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Overview for Accounting Policies & Procedures Manual

The purpose of the Accounting Policies and Procedures Manual is to provide high-level accounting and financial reporting procedures for the preparation of the South Dakota Board of Regents’ (BOR) annual financial statements. The annual financial statements follow the fiscal year July 1 – June 30.

The BOR annual financial statements are prepared on a combined basis, and include all funds and accounts of Black Hills State University, Dakota State University, Northern State University, South Dakota School of Mines & Technology, South Dakota State University, University of South Dakota, South Dakota School for the Blind and Visually Impaired, South Dakota School for the Deaf, and the Board of Regents Central Office.

The BOR annual financial statements also report the financial activity of university foundations based on the nature and significance of their relationship to the BOR. The annual financial statements do not include organizations that are not financially accountable to BOR institutions, such as booster and alumni organizations.

The BOR is a component unit of the primary government of the State of South Dakota and is included as a Business-Type Activity (BTA) in the State of South Dakota Comprehensive Annual Financial Report (CAFR).

The Regental institutions utilize the Banner Finance module to develop financial statements that comply with GASB Statement Numbers 34 and 35. Banner generates the GASB 35 Statement of Net Assets (SNA) and Statement of Revenue, Expenses, and Changes in Net Assets (SRECNA) in either summary or detail form.

The FGPGEXT (GASB extract process) is run daily from June 30 until the financial statements have been audited and all audit entries have been posted. From the extracted data, the GASB reports are generated by accessing the FZAGASB form on Banner and selecting the appropriate report, extract mode, and expense classification.

In addition to utilizing the Banner system for financial reporting, the BOR also maintains financial information on the State of South Dakota’s Central Accounting System (CAS). All information entered on Banner must also be entered on CAS at the requirement of both the Bureau of Finance and Management (BFM) and the Department of Legislative Audit (DLA).
Financial Accounting & Reporting Standards

The BOR financial accounting records are maintained in accordance with generally accepted accounting principles (GAAP) which provide full disclosure of compliance with stewardship responsibilities of the campuses. GAAP is in the form of hierarchy of Levels A, B, C and D with the understanding that higher levels (i.e. GAAP Level A) take precedence over lower levels (i.e. GAAP Level D).

The BOR adheres to the accounting standards, principles and policies of the following organizations:

A. Governmental Accounting Standards Board (GASB)

GASB was created in 1984 and is charged with the responsibility of establishing accounting principles for state and local governments, including government-controlled colleges and universities.

The Financial Compliance Officer for the BOR reviews the GASB Statements of Governmental Accounting Standards (GAAP Level A) and designs and communicates BOR accounting policies for implementing the GASB statements.

B. American Institute of Certified Public Accountants (AICPA)

The BOR follows the recommendations in the 1975 second edition of the AICPA Audits of Colleges and Universities (GAAP Level B), unless those recommendations conflict with or contradict GASB standards.

C. National Association of College and University Business Offices (NACUBO)

The BOR follows the Financial Accounting and Reporting Manual for Higher Education (FARM) (GAAP Level D) published by NACUBO, unless those recommendations conflict with or contradict GASB standards.

D. State of South Dakota

The State of South Dakota’s Bureau of Finance and Management (BFM) issues an Accounting Manual. The BOR is not required to follow the Accounting Manual, but uses the manual as a reference for developing its financial accounting and financial reporting policies.

E. Federal Government Office of Management & Budget (OMB)

The BOR follows the cost principles required by OMB Circular A-21, Cost Principles for Educational Institutions.

In addition to the accounting standards and principles indicated above, the BOR follow the principles below:

- Maintains an internal control environment which enhances sound business practices and clearly defines roles, responsibilities and accountability.
• Ensures that applicable laws, regulations and donor or sponsor requirements or restrictions are complied with and that documentation standards provide assurances of such compliance.
• Provides accurate and relevant managerial financial reports.
• Utilizes appropriate budgetary controls applicable to fund sources (i.e. state appropriations, federal funds, and other funds) to monitor variances and provide explanations of deviations.
• Maintains appropriate levels of financial transaction reviews and approvals by university personnel responsible for such review.
• Involves both internal and external parties to provide periodic independent oversight of university financial activities. Such parties include accounting professionals with the universities, internal and external auditors, and governing bodies as appropriate.
• Ensures all employees are aware of their responsibility to report suspected fraudulent or other dishonest acts to their supervisor, appropriate administrator or the BOR’s internal auditor.
The BOR follows the accounting and financial reporting standards for state and local governmental units as established by the Governmental Accounting Standards Board (GASB) for public colleges and universities.

The standards and related guidance spelling out the GASB financial reporting model are set forth in the following documents:

- GASB Statement 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*
- GASB Statement 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*
- GASB Statement 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*
- NACUBO’s GASB 35 Implementation Guide, *Questions and Answers for Public Colleges and Universities Using Business Type Activity (BTA) Reporting*

GASB Statement 33, *Accounting and Financial Reporting for Non-Exchange Transactions* contains guidance regarding the recognition, measurement, classification, and reporting of non-exchange transactions. The financial reporting model standards and guidance and GASB Statement 33 have a significant impact on the accounting requirements of public colleges and universities.

GASB Statements No. 34 and 35 spell out two different financial reporting models that may be adopted by public colleges and universities. The BOR has chosen to use the model for Special Purpose Governments engaged only in business-type activities. There are three major financial reports required for this model: the *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Net Assets*; and the *Statement of Cash Flows*. 
Official Accounting Records

The annual financial statements are prepared from the official accounting records of the BOR. The Banner Finance Information System (FIS) at each BOR institution and the BOR Central Office is the foundation of the BOR official accounting records. Information on Banner is further supported by subsidiary ledgers. Institutions are required to maintain reconciliations between Banner and subsidiary ledgers, whether they integrate with Banner or not.

The Banner FIS accounting records are divided into accounting periods 01 through 12. Each period refers to one month. For example, period 01 runs from July 1 through July 31; period 02 runs from August 1 through August 31, etc. In addition to period 01 through 12, Banner FIS has a “period 14” for recording year-end adjustments.

The BOR follows the accrual method of accounting. Revenue is recognized when it is earned, and expenses are recorded when they are incurred.
Audit of Annual Financial Statements

The BOR annual financial statements are audited by the South Dakota Department of Legislative Audit (DLA). The annual audit is coordinated through the BOR’s Financial Compliance Officer.

Communication between DLA and the BOR office includes the following:

A. Electronic Data Downloads

   The auditors often require electronic downloads of data to assist them in performing the audit. The downloads contain vast quantities of electronic data. All electronic downloads are provided through the Regents Information Systems (RIS) office.

B. Management Representation Letters

   The auditors require signed management representation letters. The Central Office reviews and signs the management representation letter for the BOR combined financial statements. The auditors may also request institutional representation letters requiring institutional executive management review and signature.

C. Management Letter Comments

   The audit of the annual financial statements may result in management letter comments for improving the internal controls and policies over accounting and financial reporting. The Central Office provides a written response to all formal audit findings.
System-Wide Chart of Accounts

The Central Office maintains a system-wide chart of accounts to ensure uniformity of the financial accounting and reporting of the eight institutions and the Central Office. Institutions are required to follow the system-wide chart of accounts. For additional information on the Chart of Accounts, see http://mytraining.sdbor.edu/resources/Banner/Finance/Chart_of_Accounts_Manual.pdf.
Rule Codes

Rule codes define the transaction processing and edits that determine how Banner Finance processes financial transactions. Rule codes are organized in groups that process similar transaction types.

The following rule codes are entered by the operator when entering transactions on a journal entry or FUPLOAD form. The rule code determines the postings that will be made in the operating ledger, grant ledger and general ledger. Process codes I021 (Plus = Credit / OPAL = ATYP) and I031 (Plus = ATYP Normal) require a plus (+) or minus (-) sign. Process code I061 (D/C input, OPAL = ATYP) requires a DR or CR in the debit or credit indicator.

**Accounts Payable Transactions:**

INNI: Accounts Payable Invoice, without encumbrance (direct pay)
INNC: Credit Memo, without encumbrance

- Reverses the INNI (partially or in whole)

**Check Transactions:**

DNNI: Check, invoice without encumbrance
CNNI: Cancel Check, invoice without encumbrance

**Journal Voucher Transactions:**

JE15: Intra-fund journal voucher

- Used to post journal voucher that affects only one fund; bank account does not need to be updated.

JE16: Inter-fund journal voucher

- Used to post journal voucher that affects more than one fund; bank account is not automatically updated.

ZNC: Non-cash journal voucher

- Used for posting one-sided charges such as bank fees and payments to or from other state agencies; bank account is updated.

ZEC: Expenditure correction

- A two-sided entry used for corrections between funding sources; automatic posting to appropriate bank accounts.

DCSR: Direct cash receipt

- A one-sided entry used to record cash receipts on the journal voucher and direct cash receipts screens; bank account is updated.

ZRC: Revenue correction

- A two-sided entry used for revenue corrections between funding sources; automatic posting to appropriate bank accounts.

**Prior Year Transactions:**

YR10: Prior Year Cash Disbursement

- Establishes a payable in the prior fiscal year with effect on cash in the current fiscal year.
YR20: Prior Year Cash Receipt
- Establishes a receivable in the prior fiscal year with an effect on cash in the current fiscal year.

**Budget Transactions:**

BD01: Permanent Adopted Budget
- Used only for our original FY budgets, with the exception of restricted funds

BD02: Permanent Budget Adjustment
- Used for permanent changes after the initial fiscal year budget loads, even if a new FOAPAL is required with the exception of restricted funds

BD03: Temporary Adopted Budget
- Used when a new temporary budget is created during the fiscal year needing a new FOAPAL assignment or for an existing FOAPAL that was not originally budgeted

BD04: Temporary Budget Adjustment
- Use for temporary adjustments to any existing FOAPAL created as BD01, BD02 or BD03

J020: Budget Carry Forward
- Use with restricted funds when rolling the available budget balance into the new fiscal year

**FUPLOAD Transactions:**

ZD01: Permanent Adopted Budget
- Used only for our original FY budgets, with the exception of restricted funds

ZD04: Temporary Budget Adjustment
- Use for temporary adjustments for the current fiscal year

ZD14: Temporary Budget Load
- Use for temporary adjustments for the next fiscal year

ZE05: Beginning of Year Account Balance Changes

E090: Year-end Encumbrance Roll

E020: Encumbrance Adjustment

E032: Encumbrance Liquidation

**Payroll Transactions:**
The following rule codes are utilized in the payroll process. There are posting modifiers on certain process codes within the rule code structure to move the cash and liability to the Shared Payroll Clearing Fund.

- ZRB – Gross Benefit Expense
- ZNL – Gross Expense
- ZEL – Employee Liability
- ZRL – Employer Liability
- ZNT – Net Pay
BDCA Codes

The PTRBDCA form is used to establish and define the benefits category and benefits and deductions for employees on Banner. The codes used within the form are commonly referred to as BDCA codes and can be placed in two categories: 1) System – the transactions are posted centrally; and 2) Institutional - the transactions are posted at the institutional level. With System BDCA codes, the benefits liability is recognized centrally in the Shared Payroll Center (SPC) funds. Payments to vendors for those liabilities are remitted from the SPC funds centrally. With Institutional BDCA codes, the liability is recognized by the institution and the remittance is the responsibility of the institution. Institutional BDCA codes are smart coded with the alpha character identifying the institution.

Additional information explaining BDCA codes and their overrides can be found at: http://mytraining.sdbor.edu/resources/Banner/Finance/WhitePaperBDCA_Labor_Distribution Overrides%20.pdf
BDCA X20 Transactions

The BDCA code X20 is used for a variety of scenarios in which an employee’s net pay is reduced or a receivable from an employee is recognized. Examples of situations in which the X20 BDCA code has been used include:

- Regular withholding of monthly payments such as YMCA or Community Center memberships;
- Withholding parking fines from paychecks;
- A late garnishment received by the payroll office where the funds need to be returned by the employee for remittance to a third party;
- Discovery of an employee overpayment after original payroll run; and
- Payment of insurance premiums while an employee is on Leave Without Pay status.

The mechanics behind the X20 BDCA cause an incorrect balance in an employee receivable account that must be eliminated. For detailed information on the procedures necessary to adjust for X20 BDCA balances see: [http://mytraining.sdbor.edu/resources/Banner/Finance/BDCA_X20_Transactions.pdf](http://mytraining.sdbor.edu/resources/Banner/Finance/BDCA_X20_Transactions.pdf)
Fund and Organization Code Termination

Terminating a fund or organization code prevents transactions from posting to that specific fund or organization. This includes all transactions. To determine if a fund code has been terminated, view the Banner form FTMFUND, select enter query, enter the fund code and execute query. The date in the “Termination Date” field is the date the code was terminated. If no “Termination Date” is listed, the fund code is active.

The following checklist assists in terminating fund and organization codes. Some issues may be addressed through a fix, while others may result in delaying the termination of a fund or organization code until such time as the issue has been cleaned up (outstanding payroll activity has been run, etc.):

<table>
<thead>
<tr>
<th>Potential Problem</th>
<th>Description</th>
<th>How to Identify</th>
<th>How to Fix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Encumbrances</td>
<td>Open encumbrances create problems with the encumbrance roll process which rolls encumbrances from one fiscal year to the next</td>
<td>N/A</td>
<td>The encumbrance will need to be closed. Contact the source of the original encumbrance for closing.</td>
</tr>
<tr>
<td>General Ledger Balances</td>
<td>General ledger balances create problems with the roll process from one fiscal year to another</td>
<td>Banner Form FGITBSR</td>
<td>General balances must first be transferred to another fund in order to bring the balances to zero.</td>
</tr>
<tr>
<td>Operating Ledger Budget Available</td>
<td>Operating ledgers balances on certain fund types will fail to roll from one fiscal year to another if the codes involved are terminated</td>
<td>Banner form FGIBDST</td>
<td>Operating ledger balances must first be transferred to another fund or organization in order to bring the balances to zero.</td>
</tr>
<tr>
<td>Index Codes</td>
<td>If the fund code to be terminated is used in an active index code, the index code will not be valid either</td>
<td>Banner form FTMACCI</td>
<td>Fund and organization codes with active index codes cannot be terminated.</td>
</tr>
<tr>
<td>Fund Code Defaults</td>
<td>Depending on the fund involved, an organization code may be set as a default on a fund</td>
<td>Banner form FTMFUND</td>
<td>Organization codes set as default for a fund cannot be terminated.</td>
</tr>
<tr>
<td>P-Card Defaults</td>
<td>If a p-card is defaulted to a specific fund or organization, the default code on the p-card will use an invalid fund or organization code</td>
<td>N/A</td>
<td>P-card defaults should be reviewed to verify that the fund or organization code being terminated is not a default.</td>
</tr>
<tr>
<td>Active Payroll Job Records</td>
<td>If there is an active job record that has a labor distribution including the fund or organization code to be terminated, this creates balances in “payroll suspense”</td>
<td>Banner form NBAJOBS</td>
<td>If there have been payroll charges recently, there might be an active job with this labor distribution. Must wait for payroll charges to post.</td>
</tr>
<tr>
<td><strong>Accounting Policies &amp; Procedures Manual</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Unapproved Vouchers</strong></th>
<th>These are vouchers that have been entered, but not yet approved (and thus not posted to the operating ledger)</th>
<th>Banner form FOIDOCH</th>
<th>Vouchers either need to be modified in order for payment to be made, or wait for them to clear.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor Redistribution</strong></td>
<td>Depending on how the operating ledger activity was transferred to a new fund or organization code, performing labor redistribution on prior pay events could create a rogue fund or organization.</td>
<td>N/A</td>
<td>If prior labor charges are not moved to a different fund or organization code, and future labor redistributions are performed on prior pay events, the payroll system will credit the old fund or organization code that was terminated. Labor redistributions must be adjusted.</td>
</tr>
<tr>
<td><strong>Outstanding Non-Cash Taxable Payroll Activity</strong></td>
<td>Taxable employee benefits have been incurred, but not posted.</td>
<td>N/A</td>
<td>Transactions either need to be modified in order for the payment to be made, or wait for them to clear.</td>
</tr>
<tr>
<td><strong>Organization Code Default</strong></td>
<td>If the fund code to be terminated is a default on any organization code, none of the postings to the organization code will be valid</td>
<td>N/A</td>
<td>Alter the organization code record(s) as appropriate.</td>
</tr>
</tbody>
</table>

**Items to note:**

- Requests for termination of research funds must be approved by the Research Accounting Office prior to processing.
- If any staff is being paid from the fund or organization, advise HR of the replacement coding.
- Advise the appropriate personnel that the fund or organization code is terminated:
  - budget staff
  - department end users
- Fund and Organization Security needs to be adjusted where necessary.

Additional information on Fund and Organization Code termination can be found at: [http://mytraining.sdbor.edu/resources/Banner/Finance/FundOrgCodeTermination.pdf](http://mytraining.sdbor.edu/resources/Banner/Finance/FundOrgCodeTermination.pdf)
Journal VoucherNaming Conventions

End-users, under the guidance of the Controller’s office, shall assign documents numbers for the following documents only. All other document identification numbers will be assigned automatically by Banner. All document numbers must be eight characters in length and following the naming convention prescribed below.

  FB    Beginning Fund Balance adjustments and prior period adjustments
  JA    Journal Entry Accrual
  QR    Reclassification entries on FGARCLE

1. The first two digits must be the letters that designate the type of document.
2. The third digit must indicate the institution’s numerical code
3. The fourth digit must indicate the fiscal year. In the event that the fiscal year is two digits in length, the fourth and fifth are dedicated to the fiscal year
4. The remaining digits are institutionally assigned.
CAS Budgetary Control Batch Input

The BOR system maintains financial information on both the Banner finance system and the State of South Dakota’s Central Accounting System (CAS). Finance end users with access to CAS have an opportunity to create and electronically submit a journal voucher that contains a large number of document lines. The batch file begins with an Excel template that is then copied into a text file. The text file is picked up by the Bureau of Finance and Management’s (BFM) FTP server, swept and posted to CAS the next day. All CAS posting procedures apply to this methodology. The CAS General Ledger will be updated on Tuesday and Friday evenings.

For additional information on the procedures necessary to utilize the batch processing method on CAS, see: http://mytraining.sdbor.edu/resources/Banner/Finance/CAS_BC_Batch%20Input.pdf
Internal Controls

Management at each institution and the Central Office is responsible for establishing and maintaining sufficient internal controls. The system of internal controls provides a reference for universities and their administrative personnel to outline basic duties and responsibilities. It provides minimum standards for good business practices necessary to establish an adequate system of internal accounting controls and effectively comply with university policies and procedures and applicable federal and state laws and regulations. The establishment, maintenance and evaluation of an organization’s internal controls are the responsibility of management. It is the policy of the South Dakota Board of Regents to maintain an adequate system of internal controls in order to safeguard its assets, and identify and correct errors and irregularities in the financial records on a timely basis. It is also the Board’s policy to perform evaluations of the system of internal controls through the services of internal and external auditors, as well as periodic evaluations by management.

Controllers Role in Internal Controls

- Promote an ethical business environment by providing structure, feedback, and discipline.
- Assess risks specific to your operations and develop a control system to address risks that could prevent achieving established goals.
- Establish and maintain control activities such as reconciliations, approvals, and review of operating activities.
- Ensure appropriate access to and use of university information and systems.
- Monitor control system and activities to identify and correct breakdowns in a timely manner.
- Understand and adhere to the objectives and components of internal control.
- Develop a method of evaluation of the system of internal controls that is cost-effective, minimizes the impact on academic departments, and achieves compliance with the objectives and components of internal control.
- Coordinate management’s annual evaluation of internal controls.
- Report annually to the Business Affairs Council on the University’s evaluation of the system of internal controls.

Objectives of Internal Control

University administrators and managers are charged with the responsibility for establishing a network of processes with the objective of controlling the operations of each campus in a manner which provides the South Dakota Board of Regents reasonable assurance that:

- Data and information published is accurate, reliable, complete and timely.
- The actions of administrators, officers, and employees are in compliance with the Board’s policies, standards, plans and procedures, and all relevant laws and regulations.
• The University’s resources (including its people, systems, data/information bases, and client goodwill) are adequately protected.

• Resources are acquired economically and employed effectively; quality business processes and continuous improvement are emphasized.

• The University’s internal controls promote the achievement of plans, programs, goals, and objectives.

The controller at each campus is responsible for setting the “tone at the top” of the campus control environment and ensuring that adequate controls are included in the daily operations. A system of internal controls is essentially a system of checks and balances. Controlling is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of managers at all levels of the Universities to:

• Identify and evaluate the exposures to loss relating to their particular sphere of operations.

• Specify and establish policies, plans, and operating standards, procedures, and systems to be used to minimize, mitigate and/or limit the risks associated with the exposures identified.

• Establish practical controlling processes that require and encourage administrators, officers, and employees to carry out their duties and responsibilities in a manner that achieves the control objectives outlined above.

• Maintain the effectiveness of the controlling processes established and foster continuous improvement to these processes.

Components of Internal Control

Types of Internal Controls:

• Detective controls are designed to detect errors or irregularities that have already occurred.

• Corrective controls are designed to correct errors or irregularities that are detected.

• Preventive controls are designed to keep errors or irregularities from occurring in the first place.

Types of Control Activities:

• Approvals
• Authorizations
• Verifications
• Reconciliations
• Review of operating performance
• Security of assets
• Segregation of duties

Purpose of monthly reconciliations and reviews

Monthly reviews of reconciliations and concurrent reviews of the detailed transactions posted to the funds are some of the most important internal accounting control procedures that can be performed.
Reviews and reconciliations are detective controls. They accomplish two primary objectives. First, these reviews are one of the key processes in the system of checks and balances (internal controls) needed to prevent fraud, theft, or inappropriate use of public funds. Second, these monthly reviews can also be used to assess the effectiveness and efficiency of the business practices in each campus.

