



# WISCONSIN ACCOUNTING MANUAL

Department of Administration – State Controller’s Office

<b>Section</b>	<b>16</b>	<b>Inventory, Trackable Assets, and Capital Assets</b>	<b>Effective Date</b>	<b>10/1/2015</b>
<b>Sub-section</b>	<b>04</b>	<b>Leases – Capital and Operating</b>	<b>Revision Date</b>	<b>8/10/2015</b>
<b>SAM Ref</b>	<b>n/a</b>			

## BACKGROUND

Agencies may enter into contractual arrangements (called leases) that allow for the use of property or equipment over a period of time in exchange for a series of payments. PeopleSoft’s Asset Management (AM) Module allows agencies to manage leases within STAR and make the required periodic payments. AM also contains functionality for developing entries and note disclosures required for GAAP reporting purposes.

### COMPLIANCE:

Payments made under lease agreements are expenditures for all funds in compliance with both state budgetary law and reporting requirements for the Annual Financial Report (AFR).

### LEASE CLASSIFICATION FOR GAAP REPORTING:

GAAP reporting requirements differ dependent on the nature of the lease contract. In some cases, leases are classified as operating leases while in other cases capital leases are reported along with associated capital assets. The entries and note disclosure requirements vary dependent on the lease classification. Entries to appropriately reflect financial activity associated with leases for GAAP reporting purposes will be made in the CAFR or Stand Alone ledgers.

Leases classified as capital leases must report lease liabilities and related capital assets in the Statement of Net Position which presents information on a full accrual basis. Operating leases, however, are not reported as liabilities and assets in the Statement of Net Position. Detailed lease note disclosures are required and include future principal and interest payment schedules, capital assets financed by capital leases, additions and reductions to capital leases during the year, and current year rental and sub-rental expenses.

### LEASE ADMINISTRATION AND PAYMENTS:

Most operating leases pertain to the rental of space for state agency operations or copy machines. The Division of Facilities Management (DFM) within DOA centrally administers building leases for the State. DFM uses ARCHIBUS software to manage their leases and will not be converting to STAR. As a result, the State Controller’s Office will rely on DFM to provide information required for the CAFR annually.

Capital leases typically pertain to acquiring expensive information systems, software or equipment for use in agency operations. State agencies may finance capital lease contracts through private vendors and make payments directly to those vendors (lessors).

Alternatively, agencies may finance leases through Master Lease Certificates of Participation (COPs). The Capital Finance Office within DOA is responsible for issuing COPs which are issued pursuant to and secured by the master indenture among the lessor, U.S. Bank National Association, as trustee, and the lessee. Under the



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COPS, tangible property and, in certain situations, intangible property or prepaid service items are acquired by the State pursuant to the lease schedules.

The Capital Accounting Unit within the State Controller’s Office centrally administers the repayment of COPS (similar to how they centrally administer the repayment of General Obligation bonds). Capital Accounting does not plan to use STAR to manage the repayment of COPS. However, they will continue to centrally administer the process of collecting cash from agencies ensuring timely payments are made to the COPS Trustee.

Generally the items acquired under the COPS are capital assets per GASB reporting standards. However, because not all items acquired under the COPS program are capital assets, it is important to differentiate that the amounts reflected in the repayment schedule for COPS may not mirror the capital lease liabilities and associated capital asset reported in the CAFR (with the difference being the acquisition of non-capitalizable items).

STAR AM functionality presumes repayment schedules mirror capital assets. Since this is not always the case with COPS, the State cannot use STAR AM to generate capital lease entries and required lease disclosures for the CAFR based solely upon COPS repayment schedules. Further, COPS possess variable interest rates which STAR AM handles in a manner inconsistent with reporting requirements. As a result, agencies must determine the required entries and disclosures for capital leases financed by COPS and provide that information to SCO for the CAFR.

### **FUTURE GASB CHANGES TO LEASE REPORTING REQUIREMENTS:**

GASB has proposed significant changes in accounting for leases, most notably eliminating the distinction between capital and operating leases. If approved, lease liabilities and associated assets would be reported for all lease contracts, regardless of whether the State takes ownership of an asset. GASB plans to issue a final standard in November of 2016 but an effective date for implementation of the new standard has not yet been provided. SCO will assess how to implement the new GASB standard in STAR AM after the standard has been issued.



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## POLICIES

1. The Division of Facilities Management within the Department of Administration shall annually provide DFM lease information to the State Controller’s Office needed to develop the CAFR in compliance with applicable GASB standards.
2. The Financial Reporting Section in the State Controller’s Office shall annually develop CAFR note disclosures pertaining to building leases based on information provided to them from DFM and other agencies.
3. The Capital Accounting Unit in the State Controller’s Office shall be responsible for making Certificates of Participation payments associated with the master lease financing program. (The Capital Accounting Unit only makes the payment for the COPs. They do not determine the lease entries or disclosures required for the CAFR.)
4. Agencies may use STAR Asset Management to manage leases and lease payment schedules for leases where the agency is responsible for processing payments to lessors.
5. If agencies defined as “Minor” for GAAP reporting purposes establish lease payment schedules in STAR AM, they shall designate all leases as “operating” leases without regard to whether they would be categorized as operating or capital leases for GAAP reporting purposes.
6. Agencies shall establish capital assets for items obtained using master lease COPs only if those items meet the definition of a capital asset under GASB reporting standards and State Controller’s Office policy.
7. GAAP accountants are responsible for identifying and properly reporting capital and operating leases for their agency/GAAP fund in the CAFR that are not reported centrally by the Financial Reporting Section in the State Controller’s Office.
8. The auto approve functionality in STAR AM shall not be used by the State to automatically generate voucher payments for leases in STAR AP.

## PROCEDURES

Information will be available from Asset Management training session and End to End session.

Additional procedural information will be issued at a later date.