ledger accounts of the same name.

DEPRECIATION EXPENSE 2001 – It is recommended to calculate the depreciation expense for each item listed using the straight-line method of depreciation. The totals listed for this column should tie to the amounts reported on the operating statement. Do not depreciate an item beyond its useful life. For the sake of keeping it simple, you may have a policy of depreciating an item for a full year in the year acquired even if an item is acquired several months after the year has started.

NOTE: Proclaiming a salvage value is optional so it is not listed as a required element above.

A sample capital asset record and depreciation schedule is shown on Illustration No. 22.

Tagging of Assets – Tagging of assets to provide specific identification is optional. Most counties in South Dakota are of such a size making it hard to justify the extra work of tagging assets. Many assets such as vehicles, transformers and computers already have a serial number or other ID number available.

Library Books – GASB 34 suggests that library books are to be viewed as a capital asset. Rather than listing each and every book, they may be listed as one asset. For example, 10,000 books at $23 per book equals $230,000. Then each year the total is updated for books purchased and discarded. For convenience, all books discarded are considered fully depreciated. Some GASB 34 specialists are suggesting that library books be considered individually and therefor are not expensive enough to be a capital asset. Our preference would be to list significant libraries as a capital asset to be depreciated over their useful life. Hardcover books, softcover books, CD's and audio tapes are all library capital assets if they have a useful life greater than a year.

Software – Most software purchases are merely paying for the right to use someone else's product so they are not listed as capital assets. Only software developed by the entity's own programmers needs to be capitalized.

Roads – There are two approaches to establishing the value of the infrastructure for roads. This process is complicated by the fact that a road contains the base structure and a top surface. Over time the surface is going to have new overlays while the base structure will remain in its standard form. Remember that phase I and II entities only need to list road work performed since 1980. A large portion of the base structures were already completed by 1980 so most of what will be listed as infrastructure are just the new surfaces.

The first step in maintaining the infrastructure listing for roads is to list the road surfaces separate from the base structures. The advantage to this method is that when the road surface is replaced, it is easier to remove the old values and add the new one.

The alternative approach is to record the road and the underlying base structure (if both were installed since 1980) together in the same capital asset listing. The disadvantage to this method is that when a new surface is added, the estimated value of the old surface will have to be formulated and removed from the listings.

Whichever method is used, it is encouraged to track roads using a broad subsystem approach rather than listing values for each individual road.

Culverts - The base structure of a road should include the value of the culverts. Most roads have culverts located through the length of the road. Rather than tracking culverts separately, the cost of the culverts may be considered within the cost estimated for the road base. When individual culverts are replaced, that cost may be considered maintenance and NOT added to the capital asset listings. Only when a whole section of the road base is redone and the culverts are replaced as a part of that project will the cost of culverts be capitalized resulting in an increase to the value of the base.

Keeping It Simple – For many phase I and II entities, when creating the capital asset detail for infrastructure (roads, street lights) it may be easier to list all of the assets that make up a subsystem rather than trying to determine which ones were built before/after 1980. Since most of the values are estimated based on maps, etc… it would appear that in many instances it would be more efficient to just create values for the entire subsystem.

Road/Land – Beneath each road is land. Land is improved to create a road. The improvement to the land is reported as infrastructure. The land itself is to be reported within the "land" account. The land beneath a road is a public right-of-way. There generally is no deed to reflect ownership or value. The land beneath a road is generally given to a county when a subdivision is platted and developed.

Generally accepted accounting principles require that the land beneath the roads be quantified, documented and reported. There are several ways that this can be done. One of these methods will be enclosed as guidance. The focus should be to arrive at a large estimated figure for the whole county. It is not necessary to calculate values for each street or each block for each street.

The first step would be to quantify the length of existing streets. This can be done in miles or blocks. The next step is to determine the average width of your streets. (Note that a county street generally includes the boulevard and the sidewalk.) Now that we have length and width, we can determine how many square feet of street exists. Then convert the total square feet to acres. (43,560 sq. ft. per acre).

Next, an estimate should be made of WHEN the county was platted and the road land was established. The value of this land may then be determined by referencing values recorded on deeds from that era as recorded in the register of deed's office.

Once the quantity and year of the road land is determined the overall value of the county's road land may be recorded as a capital asset. (5,000 acres times $5 and acre in 1900 equals $25,000)

Bridges – Because each bridge is a different length and many are constructed out of different materials, it is suggested that each bridge should be individually listed in the capital asset records. Bride data maintained by the Dot will be very useful in estimating the original cost of bridges.

The bridge elements in the DOT bridge data that will be useful are the location, description, year built and estimated replacement cost. An estimated ORIGINAL COST (required by generally accepted accounting principles) can be calculated using the CPI tables located on the Legislative Audit Website and the replacement costs provided by DOT.

For example, a county bridge that was built in 1970 has a replacement cost listed by the DOT of $500,000. The CPI index lists a factor for 1970 (year built) of 33.8 and a facgor of 177 for the current (replacement cost) year 2000. Given these numbers, the estimated original cost of the bridge would be $95,480. ($500,000 divided by the current index of 177 and that result taken times the 1970 index of 33.8)

Because of the statutory responsibility of counties to substantially pay for the bridges on secondary roads, the bridges located on secondary roads should be listed right along with the bridges located on county roads. Also, the statutory definition of a bridge (SDCL 31-14, greater than 20 feet) will be used to clarify which structures to list in the bridge capital asset listing.

Leases – Sometimes counties will enter into leases or lease-purchases for capital assets. Leasing is the same as renting in that the county is paying for the right to use the asset but will never own the asset. Lease-purchasing on the other hand is just a mechanism to make installment payments towards the eventual ownership of the asset.

In both leasing and lease-purchasing, an analysis must be made to determine if the contract is a capital lease or an operating lease. The contract is a capital lease if ANY one of the following conditions are met:

a. The lease transfers ownership of the property to the county by the end of the lease term. (a lease-purchase)

b. The lease contains a bargain purchase option. An option to buy the item for less than its current market value.

c. The lease term is equal to 75% or more of the estimated economic life of the leased property.

d. The sum of the principal lease payments equal 90% of the fair value of the asset. (Are your lease payments, when added together, about the same as buying the item)

If it is determined that a capital lease exists, then that item should be added to your capital asset listings. (long-term debt should also be recognized)

SECTION IV--ACCOUNTING RECORDS

Works of Art and Historical Treasures – Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost of fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection. governments are NOT required to capitalize a collection whether donated or purchased that meets ALL of the following conditions. The collection is:

a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

b. Protected, kept unencumbered, cared for, and preserved

c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

Inexhaustible works of art and historical treasurer, if capitalized, should be reported as “Land and land rights” whereby most exhaustible treasurers (ones that will be depreciated) should be recorded as “machinery and equipment”.