Components of Internal Controls

Internal control consists of five interrelated components: the control environment, risk assessment, control activities, information and communications, and monitoring. Each of these components is an integral part of the management process and plays a specific role in departmental internal control procedures.

A. Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Basic to the control environment are organization structure, assignment of authority and responsibility, and human resources policies. More difficult to quantify are ethics, commitment to competence, and management operating style.

B. Risk Assessment

Risk assessment is the identification and analysis of risks relevant to achievement of objectives, forming a basis for determining how risk should be managed. Management’s responsibility is to define compatible, relevant objectives and the risks related with achieving those objectives. Management should have a basis for determining which risks are most critical. Management is also responsible for ensuring mitigation of key operating risks.

C. Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out.

Control activities reflect management’s risk mitigation strategy in the form of directive, preventive and detective controls. Focus is on achieving effective and efficient resource usage as measured by the degree of achievement of control objectives. Control activities help ensure necessary actions are taken to address risks relevant to achievement of objectives. Examples are physical controls and segregation of duties.

D. Information and Communication

Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. Information systems deal with both internally generated data and information about external events, activities and conditions. Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control. Management is obligated to communicate the standards of measurement for evaluating operations. In other words, sufficient relevant communication promotes awareness of internal control objectives so employees understand how their individual actions interrelate and recognize how and for what they will be held accountable.
E. Monitoring

Monitoring is a process established by management that assesses the quality of internal control performance over time. Monitoring provides external oversight, either ongoing or in the form of independent checks of internal controls by management or other parties outside the process.

Limitations of Internal Controls

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives will be achieved. Segregation of duties decreases the chance of controls being circumvented through collusion, but controls can still break down through human error and judgment, as well as management override. Management override should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. Internal control deficiencies should be reported to a department head and more serious matters should be reported to executive management.

Internal Control Process Objectives

A well designed process with appropriate internal controls should meet most if not all of a system’s control objectives. A system of internal control can be evaluated by assessing its ability to achieve seven commonly accepted control objectives:

**Authorization:** All transactions are pre-approved by responsible personnel.

**Completeness:** All valid transactions are included in the accounting records.

**Accuracy:** All valid transactions are accurate, consistent with the originating transaction data, and information is recorded in a timely manner.

**Validity:** All recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management’s general authorization.

**Physical Safeguards and Security:** Access to physical assets and information systems are controlled and properly restricted to authorized personnel.

**Error Handling:** Errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

**Segregation of Duties:** Duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing a transaction.

Internal Control Checklist

The Internal Control Checklist contains over 100 questions related to business processes and procedures. The review provides a mechanism to campuses to assess awareness of requirements contained in fiscal policies and procedures or internal control standards and to evaluate actual business practices relative to those requirements. The Checklist is another review process that can enable campuses to implement any corrective actions needed. The University Controllers use this checklist to identify business processes that may need to be improved or where training and communications needed to be provided.
The **Internal Control Checklist** shall be completed by the end of the 2\textsuperscript{nd} Quarter of each fiscal year (December 31) and any issues deemed critical in nature by the Financial Compliance Officer will be reported to the Business Affairs Council at their first meeting following December 31.
Uniform and Consistent Coding of Accounting Transactions

A financial entity the size of the BOR, comprising eight institutions and the Central Office, results in a large number of accounting transactions. A key to the accuracy of the accounting records is the correct coding of each accounting transaction. Each accounting transaction must be recorded to the correct fund, organization, account, and program (FOAP).

Each institution and the Central Office must have sufficient preventative and/or detective controls in place to ensure the correct uniform and consistent coding for like types of accounting transactions.
Finance Data Standards

The purpose of data standards is to promote the consistent use and integrity of the finance data for efficient management and reporting of information, whether internally or for a third party.

The fund, organization, activity and location codes at the BOR are smart coded. This means that all or part of the code or element signifies a certain institution.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Numeric</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDSD</td>
<td>0</td>
<td>H</td>
</tr>
<tr>
<td>BOR</td>
<td>1</td>
<td>R</td>
</tr>
<tr>
<td>USD</td>
<td>2</td>
<td>U</td>
</tr>
<tr>
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</tr>
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<td>NSU</td>
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<td>BHSU</td>
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<td>B</td>
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<tr>
<td>DSU</td>
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*(the number seven was intentionally not used)*

Further information on the finance data standards can be found at:
http://mytraining.sdbor.edu/resources/Banner/Finance/FinanceDataStandards.pdf
Other Financial Reporting

Other financial reports prepared for external stakeholders include the following:

1. SEFA Report

   The Schedule of Expenditures of Federal Awards (SEFA) is a State of South Dakota report required by the Federal Government. The SEFA reports the annual expenditures made by the State of South Dakota agencies of Federal awards. The information required for SEFA reporting is collected from each institution and the Central Office by BFM, who compiles the SEFA data for all state agencies into the SEFA for the State of South Dakota.

2. IPEDS Report

   The Integrated Post-Secondary Education Data System (IPEDS) is a system of surveys designed to collect data from all primary providers of post-secondary education. The Central Office completes the portion of the IPEDS survey containing financial data of the BOR institutions and the Central Office.
Financial Reporting Entity

In accordance with GASB Statement No. 14 terminology, the BOR financial reporting entity comprises the primary government and component units.

The primary government is comparable to the legal entity of the BOR. All accounting transactions of the BOR must be recorded in the Banner FIS account records; therefore the BOR primary government comprises the combined Banner FIS accounting records of the six state universities, the two special schools, and the Central Office.

Component units are entities related to but legally separate from the BOR, for which the BOR is either financially accountable or for which exclusion of their financial statements would cause the BOR financial statements to be considered misleading or incomplete. Based on criteria within GASB Statement No. 39, the foundations for all six state universities, in addition to the portion of the South Dakota Building Authority directly related to BOR activity are recognized as component units of the BOR financial reporting entity.

The BOR annual financial report includes the financial statements of the BOR and the component units in a blended format.
Basis of Accounting

The BOR is considered a special purpose governmental entity engaged in business-type activities. Accordingly, the BOR follows the accrual basis of accounting. The accrual basis recognizes revenue when earned and expenses when incurred, regardless of when the funds are actually received or disbursed. The timing differences between the recognition of revenue and expense versus the receipt and disbursement of funds results in the following assets and liability accounts:

- Accounts Receivable: Revenue earned for which funds are still to be received
- Accounts Payable: Expenses incurred for which funds are still to be disbursed
- Prepaid Expense: Funds disbursed for expenses not yet incurred.
- Deferred Revenue: Funds received for revenue not yet earned.

The determination of revenue earned and expenses incurred may be inexact and may require estimates. Estimates of revenue and expense accruals must be supported by adequate documentation showing the methodologies and calculation in the estimates.

At a minimum, all year-end balances in the accounting records must be on the accrual basis. Fiscal year-end accrual of revenue earned but not received, and expenditures incurred but not yet paid, must be supported by auditable records.

Examples of accrual situations:

- Deferred revenue results from an exchange transaction in which resources have been provided to an institution for goods or services that will be delivered in the future. A liability (deferred revenue) should be recorded until the institution provides the service or activity. When the service is provided, the liability should be eliminated and the revenue recognized.
- When goods or services are received, a liability should be recorded, unless cash is immediately paid. At fiscal year-end, accounts payable and accrued liabilities should be recorded. Sometimes estimates must be made for interest or other expenses that have been incurred but not billed. Since payroll dates do not coincide with the fiscal year end, accruals should be made for accrued salaries.
Business-Type Activity (BTA) Reporting

College and university activities are considered “business-type activities” (BTA) not because their activities resemble those performed by the private sector, but because there is an exchange involved between the receiver and provider of the service. Business-type activities are defined as activities that are financed in whole or in part by fees charged to external parties for goods and services.
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Minimum Reporting Requirements for BTAs

BOR institutions must present the following basic financial statements and Required Supplementary Information (RSI):

- **Management’s discussion and analysis (MD&A):** precedes the basic financial statements and is required supplementary information to the basic financial statements. MD&A is intended to provide the users of the financial statements with an objective, easily readable analysis of the institution’s financial activities based on currently known facts, decisions, or conditions. MD&A must include the following:
  - Brief discussion of the basic financial statements, including the relationships of the statements to each other and the significant differences in the information they provide.
  - Condensed financial information derived from the financial statements comparing the current year to the prior year. The following elements should be included, if applicable:
    - Total assets, distinguishing between capital and other assets
    - Total liabilities, distinguishing between long-term liabilities and other liabilities
    - Total net assets, distinguishing among amounts invested in capital assets, net of related debt, restricted amounts, and unrestricted amounts
    - Operating revenues by major source
    - Operating expenses by major cost category
    - Non-operating revenues (expenses)
    - Income (loss) before capital contributions, special and extraordinary items and transfers
    - Capital contributions
    - Special and extraordinary items
    - Transfers
    - Change in net assets
    - Ending net assets
  - An analysis of the institution’s overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year’s operations, including reasons for significant changes from prior year.
  - A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations.
  - A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position.

- **Financial Statements**
  - Statement of Net Assets
    - Assets equal Liabilities plus Net Assets presentation
    - Breakout of Current vs. Non-Current Assets and Liabilities
    - Assets and Liabilities to be reported in order of liquidity
- Capital assets are to be reported as net of depreciation with a disclosure of accumulated depreciation in the footnotes.
- Three classifications of Net Assets:
  - **Unrestricted**: net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”
  - **Restricted**: Net assets should be reported as restricted when constraints placed on net asset use are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation is the term used when the government assesses, levies, charges, or otherwise mandates payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. [GASB 34]
  - **Invested in Capital Assets, Net of Related Debt**: this is the difference between 1) capital assets, net of accumulated depreciation, and 2) liabilities “attributable to the acquisition, construction, or improvement of those assets.” When debt has been used to finance the acquisition, construction, or improvement of capital assets but all or part of the cash has not been spent by the end of the fiscal year, the unspent portion of the debt should not be used to determine the amount of invested capital assets (not or related debt) amount. The portion of the unspent debt “should be included in the same net assets component as the unspent proceeds – for example, restricted for capital projects.” [GASB 34] In determining capital-related debt, campuses are not expected to categorize all uses of bond proceeds to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for non-capitalized purposes, the entire amount could be considered “capital related.” In addition, if debt is issued to refund existing capital-related debt, the new debt is considered capital-related because the replacement debt assumes the capital characteristics of the original issue. Unamortized debt issue costs, bond premiums and discounts, and deferred amounts from debt refunding should “follow the debt” in calculating net asset components.
- BTA reporting has the potential for negative net asset balances. Due to capitalization limits, it is also possible that the outstanding debt could exceed the depreciated value of capital assets.
  - Statement of Revenues, Expenses and Changes in Net Assets
    - Operating and Non-Operating revenues and expenses must be broken out
    - State Appropriations are considered non-operating
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- Natural classification of expenses (personal services/operating expenses) to be shown on the financial statements with a functional breakdown required for note disclosure.
- Capital contributions and additions to permanent and term endowments are reported separately.
  - Statement of Cash Flows
    - The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) is used.
    - Broken into four sections:
      - Operating
      - Non-Operating
      - Capital Related Activities
      - Investing
  - Notes to the financial statements
    - Include the standard minimum elements – GASB Statement No. 38, Certain Financial Statement Note Disclosures provides more detail on required note disclosures.
Current versus Non-Current

GASB Statement 34 requires institutions that report as BTAs to display assets and liabilities on a Statement of Net Assets in a classified format distinguishing between current and long-term assets, and current and long-term liabilities, respectively.

**Current Assets** – Assets that are available to pay current liabilities, or will be converted to cash within the next reporting period (or one year).

**Cash and Cash Equivalents** - For reporting purposes, cash includes cash on hand, cash in local banks, and cash in the State Treasury. Cash equivalents are reported at fair value. Cash equivalents include short-term investments with original maturities of three month or less. Cash on deposit with First Premier (or State’s designated bank depository) is to be reported as Cash on Deposit – State Treasurer. Cash in local bank depository to be reported as Cash on Deposit – Local Bank.

**Restricted Assets** – Should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. For example, cash and investments normally are classified as current assets, and a normal understanding of these assets presumes that restrictions do not limit the government’s ability to use the resources to pay current liabilities. But cash and investments held in a separate account that can be used to pay debt principal and interest only (as required by the debt covenant) and that cannot be used to pay other current liabilities should be reported as restricted assets. Because restricted assets may include temporarily invested debt proceeds or other resources that are not generated through operations (such as customer deposits), the amount reported as restricted assets will not necessarily equal restricted net assets [GASB 34]

**Current Liabilities** – Liabilities that will be paid within the next reporting period (or one year). Long-term liabilities have current portions in most cases. For example, the principal due within the next year would be reported as a current liability with the remaining being reported as a non-current liability.

**Non-Current Assets and Liabilities** – Assets and Liabilities that are expected to become due beyond the next reporting period. Cash held for bond covenants are reported under Other Non-Current Assets.
Non-Exchange Transactions

Non-exchange transactions, such as gifts are transactions where one party gives or receives value without directly receiving (or giving) equal value in exchange. Gifts are recognized as revenue when received or when pledged with a supporting pledge agreement that shows that all eligibility requirements have been fulfilled.

The BOR primary government and its component units are separate legal entities and have separate financial statements. Revenue of a component unit is not automatically recognized as revenue of the BOR until a transaction occurs between the component unit and the BOR.

The university foundation provides donations, gifts, and other revenues to the university, but is a separate legal entity and issues its own audited financial statements. For accounting and financial reporting purposes, the BOR recognizes revenue from the university foundation similar to recognizing revenue from other donors and in accordance with the provisions of GASB Statement No. 33 – “Accounting and Financial Reporting for Non-Exchange Transactions.”

Revenue is recognized by the university under any one of the following conditions:

1. Funds are received from the university foundation.
2. The university has made expenditures that per formal agreement are to be reimbursed by the university foundation.
3. The university has a written pledge document from the university foundation, and the university has met the conditions of the pledge document.

Although the university foundation raises funds for the benefit of the university, the funds at the foundation are generally not considered revenue to the university until one of the above conditions occur.

At the end of the fiscal year, gift revenue recognized but not received in cash results in an accounts receivable from the university foundation. GASB Statement No. 33, paragraph 25, requires that non-exchange transactions such as promises to give be verifiable, measurable, and probable of collection. Absent a verifiable contractual agreement, the accrual of a receivable may be made if all the following conditions are met:

1. The university had incurred expenses in the fiscal year that met the restrictions that donors to the university foundation placed on their donations.
2. The amount to be accrued was on hand (in the form of cash, cash equivalents, and/or short-term investments) in the appropriate fund at the university foundation at the close of the fiscal year.
3. The university had requested reimbursement of said expenses in a timely fashion (before fiscal year-end close of period 14).
4. The monies requested are actually received by the university in a timely fashion.
The accrual of a receivable and recognition of revenues, in the absence of a verifiable contractual agreement, is justifiable in this instance (above conditions have been met) because the only event necessary for the revenue to have been recognized by the university without an accrual was the making of a transfer by year end.

Two conditions help support the validity of the accounts receivable accrual:

1. The university foundation reports a corresponding payable to the university in its annual audited financial statements, and/or
2. The university foundation has forwarded the funds to the university at the beginning of the following fiscal year. We presume that the funds should be forwarded by the close of period 02 (August).

If neither of the above has occurred, other information and support is needed to support the validity of the accounts receivable accrual.
Operating versus Non-Operating

Revenues are reported on the Statement of Revenues, Expenses, and Changes in Net Assets and are classified as either operating or non-operating. Guidance for classification of Operating versus Non-Operating revenues are found in GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

Operating revenues include:

- Tuition and fees (net of scholarships)
  - Includes self-support tuition, general activity fee, and university support fee not including the salary competitiveness fee and technology fee sent to the pool.
  - Any charges per BOR policy 5:5:4 Tuition and Fees: Fees
- Federal, state and private grants and contracts
- Sales and services of educational activities
- Student loan program transactions
- HEFF funds earned from state support tuition
- Indirect costs recovered on grants and contracts related to exchange transactions
- Sales and services of auxiliary enterprises
- Other operating sources

Non-operating revenues are those derived from non-exchange transactions, or those that are not reported as operating activities in the Statement of Cash Flows. Non-operating revenues include:

- State appropriations
- Earnings on loan funds from the State Investment Council
- ARRA Funding
- School & Public Land revenues
- Gifts
- Investment income
- Other non-operating revenues
Additional Accrual Guidance

The following provides additional guidance on the recognition of different types of revenues and expenses in the BOR accounting records:

1. Assets should be reported net with disclosures on the face of the statement. For example, Accounts Receivable should be reported net of Allowance for Uncollectible Accounts. The allowance amount should be reported parenthetically on the face of the financial statement.

2. Revenue may be recognized when initially billed so long as the entire revenue is earned before the close of the fiscal year. Billings comprising both revenue of the current fiscal year and revenue of the following fiscal year would be divided into revenue and deferred revenue.

3. Revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement.

4. Interest earnings:
   a. Earnings on tuition and fees are considered operating revenue for purposes of the CAFR.
   b. Earnings on bond sinking funds (principal and interest in the bank) are treated as non-operating revenue for CAFR reporting purposes.
   c. Earnings on M&R bonds are operating revenue for purposes of the CAFR.
   d. Interest earned through the South Dakota Investment Council is to be treated as non-operating revenues for CAFR reporting purposes.

5. Expenditures may be expensed at the beginning of the year so long as the expenses will be fully incurred before the end of the fiscal year. For year end, expenditures for expenses that cross into the subsequent fiscal year should be divided into expense and prepaid expense.
   a. Regular Pay Invoice Transactions are AP invoices that have a transaction date greater than 07/01 but an invoice prior to 06/30. They represent regular pay transactions that are recorded as current year expenses, but are prior year payables for accrual basis reporting. Financial statements need to be adjusted for those payables.
   b. RIS will run an SQL and forward the output to the institutions. See Regular Pay Invoices – Financial Statements.docx at http://mytraining.sdbor.edu/Banner/Finance
   c. Once the accrual amount has been determined, the following entry should be made in the prior fiscal year:

   DR – appropriate FOAPAL
   CR – Fund/Org/200000 Accounts Payable Accrual/Program

6. Payroll expense is considered incurred as of the time the payroll services are performed, regardless of the benefit the work performed will have on operations in the subsequent fiscal year.

7. Hourly payroll for the period June 23 through June 30, but not paid until the July month-end payroll distribution is recorded as a July expense in the Banner FIS accounting records but is
a June expense for financial reporting purposes. And adjustment is made to the financial statements for year-end.

8. Depreciation expense for fixed assets is allocated/amortized over the estimated useful life of the asset. Due to materiality, practicality, and ease of the accounting records, fixed asset expenditures less than a capitalization threshold are expensed at the time of purchase and not allocated to depreciation expense. The capitalization threshold amount varies depending on the type of fixed asset. Refer to the Capitalization Policy for the capitalization thresholds and additional depreciation information.

9. When both restricted non-appropriated funds and unrestricted non-appropriated funds are eligible for use in payment of an expenditure, the restricted non-appropriated funds will be utilized first.
Use of YR10/YR20 Transaction Codes to Record Accruals

In order to process a prior year journal voucher as either a payable or a receivable, use the YR10 or YR20 transaction codes. By using these rule codes, expense or revenue is increased in the prior year operating ledger and the offset entry is to either an account payable or an account receivable, depending upon the transaction code used.

- YR10 – prior year expense
- YR20 – prior year cash receipt

Detailed information concerning the use of a YR10 or YR20 transaction code can be found at:

http://mytraining.sdbor.edu/resources/Banner/Finance/YR10_YR20JournalVouchers.pdf
Consistent Account Recording

The Board, its six universities and two special schools will utilize the following account coding in an attempt to maintain a common, systematic approach to the preparation of its financial statements:

**RIS Allocation:** The SIS component of the University Support Fee (USF) will be deposited into an institutional clearing fund. From this fund, the RIS Allocation will be expensed by debiting the following:

- **DR** 744960 Other Contractual Services Program 06

**EUC:** The Electronic University Consortium is a component of the self-support tuition rate that is deposited into an institutional clearing fund. From this fund, the EUC amount will be expensed by debiting the following:

- **DR** 744960 Other Contractual Services Program 06

**Opportunity Scholarship:**

- **CR** 530230 State Grants and Contracts Program 08

**2010 Centers:**

- **CR** 530230 State Grants and Contracts Program 02

**HEFF Funds:** each campus will review HEFF expenditures in Banner prior to the preparation of end-of-year financial statements. The expenditures will be broken down into either capital or operating expenditures.

**HEFF Capital Expenditures:** at the time of the expense, each campus will code to the appropriate expense account. When preparing end-of-year financial statements, a reclassification shall be made to reduce expenses and increase the appropriate capital account with the total of HEFF Capital Expenditures equaling the total credit in the revenue account:

- **784001** HEFF Capital Appropriations Program 07 (Attribute 3025NOPR)

**HEFF Operating Expenditures:** at the time of the expense, each campus will code to the appropriate expense account. When preparing end-of-year financial statements, the total of HEFF Operating Expenditures should equal the credit in the revenue account:

- **540150** HEFF Revenues (Attribute 4040OTCH)
Materiality Limits for Liability Accrual

The Regental System will incorporate and follow the materiality limits set forth by BFM, with the exception of regular and direct invoices.

Amounts due from one state fund to another state fund are not required to be accrued, if the individual amounts are less than $5,000. The policy EXCLUDES and does not apply:

1. Billings created by the BFM, BOA, BIT and BOP for central service billings;
2. DOT Airline Billings;
3. Pheasantland Industries; and
4. South Dakota Health Lab

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<td>Interagency Billings (Due To/Due From)</td>
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5. Accounts Payable: The AP regular and direct invoice will be based on the date the goods or services were received. The Board of Regents will follow Interagency Billings (Due To/Due From) and Prepaid Expenses.

Institutions are required to inform the corresponding state agency or Regental institution of the amount due to/due from to be posted no later than the deadline established by the Bureau of Finance and Management.

Institutions are to review and perform an analysis of the regular pay invoices paid after July 7 (after encumbrance roll in Banner Finance) to determine if the payment needs to reported as an accrual. The cutoff date for recording accruals is August 15. After that date, any accrual will be determined case-by-case.

The procedure for recording regular pay invoice transactions as accounts payable can be found at:

http://mytraining.sdbor.edu/resources/Banner/Finance/RegularPayInvoicesFinancialStatements.pdf
Reconciliations

A reconciliation is a comparison of records kept at an institution with the official records of the institution in Banner and CAS. Reconciliations are the responsibility of the Finance Manager of the Fund or Index. The steps to performing a reconciliation are:

- Confirm opening balance of the fund. It should agree with the ending balance from the prior month.
- Check-off transactions processed in Banner against campus records. Operating expenditures should be checked individually to ensure that all of the posted expenditures did in fact belong to the campus.
- Check to see if any open commitments properly reflect activity against purchase orders.
- Research transactions processed earlier than 45 days and not yet appearing on Banner.
- Research transactions appearing in Banner but not processed by your campus.
- Review reasonableness of totals.

Banner to CAS Reconciliation

A monthly reconciliation must be accomplished between the institution’s financial records and all of the institution’s bank accounts. The reconciliation should be completed before the end of the next accounting month. Reconciliations must also be accomplished prior to the final close of the fiscal year. Reconciliations must be reviewed, dated, and approved by a supervisor with approval being documented on the reconciliation document. Supervisory approval is required within forty-five (45) days of accomplishing the reconciliation.

Accounts Payable/Due to

The Accounts Payable and Due to detail must be periodically reconciled to the corresponding balance(s) in the general ledger. In all instances, a reconciliation must be done at fiscal year-end. Documentation confirming these reconciliations should be maintained at each institution.

Accounts Receivable/Due From

Accounts Receivable activities are typically associated with revenue generating activities such as the sale of goods or services. Procedures for accounts receivable activities differ for each department depending upon the type of activity and frequency of occurrence. The Accounts Receivable and Due From detail must be periodically reconciled to the corresponding balance(s) in the general ledger. In all instances, a reconciliation must be done at fiscal year-end. Documentation confirming these reconciliations should be maintained at each institution.
Capital Assets

The Capital Assets detail must be periodically reconciled to the corresponding balance(s) in the general ledger. In all instances, a reconciliation must be done at fiscal year-end. Documentation confirming these reconciliations should be maintained at each institution.

The requirements listed above are intended to ensure the following objectives are met:

- **Accuracy and Reliability**: Transactions are recorded for the correct amount in the proper funds, organizations, account codes, and program codes. There are no double-posted items.

- **Completeness**: All items the campus authorized for payment have been posted and revenues collected for the operation have been deposited. There are no missing items.

- **Appropriateness and Allowability**: Charges and payments are an appropriate use of the funds to which they are posted. All expenses are allowable under applicable state laws and regulations, university policies and procedures, and the specific requirements of grantors.

- **Reasonableness and Necessity**: All charges and payments posted are necessary for the successful discharge of the university’s instruction research, and extension mission. Prices paid are reasonable in relation to market value, and all efforts were made to obtain the best price. Campuses are strongly encouraged to complete their reviews soon after the close of each month, usually by the 30th of the following month, so that corrections can be completed within sixty days of the original posting in the Banner and state accounting systems.
Lease Definitions

The financial accounting and reporting for leases requires a comprehensive understanding of a number of definitions. For ease in understandability, the definitions below are presented in order of major category.

General Definitions:

**Lease** – a legal contract by which one party gives to another the use and possession of real or personal property for a specified time in exchange for periodic payments.

**Lessee** – The party who leases personal or real property from a lessor.

**Lessor** – The owner or owner’s representative of the personal or real property that is leased to a lessor.

**Inception Date** – Effective date of the lease (the date the lessee has the right to occupy and/or use the property).

**Non-cancelable** – Terms of the lease make the possibility of cancellation by the lessee remote.

Types of Leases – For financial accounting and reporting purposes, leases fall into one of two types:

**Capital Lease** – A lease of personal or real property which is non-cancelable, meets one or more of the four capitalization criteria listed later in this section, and meets or exceeds the capitalization threshold at the inception date of the lease.

**Operating Lease** - A lease of personal or real property that does not meet the criteria for a capital lease.

Lease Payments – leases make reference to a number of different types of payments. Although different leases may use different terminology, the general types of lease payments are:

**Rent** – Periodic payments made in exchange for use of real or personal property. Rent comprises minimum rental payments and (if applicable) additional rental payments.

**Minimum Rental Payments** – Based fixed rent amount per period. The base fixed rent may also include scheduled rent increases that are detailed in the lease as of the inception date.

**Additional Rent** – Rent in addition to the minimum rental payments. An example of additional rent includes the stated percentage of gross sales which would vary from period to period.

**Executory Costs** – These payments reimburse the lessor for certain costs related to the leased asset such as insurance, maintenance and tax expenses. Some lease agreements may refer to executory costs as “additional rent” or “additional costs”.
Additional Costs – Components of rent, executory costs, tenant improvements, and/or other costs such as required payments if the lessee fails to renew the lease at the expiration of the lease term.

Tenant Improvements – Expenditures by the lessee that add on to or improve the property being leased. Lease may refer to these as leasehold improvements.

Specific Lease Terms – the following terms are used to determine if the lease is a capital lease:

Bargain Purchase Option – An option that allows the lessee to purchase the leased property at the end of the lease for an amount that is significantly lower than the expected fair market value at the end of the lease.

Fair Market Value (FMV) – The price at which two unrelated and informed parties, each acting on their own best interest, agree to a transaction (also referred to as an “arm’s-length transaction.”) Applied to leases, the fair market value of the property being leased would be the price for which it could be sold in an arm’s-length transaction between unrelated parties.

Present Value (PV) – The current value of future cash payments, discounted at the appropriate interest rate. The interest rate used to calculate the PV is usually the financing rate in the lease. If the calculated PV is greater than the FMV of the property being leased, the interest rate must be reduced so that the calculated PV equals the FMV.

Interest Rate – The lower of the financing rate in the lease or the lessee’s incremental borrowing rate, which is the realistic rate of interest that the lessee would have paid if it had borrowed funds to buy the asset under similar terms.

Lease Term – The lease term includes the non-cancelable term of the lease, plus the following:

- All periods for which failure to renew the lease imposes a penalty on the lessee.
- All periods covered by renewal or extension options:
  - During which the lessee guarantees the lessor’s debt on the leased property
  - Up to the date a bargain purchase option is exercisable
  - That are at the lessor’s option

Minimum Lease Payments – If the lease contains a bargain purchase option, minimum lease payments include only the minimum rental payments over the lease term and the payment called for in the bargain purchase option. Otherwise, minimum lease payments include the following:

- Minimum rental payments called for by the lease over the lease term
- Any guarantee of residual value at the expiration of the lease term
- Payments that the lessee must or can be required to make upon failure to renew or extend the lease at the expiration of the lease term.
Minimum lease payments do not include executory costs or additional rent payments.

**Allocation of Capital Lease Payments** – The following terms are used for allocating capital lease payments between principal and interest:

- **Effective Interest Method** – A method for determining the portion of the capital lease payments to be allocated to principal and interest expense. The amount allocated to interest expense is the outstanding principal balance at the beginning of the payment period multiplied by the interest rate. The portion of the payment not allocated to interest expense reduces the outstanding principal balance. An example of the use of the effective interest rate method in a capital lease amortization schedule is shown later in this section.

**Useful Life** – The following terms are used for amortizing the cost of the capital lease over multiple financial reporting periods:

- **Guaranteed Residual Value** – 1) the certain or determinable amount the lessor has the right to require the lessee to pay to purchase the leased property, or 2) the amount the lessee or the third-party guarantor guarantees the lessor will realize at the end of the lease.

- **Residual Value** – The price at which a fixed asset is expected to be sold at the end of its useful life. Residual value is also referred to as salvage or scrap value.

- **Useful Life** – Length of time an asset is expected to last. Useful life is used to calculate annual depreciation expense and is dictated by the applicable asset type. For some capital leases and leasehold improvements, the default useful life of the asset type must be changed to the remainder of the lease term.

**Other** – The following are additional terms associated with the financial accounting and reporting of leases:

- **Leasehold Improvement** – Addition or improvement made to leased property. The improvements are attached to property not owned by the lessee. The lessee has the right to use the leasehold improvement for the remaining term of the lease.

- **Sale/Leaseback** – Occurs when the institution sells an asset and then enters into a lease agreement to lease the asset back.
Capital vs. Operating Lease

In general, a capital lease transfers the risk and benefits of ownership to the lessee either through actual title transfer at the end of the lease or because the lease covers a significant portion of the expected life of the leased property. Operating leases are generally for substantially less than the expected life of the leased property and/or contain cancellation clauses so that the institution is not committed to a long term payment stream.

For financial accounting and reporting purposes, the lease is a “capital lease” if:

A. The fair market value of the property at the inception of the lease meets or exceeds the capitalization threshold,
B. The lease is non-cancelable, AND
C. The lease meets one or more of the following four criteria:
   1. The lease transfers ownership of the property to the lessee by the end of the lease term.
   2. The lease contains a bargain purchase option.
   3. The lease term is equal to or greater than 75% of the estimated useful life of the leased property (i.e. lease is six years, estimated useful life is eight years).
   4. The present value of minimum lease payments equals or exceeds 90% of the fair value of the leased property (i.e. PV of future minimum lease payments is $9,000, FMV of the property is $10,000).

Criteria 3 and 4 are not applicable if the lease term begins during the final 25% of the property’s useful life.

If the lease does not meet criteria A, B and C, it should be treated as an operating lease.
Accounting for Capital Leases

Capital leases are considered a form of debt financing and must be accounted for as such.

Recording a Capital Lease

Each capital lease requires an amortization schedule. The amortization schedule uses the effective interest method to break-out the minimum lease payments into principal and interest expense. The interest rate used in the amortization schedule must result in the following two conditions:

1. At inception date, the present value of the minimum lease payments is less than or equal to the fair market value of the property to be leased.
2. The principal balance at the end of the lease term is $0.

If the interest rate stated in the lease agreement does not result in the above two conditions, the interest rate in the amortization schedule must be revised to an implicit interest rate that will satisfy the above two conditions.

The present value of minimum lease payments at the inception of the capital lease is recorded as both an asset and a liability in Banner FIS. Since the capital lease is considered a form of financing and not descriptive of the property itself, the property being leased is recorded as a capital asset based on asset type (i.e. equipment, building, etc.).

Accounting for Capital Lease Payments

As lease payments are made during the year, principal, interest and executory costs need to be separated out in accordance with the amortization schedule that uses the effective interest method to allocate between the interest expense and principal payment of the capital lease liability. The principal, interest, and executor costs should be charged to the appropriate operating ledger expense codes. Throughout the year or by the end of each fiscal year, the capital lease payable liability must be adjusted for the amount of principal paid during the year.

Amortization of Capital Leases

Capital leases are amortized due to the right to use the leased property without owning or having title to the property. Because the annual financial statements incorporate capital leases into property, plant, and equipment, the amortization of capital leases are included with depreciation expense and accumulated depreciation on the BOR accounting records.

The amortization period is generally the term of the lease. If the lease contains provisions for transferring ownership or a bargain purchase option, then the amortization period is the useful life of the asset type.

When the lease is complete, if the leased property is returned to the lessor, the capital lease and its accumulated depreciation records are updated to a “disposed” status. If, at the end of the lease, the institution exercises the bargain purchase option or title to the asset is otherwise transferred to the
institution, the capital lease and accumulated depreciation should not be “disposed” on the institution’s records.

**Financial Reporting Requirements for Capital Leases**

In the notes to the annual financial statements, the BOR is required by GAAP to disclose, in total, both the capitalized cost and the accumulated depreciation of capital leases, the range of interest rates, the latest lease expiration dates, and provide a schedule of future minimum lease payments.

At fiscal year-end institutions are required to submit a Capital Lease Liability schedule of debt amortization for each capital lease and a Capitalized Lease Asset schedule of the capitalized cost and accumulated depreciation of capital leases.
Examples of Capital Lease Transactions

It is understood that there are a number of ways to accomplish the desired end result in accounting for capital leases. So long as the institution’s accounting records properly record lease payable liability, annual interest, and executory costs at year end, each institution may set its own accounting procedures for capital leases.

Following are typical entries involved in accounting for a capital lease:

- Capitalizing the fixed asset – assume present value of lease payments or the fair value of the leased property, whichever is less to be $16,500.00

  
  Equipment                  $16,500.00  
  Capital Lease Payable     $16,500.00

- Making periodic lease payments of principal, interest and executory costs – assume monthly payment of $690.00 - $292.00 for lease payment, $288.00 for executory costs (maintenance contract), and $110.00 for interest expense.

  Capital Lease Payable     $292.00  
  Maintenance/Repair Expense  $288.00  
  Interest Expense         $110.00
  Claim on Cash             $690.00

- Recording depreciation on the capitalized lease – assume 7-year useful life and straight line depreciation and depreciation expense only being booked once per year.

  Depreciation Expense – Equipment      $2,357.14  
  Accumulated Deprec – Equipment        $2,357.14

- Removing accumulated depreciation and asset from the accounting records if the institution does not retain ownership of the asset at the end of the lease.

  Accumulated Deprec – Equipment      $16,500.00  
  Equipment                          $16,500.00
Accounting for Operating Leases

Recording an Operating Lease

Operating leases are not recorded as assets or liabilities in Banner FIS general ledger accounting records. Operating lease payments are treated strictly as current year expenses and recorded in Banner as such. An institution may enter into an operating lease with “scheduled rent increases”. The two most common reasons for periodic operating lease payment increases require different accounting treatment:

**Inducements to Lease** – The lease payments may be artificially low in the beginning of the lease to induce the lessee to sign the lease. If this is the case, operating lease expense need to be evenly distributed over the life of the lease based on the straight-line method. An Operating Lease Liability must be accrued during the years of low lease payments. The liability is then decreased during the years of higher lease payments.

**Economic** – the lease payments may increase due to an increase in the appraised value of the property or because the lease payments are tied to the Consumer Price Index or inflation. If this is the case, payments should be expensed as they are made and there is no need to attempt to calculate or account for future increases before they occur.

Financial Reporting Requirements for Operating Leases

The BOR is required by GAAP to disclose total current year, total prior year, and total future year minimum lease payments relating to the non-cancelable portion of operating leases in the notes to the annual financial statements. To meet these reporting requirements, institutions are required to maintain a schedule of all operating leases and the expected non-cancelable future payments of those operating leases, including any scheduled rent increase, if known. This listing is required to be submitted to the Central Office as part of the annual financial statements.

The “non-cancelable portion of an operating lease” related to the time period required for cancellation by the lessee. If a lease required one month notice for cancellation, one month’s worth of future expense would be reported in the notes to the financial statements at year-end. If a lease requires a one year notice for cancellation, 12 months’ worth of future expense would be reported in the notes to the financial statements at year-end. If the lease is considered non-cancelable, future expenses for the life of the lease would be reported.
Examples of Operating Lease Transactions

Following are typical entries involved in accounting for an operating lease:

- Monthly payment of $1,500.00 in operating lease where no scheduled rent increase is anticipated.

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Expense</td>
<td>$1,500.00</td>
<td></td>
</tr>
<tr>
<td>Claim on Cash</td>
<td>$1,500.00</td>
<td></td>
</tr>
</tbody>
</table>

- When a scheduled rent increase is known, assuming $150.00 per month lease for the first year and $1,800.00 per month for the following four years. Total value of the lease is $88,200.00 ($150.00 x 12 months plus $1,800.00 x 48 months). Straight line method valuation of lease payments is $1,470.00 ($88,200.00/60 months).

  o Monthly lease payment for the first year:

    | Description                          | Debit             | Credit         |
    |--------------------------------------|-------------------|----------------|
    | Lease Expense                        | $150.00           |                |
    | Claim on Cash                        | $150.00           |                |

  o Record additional lease expense and offsetting liability (difference between $1,470.00 and $150.00)

    | Description                          | Debit             | Credit         |
    |--------------------------------------|-------------------|----------------|
    | Lease Expense                        | $1,320.00         |                |
    | Operating Lease Liab                 |                   | $1,320.00      |

  o Monthly lease payment beginning in second year of lease with reduction of previous year liability.

    | Description                          | Debit             | Credit         |
    |--------------------------------------|-------------------|----------------|
    | Lease Expense                        | $1,470.00         |                |
    | Operating Lease Liab                 |                   | $330.00        |
    | Claim on Cash                        |                   | $1,800.00      |
Accounting for Leasehold Improvements

Recording a Leasehold Improvement

Leasehold improvements are additions or improvements made to leased property. The improvements become part of or are attached to property not owned by the lessee. The institution (lessee) has the right to use the leasehold improvement for the remaining term of the lease. Leasehold improvements typically refer to improvements made to buildings or land (real property) that an institution currently occupies through an operating lease.

For accounting purposes, leasehold improvements are capitalized and amortized in the BOR accounting records if all of the following occur:

- The leasehold improvement will last more than one year.
- The remaining term of the lease is also more than one year.
- The cost of the leasehold improvement equals or exceeds the capitalization threshold.
- The cost of the leasehold improvement is charged to and paid by the institution (lessee) and not by the lessor (or owner represented by the lessor) of the leased property.
- The cost of the leasehold improvement does not reduce current or future lease payments of the institution (lessee).
- The institution has the right to use the leasehold improvement for the remaining term of the lease.

Leasehold improvements that do not meet the above criteria are expensed.

Leasehold improvements do not include:

- Moveable equipment or furniture because they are not attached to the property being leased and the institution has title to them.
- Expenditures for improvements in exchange for reductions in current or future rent payments. Improvements made by the lessee in lieu of rent payments should be recorded as rent payments. Improvements in lieu of rent payments for a period that goes beyond the current fiscal year should be prorated between rent payments and prepaid expenses over the period for which rent payments were waived.

Leasehold improvements to real property leased by BOR institutions that will be capitalized should be accounted for in Unexpended Plant Funds.

Capitalized leasehold improvements are included in the fixed asset section of the financial statements. They are recorded as capital assets based on the nature of the underlying property (i.e. building, land improvement). The term “leasehold improvement” is not descriptive of the property itself; therefore, when recording leasehold improvements, the asset type and account code must indicate the nature of the underlying property.
Capitalized leasehold improvements are amortized because we have the right to use the leasehold improvement but do not own or have title to the property. Because leasehold improvements are reported with property, plant and equipment (not with intangible assets), the amortization of leasehold improvements is recorded as depreciation expense and accumulated depreciation in the BOR accounting records.

The amortization period for leasehold improvements is as follows:

<table>
<thead>
<tr>
<th>Lease Type</th>
<th>Amortization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements to operating leases, or</td>
<td>Shorter of the remaining term of the lease or the useful life of the asset type associated with the leasehold improvement</td>
</tr>
<tr>
<td>Leasehold improvements to capital leases without provision for transfer of ownership or bargain purchase option.</td>
<td></td>
</tr>
<tr>
<td>Leasehold improvements to capital leases with provision for transfer of ownership or bargain purchase option.</td>
<td>Shorter of the remaining useful life of the asset type of the capital lease, or the useful life of the asset type associated with the leasehold improvement.</td>
</tr>
</tbody>
</table>

At the end of the lease, if the leased property is returned to the lessor, the leasehold improvement and its accumulated depreciation records are updated to “disposed” status. If, at the end of the lease, the institution exercises the bargain purchase option or title to the asset is otherwise transferred to the institution, the leasehold improvement and accumulated depreciation should remain on the institution’s accounting records.

**Financial Reporting Requirements for Leasehold Improvements**

Leasehold improvements are not separately disclosed in the annual financial statements or notes to the financial statements. Nevertheless, potential financial reporting needs related to leasehold improvements include the following:

- To separately identify leasehold improvements
- To record leasehold improvements in the correct real property asset category (i.e. buildings, land improvements) for financial reporting purposes.
- To amortize leasehold improvements over the appropriate period of time.
- To ensure the asset records and accumulated depreciation records of leasehold improvements are updated to “disposed” status at the end of the lease term or, if capitalized lease purchase, updated to disposed when the asset is disposed of.
Examples of Leasehold Improvement Transactions

Following are typical entries involved in accounting for leasehold improvements:

- Payment for leasehold improvements to real property, assuming a value of $120,000.00.

  
  \[
  \begin{align*}
  \text{Buildings} & \quad $120,000.00 \\
  \text{Claim on Cash} & \quad \text{Claim on Cash} \\
  \end{align*}
  \]

- Record annual depreciation for asset using the lower of remainder of the lease term or the default useful life of the building improvement asset type using straight line depreciation. Assumption made that the remaining lease term of 10 years is less than the asset useful life.

  \[
  \begin{align*}
  \text{Deprec Expense – Building} & \quad $12,000.00 \\
  \text{Accum Deprec – Building} & \quad \text{Accum Deprec – Building} \\
  \end{align*}
  \]

- At the end of the lease, if BOR institution does not retain ownership of the property, dispose of asset.

  \[
  \begin{align*}
  \text{Accum Deprec – Building} & \quad $120,000.00 \\
  \text{Buildings} & \quad \text{Buildings} \\
  \end{align*}
  \]
IRS Filing Requirements for Lease/Purchase Agreements

Each year, the BOR is required to report to the IRS all leases entered into during the previous calendar year for which the BOR may ultimately acquire an interest in the property. This can be either through a bargain purchase option or title transfer. For IRS reporting purposes, the BOR capitalization threshold does not apply. Financing agreements must have a stated interest rate and the cost of purchasing the asset should be less than the estimated economic value of the asset at the termination of the lease/purchase (Bargain Purchase Option). Individual leases of less than $100,000 can be aggregated and reported on IRS Form 8038-GC “Informational Return for Small Tax-Exempt Governmental Bond Issues and Installment Sales.” The filing deadline for this form is February 15th. Individual lease purchase agreements entered into during the year that equal or exceed $100,000 must be reported on IRS Form 8038-G “Informational Return for Tax-Exempt Governmental Obligations.” The reporting deadline for this form is February 15th. The South Dakota Bureau of Finance and Management (BFM) will file both forms on behalf of the State of South Dakota and its component units. Failure to provide BFM with a complete list of applicable lease agreements in time for inclusion in their filing will result in the need for the affected institution to file the appropriate forms individually.

The following information must be submitted to BFM (or the IRS in the event the BOR institution fails to submit to BFM in a timely manner):

- Lessor’s Name
- Type of property being leased
- Lease inception date
- Lease issue price (principal amount of property being leased)
Compensated Absence Liability

Compensated absences liability refers to the amount the BOR owes its employees for leave balances (i.e. accrued vacation) as of the date of the financial statements. The liability is an estimate based, for each employee, on the leave balances applicable to compensated absences liability, multiplied by the employee’s salary rate plus an estimated percentage for other payroll expenses (fringe benefits). The fringe benefit rate is provided by BFM.

Annual (Vacation) Leave:

Annual leave balances are included in compensated absences liability because (1) the employee’s right to receive compensation is attributable to services already rendered, and (2) it is probably that the employer will compensate the employee for the benefits either through paid time off or cash payment.

Calculation of Annual Leave:

1. **Dollar value for beginning balance:**
   
   Hours of leave available June 21, 2xx1
   \[ \times \text{Rate of pay in effect on June 22, 2xx1} \]

2. **Dollar value for accrual:**
   
   Hours of leave accrued for fiscal year
   \[ \times \text{Rate of pay in effect June 21, 2xx2} \]
   + Increase in rate of pay from June 22, 2xx1 to June 22, 2xx2
   \[ \times \text{Hours of leave available June 21, 2xx1} \]

3. **Dollar value for usage:**
   
   Hours of leave used during fiscal year
   \[ \times \text{Rate of pay in effect June 21, 2xx2} \]

4. **Dollar value for adjustments:**
   
   Hours of leave removed from the record due to pay out or termination
   \[ \times \text{Rate of pay in effect June 21, 2xx2} \]

5. **Dollar value for ending balance:**
   
   Hours of leave available June 21, 2xx2
   \[ \times \text{Rate of pay in effect June 22, 2xx2} \]

Sick Leave:

Sick leave balances represent possible future compensated absences and are included in compensated absences liability. The State of South Dakota policy is that only 25% of an employee’s sick leave balance will be paid out at termination, after an employee has “vested” by working for the state for more than 7 years. As a result, the total balance of sick leave hours will be reduced to 25% for compensated absences liability calculation purposes.

Calculation of Sick Leave:
1. **Dollar value for beginning balance:**
   - Hours of leave available June 21, 2xx1 x .25
   - Rate of pay in effect on June 22, 2xx1

2. **Dollar value for accrual:**
   - Hours of leave accrued for fiscal year x .25
   - Rate of pay in effect June 21, 2xx2
   - Increase in rate of pay from June 22, 2xx1 to June 22, 2xx2
   - Hours of leave available June 21, 2xx1 x .25

3. **Dollar value for usage:**
   - Hours of leave used during fiscal year x .25
   - Rate of pay in effect June 21, 2xx2

4. **Dollar value for adjustments:**
   - Hours of leave removed from the record due to pay out or termination
   - Rate of pay in effect June 21, 2xx2

5. **Dollar value for ending balance:**
   - Hours of leave available June 21, 2xx2 x .25
   - Rate of pay in effect June 22, 2xx2

The compensated absences liability is calculated at the end of each fiscal year through the generation of the PZRACCL report by RIS. The report is generated for each institution and utilizes a First In/First Out (FIFO) methodology.

**Adjustment to Sick Leave for Employees Not Vested:**

An adjustment will be made during the combining process to reduce the compensated absence liability for the employees that are not vested in the State system (employed at least 7 years). The PZRVSIC (Vested Sick Leave) report will be run by RIS for the current fiscal year and compared to the same report for the prior year. An increase in the balance will result in a debit to Operating Expense/Personal Service (broken out by program) and a credit to the Compensated Absence Payable Non-Current account. A decrease in the balance from one year to the next will result in a credit to Operating Expense/Personal Service (broken out by program) and a debit to the Compensated Absence Payable Non-Current account.

**Current vs. Long Term Liability:**

The formula for determining the current and long term portions of the annual and sick leave liability is calculated as follows:

- **Current** = dollar value used/beginning balance x ending balance x benefit percentage
- **Long term** = total liability minus current portion
Accounting for Other Post-Employment Benefits (OPEB)


OPEB liability refers to the present value of the commitments the BOR has made to employees for post-employment benefits other than pensions as of the date of the financial statements. The State of South Dakota contracts with an actuarial firm to perform an actuarial valuation of the State of South Dakota OPEB plan. The liability balance is not available prior to the completion of the BOR financial statements, but rather is posted by the Department of Legislative Audit as an entry upon completion of the audit. An entry is made at combining to reverse the prior year OPEB adjustment.
Accounting for Bond Issuance

When bonds are issued by the BOR, the face amount of the debt, underwriter’s discount, original issue discount and premium, and cost of issuance must all be separately recorded. It is not appropriate to record only the net amount of cash received. Records should be kept for each debt issue. A complete transcript is normally provided by bond counsel at the time or shortly after closing. The transcript includes all of the necessary documents required for administering and accounting for the debt issue.

Deferred costs such as issuance costs and underwriter’s discounts are amortized over the life of the debt issue using a systematic and rational method. Original issue premium and discounts are also amortized. Bond costs currently amortized shall continue to be amortized over the life of the bond. If the cost of issuance for bonds issued after July 1, 2009, is less than or equal to $1,000,000, the costs shall be expensed in the fiscal year that the bonds were issued. Amortization or expensing of the costs of the bond issue will be handled consistently across the BOR system; if the costs meet or exceed the threshold established, each campus affected will amortize the cost of issuance. This policy does not include capitalized interest.

At year end, an accrual for interest payable must be recorded. The interest payable is equal to the amount of interest attributable to the period involved.

Certain disclosures related to long-term debt must be made in the notes to the financial statements:

- Schedules showing the changes in outstanding debt for each type of long-term debt.
- Schedules of future debt service requirements (principal and interest displayed separately) for each type of long-term debt.
- Terms and interest rates associated with variable-rate debt.
- Amounts of long-term debt due within one year of the date of the financial statements.
Net Asset Classification: Donations

Generally accepted accounting principles require the BOR to classify funds based on the restrictions provided by the donor. These classifications may be unrestricted, temporarily restricted or permanently restricted. Preferably, donor restrictions should be in writing, to ensure proper treatment.

Classifications are based upon restrictions on the uses of the funds received from the donor(s) providing the funds.

- **Unrestricted Net Assets** are those whose use is not restricted by donors, even though their use may be limited in other respects, such as by a university or contract designation. An example would be funds given to a university for undergraduate scholarships. These funds are unrestricted because the university regularly provides scholarships to undergraduates and so reasonably expects those funds to be expended as part of normal operations.

- **Temporarily Restricted Net Assets** are those whose uses are limited by donors to either a specified purpose or a later date. Funds provided to build a building are temporarily restricted until the construction is completed and the building is placed in service. Funds provided for scholarships for a graduate student majoring in Engineering from Zeibach County would be temporarily restricted since there is no way to ensure that every year a graduate student in engineering from Zeibach County will be awarded a scholarship.

- **Permanently Restricted Net Assets** are those whose use are restricted in perpetuity, such as endowments where only the earnings of the funds can be used for scholarships and the corpus of the gift cannot be invaded.
Payment of Expenses Funded by South Dakota Building Authority

Financing for the construction or maintenance and repair of academic buildings may be bonded through the South Dakota Building Authority (SDBA). The following outlines procedures for paying vendors and costs associated with the project.

1. All project costs must to be approved by the Office of the State Engineer.
2. Invoices and non-cash billings need to be reviewed and approved by the institution.
3. All project expenses that are to be reimbursed with bond funds (SDBA) must have the following:
   a. A letter with the Executive Director’s signature and the date approving the expenses.
      i. Letters can be obtained from the Central Office Accounting Assistant.
   b. A cover attached to each invoice or non-cash voucher stating:
      i. Project Name
      ii. Vendor
      iii. Amount
4. All invoices and non-cash documents (including the letter from the Executive Director) are sent to SDBA for processing.
5. Monthly, SDBA will forward a statement showing activity against the bond proceeds.
   a. Institutions are asked to review the statement.
   b. Institutions are to communicate with SDBA if there are any discrepancies or issues with the statement.

Institutions may pay for project costs from local funds and be reimbursed by SDBA via non-cash document. However, before the vendor invoices can be paid locally, the invoices need to be approved by the Office of the State Engineer.
Recording an Allowance

To accurately recognize revenues on its financial statements, BOR entities must provide for the possibility that some present and future revenues may not be collectible. To assure the most accurate data, methods of developing allowances for uncollectible amounts must be developed based on actual experience and other relevant data. BOR entities shall calculate an allowance for uncollectibility for any revenues for which uncertainty exists about the amount of future collections.

Examples of these include, but are not limited to:

- Student accounts receivable
- Student loans receivable
- Pledges receivable
- Grants & contracts receivable
- Notes receivable

The method for calculating allowances shall be based on historical experience and shall be calculated at least annually prior to the fiscal year close, based on the most recent years’ experience as well as other known factors specific to the particular revenue.
Accounting for Agency Funds

An institution may agree to serve as a fiscal agent for an agency fund only after satisfactorily considering all of the following:

- The purpose for the agency fund must relate to, but not be a fundamental aspect of, activities dedicated to the achievement of educational, research and public service goals.
- The agency fund is in the best interests of the institution, taking into account all risk management implications.
- The establishment of an agency fund account is appropriate, according to the circumstances and reporting principles involved.
- An agreement governing the agency relationship is established.

The approval and establishment of an agency account does NOT:

- Automatically entitle the organization to the use of any institution services, other than the normal administration of funds as it relates to cash receipt and disbursement services.
- Place the agency fund under the institution’s tax-exempt umbrella. Monies accepted for deposit in an agency fund are not considered tax-deductible gifts to the institution. Expenditures from an agency fund are not entitled to the institution’s state sales tax exemption.
- Make the institution liable for any of the organization’s debts, liabilities or actions.
- Continue indefinitely. Agency status is contingent on adherence to all institution policies. The institution has the right to close an agency account at its discretion consistent with agreements between the organization and the institution.

Use of Agency Funds:

Before establishing an agency account, each institution should ensure that its relationship with the organization or third party is that of custodian or fiscal agent. The following information should be obtained from the organization requesting the agency account:

- The business reason for the agency account, that is, the reason why the organization does not open its own bank account.
- The nature of activity that will be processed through the account.
- The legal/corporate status of the organization. For example, 501(c)(3), corporation, etc.
- The federal tax ID number of the organization.
- The name of any other organization on whose behalf the organization is functioning as agent or intermediary.
- The affiliation of the organization with the institution.
- The person or persons authorized to request expenditures from the fund.
- The disposition of any remaining funds after termination of the agency account.

Because an agency account represents activity that is related, but not fundamental, to the institution’s primary mission, it is important that agency fund treatment is not awarded to activities that are normal
and continuing part of the institution’s mission. For example, student housing fees should not be accounted for as an agency account because student housing is fundamental to an institution’s education mission.

The status of each agency fund should be reviewed periodically, at least once a year, for the purpose of ensuring whether the agency status should be suspended or revoked. Circumstances to consider include:

- Failure to adhere to institution policies and procedures.
- The nature of the activities and functions has changed such that agency account status is no longer appropriate.
- Deficit balances that are not remedied on a timely basis.
- In the judgment of the Vice President of Finance, suspension or revocation is in the best interest of the institution.
- Inactive balances should not be carried forward indefinitely from year to year, but should be disposed of in accordance with the agency agreement.

After five years without activity, unused balances must be forwarded to the state as mandated by escheatment laws, unless the disposition of unused balances is covered by an agreement with the agency.

Individual agency funds should not carry a negative balance outside of short-term timing differences in processing, but under no circumstances should the agency fund groups as a whole have a deficit balance. At the end of the fiscal year, accounts receivables should be set up and agencies should be billed for any applicable deficit balances.

**Accounting for Agency Funds:**

The assets of the agency fund group typically include cash. Cash balances will be carried as a liability on the Statement of Net Assets. Receipts and disbursement of these funds are accordingly classified as additions to, and deductions from, the fund balances rather than as revenues and expenditures of the institution. Funds should be disbursed only for properly designated and approved purposes.
 Auxiliary Facilities System

On October 21, 2004, the BOR adopted a resolution establishing a combined system of housing and auxiliary facilities where each institution continued to operate its existing system, but the revenues of which are subject to being used to avoid a potential default on each series of bonds issued on behalf of any institution in the system.

An auxiliary service is defined as an activity that exists to provide a service directly or indirectly to students, faculty or staff, and for which a fee is charged that is related to, but not necessarily equal to, the cost of the service. The general public incidentally may be served by some auxiliary enterprises. Auxiliary services include:

- Housing Operations: student apartments and residence halls
- Food Services: cafeterías and snack bars
- Bookstores
- Parking

The auxiliary facility funds will include all expenditures and transfers relating to the operation of the auxiliary facility, including expenditures for operations and maintenance of plant. Also included are other direct and indirect costs whether charged directly as expenditures or allocated as a proportionate share of costs of other departments. Transfers should only be used to set aside amounts for debt retirement, interest, and required provisions for renewals and replacements. Payment of expenses incurred on behalf of the auxiliary system that are recorded in funds outside the system should be accounted for through an expenditure correction, not a transfer.

The auxiliary system is a “closed system” in that all revenues generated by auxiliary facilities must stay within the system and only used for day-to-day operations of the auxiliary facilities, debt retirement, the establishment of a debt service reserve, deposits to repair and replacement reserve accounts, or for renewals and replacements of auxiliary facilities. Funds generated by the auxiliary facilities may not be used to fund the general operations or renewal and replacement of funds outside the auxiliary system.

Annual Review of Auxiliary System:

A report of the auxiliary system operations, covering the completed fiscal year is to be provided annually be each institution. The report, in a format provided by the Financial Compliance Officer, is to include as a minimum for each designated auxiliary fund and for the institutional auxiliary system in total, the following information: (1) appropriate detail on revenues and expenditures; (2) identification of each source and the amount of transfers in and out; (3) calculation of the institution’s coverage ratio; (4) a Statement of Net Assets with a break-out for operations, debt service reserve, and repair and replacement reserves; (5) a Schedule of Revenues, Expenses and Change in Net Assets with a break-out for operations, debt service reserve, and repair and replacement reserves. The report will be reviewed by the Financial Compliance Officer and Internal Auditor prior to being sent on to the Department of Legislative Audit for final review and issuance of an opinion and report. The report will be prepared on a cash basis and submitted to the Financial Compliance Officer for review by September 1st annually.
Notification Prior to Payment Due Date:

Each institution must notify the Financial Compliance Officer at least 30 days prior to each interest or principal payment date either (1) that it has sufficient net revenue available to make interest and principal payment on the payment date, or (2) that it does not have sufficient net revenue available to make interest and principal payment on the payment date, specifying the amount of the deficiency.

Reportable Events:

If any of the following events occur at an institution, they must be communicated to the BOR Central Office no more than ten business days after the occurrence so notification can be sent to investors:

- Principal and interest payment delinquencies
- Non-payment related defaults, if material
- Unscheduled draws on debt service reserve reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties

Addition/Removal of Facilities and/or Revenue Source from Auxiliary System:

The addition or removal of facilities from the auxiliary system may not be done without prior approval of the BOR. No accounts receivable that are a source of revenues for the auxiliary system may be sold, pledged, factored or otherwise disposed of under any circumstances.
Capital assets comprise tangible property (also known as fixed assets, personal property and real property) and intangible property that are recorded as assets on the BOR accounting records. The capital assets may be depreciated or amortized in the BOR accounting records. Although the accounting theory of capitalizing and depreciating fixed assets is conceptually straightforward, applying the theory in practice gives rise to several complications that must be addressed:

Large Number of Fixed Assets:

Capitalizing and depreciating every one of the BOR’s thousands of fixed assets is impractical. To make the accounting theory practical, the BOR has “capitalization thresholds,” relating to specific dollar values, above which a fixed asset is capitalized (recorded as an asset) and depreciated over multiple years, and below which a fixed asset is fully expensed in the year of purchase. The use of the capitalization threshold divides fixed assets into “non-expendable” (capitalized and depreciated over multiple years) and “expendable” (expensed in the year of purchase).

Use of Estimates:

The accounting and depreciation of capital assets involves estimates and is knowingly inexact. To illustrate, each capital asset’s useful life, salvage value, and trade-in value can only be estimated. However, in accordance with generally accepted accounting principles, our capital asset accounting policies involve estimates. The accounting policies must correspond to generally accepted accounting principles, State of South Dakota financial reporting policies, and OMB Circular A-21. Once established, the accounting policies must be consistently applied.

Multiple Special Case Issues:

The acquisition, depreciation and disposal of capital assets creates many special cases, which have the tendency to make the accounting for each capital asset seem somewhat unique. For example:

- Capital assets are acquired by many means – such as purchase, trade-in, donation, construction, installment purchase, rental, operating lease, and capital lease.
- Capital assets can have differing depreciation start dates, useful lives, and components that are separately depreciated. Theoretically, depreciation methods and salvage values can also differ. However, for practicality and consistency purposes, the BOR uses straight-line depreciation and zero salvage value for all capital assets.
- Capital assets are disposed of in varying methods – such as sold, scrapped, traded-in, and returned at the end of a capital lease.

Additional complications arise depending on the purchases of single or groups of capital assets, ancillary costs, if the capital asset is somehow related to another capital asset, if a capital asset is acquired through multiple funding sources, and if additional expenditure are incurred related to an existing capital asset.
Varying Information Needs:

The accounting for capital assets must provide sufficient information for managing the BOR’s investment in capital assets. Capital assets’ information becomes especially critical for (1) safeguarding of capital assets, (2) financial and managerial reporting, (3) insurance coverage, (4) facilities and administration rate proposals, and (5) distribution of insurance assessments.
Acquisition of Capital Assets

Capital assets are acquired by many means – such as purchase, trade-in, donation, construction, installment purchase, rental, operating lease, and capital lease.

Purchase:
Purchases of capital assets are processed as a debit to the appropriate fixed assets class (building, equipment, etc.) and a credit to either a liability account or claim on cash.

Trade-In:
The trade-in of an old asset towards the purchase of a new asset often results in a gain or loss because the old asset’s trade-in value differs from its book value (cost less accumulated depreciation).

The calculation of the gain or loss on trade-in is calculated by the purchase price of the new asset less the sum of cash paid and the net book value of the old asset. The gain or loss needs to be recorded in the accounting records based on the calculation below:

- The net book value of the old asset is its capitalized value less its accumulated depreciation
- The purchase price of the new asset is the amount one would pay in cash if no trade-in was involved. The purchase price may be different from the list price, because often the actual purchase price for a new asset is less than the manufacturer’s list price.

Gains and losses should be recognized in the year the asset is traded-in. No gain or loss is recorded when an asset is sold or transferred between BOR universities or within a BOR university. The historical cost and accumulated depreciation is transferred to the university or department receiving the asset.

Donation:
BOR universities receive donations of capital assets. Donations of capital assets should be recorded in the accounting records as revenue as the fair value at the date of receipt, and capitalized in the accounting records. The methodology used for determining fair value should be documented. The university’s valuation may differ from the donor’s valuation. Fair market value may be determined by:

- A written appraisal,
- A qualified expert on the faculty or staff if he or she is considered to hold special knowledge or expertise related to the property being donated,
- Documentation obtained from a qualified outside source such as “blue book” or a knowledgeable dealer, or
- Identifying what it would cost the university if it were to purchase the gift outright from a vendor or an original bill of sale for new equipment.

Construction:
See detailed information in Construction in Progress section of the policy and procedure manual for issues related to construction of fixed assets.
Installment Purchase:
Some fixed assets are acquired and owned by a university but not immediately paid for. The payments occur over multiple years. BOR accounting policy for installment purchases that exceed the capitalization threshold is to capitalize the fixed asset and create a liability in the accounting records for the principal portion of the installment purchase. The university must maintain a loan amortization schedule for each installment purchase.

Capital Lease:
See detailed information in the Capital Lease section of the policy and procedure manual for issued related to accounting for capital leases.

Rental:
Some fixed assets are not purchased, but rented on a month-to-month basis. Since rented fixed assets are only used but not owned by the BOR, BOR accounting policy is to expense the rental payment and not capitalize the fixed asset.

Operating Lease:
Operating leases are similar to rentals except that the rental agreement has a specific time period. BOR accounting policies for operating leases are the same as for rentals, except that at the end of each year for financial reporting purposes, each university must provide a listing of all operating leases and the expected future payments of those operating leases. For further information on accounting for Operating Leases, see the Operating Lease section of the policy and procedure manual.
Capitalization Policy

The BOR requires that amounts expended for fixed assets in excess of certain thresholds and whether purchased, constructed, gifted or leased, be capitalized, depreciated and periodically reviewed for impairment or possible write-off in accordance with GAAP and federal and state laws.

A fixed asset is capitalized only if it meets all of the following conditions, otherwise the expenditure is recorded as an operating expense in the fiscal year incurred:

- Owned or considered owned by the BOR institution
- Held for operations (not resale)
- Has a useful life that exceeds one year
- Meets the following capitalization threshold:

<table>
<thead>
<tr>
<th>Category</th>
<th>Capitalization Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>N/A – all land is capitalized</td>
</tr>
<tr>
<td>Buildings &amp; Building Improvements (including Construction in Progress)</td>
<td>$100,000 – aggregate project cost</td>
</tr>
<tr>
<td>Land Improvements</td>
<td>$50,000 – aggregate project cost</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>$50,000 – aggregate project cost</td>
</tr>
<tr>
<td>Capital Assets/Moveable Equipment</td>
<td>$5,000 individually or operating unit</td>
</tr>
</tbody>
</table>

Definitions of fixed asset classes:

- **Land**: All expenditures related to the initial purchase of land (no dollar limit) including any due diligence costs such as commissions, legal fees, and escrow fees. Per GAAP, land is not a depreciable asset.

- **Buildings**: All expenditures related to the initial purchase or initial construction of a building in excess of $100,000. The cost of buildings would include the acquisition cost plus any costs to prepare the building for occupancy. These costs would include contract amount, attorney and architect fees, commissions, escrow fees, governmental impact fees and permits, insurance and any other costs to prepare the building for occupancy. Interest costs during construction are also included. Donated labor or services are not capitalized. Buildings are depreciated over 40 years using the straight-line depreciation method.

- **Building Improvements**: Renovations, additions or repairs to physical structures in excess of $100,000 in aggregate that enhance or improve AND extend the life of the original asset. General repairs and maintenance are not capitalized such as cleaning, painting, carpet, etc. Building improvements are depreciated over 10 years using the straight-line depreciation method.

- **Land Improvements**: Betterments other than buildings in excess of $50,000 in aggregate that bring land up to the condition needed for its intended use. Land improvements are depreciated over 10 years using the straight-line depreciation method.

- **Infrastructure**: Long-lived capital assets in excess of $50,000 in aggregate which are part of a network of assets than normally can be preserved for a significantly greater number of years.
than most capital assets, and which normally are stationary in nature. Improvements to infrastructure in excess of $50,000 should also be capitalized and depreciated using the straight-line depreciation method. See schedule below for infrastructure useful lives:

<table>
<thead>
<tr>
<th>Description</th>
<th>BFM Category</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus lighting system</td>
<td>Lighting Systems</td>
<td>20</td>
</tr>
<tr>
<td>Steam distribution system</td>
<td>Other</td>
<td>50</td>
</tr>
<tr>
<td>Power distribution system</td>
<td>Other</td>
<td>30</td>
</tr>
<tr>
<td>Electrical distribution system</td>
<td>Other</td>
<td>30</td>
</tr>
<tr>
<td>Water distribution system</td>
<td>Water &amp; Sewer Systems</td>
<td>30</td>
</tr>
<tr>
<td>Drainage system</td>
<td>Drainage Systems</td>
<td>30</td>
</tr>
<tr>
<td>Irrigation system</td>
<td>Other</td>
<td>20</td>
</tr>
<tr>
<td>Sanitary sewer system</td>
<td>Water &amp; Sewer Systems</td>
<td>30</td>
</tr>
<tr>
<td>Streets/Roads</td>
<td>Roads</td>
<td>50</td>
</tr>
<tr>
<td>Sidewalks</td>
<td>Other</td>
<td>20</td>
</tr>
<tr>
<td>Computer Network/Wiring</td>
<td>Other</td>
<td>20</td>
</tr>
<tr>
<td>Phone Network</td>
<td>Other</td>
<td>20</td>
</tr>
<tr>
<td>Central Controls &amp; Energy System</td>
<td>Other</td>
<td>20</td>
</tr>
<tr>
<td>Tunnels</td>
<td>Tunnels</td>
<td>50</td>
</tr>
</tbody>
</table>

See the following decision chart for additional assistance in determining the appropriate classification for expenditures:

<table>
<thead>
<tr>
<th>Description</th>
<th>Capitalize</th>
<th>Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Building &amp; Improve &gt; $100,000</td>
<td>Land Improv. &gt; $50,000</td>
</tr>
<tr>
<td>Accounting fees</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Alterations – changes in the internal structural arrangement or other physical characteristics of an existing asset so that it may be effectively used for a newly designated purpose (i.e. adding a new wing of offices, changing office space to classroom space, etc.).</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Application fees (permits)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Appraisals</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Architectural services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Asbestos removal</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Athletic field (new or replacement)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Bleachers (new or replacement)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Bridges (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broker’s fees or other commissions</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Built-in furnishings</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Clearing, grading &amp; filling of purchased site</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>for purpose of constructing building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Closing costs (not real estate taxes or interest)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Construction supervision fees</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Culverts (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Curbs (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dedication expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demolition/removal of old buildings or structures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design costs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Drainage ditches/systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Easements and right-of-way access</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical distribution system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Environmental clean-up costs at time of acquisition</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Environmental clean-up costs of existing asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extended warranty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feasibility studies for asset purchase</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Fences (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiber optic cabling systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finder’s fees</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Fire hydrants (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed equipment &amp; furnishings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fountains (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight, shipping and handling fees</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Gas distribution system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Golf course (new or replacement)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>HVAC</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Inspection costs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Installation fees (cost to install equipment)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Insurance costs during construction</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Insurance cost NOT during construction</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Interest expense during construction</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Interest expense NOT during construction</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Internal labor costs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Irrigation systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land development fees</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Landscaping (new or replacement)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Legal and consulting fees</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Litigation costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Maintenance agreements</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Moving &amp; relocation (moving people and</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Item</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Other professional services related directly to the purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking lots &amp; barriers</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Real estate taxes</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Recording fees (title/ownership registration)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Redecorating (repainting, wallpaper, carpet)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renovations – total or partial upgrading of a facility to a higher standard of quality or efficiency</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Replacements, renewals or betterments (i.e. replace an entire roof, replace electrical, plumbing or air conditioning systems)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Retaining walls (new or replacement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanitary sewer systems</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Septic systems (new or replacement)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Sidewalks (new or replacement)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Soil and land assessments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Street/road/alley</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Street lighting systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Street signage</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Storm sewer systems</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Surveys</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Swimming pool (new or replacement)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Telecommunications equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone &amp; power lines</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Temporary structures necessary for construction</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Tennis courts (new or replacement)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Title insurance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Title searches</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Traffic lights/signals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tunnels (new or replacement)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Utility fees during construction</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Utility fees NOT during construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utility installation</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Walking paths (new or replacement)</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Water distribution system</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Construction in Progress

Construction typically pertains to real property (i.e. land improvements, buildings, and infrastructure) and involves the payment of many invoices over a long period of time. When completed, the total cost of a construction project should be capitalized and then allocated over multiple years through depreciation expense. Examples of expenditures to be capitalized include:

- Completed project costs
- Interest accrued during construction
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)
- Costs of temporary buildings used during construction
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions or enlargements)

The following accounting issues arise:

Capitalizable:

Expenditures of incomplete construction projects must be capitalized but not depreciated until the project is complete. These expenditures become “Construction in Progress (CIP)”. CIP is an asset account that reports the total capitalized expenditures of construction projects that are incomplete at fiscal year-end.

Determination of When to Remove Projects from Construction in Progress (CIP) and Begin Depreciation:

The project should be removed from CIP, moved to the appropriate asset classification, and begin depreciation at the earliest occurrence of:

- Substantial completion of the project
- Occupancy, or
- When the asset is placed in service.

A project is determined to be substantially completed when an asset is complete or nearly complete and available to be placed in service.

Expenditures of construction projects should be identified and capitalized periodically throughout the fiscal year but at least once at the end of each fiscal year. Expenditures of substantially completed projects should be removed from CIP to completed assets in the month of completion and immediately begin to depreciate. Documentation of the transfer of the asset from Construction in Progress to the appropriate asset account is done by completing the Construction in Progress Transfer Request Form.
Recording Additional Expenditures after Capitalization:

Once a project has been capitalized and depreciation has started (i.e. no longer construction in progress), any additional capitalizable expenditures should be added to the asset’s capitalized value if the additional expenditures exceed the capitalization threshold for Fixed Assets. For example, if a $100,000 capitalizable invoice is paid two years after the capitalization of a $500,000 building with a 40-year life, the $100,000 would be added to the $500,000 capitalized value. The additional $100,000 will be depreciated over the remaining life of 38 years.

Once a project is capitalized and depreciation has started, no additional expenditures related to that project will ever be “construction in progress”.
Fixed Asset Library Accounting

For fixed asset accounting purposes, university libraries are separated into general collections and special collections. Accounting procedures for general collections vs. special collections differ and will be presented separately. The differing accounting treatment is primarily due to the additional record keeping required for general collections as a result of depreciation.

**General Collections:**

Library general collections are library holdings of an institutional library (not departmental reference library) that are exhaustible by nature and have a useful life greater than one year. General collections include general books, periodicals, reference materials, microfilm, maps, manuscripts, etc. Any reference to books is assumed to mean both hard copies and electronic media.

Although the unit price of a typical general collection volume is less than the BOR capitalization threshold, the total cost of the entire general collection far exceeds the threshold. Therefore, all additions to library general collections are capitalized regardless of amount and depreciated over ten years. For practical purposes, each book will not be separately tracked for acquisition, depreciation and disposal. Instead, there should be one fixed asset record for each year’s acquisitions for the general collection. The sum of the general library asset records’ adjusted cost and accumulated depreciation are to reflect the total historical cost and accumulated depreciation of the general library collection on hand at the end of the fiscal year.

Donated books should be capitalized and reported at their estimated fair value at the time of donation with a credit to the appropriate revenue account.

All capitalized general collections must be depreciated over ten years using the straight-line method for depreciation with no salvage value.

Volumes are removed from the general collection periodically based on institutional library policy. Volumes that are withdrawn during the fiscal year are to be aged and valued at their historical costs, associated accumulated depreciation is to be determined, and the total general collection values adjusted accordingly at the end of the fiscal year. Withdrawals are usually related to volumes that are fully depreciated, with no recognition of gain or loss.

**Special Collections:**

Library special collections are library holdings of an institutional library (not departmental reference library) normally considered inexhaustible and accounted for like works of art and historical treasures. They are not easily replaced and meet the following conditions:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
- Protected, kept unencumbered, cared for, and preserved.
Although the unit price of a special collection volume may less than the BOR capitalization threshold, the total cost of the entire special collection far exceeds the threshold. Therefore, all additions to library special collections are capitalized regardless of amount. For practical purposes, each book will not be separately tracked for acquisition, depreciation and disposal. Instead, there should be one fixed asset record for each special collection, or group of special collections. The sum of the special collection asset records’ adjusted cost is to reflect the total historical cost of the special library collection on hand at the end of the fiscal year.

Donated books should be capitalized and reported at their estimated fair value at the time of donation with a credit to the appropriate revenue account.

Library special collections are not to be depreciated.

All proceeds from the sale of items within a special collection shall be returned to the collection.
Works of Art and Historical Treasures

Works of art are collections or individual items of significance that are owned by an institution, which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Historical treasures are collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be sued to acquire other items for collections.

All works of art and historical treasures acquired or donated will be capitalized, unless held for financial gain. If a collection is held for financial gain and not capitalized, disclosures must be made in the notes of the financial statements to provide a description of the collection and the reasons those assets are not capitalized.

Examples of expenditures to be capitalized as works of art and historical treasures include:

- Collections of rare books and manuscripts (see special library collection information above)
- Maps, documents and recordings (see special library collection information above)
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, and exhibits
- Unique or significant structures

Works of art and historical treasures are not to be depreciated.
Depreciation

Depreciation is the process of allocating the cost of fixed assets over a period of time, rather than deducting the cost as an expense in the year of acquisition. The BOR will use the straight-line methodology for depreciating all fixed assets with zero salvage value. The current policy of the South Dakota Bureau of Finance and Management regarding useful lives will be followed. Information pertaining to specific assets may be found in earlier fixed asset sections of this policy.

Depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for “shared” capital assets (for example a facility that houses buildings & grounds, the finance office, and classroom space) should be ratably included in the direct expenses of the appropriate functions. Depreciation expense for capital assets that essentially serve all functions is not required to be included in the direct expenses of the various functions.

If there is depreciation that is not allocated, then there should be a separate line item called “Unallocated Depreciation” (does not include direct depreciation expense). All depreciation expense that can be identified should be direct expensed to the appropriate function.
Intangible Assets

Intangible assets should be classified as capital assets. To be recorded as an intangible asset in the BOR accounting records, the intangible asset must have the following characteristics:

- Owned by the university
  - Expenditures for items not owned by the university are expensed.
- Lacks physical substance
  - Assets with physical substance are recorded as tangible assets.
  - Capital leases lack physical substance but are accounted for as part of tangible assets.
- Non-financial in nature
  - Assets in monetary form are recorded as cash or investments
- Used primarily for operations and not used to directly obtain income or profit
  - Royalty agreements are not reported as intangible assets because they exist primarily to generate royalty income. Patents or copyrights underlying a royalty agreement are used primarily for operations and are therefore considered intangible assets.
  - Assets obtained for resale are not used in operations and are therefore not recorded as intangible assets
- Separately identifiable
  - An intangible component (right) of a tangible asset (i.e. rights associated with land ownership) is accounted for as part of the tangible asset.
  - Capable of being separated or divided from the BOR and sold, transferred, licensed, rented, or exchanged either individually or together with a related contract, asset, or liability.
- Supported by a formal agreement
  - An intangible asset is generally supported by a formal agreement that either allows the BOR to sell, rent or otherwise transfer the right to another party, or the agreement gives the BOR certain contractual or other legal rights to tangible assets owned by other parties.

Common types of intangible assets:
- Computer software
- Purchased or licensed
- Internally generated
- Websites
- Easements
- Land use rights (e.g. water, timber, and mineral rights)
  
  Note: land use rights associated with property already owned should not be reported as intangible assets separate from the property.
- Patents, copyrights, and trademarks

Internally generated intangible assets:

An intangible asset is considered “internally generated” if it is:
Expenditures in creating the internally generated intangible asset are either expensed or capitalized, depending on the stage in the asset’s development. In initial development, all expenditures are expensed (not capitalized). Initial development ends upon the occurrence of ALL of the following:

- Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
- Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting all three criteria should be expensed as incurred.

**Specific application to computer software:**

The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

- **Preliminary Project Stage:** Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

- **Application Development Stage:** Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, testing, and data conversion needed to make the software operational.

- **Post-Implementation/Operation Stage:** Activities in this stage include application training, data conversion that is beyond what is strictly necessary to make the software operational, and software maintenance.

All outlays associated with activities in the preliminary project stage should be expensed as incurred.

All outlays related to activities in the application development stage should be capitalized, provided the following conditions are met: 1) the outlays were incurred subsequent to the completion of the preliminary project stage and 2) management authorizes and commits to funding (either implicitly or explicitly), at least through the current period. (Note: when these two conditions are satisfied, the criteria for internally generated intangible assets are considered to be met). For commercially available software that will be modified to the point that it is considered internally generated, these two conditions generally are met at the time a campus makes the commitment to purchase or license the
computer software. Capitalization of such outlays should cease once the software is substantially complete and operational (i.e. ready for use).

All outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.

The activities within the three stages of development may occur in a different sequence. The recognition guidance for outlays associated with internally generated computer software should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred.

An improvement to existing computer software must do at least one of the following to qualify for capitalization:

- Increase the software’s functionality,
- Increase the software’s efficiency, or
- Extend the software’s estimated useful life

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred. If a maintenance contract covers all required maintenance and any unspecified upgrades issued during the year by the vendor, the unspecified upgrades should be considered maintenance.

For commercially available software acquired through a licensing agreement requiring multi-year payments, a long-term liability representing the agency’s obligation to make payments under the contract should be reported. If no interest rate is stated in the licensing agreement, the long-term liability does not have to be discounted. The provisions of FASB Statement 13, Accounting for Leases, do not apply to licensing agreements.

Amortization:

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset (e.g. permanent right-of-way easement). Intangible assets with indefinite useful lives should not be amortized.

Intangible assets with limited useful lives (e.g. by legal or contractual provisions) should be amortized over their estimated useful lives. Amortization of computer software should begin when the program is placed into service. Renewal periods related to such provisions may be considered when determining the useful life of the intangible asset if the campus expects to exercise the renewal option and any anticipated outlays to be incurred as part of achieving the renewal are nominal (in relation to the level of service capacity obtained through the renewal).

Impairment Indicator:
A common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value, assuming the stoppage was considered to be permanent (see GASB Statement 42).

**Policy:**

Intangible assets of the Regental System equal to or greater than $100,000 and with a useful life that exceeds one year shall be capitalized. Assets costing below the threshold should be expensed. When an internally generated computer project spans more than one year, the total application development costs of the project should be considered when applying the capitalization threshold, not the outlays incurred in individual years.

Example: A campus completed an internally generated computer project in two years. The application development outlays were $700,000 and $600,000 in year one and year two, respectively. The agency should capitalize these outlays, beginning in year one, since the total application development costs exceed the threshold. At the end of year two, the campus should have capitalized $1,300,000 as computer software development.

Example: A campus has an internally generated computer software program that was placed into service in 2006. The program had total application development costs of $2.5 million. The program was not capitalized since retroactive application was not required. In 2010, the campus modified the program to increase its functionality. The application development outlays of the modification were $94,000. The campus should NOT capitalize the modification since it is below the threshold. If outlays were $106,000, the campus would capitalize the modification.

Campuses that acquire a site license to install software on multiple computers should not apply the capitalization threshold on a per unit basis (i.e. cost of the site license divided by the number of authorized users).

**Retroactive Reporting:**

Retroactive reporting is required for intangible assets, except as follows. Retroactive reporting is not required for 1) internally generated intangible assets, including those in development as of July 1, 2009, and 2) intangible assets with an indefinite estimated useful life as of July 1, 2009.

Intangible assets are considered internally generated if they are created or produced by the Regental System or any entity contracted by the Regental System, or if they are acquired from a third party but require more than minimal incremental effort on the part of the Regental System to bring to achieve their expected level of service capacity.

Computer software is a common type of intangible assets that is often internally generated. Computer software should be considered internally generated if it is developed in-house by the Regent’s personnel or by a third-party contractor on behalf of the Regental System. Commercially available software that is
purchased or licensed by the Regents and modified using more than minimal incremental effort before being put into operation also should be considered internally generated. Any of the following activities would satisfy the “modified using more than minimal incremental effort” criterion: changing code, changing fields, adding special reporting capabilities, and testing any changes.

**Use of System Pool – Tuition and Higher Education Facilities Fund (HEFF)**

Tuition for university courses “directly supported by moneys appropriated from the general fund” (SDCL 13-55-23) is divided between the System Tuition and Fee Fund, which receives 80 percent and the Higher Education Facilities Fund (HEFF), which receives 20 percent (SDCL 13-53-15 and BOR Policy 6:3).

State-support tuition revenue deposited into the System Tuition and Fee Fund will be returned to the institutions in the same proportion that it was earned after 20% of the tuition revenue is transferred to the HEFF account. (BOR Policy 5:19 [1B])

All tuition and fee revenues shall be deposited in the bank within one working day after receipt. Accounting transactions on Banner and Colleague shall be completed within five working days of the final fee payment date for the fall and spring semesters.

Institutions will remit tuition collections weekly to the System Tuition Pool and to HEFF provided the total to be deposited for the week is $20,000 or greater.

The final interface from Colleague to Banner for the fiscal year shall be determined by the Banner Finance Module. Following the threshold set by BFM for Due To/Due From Component Units, a Due To/Due From shall be recorded on the annual financial statements for those funds that are not remitted to the appropriate institution. Tuition not remitted to the System Tuition Pool and to HEFF will be reported as tuition and HEFF revenues at the institution. (BAC Nov 2010)

**Banner – Tuition & HEFF Remittance**

1. Remit tuition via Journal Voucher Entry Form (FGAJVCD), Journal Voucher Mass Entry Form (FGAJVCM), or FUPLOAD.
2. Use rule class ZRC. (This rule code will automatically move the cash and update the appropriate REVENUE control accounts.)
3. Enter your institution’s lines of coding and the appropriate line into the System Fund. (Access will be provided to the finance module members.)
4. The journal voucher will go through the approval process.
5. All tuition and HEFF (self-support HEFF and S.F. HEFF) revenues are to be reported by the appropriate revenue codes.
6. Attach supporting documentation in Xtender.
7. A separate tuition fund and organization code combination has been established for each institution and provided below. (The ZRC rule code automatically debits BOR Cash and credits the Investment Pool behind the scenes)
Remit Tuition to the Board Office - Banner

<table>
<thead>
<tr>
<th></th>
<th>Fund</th>
<th>Org</th>
<th>Account</th>
<th>Program</th>
<th>Activity</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>Tuition Remittance</td>
<td></td>
<td>500001</td>
<td>99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>Revenue Codes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>USD</td>
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<td>152072</td>
<td>Revenue</td>
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<td>1Z1000</td>
</tr>
<tr>
<td></td>
<td>SDSU</td>
<td>137003</td>
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<td>1Z1000</td>
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<tr>
<td></td>
<td>SDSMT</td>
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<td>1Z1000</td>
</tr>
<tr>
<td></td>
<td>NSU</td>
<td>137005</td>
<td>152075</td>
<td>Revenue</td>
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</tr>
<tr>
<td></td>
<td>BHSU</td>
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<tr>
<td></td>
<td>DSU</td>
<td>137008</td>
<td>152078</td>
<td>Revenue</td>
<td>06</td>
<td>1Z1000</td>
</tr>
</tbody>
</table>

CAS– Tuition & System Fees Remittance

1. Remit tuition and system fees via “R” document (R150107XX).
2. Enter the institution’s lines of coding and the appropriate line into the System Fund. (Access has been provided to CAS users.) End the document.
3. Tuition, Salary Competitiveness Fee, Technology Fee, 80% HEFF and HEFF self-support HEFF and S.F. HEFF revenues are to be reported by the appropriate revenue code.
4. The movement of cash between companies 9026 (debit 9026 1140000 150511), 3085 (debit 3085 1140000 1502), and the investment pool cash (credit xxxx 1140000 15xx or 15xx01) is all handled behind the scenes on CAS.

Remit Tuition to the Board Office - CAS

<table>
<thead>
<tr>
<th></th>
<th>Company</th>
<th>Account</th>
<th>Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>Other Revenues - Universities</td>
<td>xxxx</td>
<td>4836000</td>
</tr>
<tr>
<td>CR</td>
<td>Tuition Revenue</td>
<td>9026</td>
<td>459270x</td>
</tr>
<tr>
<td></td>
<td>HEFF Revenue</td>
<td>3085</td>
<td>459270x</td>
</tr>
</tbody>
</table>

Ref: Approved November 2006 – Finance Module; updated October 2010.
Use of System Pool - Fees

The Board has authorized the universities to charge certain fees and to retain the revenue for specified uses. The University Support Fee (USF) supports the instructional and administrative service areas related to the institutional mission. The USF shall be assessed on all state-support courses with the exception of nursing programs delivered off-campus.

The Salary Competitiveness Fee (SCF) is a component of the USF. The proceeds shall be used to enhance faculty and non-faculty exempt salaries. All revenue generated from this fee shall be deposited in the System Salary Competitiveness Fee Fund.

The Maintenance and Repair Fee (M&R), critical deferred maintenance fee, and science facility fee are components of the USF. The critical deferred maintenance fee and the science facility fee are deposited centrally. The campus M&R fee is retained locally and the revenue from this fee can only be expended on BOR approved projects.

The Technology Fee and Campus Investment in Technology Fee are components of the University Support Fee (USF) that are used to fund computer centers and technology expenditures. The Board will determine annually the portion of the USF to be deposited into the System Technology Fund and the portion to be retained on campus.

Banner – Fee Remittance

1. Remit tuition via Journal Voucher Entry Form (FGAJVCD), Journal Voucher Mass Entry Form (FGAJVCM), or FUPLOAD.
2. Use rule class ZRC. (This rule code will automatically move the cash and update the appropriate REVENUE control accounts.)
3. Enter your institution’s lines of coding and the appropriate line into the System Fund (Access will be provided to the finance module members).
4. The journal voucher will go through the approval process.
5. Attach supporting documentation in Xtender.
6. A separate fund and organization code combination for the fee deposit has been established for each institution. Posting examples are provided below.

<table>
<thead>
<tr>
<th>Remit Fees to the System Fund - Banner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
</tr>
<tr>
<td>DR Tuition Remittance</td>
</tr>
<tr>
<td>CR Revenue Codes</td>
</tr>
<tr>
<td>Salary Competitiveness Fee</td>
</tr>
<tr>
<td>Science Lab Facility Fee</td>
</tr>
<tr>
<td>Technology Fee</td>
</tr>
<tr>
<td>Campus Invest in Technology Fee</td>
</tr>
</tbody>
</table>
CAS – Fee Remittance:

1. Remit Fees via “R” document (R15XXXXXX).

2. Enter the institution’s lines of coding and the appropriate line into the System Fund. (Access has been provided to CAS users.)

3. End the document.

4. All fees must be reported using the appropriate revenue code as seen below.

5. The movement of cash between companies and the investment pool cash is all handled behind the scenes on CAS.

### Remit Fees to the System Fund - CAS

<table>
<thead>
<tr>
<th>Company</th>
<th>Account</th>
<th>Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR Other Revenues - Universities</td>
<td>XXXX</td>
<td>4836000</td>
</tr>
<tr>
<td>CR Revenue Codes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary Competitiveness Fee</td>
<td>9026</td>
<td>459290X</td>
</tr>
<tr>
<td>Science Lab Facility Fee</td>
<td>9041</td>
<td>459240X</td>
</tr>
<tr>
<td>Technology Fee</td>
<td>9026</td>
<td>459260X</td>
</tr>
<tr>
<td>Campus Investment in Technology Fee</td>
<td>9026</td>
<td>459261X</td>
</tr>
</tbody>
</table>

Revenues from the Salary Competitiveness Fee, the Science Lab Bond M&R Fee, the Technology Fee and the Campus Investment in Technology Fee are excluded from normal tuition revenues used in calculating the 80% calculation to the tuition revenue pool and 20% calculation to the HEFF pool.
Use of System Pool – Self-Support HEFF

Beginning with the Spring 2009 semester, a facility fee equivalent to the on-campus HEFF rate was applied to all self-support courses. Considering that all courses originate from a campus and are supported by the facility infrastructure, it is reasonable to assess the HEFF rate regardless of the source of funding (self-support or state support.)

Following is guidance for coding the remittance of Self-Support HEFF dollars to the System HEFF Fund:

<table>
<thead>
<tr>
<th>DR</th>
<th>Tuition Remittance</th>
<th>Fund</th>
<th>Org</th>
<th>Account</th>
<th>Program</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>HEFF - S.F.</td>
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<td>15207X</td>
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<tr>
<td></td>
<td>HEFF - Self Support (on campus)</td>
<td>164001</td>
<td>15207X</td>
<td>500357</td>
<td>06</td>
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<tr>
<td></td>
<td>HEFF - CUC</td>
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<td>1Z1000</td>
</tr>
<tr>
<td></td>
<td>HEFF - R.C.</td>
<td>164004</td>
<td>15207X</td>
<td>500359</td>
<td>06</td>
<td>1Z1000</td>
</tr>
</tbody>
</table>

**CAS – Self-Support HEFF Remittance:**

1. Remit Fees via “R” document (R15XXXXXX).
2. Enter the institution’s lines of coding and the appropriate line into the System Fund. (Access has been provided to CAS users.)
3. End the document.
4. All fees must be reported using the appropriate revenue code as seen below.
5. The movement of cash between companies and the investment pool cash is all handled behind the scenes on CAS.

<table>
<thead>
<tr>
<th>Company</th>
<th>Account</th>
<th>Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Revenues - Universities</td>
<td>XXXX</td>
<td>4836000</td>
</tr>
<tr>
<td>HEFF - S.F.</td>
<td>3085</td>
<td>459221X</td>
</tr>
<tr>
<td>HEFF - Self Support (on campus)</td>
<td>3085</td>
<td>459222X</td>
</tr>
<tr>
<td>HEFF - CUC</td>
<td>3085</td>
<td>459223X</td>
</tr>
<tr>
<td>HEFF - R.C.</td>
<td>3085</td>
<td>459224X</td>
</tr>
</tbody>
</table>
Use of System Pool – University Managed Resources (Tuition Allocation)

Beginning with FY11, the institutions are able to keep the tuition (80%) and the Salary Competitiveness Fee (SCF) revenue generated by their respective institution. Tuition and SCF will be deposited in the system pools (see earlier discussion for methodology used to record those fees) and returned as institutions need the operating funds using the following coding. (BAC Nov 2010)

1. Tuition returned to the appropriate institution will be entered via FGAVCD for each institution.
2. The ZRC rule class will be used. At year-end the Revenue Control Account (REVENU) in the tuition fund will show the net of tuition remittances and tuition allocations.
3. The Board office will enter all lines of coding and complete the document on Banner and CAS.
4. Supporting documentation will be attached in Xtender.
5. The Board office will notify the institution to approve the document.
6. The debit to Investment Pool Cash and credit to BOR Tuition Cash will be handled behind the scenes by using the ZRC rule.

### Transfer of Tuition & SCF Allocations to Institutions - Banner

<table>
<thead>
<tr>
<th></th>
<th>Fund</th>
<th>Org</th>
<th>Account</th>
<th>Program</th>
<th>Activity</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>Tuition Allocation (Trans Out)</td>
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<td>500195</td>
<td>06</td>
<td>1Z1000</td>
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<tr>
<td>DR</td>
<td>SCF Allocation (Trans Out)</td>
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<td>06</td>
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<tr>
<td>CR</td>
<td>Tuition Allocation</td>
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<td>CR</td>
<td>SCF Allocation</td>
<td>X37000</td>
<td></td>
<td>500198</td>
<td>01</td>
<td></td>
</tr>
</tbody>
</table>

**CAS – Tuition & SCF Allocation Transfer:**

1. Remit Fees via “T” document (T15XXXXXXX).
2. The transfer will be initiated by the BOR Central Office with the following institution lines of coding into the System Fund.
3. Each campus will need to end the document. (Access has been provided to CAS users.)
4. The movement of cash between companies and the investment pool cash is all handled behind the scenes on CAS.

### Transfer of Tuition & SCF Allocations to Institutions - CAS

<table>
<thead>
<tr>
<th></th>
<th>Company</th>
<th>Account</th>
<th>Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>Operating Transfer Out</td>
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<td>150511</td>
</tr>
<tr>
<td>CR</td>
<td>Operating Transfer In</td>
<td>XXXX</td>
<td>15XXXX</td>
</tr>
</tbody>
</table>
Reporting Tuition Discounting/Student Aid Expense

Tuition distributions from the Central Office will be reported net of Scholarship Discounts and Allowances. The Scholarship Discounts and Allowances will be proportionally applied to the Tuition distribution and Auxiliary revenues. The Scholarship Discounts and Allowances will be calculated using the NACUBO Advisory Report 2000-5 Alternative Method.
GASB Statement No. 39, *Determining Whether Certain Organizations are Component Unit – an Amendment of Statement No. 14*, requires that the financial statements of foundations and affiliated organizations that meet the criteria to be considered component units of an institution be included with the financial statements of the institution. An organization is considered a component unit if it is a legally separate, tax-exempt entity and if it meets the criteria for materiality and/or is significant to the institution. An organization would be considered significant if it would be misleading to exclude it from the financial statements.

GASB 39 requires ALL of the following criteria to be met in order for an organization to be included as a component unit in the combined system statements.

1. The economic resources received or held by the separate affiliated organization are entirely or almost entirely for the direct benefit of the institution, its component units or its constituents.
2. The institution, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the affiliated organization.
3. The economic resources received or held by the individual affiliated organization that the institution, or its component units, is entitled to, or has the ability to otherwise access, are significant to the institution. For purposes of this requirement, the Total Assets less Capital Assets of the potential component unit must exceed 3% of the Total Assets less Capital Assets of the system.

If it is determined that the foundation or affiliated organization is a component unit of the institution and the financial statements must be included, then the institution must determine if discrete (separate columns) or blended (combined with the institution statements) presentation is required. For most of the institutions within the BOR, the blended presentation will be used at the combined level.

It will be necessary to make some eliminations between the foundation/affiliated organization financial statements and the institution financial statements. For example, a building should not be shown as an asset on both sets of books. Also, revenue may need to be eliminated if it is contributed to the institution and shown as gift revenue by the institution.
Fiscal Year-End Adjustments to Grant Balances

All grant and contract funds shall be reviewed at fiscal year-end to ensure proper financial statement presentation. Specifically, account codes 120045 (Unbilled Grants Receivable), 120050 (Billed Grants Receivable), 200015 (Grant Cash Clearing) and 2G0015 (Deferred Revenue – Grants) shall be analyzed. The following steps should be followed with regards to grant funds:

1. Account codes with abnormal balances will be reclassified (i.e. a credit balance in a receivable account should be reclassified to a liability and a debit balance in a liability account should be reclassified to a receivable.

2. Accounts receivable and liability account codes with offsetting balances will be eliminated.

3. Cash balances need to be analyzed to determine proper financial statement reporting by fund. For this purpose, fiscal year end Cash balances will be adjusted by the amount of year-end Accrued Wages and any Accounts Payable posted after the last Grants billing cycle is run for the fiscal year.

4. If, after adjustments for #3 above, there is a credit Cash balance and a debit Grant Cash Clearing balance, an analysis will be done to determine where to eliminate the Grant Cash Clearing amount. Examples of possible adjustments are:

   a. DR 120045 Unbilled Grants Receivable
      CR 200015 Grant Cash Clearing

   b. DR 120050 Billed Grants Receivable
      CR 200015 Grants Cash Clearing

5. For grants and contracts that have an adjusted debit Cash balance and a credit Grant Cash Clearing balance, an analysis will be done to determine where to eliminate the Grant Cash Clearing amount. An example of a possible adjustment is:

   a. DR 200015 Grant Cash Clearing
      CR 2G0015 Deferred Revenue

Detailed work papers supporting these adjustments must be available for auditor review.
Federal Stimulus Funds

The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009, in an attempt to revitalize the nation’s economy. Recipients of funds under the ARRA are subject to quarterly reporting requirements and oversight by Federal agency inspectors. The BOR is responsible for maintaining financial and other information in order to facilitate Federal reporting as required by ARRA for reporting in conformity with existing Federal agency and program requirements, for compliance with any additional reporting requirements that may be issued by the Federal government relating to specific grant awards, and for reporting to the executive management of the State of South Dakota.

ARRA Grants only—not the stabilization dollars that replaces general funds (FY09, FY10 and FY11).

All ARRA grants are to crosswalk to the institution’s federal company on CAS. The institution will expenditure correct the ARRA grant expenditures from federal company to company 2000.

ARRA grants have a source code assigned to the institution’s budget center coding (i.e. 1530010R14) and all transactions ultimately need to be coded to company 2000 with that source code. The interface from Banner to CAS does not accommodate this coding.

ARRA Energy Conservation Grants

The South Dakota Bureau of Administration (BOA), the Energy Management Office will coordinate the Energy Conservation Grants with the Regental institutions. The following are procedures for project accounting and requesting draw down of funds through the Energy Management Office. Key personnel for the State of South Dakota is Michele Farris, P.E., CEM, Statewide Energy Manager, (605) 773-3899, Michele.Farris@state.sd.us.

ARRA grants have a source code assigned to the institution’s budget center coding (i.e. 1530010R14) and all transactions ultimately need to be coded to company 2000 with that source code. The interface from Banner to CAS does not accommodate this coding.

BOA is the prime recipient of the funded ARRA grant while the institutions are sub-recipients. Quarterly OMB reporting will be the responsibility of the prime recipient. Institutions are required to submit energy savings, jobs data, Davis Bacon certification and Buy America to Michele Farris. Most A/E firms handle the data collection. Institutions are to work with the A/E firm in meeting this requirement for the institution is ultimately responsible for meeting the reporting requirements. If a portion of the work for the project is completed by university personnel, the Davis Bacon Act does not apply. All other reporting requirements mentioned above do apply. Information should be submitted to Ms. Farris on a monthly basis.

Accounting for the ARRA Energy Conservation Grants:

Institutions will process and pay their own expenses for the Energy Conservation Grants. A draw down of funds may be requested from the Energy Management Office and must include the following:

- The pay request form – found on Energy Management’s website:
Copy of all invoices

Certified Davis Bacon payroll form – found on the Department of Labor’s website: [http://dol.sd.gov](http://dol.sd.gov) (any work that is paid for with stimulus money is included in the jobs reporting. For instance the A/E time that is paid for with ARRA funds would be reported, as well as the contractors, subcontractors, and the OSE engineer’s time.)

OMB job reporting form (attached below)

A cash receipt transmittal (non-cash voucher) submitted to the State Treasurer’s Office. Funds will be deposited directly into the institutional account.

**Banner Set-Up:**

Fund(s) are to be established for the projects, following the setup for ARRA Grants. FTMFATA needs to link the institution’s fund to the institution’s federal company on CAS. Institutions are to establish and assign an activity code for each project to assist in reporting the progress of each project. (Similar to the HEFF M&R projects.)

**State’s Central Accounting System (CAS) Set-Up:**

Expenditure authority will be loaded in Company 2000 and the appropriate budget center (1570 01). Expenditures will interface from Banner to the institution’s federal company. Expenditures are to be recoded or expenditure corrected to Company 2000 and the appropriate center with the identifying source code 008 sub-fund AR (i.e. Center 1570010084R). Revenue coding may be posted directly to Company 2000.

<table>
<thead>
<tr>
<th>Coding Position</th>
<th>0 1 2 3 4 5 6 7 8 9 10 11 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Center</td>
<td>1 5 7 0 0 1 0 0 8 4 R</td>
</tr>
<tr>
<td>Center</td>
<td>Source</td>
</tr>
<tr>
<td>Spacer</td>
<td>Sub-Fund</td>
</tr>
</tbody>
</table>
Build America Bonds

Section 1531 of Title 1 of Division B of the American Recovery and Reinvestment Act (the Act) of 2009, (enacted February 17, 2009) authorized state and local governments to issue Build America Bonds (BAB) as taxable governmental bonds with Federal subsidies for a portion of their borrowing cost. One type of BAB provides a federal subsidy through a refundable tax credit paid to the issuer (BOR in this instance) by the Treasury Department and the IRS in an amount equal to 35% of the total coupon interest payable to investors in the taxable bonds. This is known as a “direct payment” bond.

In order to qualify to receive direct subsidy payment from the Treasury Department, the BOR must comply with federal tax rules regarding expenditure of BAB proceeds, the use of BAB financed property, investment of BAB proceeds in compliance with arbitrage rules, and retention of records and filing with the IRS.

The use of BAB financed property, when completed and placed in service, will be reviewed by the Financial Compliance Officer on at least an annual basis. The BOR will not do any of the following with respect to the BAB financed property without prior discussion with bond counsel regarding potential effect of such action on the ability of the BOR to be eligible for direct payments:

- Enter into a management, service or incentive payment contract with any non-governmental person or entity (including the federal government)
- Enter into a lease with any non-governmental entity
- Sell or otherwise transfer such property to any non-governmental entity
- Grant special legal entitlements with respect to such property to any non-governmental entity.

Periodic filing of Form 8038-CP, Return for Credit Payments to Issuers of Qualified Bonds, will be supervised by the BOR Central Office. Form 8038-CP will be filed at least 45 days before and not earlier than 90 days before the relevant interest payment date.

Upon receipt of the interest credit, the funds will be deposited into the individual institution’s funds in an amount equal to the BAB Subsidy identified in the bond issue summary. Recording of such credit or subsidy will be recorded as follows:

<table>
<thead>
<tr>
<th>Banner Finance:</th>
<th>CAS:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund</strong> Institution Specific</td>
<td><strong>Company</strong> Institution Specific</td>
</tr>
<tr>
<td><strong>Org</strong> Institution Specific</td>
<td><strong>Account</strong> 4836000</td>
</tr>
<tr>
<td><strong>Account</strong> 540140 – BAB Subsidy</td>
<td><strong>Center</strong> Institution Specific</td>
</tr>
<tr>
<td><strong>Program</strong> 07</td>
<td></td>
</tr>
<tr>
<td><strong>Activity</strong> Institution Optional</td>
<td></td>
</tr>
</tbody>
</table>

Qualified school construction bonds (Sec. 1521), extension and expansion of qualified zone academy bonds (Sec. 1522), and Build America Bonds (Sec. 1531) are included in Division B of the Act and are therefore NOT required to be reported under Section 1512 of the Act.
Subrecipient Compliance

Office of Management and Budget (OMB) Circular A-133 requires that recipients of Federal awards ensure that sub-recipients who expend $500,000 or more per year comply with audit requirements in Circular A-133. There are specific financial and administrative regulations governing the management of federal grants and contracts. Where the BOR contracts with sub-recipients to perform work on federal grants and contacts, these same regulations govern the sub-recipients. Penalties for noncompliance include adverse audit findings, financial liabilities on current and past awards, and loss of eligibility to receive future awards.

The Board will use the following procedures for its sub-recipient compliance:

1. **Award Identification:** At the time the subcontract is proposed under a federal award that has been approved, the Board shall obtain a copy of the proposed subcontractor’s most recent A-133 audit report, and any relevant management response and corrective action plan, if applicable and available, and such materials shall be reviewed by Research Accounting. Proposed subcontractors who do not have A-133 audits available will be required to provide a copy of an audit or review performed by an independent certified public accountant. All proposed subcontractors shall state that the information they are providing fairly presents the standing of the organization in all material respects. Any issues identified by Research Accounting review will be shared with the Financial Compliance Officer.

2. **During the Award Monitoring:** Research Accounting is responsible for monitoring sub-recipients to ensure that performance goals are achieved and, to the extent possible, that they are administering the Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.

3. **Sub-recipient Audits:** The Financial Compliance Officer will monitor sub-recipients through OMB Circular A-133 reports. On an annual basis, copies of the OMB A-133 audit report will be requested from each sub-recipient who expends $500,000 or more during the year.

   - Circular A-133 requires that annual audits be completed within nine months of the end of the sub-recipient’s audit period. To this end, certification letters shall be prepared by the Financial Compliance Officer and distributed to every sub-recipient that received $500,000 or more in federal awards from the Regental system during the fiscal year. The certification letters must be prepared and distributed annually by April 30 of each year requesting information about the sub-recipients’ most recent completed fiscal year. The certification letters require the sub-recipient organization to state that the information they are providing fairly presents the standing of the organization in all material respects and that they state one of the following:
     - They are subject to the requirement of A-133, the audit has been completed and there were no material conditions of non-compliance with federal regulations.
     - They are subject to the requirements of A-133, exceptions were noted and a copy of the audit report is provided.
     - They are subject to the requirement of A-133 but the audit has not been completed.
   - Follow-up requests will be made to ensure that sub-recipients send reports:
South Dakota Board of Regents
Accounting Policies & Procedures Manual

- Should no response to the certification letter be received within 45 days, a second certification letter will be sent. Should no response to the second letter be received within 30 days, the sub-recipient will be contacted by telephone.
- Should attempts continue to be unsuccessful; the Board will consider sanctions against the sub-recipient, including termination of the subcontracts.

- The Financial Compliance Officer will review all available information for compliance issues pertaining to funds from A-133 reports and will request corrective action plans from the management of the organization to determine if proper action has been implemented.
- Management will determine corrective action on deficiencies identified in audits and sub-recipient monitoring.

The monitoring of sub-recipients, not subject to Circular A-133, will be based upon the judgment of management and will include such factors as the size of the award, percentage of the total program’s funds awarded to the sub-recipient, any issues identified in the pre-award review, and other matters as deemed necessary. Invoices from for-profit subcontractors must identify the names and titles of all persons for whom direct labor is charged.

Campuses are not prohibited from implementing their own, more restrictive, sub-recipient monitoring.
Notes to Financial Statements

All institutions that report as special-purpose governments engaged only in business type activities (BTAs) are required to provide all applicable disclosures required by GASB pronouncements in their stand-alone financial statements. There are five major categories of footnote disclosures:

- Summary of Significant Accounting Policies
- Detailed Disclosures for Specific Assets, Liabilities and Net Assets
- Disclosures for Specific Revenue and Expense Categories
- Other Required Note Disclosures
- Other Optional Note Disclosures

Summary of Significant Accounting Policies:

The standard was originally set forth in Accounting Principles Board (APB) Opinion 22 and permits a great deal of flexibility in the manner in which accounting policies are disclosed. GASB Statement No. 34 established a requirement that certain specific disclosures be made. The disclosures must include:

- Identifying and describing the accounting principles following by the entity and the methods of applying those principles that materially affect the determination of financial position, cash flows or results of operations. In particular, it shall encompass those accounting principles and methods that involve any of the following:
  - A selection from existing acceptable alternatives.
  - Principles and methods peculiar in the industry in which the reporting entity operates, even if such principles and methods are predominately followed in the industry.
  - Unusual or innovative applications of generally accepted accounting principles.

- Information about the reporting entity.
  - Brief description of the component units of the reporting entity and their relationship.
  - Discussion of the criteria for including the component units and the method of reporting component units (blended versus discrete presentation).
  - How separate financial statements for the component units may be obtained.
  - If the reporting institution is a component unit of another reporting entity (i.e. the state), an identification of the primary government and a description of the institution’s relationship with the primary government.

- Basis of presentation (i.e. rationale for reporting as a BTA and brief description of the financial statements required to be presented by BTAs).

- Significant accounting policies adopted for specific assets, liabilities, revenues and expenses.
  - Any exceptions to accrual basis accounting should be noted

- Specific disclosures required by SGAS 34.
  - The policy for applying FASB pronouncements issued after November 30, 1989.
  - The policy for capitalizing assets and for estimating the useful lives of those assets.
  - The policy for defining operating and non-operating revenues in the statement of revenues, expenses, and changes in net assets.
The policy on recognizing significant revenues, such as tuition and fees.

**Detailed Disclosures for Specific Assets, Liabilities, and Net Assets:**

Requirements exist for disclosure of almost every category of asset and liability displayed in the financial statements. See NACUBO Financial Accounting & Reporting Manual Appendix H for a comprehensive listing of disclosure requirements. The most important and pervasive areas of disclosure are:

- Deposits and Investments
- Capital Assets
- Receivable Balances
- Payable Balances
- Long-Term Liabilities/Debt
- Lease Obligations and Commitments
- Net Assets – with detailed information pertaining to investments in capital assets, net of related debt; restricted; and unrestricted balances

**Disclosures for Specific Revenue and Expense Categories:**

Disclosures must be made for:

- Payments made on behalf of employees for fringe benefits and salaries. As defined by GASB Statement 24, these payments are, “direct payments made by one entity to a third-party recipient for the employees of another, legally separate entity. They include payments made by governmental entities on behalf of non-governmental entities and payments made by non-governmental entities on behalf of governmental entities, and may be made for volunteers as well as for paid employees of the employer entity.”
- Post-employment benefits other than pensions (OPEB). GASB Statements 45 and 57 establish measurement, recognition, and display standards related to OPEB expenses. They also establish standards for recognizing the OPEB liabilities. Campuses must disclose information pertaining to the plan description and funding policy.

**Other Required Disclosures:**

- Additional disclosures regarding the reporting entity
- Related party transactions – GASB Statement 56 establishes standards for the disclosure of related party transactions. These include affiliated entities that are not component units. Disclosures should include:
  - The nature of the relationship
  - Description of the transaction(s)
  - Dollar amount of transaction(s)
  - Amounts due to or from the related party as of the date of the financial statements
- Commitments and contingencies – institutions are required to disclose information dealing with the following issues if the commitment or contingency could materially affect the financial condition of the institution. If there is at least a reasonable possibility that a loss can be
incurred for which no accrual has been made or there is exposure to a loss in excess of the accrual:

- Grant contingencies, including questioned costs from audits or federal or state assisted programs
- Construction and other significant commitments
- Oral and written guarantees
- Major pending litigation
- Gain and loss contingencies

- Subsequent Events – events that occur after the date of the financial statements. Subsequent events are either recognized or non-recognized. Recognized events include those that provide additional evidence of conditions that existed at statement date and affect estimates that were made when preparing financial statements. Non-recognized events provide evidence with respect to conditions that did not exist at statement date, but arose subsequently. Non-recognized events do not result in an adjustment of the financial statements, but disclosure is required to keep financial statements from being misleading.

- Pledged Revenues under Debt Agreements – GASB Statement 34 requires an institution to disclose when it has pledged revenues as security under bonds or other forms of indebtedness.

- Accounting Changes and Corrections of Errors – Accounting Principles Board Opinion No. 20 requires disclosure of the justification for any change in accounting principle and the reasons why the new principle is preferable. For changes that are accounted for as “cumulative effect” changes, disclosure of the following is required:
  - The effect of adopting the new accounting principle on the changes in net assets in the current period
  - If the cumulative effect is not shown, the reason for the omission
  - If prior periods are shown and the effect of those periods of adopting the new principle is now shown, the reason for the omission

**Optional Note Disclosures:**

The following disclosures are optional, but commonly made by BOR institutions:

- Compensated Absences
- Functional Expenditures
- State Support
- Funds Held for Others
Pledged Revenue Disclosure

Information for the pledged revenue footnote disclosure shall come from the Schedule of Pledged Revenue found in the annual Agreed Upon Procedures report. Gross Revenues from Facilities (labeled as A below) will be the amount reported on the Auxiliary Enterprise line of the footnote. The gross General Activity Fee amount (labeled as B below) will be the amount reported on the Fees line. The gross total of Interest from Completed Construction Funds, Interest from Investments, Other Revenue and Capitalized Interest Applied to Debt Service (the sum of lines labeled C below) will be reported on the Sales & Services line of the footnote. Although the Agreed Upon Procedures are prepared on a cash basis and the financial statements are prepared on an accrual basis, there is no material difference in the accrual and cash balances, thus the cash numbers will be used for footnote disclosure purposes.

See example of an excerpt from the Agreed Upon Procedures Schedule of Pledged Revenues below for more information:

<table>
<thead>
<tr>
<th>Schedule of Pledged Revenues from Agreed Upon Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Revenues</strong></td>
</tr>
<tr>
<td>Bookstore</td>
</tr>
<tr>
<td>Student Center (Non-GAF)</td>
</tr>
<tr>
<td>Food Service</td>
</tr>
<tr>
<td>Residential Living</td>
</tr>
<tr>
<td>Conference Services</td>
</tr>
<tr>
<td>Other Facility Revenue</td>
</tr>
<tr>
<td><strong>Revenues from facilities (A)</strong></td>
</tr>
<tr>
<td>General Activity Fee</td>
</tr>
<tr>
<td>Interest from Investments</td>
</tr>
<tr>
<td>Other Revenue</td>
</tr>
<tr>
<td>Capitalized Interest Applied to Debt Service</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Annual Debt Service</td>
</tr>
<tr>
<td>Coverage Ratio</td>
</tr>
</tbody>
</table>
Disclosure of Related Party Transactions

After the close of each fiscal year, the Central Office will run a Potential Related Parties Report Summary (Report) in ODS which shows entities that have received $1,000,000 or more in aggregate payments from the Regental system. The Report will be disseminated to the controllers and finance staff at each campus for identification of related parties.

Related parties are defined as affiliates of the campus or board office, board members, management employees or members of their immediate families, and other parties with which the campus may deal if one party controls or can significantly influence the management or operating policies of the other.

If a campus concludes that an entity on the Report is a related party, the campus will review the vendor (FAIVNDH) report on Banner for detail on sales, purchases, transfers of property, services provided or received, use of property and equipment, borrowing and lending arrangements, etc. The detailed information from the FAIVNDH report will be used for footnote disclosure on the financial statements.

The following functional classifications shall be used by BOR institutions:

**Instruction (01)**

Function 01, Instruction, includes expenses for all activities that are part of an institution’s instruction program. Expenses for credit and noncredit courses, academic instruction, remedial and tutorial instruction are included. The classification excludes expenses for academic personnel whose primary activity is administration such as academic deans.

**Research (02)**

Function 02, Research, includes all expenses for activities specifically organized to produce research, whether commissioned by an external agency or budgeted by a department within an institution. This classification also includes research centers such as agricultural experiment stations.

**Public Service (03)**

Function 03, Public Service, includes expenses for activities established primarily to provide non-instructional services for the benefit of individuals and groups outside of the institution. Examples are community service programs, cooperative extension services, conferences, radio and television, consulting, and general advisory services.

**Academic Support (04)**

Function 04, Academic Support, includes expenses incurred to provide support for the primary programs of instruction, research and public service. Examples are computing support, course and curriculum development, academic administration and the retention, preservation and display of educational materials such as libraries, museums and galleries.

**Student Services (05)**

Function 05, Student Services, includes expenses incurred for offices of admissions and the registrar and activities that, as their primary purpose, contribute to students’ emotional and physical well-being and intellectual, cultural, and social development outside the context of formal instruction. Examples are financial aid administration, student health services, student records, counseling and career guidance, social and cultural development, and student services administration.

**Institutional Support (06)**

Function 06, Institutional Support, includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution such as the governing board, planning and programming operations, space management, employee and personnel records, fiscal operations, and printing and transportation services.

**Operation and Maintenance of Plant Expenses (07)**
Function 07, Operation and Maintenance of Plant Expenses, includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institutions’ physical plant. Examples are janitorial and utility service; property, liability and all other insurance relating to the property; space and capital leasing; repairs and ordinary maintenance or alterations of buildings, furniture and equipment; care of grounds; and facility planning and management.

**Scholarships and Fellowships (08)**

Function 08, Scholarships and Fellowships, includes student awards from restricted or unrestricted funds in the form of grants that neither require the student to perform service to the institution nor require the student to repay the amount to the funding source. This classification excludes student awards that are made in exchange for services provided to the institution such as graduate and teaching assistantships and student work-study programs. When services are required in exchange for financial assistance, the charges should be classified as expense in the department receiving the benefit of the services.

**Auxiliary Enterprises (09)**

Function 09, Auxiliary Enterprises, includes all expenses relating to the operation of auxiliary enterprises such as student housing, wellness centers, food service, parking and bookstores. All direct and indirect costs associated with these services should be included.

**Other Expenses (10)**

Function 10, Other Expenses, includes any expenses that cannot be classified in the previous nine functional areas. This classification should be used sparingly.
Deposit and Investment Risk Disclosures

GASB 40, Deposit and Investment Risk Disclosures, requires the notes to the financial statements to disclose a public entity’s investment policy provision regarding custodial credit risk (or the fact that the investment policy does not address custodial credit risk). The extent to which a public entity’s deposits or investments are subjected to custodial credit risk must also be disclosed. The following risks require disclosure under GASB 40:

Credit Risk:

The risk that an issuer or other counterparty to an investment will not fulfill its obligation

Custodial Credit Risk:

The risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities those are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are:

- Uncollateralized
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the agency’s name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the agency’s name, and are held by either:

- The counterparty or
- The counterparty’s trust department or agent but not in the agency’s name.

Concentration of Credit Risk:

This is the risk of loss attributable to the magnitude of investment in a single issuer. GASB 40 requires disclosure of investments by amount and issuer for any issuer that represents 5% or more of total investments. This doesn’t apply to the aforementioned governmental exceptions, investments in mutual funds, and other pooled investments.

Interest Rate Risk:

This risk exists when there is a possibility that changes in interest rates could adversely affect the fair value of the investments. There are five approved methods of disclosure. Different methods may also be presented for different investments. However, to ensure consistency and clarity, the Board of Regents is only using the Segmented Time Distribution method. This method presents investments by grouping cash flows into sequential time periods in a table. These risk disclosures are required for all investments as well as investments in mutual funds and external investment pools.
Disclosure Example

Disclosure should be as follows:

1. Overall deposits and investment descriptions
2. Description of custodial credit risk and how it’s mitigated
3. Amount of deposits in banks in excess of insured amounts that are uninsured and uncollateralized. For example:

   Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits at June 30, 2010 were $18.0 million. Of these, $2.5 million were exposed to custodial credit risk as uninsured and uncollateralized.

4. Description of investment policy
5. Description of table of investments and maturities inferring risk (example below):

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Less than 1</th>
<th>1 to 5</th>
<th>6 to 10</th>
<th>More than 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasuries</td>
<td>5,935</td>
<td>1,657</td>
<td>3,603</td>
<td>-</td>
<td>675</td>
</tr>
<tr>
<td>US Agencies</td>
<td>1,641,401</td>
<td>1,621,487</td>
<td>19,914</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>4,178,832</td>
<td>4,178,832</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>MMM Fund</td>
<td>10,000</td>
<td>10,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>2,372</td>
<td>2,372</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bond Mutual Fund</td>
<td>254,339</td>
<td>-</td>
<td>-</td>
<td>254,339</td>
<td>-</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>215,618</td>
<td>215,618</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,308,497</td>
<td>6,029,966</td>
<td>23,517</td>
<td>254,339</td>
<td>675</td>
</tr>
</tbody>
</table>
6. Disclosure of credit risk of debt securities as follows:

<table>
<thead>
<tr>
<th>Rated Debt Investment</th>
<th>Fair Value</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>A1</th>
<th>Unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Agencies</td>
<td>1,641,401</td>
<td>1,576,187</td>
<td>-</td>
<td>65,214</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>4,178,832</td>
<td>40,006</td>
<td>537,616</td>
<td>3,601,210</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Money Market Mutual Fund</td>
<td>10,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>2,372</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,372</td>
<td>-</td>
</tr>
<tr>
<td>Bond Mutual Fund</td>
<td>254,339</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>254,339</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Agencies</td>
<td>208,452</td>
<td>201,066</td>
<td>900</td>
<td>-</td>
<td>-</td>
<td>6,486</td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>4,466</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,446</td>
<td>-</td>
</tr>
<tr>
<td>Municipal/Public Bonds</td>
<td>2,700</td>
<td>2,700</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,302,562</td>
<td>1,819,959</td>
<td>538,516</td>
<td>3,666,424</td>
<td>6,838</td>
<td>270,825</td>
</tr>
</tbody>
</table>

7. Custodial Credit Risk on Investments including policy by ratings (if applicable)
Statement of Cash Flows

Upon completion of financial statements, a Statement of Cash Flows will be prepared using the instructions below. Individual Cash Flow statements will be prepared by each campus and then combined into one “master” cash flow which will be prepared by the Central Office staff.

Instructions for Completing Statement of Cash Flows Template

Operating Activities:

Any activities listed as Operating in the SRECNA will be considered Operating for the purpose of preparing the Statement of Cash Flows.

- Student loan program transactions are considered operating for the purposes of reporting on the SRECNA and will be reported as follows for the Statement of Cash Flows:

<table>
<thead>
<tr>
<th>Student Loan Activity</th>
<th>Cash Flow Reporting Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from financing to establish loan program</td>
<td>Non-capital financing</td>
</tr>
<tr>
<td>Disbursement of loan funds to students</td>
<td>Operating activities</td>
</tr>
<tr>
<td>Routine operating expenses</td>
<td>Operating activities</td>
</tr>
<tr>
<td>Collection of loans (principal &amp; interest)</td>
<td>Operating activities</td>
</tr>
<tr>
<td>Debt service payments (principal &amp; interest)</td>
<td>Non-capital financing</td>
</tr>
</tbody>
</table>

Non-Capital Financing Activities:

Non-capital financing activities are activities that are not utilized for purchasing, constructing, or improving capital assets. Includes borrowing money, repayment of debt obligations, and other interfund and intergovernmental receipts and payments. Interfund activities should be eliminated through the combining process.

Examples of cash inflows:

- State and federal appropriations
- School & Public Lands funds
- Proceeds from borrowing (not associated with capital assets)
- HEFF operating revenue (fixed amount)
- Receipts from grants that are not part of operating activities
- Indirect cost recovery on grants and contracts related to non-exchange transactions

Examples of cash outflows:

- Repayments of borrowings (not associated with capital assets)
- Interest payments on borrowings (not associated with capital assets)
- Cash paid out as grants that are not part of operating activities

Capital and Related Financing Activities:

Cash used to acquire and dispose of capital assets, borrowing activities for fixed asset acquisition, construction or improvements, and repayments of those borrowing activities including interest.
Examples of cash inflows:

- HEFF allocation from the Central Office. Institutions are to report HEFF dollars according to use excluding period 14 accruals
- Proceeds from issuing or refunding bonds, mortgages, notes, and other short or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets.
- Capital grants (i.e. grants for the purchase of capital assets)
- Contributions from foundations, individuals, government, etc. for acquisition, construction or improvements of capital assets
- Receipts from the sale of capital assets

Examples of cash outflows:

- Payments for acquisition, construction, or improvement of capital assets
- Repayments or refunding borrowings for acquisition, construction, or improvement of capital assets
- Interest payments associated with borrowings for acquisition, construction or improvement of capital assets

**Investing Activities:**

Making and collecting loans (other than program loans) and acquiring and disposing of debt or equity investments.

Examples of cash inflows:

- Receipt of repayment of loans made by institution (other than program loans)
- Receipts from sales or maturity of investments
- Interest and dividend income derived from investments
- Withdrawal from an investment (with the exception of those assets considered to be cash and cash equivalents)

Examples of cash outflows:

- Payment for acquisition of investments
- Deposits to investments (with the exception of those assets considered to be cash and cash equivalents)
South Dakota Building Authority

The South Dakota Building Authority (SDBA) is a body politic and corporate and a public instrumentality of the State of South Dakota. The SDBA was created to provide low cost financing for buildings owned by the State of South Dakota. SDBA issues and sells bonds for the financing of BOR academic facilities and is considered to be a component unit of the State of South Dakota. A component unit is a legally separate governmental organization for which the State is considered to be financially accountable and the nature of the relationship between SDBA and the BOR is such that exclusion would cause the BOR’s financial statements to be misleading or incomplete. In order to blend the portion of SDBA’s financial statements that are BOR related, the financial statements will be obtained from the Department of Legislative Audit (DLA) after the audit has been completed for SDBA. The BOR’s Financial Compliance Officer will work with SDBA to extract the Regental portion of those statements for inclusion in the Regental statements. During the combining process, SDBA’s statements will be blended with the BOR financial statements and the appropriate eliminations will be made.
System Combining of Financial Statements

The six universities, two special schools, and the Board office are discretely reported as a component unit in the statewide CAFR. Upon completion of the financial statements at the institutional level, the six universities, the South Dakota Building Authority, and the Board central office will combine their financial statements for presentation.

The Board office is responsible for the oversight of the combining process.

Elimination Entries:
The following transactions are eliminated during the combining process:

1. Inter-fund transfers within BTAs.
2. Internal “Due To” and “Due From” balances.
3. HEFF M&R revenue at campus level (revenue at Board level/ expenditures at campus level).
4. Tuition & Salary Competitiveness Fee Allocations.
5. SDSU’s endo/ecto revenue from the Board office.
6. BOR’s lease payments to Building Authority (reported by Building Authority).
7. USD’s Dakota Dome bonds payable (reported by Building Authority).
8. DSU’s portion of the Wellness Center bonds payable.
9. All allocations to/from the institutions and the Board office (RIS, EUC).
10. BHSU Agency – SDLN reported by Board office.
11. Title II grants, Seed Grants, 2010 Centers, LEAP Grants, EPSCoR, and any other grants and contracts passed through from the Board of Office to the institutions.
12. Maintenance fees transferred to BHSU and SDSMT for UCRC operating costs.
14. Shared Purchasing revenues and expenses. (Shared Accounts Payable, Shared Payroll, and Shared Immigration Center costs do not need to be eliminated because SDSU reduces their expenses while other institutions recognize the expense for those transactions.)
15. Building Authority revenue from lease payments made by the BOR, USD and DSU.
16. Construction in Progress balances capitalized by both BOR institutions and Building Authority.

Additional Combining Entries:

1. External (i.e. BIT, BFM, etc.) “Due To” and “Due From” should be included and reported as external transactions.
2. Transfers between the primary government and BTAs would be reported at net. (For example, if there were any general fund reversions, that reversion amount would be netted from the amount of general fund appropriations.)
3. Investment council interest earnings received after 06/30 should be added to “Cash on Deposit” and any “Interest and Dividends Receivable” or “Accounts Receivable” balances related to the earnings should be reduced (credited).
4. Adjust for Vested Sick Leave balances for employees with less than 7 years of service (non-vested) with the State of South Dakota.

5. Reverse prior year OPEB liability accruals.

6. Accrue the net receivable for undistributed earnings and unrealized appreciation in the state cash flow portfolio as of the end of the fiscal year.

7. Adjust for the amounts the BOR pays Building Authority above the actual principal and interest payments made to bond holders.

Finance Year End Closing

At the end of each fiscal year, the temporary accounts (accounts typically found on the SRECNA) must be closed out and all of the permanent accounts (those typically found on the SNA) must be rolled forward for the new fiscal year. A chart providing a step-by-step outline for closing the Banner fiscal year is found at:

http://mytraining.sdbor.edu/resources/Banner/Finance/Finance_Year_End_ClosingWhitePaper_V1.pdf

Specific dates listed on the web page may need to be changed to accommodate the final close of the State’s CAS and the 4th of July holiday. Any date modifications will be discussed with the Finance Module prior to fiscal year end. It is recommended that all employees with fiscal year closing responsibilities review the Year-End Processing Workbook and the Banner Finance User Guide.
Collection and Remittance of Sales Tax

The sale of tangible goods and services acquired at BOR institutions are subject to state and municipal sales and use tax, municipal gross receipts tax, and tourism tax.

Guidance on the assessment, collection, and remittance of said taxes is available at:

http://mytraining.sdbor.edu/resources/Banner/Finance/SalesTaxGuidelines.pdf
Unrelated Business Income (UBI)

Institutions of the BOR are tax-exempt as instrumentalities of the State of South Dakota under Section 115 of the Internal Revenue Code. Similarly, institution foundations are exempt under Section 501(c)(3) of the Internal Revenue Code.

As tax-exempt entities, BOR institutions and foundations are exempt from federal income tax for activities that further their educational purpose. However, they are not exempt from income tax imposed on activities that are substantially unrelated to the exempt purposes, called “Unrelated Business Income” or UBI, even though those activities may bring in funds to support exempt operations.

Each year the BOR is required to file a Form 990-T, Exempt Organization Business Income Tax Return, with the IRS reporting any unrelated business income generated by the activities of its academic and support units.

Filing Form 990-T:

Worksheets, in a format provided by the Financial Compliance Officer, will be provided to each institution for use in the preparation of the Form 990-T. Completed worksheets and supporting documentation for UBI revenues and allowable expenditures should be returned to the Financial Compliance Officer no later than October 15th each year for review. A combined Form 990-T will be prepared by the Central Office and submitted to the IRS no later than November 15th each year.

UBI Definition:

Unrelated Business Income is gross income from a trade or business regularly carried on by a college or university which is not substantially related to the performance of its exempt purpose or function, except that the institution uses the profits derived from this activity. The mere fact that an activity generates a source of funds that is used to carry out a mission-related activity does not mean the activity per se is related to the mission. The IRS places particular emphasis on the size and extent of the activity. If an activity is conducted on a scale larger than reasonably necessary to carry out the exempt purpose, it is more likely to be treated as unrelated business income. Refer to IRS Publication 598, Chapter 3, for more details: http://www.irs.gov/pub/irs-pdf/p598.pdf

Reportable UBI Activities:

In general, any commercial-type activity operated by an institution will be subject to Federal income tax if it is:

- A trade or business;
- Regularly carried on; and
- Not substantially related to the institution’s exempt purposes of teaching and instruction, research, or public service.

To be “reportable,” the UBI activity must generate more than $5,000 in income per tax year.
Commonly reportable UBI activities for institutions are listed below. If an institution still questions whether UBI applies to an activity, they should contact the Financial Compliance Officer or General Counsel.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
</tr>
</thead>
</table>
| Alumni            | • Mailing list rentals or license fees to outside organizations  
                      • Alumni usage of recreation centers, etc.  
                      • Sale of routine analytical or consulting services to non-institution users                                                               |
| Analytical Laboratory | • Rental of laboratory facility to non-institution users  
                      • Rental of scientific instruments to non-institution users                                                                                   |
| Athletics         | • Income from advertising that goes beyond mere acknowledgement of sponsorship  
                      • Income from the sale of broadcast rights to an athletic event  
                      • Rental of athletic facilities to local independent school districts  
                      • Sale of recreation/activity center memberships to alumni and the general public  
                      • Rental of institution facilities to professional sports teams  
                      • Rental of sports equipment to alumni and the general public                                                                                   |
| Bookstore         | • Bookstore or gift shop sale of items unrelated to the institution’s exempt purpose                                                         |
| Continuing Education | • Sale of programming services to non-institution users  
                      • Training programs customized to particular users                                                                                          |
| Endowment         | • Income from mineral operating interests                                                                                                      |
| Food Services     | • Catering food service to non-institution users  
                      • Cafeteria/restaurant service to non-institution users  
                      • Franchise agreements with companies                                                                                                         |
| Media Services    | • Sale of audio-visual services to non-institution users  
                      • Sale of advertising on institution television and radio stations                                                                          |
| Miscellaneous Services | • Sale of translation services to non-institution users  
                      • Sale of goods to non-profit agencies  
                      • Sale of child care services to non-institution users  
                      • Participation in credit card or long-distance service sales  
                      • Sale of computer services to non-institution users, non-profit research institutes, and government agencies  
                      • Sale of printing services to non-institution users                                                                                         |
| Publications      | • Sale of advertising space in periodicals. **NOTE:** this excludes “circulation income,” which includes amounts realized from reprints of articles and the sale of back issues, if the content of the publication relates to the accomplishment of the institution’s exempt purpose. |

**Allowable UBI Deductions:**
To qualify as a deduction in computing net unrelated business taxable income, an expense must be:
1. An allowable deduction for income tax purposes; and
2. Directly or indirectly connected with the fulfillment of the unrelated business activity.
Direct Costs:

Examples of “allowable direct deductions” include:

- Salaries, wages and employee benefit costs when the effort devoted and the benefit derived are directly identifiable with a specific UBI applicable activity
- Supplies and other general expenditures including travel, telephone and technology charges
- Equipment purchases
- For self-sustaining operations, equipment, depreciation, operations and maintenance of plant, and institution general administrative support charges

Direct Cost Allocation:

When personnel, facilities, supplies, equipment, and other institution assets are used to conduct both exempt and non-exempt activities, the institution must allocate the cost between the two uses on a reasonable basis. In most instances, allocations based on percentage of time devoted to each activity will fulfill the reasonableness test.

Indirect Costs:

Examples of “allowable indirect deductions” include:

- Building usage
- Equipment usage
- Operations and maintenance costs
- General institutional administrative costs
- Departmental administrative costs

Indirect Cost Allocation:

Indirect costs will be allocated to UBI activities in accordance with OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions. Refer to https://www.whitehouse.gov/omb for more details.

Principal UBI Exemptions:

Generally speaking, activities cannot be considered taxable unless they are deemed to be a “trade or business” as defined in IRC Section 162. Among other things, a trade or business has to include competitive promotional efforts, and exhibit the intent to generate profit. If the intent is simply to recover costs, the activity may lack a profit motive and be exempt from UBI treatment.

IRS regulations also consider the frequency and continuity of the activity when evaluating UBI applicability. If an activity occurs infrequently or for a short period of time during the year, it may fail to meet the IRS definition for “regularly carried on.”

Even if an activity meets all criteria for treatment as UBI, one or more of the following conditions may qualify the activity for exemption under IRS guidelines:
1. **Community Need Exemption:** Activities fulfill an unmet medical need in the community, such as non-patient specimen testing or services provided to a tax-exempt hospital.

2. **Convenience Exemption:** Activities are performed for the convenience of the institution’s students, faculty, or staff, and/or the activities relate to sales where the product has a useful life of less than one (1) year.

3. **Donation Exemption:** Eight-five percent (85%) or more of the income is related to donated merchandise, property or services, even if the labor to operate the activity is paid or volunteered.

4. **Editorial Exemption:** Publications including editorial content related to the accomplishment of the institution’s exempt purposes.

5. **Educational Function Exemption:** Activities are important to the overall educational function of the institution, such as a performing arts theater, symphony, etc.

6. **Passive Participation Exemption:** Passive income such as dividends, interest, annuities, royalties, licensing agreements, etc., without any active business participation or management.

7. **Student Participation Exemption:** Activities including substantial student participation, which directly supports the institution’s education program(s).

8. **Volunteer Exemption:** Eighty-five percent (85%) or more of the work related to an activity is performed by volunteers.

**Special Considerations:**

The following types of activities receive special IRS consideration when determining whether the activity is excluded from UBI reporting and taxation:

1. **Acknowledgments:** Incidental recognition of sponsorship with no qualitative or comparative basis may not be subject to UBI treatments.

2. **Advertisements:** Ads in newsletters, magazines, journals, websites, or sports programs may be taxable even if the activity is carried on within a larger complex of other endeavors substantially related to an institution’s exempt purpose. Advertisements that serve an “informational function,” with no “call to action” as opposed to serving as a means for stimulating demand for a product, may not be taxable.

3. **Artistic, Entertainment and Theatrical Events:** IRS guidelines focus on the contracts negotiated with performance artists to determine whether they were consummated for related educational purposes. If the event is not distinguishable from those efforts of a commercial promoter and arena, the proceeds from ticket sales, advertisements, etc. may qualify for treatment as UBI.

4. **Bookstores:** IRS guidelines typically separate bookstore sales into three major categories when determining UBI applicability:
   a. Educational materials (exempt);
   b. Non-educational, convenience products low in cost and in demand (exempt); and,
   c. Other merchandise that does not further the institution’s exempt purpose (not exempt).
5. **Child Care Centers:** IRS guidelines focus on whether the service is available to the general public.

6. **Computer Sales to Faculty, Staff, and Students:** IRS guidelines focus on whether the program leads to the enhanced computer literacy of the institution’s faculty, staff, and students.

7. **Dormitory Rentals and Food Service Charges for Conferences:** IRS guidelines focus on whether the program is clearly linked to the institution’s educational mission and whether institution personnel participate in or benefit from the program.

8. **Food Service Agreements:** IRS guidelines focus on whether the financial agreement includes commissions, building (real property) rents, and/or equipment (personal property) rents. Personal property payments may be subject to UBI treatment, unless the IRS determines the payments are an “incidental” part of the total amount received under the agreement. The following rules apply to personal property/equipment payments:
   a. 10% or less (“incidental” and exempt);
   b. 11 – 50% - taxable in proportion to the percent of personal property payments to total payments (not exempt); and
   c. 51% or more (not exempt – 100% taxable).

9. **Leased Parking Spaces/Lots:** IRS guidelines focus on whether the parking revenues are generated from the general public for non-institution events. In some instances, leases of parking spaces or lots to the general public qualify for treatment as rental real estate. Real estate leases are not subject to UBI treatment, if additional services are not offered.

10. **Long Distance Carrier Commission:** IRS guidelines may dictate treatment as UBI, even if students purchase the services directly and the institution conducts no marketing or promotion of the service.

11. **Mailing Lists and Affinity Cards:** IRS guidelines focus on whether the specific services provided under the agreement are deemed to be de minimis, or “courtesy services.”

12. **Recreational and Athletic Facility Memberships:** IRS guidelines treat usage by students, faculty, and staff as a convenience not subject to UBI. However, usage by alumni, guests, and/or spouses and children of students, faculty, and staff generates unrelated business income, subject to UBI treatment.

13. **Rents:** IRS guidelines focus on whether the rents are derived from real or personal property, or from a mixed lease of both real and personal property.

14. **Research:** IRS guidelines focus on the type of research performed by the institution when evaluating whether income is taxable:
   a. Performed for any level of government;
   b. Performed for any person for purposes of carrying out “fundamental research,” as distinguished from “applied research,” the results of which are freely made available to the public; or,
   c. Performed as part of clinical trials for FDA drug testing protocol, where the institution can demonstrate the program contributes to the training of students or to patient care.

15. **Research By-Products:** IRS guidelines focus on the state of the product sold. If the product is manufactured or processed after completing the research phase, income from its sale may be treated as unrelated.
Document Scanning

All journal vouchers (with the exception of expenditure corrections), direct and regular invoices will have supporting documentation attached to the Banner document electronically through Xtender. Minimum supporting documentation will be as follows:

- Manual journal vouchers that have a corresponding non-cash document manually entered on the CAS system will have the same non-cash document attached electronically.
- Direct invoices will have the original invoice scanned and attached.
- Regular invoices (purchase orders) will have the original invoice scanned and attached.
- Additional supporting documentation explaining the accounting entry should also be scanned and attached via Xtender. Excel or Word documents may be attached electronically.
- Vendor statements are not considered supporting documentation and are not to be attached as sole supporting documentation.

Institutions will retain original vendor invoices and supporting documentation for journal vouchers for one year after the close of the fiscal year at which time the originals may be destroyed. Individuals assigned the task of electronic approvals have the responsibility of ensuring proper supporting documentation has been attached before the transaction is approved in the queue.

Invoices are not to be marked up with a highlighter before the document is scanned. The highlighted areas show up very dark and are not readable.

Order of Scanned Documents:

1. Travel
   a. Travel detail sheet first
   b. Motel receipts
   c. Parking & other miscellaneous receipts
   d. Air tickets – boarding passes
   e. Agenda for the meeting or conference attended
   f. If only a portion of the travel is allowed, it is best if you state what is allowed on the travel detail. (especially for non-employee travel reimbursements)

2. Direct & Regular Invoices
   a. Invoice
      i. List the contract number or purchase order on the invoice if not already done.
      ii. There is no need to attach the actual purchase order
   b. If the State Engineer’s Office has stamped approved on the invoice, there is no need to attach the cover letter from the State Engineer to pay the invoice.
   c. Internal documentation for coding, etc.
Stale Dated Check Process

Checks (warrants) written through the 1st Premier Bank account for the State of South Dakota (those that are processed through the Office of the State Auditor’s office, or OSA) stale date after 180 days. OSA will forward a non-cash voucher and detailed list of the stale dated checks to all of the BOR Controllers and the Shared Payroll Center.

Procedures related to accounting for stale dated checks can be found at:

http://mytraining.sdbor.edu/resources/Banner/Finance/StaleDatedChecksV1_12_11.pdf
South Dakota Board of Regents  
Accounting Policies & Procedures Manual

**Voided Checks, Stop Payments, and ACH Returns**

The Accounts Payable Shared Services (APSS) and the Shared Payroll Center (SPC) are responsible for the oversight of voided checks, stop payment, and ACH returns procedures. Detailed steps regarding the handling of said activities are:

**Voided Checks:**

- The campus is notified by the vendor or discovers the need to cancel a check.
- The check is acquired at the campus and VOID is written on the face of the check.
- If the check was voided in error and there are no changes to the payment, APSS will reissue the check at the request of the campus. A written note must accompany the check with the reissue instructions.
- If the payment needs to be reissued for any reason other than an error in voiding, a new invoice is created by the respective campus for the payment.
- The voided check is sent to APSS.
- APSS cancels the check on FAACHKS so the transaction will be reversed.
- APSS mails the voided check to the State Auditor’s Office and documents on the BOR Journal Voucher.

**Stop Payment:**

- The campus is notified from the vendor that a check has been lost or discovers a stop payment is desired.
- If the check has been lost, the affidavit process is completed by the campus and the stop payment request is made by the campus directly to the State Auditor’s Office.
- The campus reissues the lost payment by reentering the invoice in Banner, after the affidavit is returned.
- A copy of the affidavit is mailed or an email is sent to APSS which will be used to cancel the original check on Banner FAACHKS and reverse the transaction. The cancelled check is noted on the BOR Journal Voucher. The original affidavit is kept on file at the campus.
- If a stop payment is desired and there is no affidavit, a copy of the email sent to the State Auditor to stop payment is emailed to the APSS email address. This email will be used to cancel the original check in Banner and reverse the transaction.

**ACH Returns:**

- APSS is notified by First Premier Bank of ACH returns due to a closed bank account.
- APSS cancels the ACH transaction on FAACHKS in Banner and reestablishes the invoice as a check.
- APSS corrects the bank account information for the employee on GXADIRD by either inactivating or changing the information to match that supplied by First Premier Bank.
Unclaimed Property

The laws of the State of South Dakota regarding unclaimed property are contained in SDCL 43-41B. For legal determinations, institutions are encouraged to review the SDCL to see the exact wording of the law.

Any property that has remained unclaimed by the owner for more than one year for payroll checks or three years for other checks is presumed abandoned. For a BOR institution, abandoned property may include, but is not limited to:

- Outstanding payroll checks
- Outstanding accounts payable checks
- Unclaimed deposits
- Unclaimed student refunds
- Unclaimed credit balances on accounts receivable

After property becomes “abandoned”, it must be reported and remitted to the State of South Dakota Treasurer’s Office. The institution must exercise due diligence in trying to contact the owner of the unclaimed property before it becomes eligible for reporting to the State Treasurer.

The report and remittance to the State Treasurer must be filed before November 1st each year. The report and remittance is filed as of the preceding June 30th. The report must include:

- The name and Social Security or federal identification number, if known, and last known address, including ZIP code, if any, of each person appearing from the records of the institution to be the owner of any property of the value of $50.00 or more presumed abandoned.
- The nature and identifying number, if any, or the description of the property and the amount appearing from the records to be due.
- The date when the property became payable, demandable, or returnable, and the date of the last transaction with the owner with respect to the property.
Vendor Tax Levies

On occasion, the BOR Central Office or an individual campus may receive a Form 668-W(c), Notice of Levy on Wages, Salary, and Other Income (Notice), from the Internal Revenue Service (IRS). This form identifies a vendor/taxpayer that owes money to the IRS. The BOR is required to turn over any of this vendor’s/taxpayer’s wages, salary, or other income earned but not paid, or earned in the future, until the levy is released. Internal Revenue Code section 6332 provides that if any person “fails or refuses to surrender any property or rights to property, subject to levy, upon demand by the Secretary,” the person will become personally liable for the taxes, penalties and interest on the levy, plus collection costs. In addition, a penalty equal to 50 percent of the tax due may also be exacted.

This policy outlines responsibilities for BOR personnel to comply with IRS requirements surrounding vendor levies.

Upon receipt of a Notice of Levy, the following procedures will be followed:

- Notify Accounts Payable Shared Services Center (APSS) of the levy.
- APSS will enter the proper Termination Date on FTMVEND for the vendor’s record. This will prevent future users from entering documents for this vendor.
- Any payments to said vendor must be made directly to the IRS from the receipt of the Notice forward.
  - APSS will create a check for the balance owed to vendor.
  - Check will be payable to the United States Treasury.
  - The check will include the taxpayer’s name, identifying number(s), kind of tax, and tax periods shown on Part 1 of the Notice, and the words “LEVY PROCEEDS”.
  - The check, in addition to the completed back page of Part 3 from the Notice, will be mailed to the IRS address listed on the Notice.
- The levy remains in effect until the IRS sends a release of levy.
  - When the BOR is notified that the levy has been lifted, the institution will contact APSS to remove the termination date on FTMVEND.
- If the BOR does not owe money to the vendor listed on the Form 668-W(c), complete the back page of Part 3 of the Form and return the entire Form to the IRS.
Use of Buildings Financed with Tax-Exempt Debt

Where tax-exempt debt is used to finance the construction or acquisition of facilities and capital equipment, the Board of Regents must comply with IRS laws and regulations applicable to Private Business Use. Pursuant to the Private Business Use test set forth at 26 USC Section 141, the tax-exempt status of a bond issuance is jeopardized if more than 10% of the proceeds are used for Private Business Use (the applicable limit is 5% for bonds issued for the benefit of University-related Foundations and other 501(c)3 affiliates).

Because of the decentralized management of space throughout the Regental system, each campus must have a working knowledge of “private business use” restrictions applicable to tax-exempt financed facilities. This policy formalizes the responsibility of each campus in enabling the Board of Regents to comply with Internal Revenue Service (IRS) laws and regulations on Private Business Use.

For purposes of this policy, Non-Governmental Person is defined as any person, firm, corporation, partnership or entity (including the federal government and its agencies) that is not a state or local governmental unit. University-related Foundations are considered Non-Governmental Persons except where tax-exempt bonds have been issued by the University specifically for the benefit of the foundation (such bonds are commonly referred to as “501(c)(3) bonds” or “qualified private activity bonds”).

Types of Private Business Use:

Most Private Business Use in a tax-exempt financed facility arises from five types of arrangements:

1. **Ownership**: a sale or transfer of ownership to a Non-Governmental Person of tax-exempt financed property. Ownership is determined under federal income tax principles.

2. **Leases**: any arrangement that is properly characterized for federal income tax purposes as a lease to a Non-Governmental Person.

3. **Management Contracts**: a management contract is any arrangement whereby a Non-Governmental Person actively manages the operation of a facility. Management contracts include, for example, contracts for dining services, facility management, or management of an animal facility. However, there are exceptions for certain contracts meeting the Safe Harbors set forth in Rev. Proc. 97-13. In order to meet the Safe Harbors, the contract must provide for reasonable compensation to the Non-Governmental Person for services rendered with no compensation based in whole or in part on a share of net profits. Arrangements that generally are not treated as net profit arrangements and therefore satisfy the Safe Harbor requirements include contracts for a percentage of gross revenues or expenses (but not both), or a per person or per unit fee. Management contracts must be analyzed in advance for their impact on tax-exempt financed facilities.

4. **Research Agreements**: sponsored research by a Non-Governmental Person (including the federal government and its agencies) may result in Private Business Use unless the terms of the sponsorship agreement meet the Safe Harbors set forth in Rev. Proc. 2007-47. In general, sponsored research will not result in Private Business Use if: (i) the research in question is properly characterized as Basic Research; (ii) the campus’s licensing of the resulting technology to the sponsor is on terms no more favorable than those the campus would extend to an unrelated, non-sponsoring party; and (iii) the price paid for that license is determined at the time the resulting technology is available for use. Additional exceptions (as described in Rev. Proc. 2007-47) apply for federally sponsored research and industry sponsored cooperative research agreements.
5. **Other Actual or Beneficial Use:** any other arrangement that conveys special legal entitlements to a Non-Governmental Person for beneficial use of tax-exempt financed property, such as an arrangement that conveys priority rights to use a tax-exempt financed facility, will result in Private Business Use. Examples of such “special legal entitlements” include summer camps having the exclusive right to use an athletic facility, specially designed courses open only to one company, or use of a parking garage for a private event.

To assess and monitor compliance, the Financial Compliance Officer will distribute the Board of Regent’s Private Use Questionnaire to the Vice Presidents of Finance (VPF) at each campus prior to debt issuance and annually thereafter. The VPF must complete and return the Private Use Questionnaires for each building financed with tax-exempt bond debt in a timely manner, and include all necessary information for identifying and quantifying potential sources of Private Business Use. The Financial Compliance Officer will analyze questionnaire responses to: (i) identify impermissible Private Business Use in existing facilities so that corrective action can be taken; and (ii) collect information necessary for complete reporting to the IRS.

A sample of the [Private Use Questionnaire](#) is found here. An updated listing of applicable facilities will be included with the questionnaire annually.